Kuveyt Türk Katılım Bankası Anonim Şirketi and Its Subsidiaries

Consolidated financial statements as at and for the year ended December 31, 2021, with independent auditors’ report thereon

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Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Kuveyt Türk Katılım Bankası A.Ş.

Opinion

We have audited the consolidated financial statements of Kuveyt Türk Katılım Bankası A.Ş. ("the Bank") and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit Matter	How the matter is addressed in our audit
Financial impact of IFRS 9 "Financial Instruments" standard and recognition of impairment on financial assets and related important disclosures	
As disclosed in footnote 2.12 under Section 2, the Group measures expected credit losses for financial instruments by IFRS 9 "Financial Instruments Standards". The rationale reasons for selecting IFRS 9 implication and implementation of financial assets as key audit matter are as follows; ▪ Financial assets within balance-sheet and off-balance-sheet subject to IFRS 9 expected credit losses measurement have significant balance in the financial statements ▪ The applications IFRS 9 are complex and comprehensive ▪ The classification of financial instruments based on the Group's business models and the characteristics of contractual cash flows in line with IFRS 9 and requirement of important judgments to determine this business model and the characteristics of contractual cash flows ▪ Risks related to the policies established by the management with the compliance and requirements of the legislation and other applications for the calculation of expected credit losses ▪ The complexity and intensity of the control environment in the processes designed or reorganized for IFRS 9 ▪ Estimations and assumptions used in expected credit losses are new, important and complex ▪ Complex and comprehensive disclosure requirements of IFRS 9.	Our audit procedures in addition to our current audit procedures: ▪ Evaluation of the compliance of the accounting policies adopted with regard to IFRS 9, the Group's past performance, and local and global practices ▪ Analysis and testing of processes, systems, and controls originated or re-designed in order to calculate expected credit losses by the Information Systems and Process Audit specialists ▪ Evaluation of the impact of Covid-19 outbreak on the staging of loans and macroeconomic variables used in the expected loan loss allowance calculations, together with its effect on the fair value calculations, important forecasts and assumptions. ▪ Evaluation of the key judgments, assumptions, methods used for calculation of expected credit loss determined by the management, and whether the data source is reasonable or not, and their compliance and standard requirements in light of industry and global practices ▪ Testing criteria used for determining the contractual cash flows including profit share payments with regard to solely principal and principal balance of financial assets on a sample basis and evaluation of Group's business model ▪ Evaluation of significant increase in credit risk, definition of default, definition of restructuring, probability of default, loss given default, exposure at default and macro-economic variables, and related basic and significant estimates and assumptions determined for calculation process of expected credit loss and whether these assumptions determined by financial risk management are in line with the Group's historical performance, legislation, and reasonableness of the estimation process regarding future performance and investigation of credit risk portfolio on a sample basis ▪ Evaluation of the accuracy and completeness of attributes of the data used for the calculation process of expected credit losses ▪ Detailed testing of mathematical verification of expected credit losses' calculation on a sample basis ▪ Evaluating the judgments and estimates used for the individually assessed financial assets ▪ Evaluating the necessity and accuracy of the updates made or required updates after the modeling process ▪ Auditing of disclosures related to IFRS 9.

Responsibilities of Management and Board of Directors for the consolidated financial statements

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

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

The Board of Directors are responsible for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

The partner in charge of the audit resulting in this independent auditor's report is Emre Çelik.

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

Emre Çelik, SMMM
Partner

Istanbul, Turkey
December 7, 2022

Consolidated statement of financial position
as at December 31, 2021
(Currency – In thousands of Turkish Lira - TL)

	Notes	**December 31, 2021**	December 31, 2020
Assets			
Cash and balances with the Central Bank	4	**23,600,193**	5,636,895
Balances with other banks and financial institutions	4	**24,316,824**	9,767,863
Reserve deposits at the Central Bank	5	**36,284,803**	18,486,065
Financial assets at fair value through profit or loss	6	**12,982,125**	7,813,619
Financial assets at fair value through other comprehensive income, net	6	**32,071,762**	20,723,085
-repurchasing agreements		***6,495,474***	*179,750*
Financial assets valued at amortised cost, net	6	**5,934,928**	6,498,716
Due from financing activities, net	7	**103,247,922**	70,176,951
Finance lease receivable, net	8	**11,017,775**	4,672,786
Precious metals		**7,089,063**	988,021
Derivative financial assets	20	**1,398,784**	461,606
valued at fair value through profit or loss		***1,398,784***	*461,606*
valued at fair value through other comprehensive income		**-**	-
Construction projects, net	10	**57,004**	65,093
Joint venture		**89,258**	61,311
Investment properties, net	11	**63,598**	77,457
Property and equipment, net	13	**1,092,342**	932,336
Intangible assets, net	14	**344,958**	281,003
Deferred tax assets	17	**1,882,944**	835,522
Assets and a disposal group held for sale	12	**240,891**	519,087
Other assets	9	**5,297,072**	10,005,713
Total assets		**267,012,246**	158,003,129
Liabilities and equity			
Current and profit / loss sharing investors' accounts	16	**220,023,223**	126,009,976
Money market balances	15	**6,495,137**	185,225
Derivative financial liabilities	20	**257,764**	1,676,806
valued at fair value through profit or loss		***257,764***	*1,676,806*
valued at fair value through other comprehensive income		**-**	-
Current tax liabilities	17	**1,282,020**	389,870
Employee benefit obligations	18	**598,415**	437,454
Due to other financial institutions and banks	15	**5,603,064**	5,934,205
Sukuk securities issued	15	**3,582,377**	5,159,273
Subordinated loans	15	**8,100,496**	4,590,265
Finance lease payable, net	8	**409,453**	349,294
Other liabilities and provisions	19	**9,084,900**	5,169,865
Total liabilities		**255,436,849**	149,902,233
Share capital	21	**4,595,131**	4,595,131
Share premium		**26,399**	27,135
Investments at fair value through other comprehensive income reserve, net of tax		**(25,553)**	(1,305)
Employee termination benefits reserve, net of tax		**(52,112)**	(51,258)
Legal reserves and retained earnings	22	**6,789,205**	3,415,715
Currency translation differences		**1,123,690**	486,343
Hedging fund		**(892,657)**	(375,780)
Other reserve	22	**(22,589)**	(22,589)
Non-controlling interest		**33,883**	27,504
Total equity attributable to equity holders of the parent		**11,575,397**	8,100,896
Total liabilities and equity		**267,012,246**	158,003,129

The accompanying notes are an integral part of these financial statements

Consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2021

(Currency – In thousands of Turkish Lira - TL)

	Notes	December 31, 2021	December 31, 2020
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts	25	**4,838,804**	3,188,073
Profit on originated loans from current accounts and equity	25	**3,953,513**	3,145,751
Profit on deposits with other banks and financial institutions	25	**453,146**	267,465
Profit on finance leases	25	**602,626**	342,754
Profit on sukuk investments	25	**3,604,882**	2,702,941
Total income from financing activities		**13,452,971**	9,646,984
Profit shares distributed to participation accounts	26	**(3,375,323)**	(1,934,480)
Profit shares distributed to other banks and financial institutions	26	**(2,004,570)**	(1,176,367)
Net financing income		**8,073,078**	6,536,137
Provision for impairment of amounts due from financing activities and lease receivables		**(4,074,374)**	(3,094,065)
Net financing income after provision for impairment in due from financing activities and lease receivables		**3,998,704**	3,442,072
Foreign exchange gain, net		**1,701,222**	3,020,678
Net financing income after net foreign exchange gain / (loss)		**5,699,926**	6,462,750
Fees and commission income	27	**1,256,790**	862,342
Net trading income/(loss)	28	**1,376,492**	(2,140,444)
Other income	30	**1,894,302**	1,425,822
Share of a joint venture income		**27,947**	20,930
Total other operating income		**4,555,531**	168,650
Fees and commission expense	27	**(748,891)**	(600,518)
Staff costs	29	**(1,759,768)**	(1,394,497)
Depreciation and amortization expense		**(337,896)**	(249,972)
Withholdings and other taxes		**(31,908)**	(17,317)
Rent expense		**(10,491)**	(17,082)
Other expenses	31	**(2,689,009)**	(2,064,076)
Total other operating expense		**(5,577,963)**	(4,343,462)
Income before taxation		**4,677,494**	2,287,938
Current tax charge	17	**(2,141,569)**	(829,426)
Deferred tax (charge)/income	17	**859,528**	274,753
Net income for the year		**3,395,453**	1,733,265
Attributable to:			
- Owners of the equity		**3,377,964**	1,749,657
- Non-controlling interests		**17,489**	(16,392)

Other comprehensive income		**December 31, 2021**	**December 31, 2020**
Items that are or may be reclassified subsequently to profit or loss:			
Currency translation differences		**637,347**	260,831
Cash flow hedge		**-**	11,514
Net investment hedge		**(646,097)**	(263,591)
Investments at fair value through other comprehensive income reserve		**(34,489)**	(249,886)
Deferred tax relating to component of other comprehensive income		**139,461**	112,527
Items that will not be reclassified to profit or loss			
Employee termination benefits reserve	18	**(1,068)**	(40,220)
Deferred tax relating to component of other comprehensive income		**214**	8,044
Other comprehensive income for the year		**95,368**	(160,781)
Total comprehensive income for the year		**3,490,821**	1,572,484
Attributable to:			
- Owners of the equity		**3,473,332**	1,588,876
- Non-controlling interests		**17,489**	(16,392)
Basic and diluted earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share)	23	**0.739**	0.389

The accompanying notes are an integral part of these financial statements

Consolidated statement of changes in shareholders' equity for the year ended December 31, 2021

(Currency – In thousands of Turkish Lira - TL)

	Share Capital	Share Premium	Legal Reserves	Retained Earnings	Other Reserves	At fair value through other comprehensive income reserve	Employee termination benefits reserve	Currency Translation Differences	Hedging Funds	Non-Controlling Interest	Total
Balances at January 1, 2020	**3,995,766**	**26,053**	**253,156**	**2,723,769**	**(21,211)**	**214,695**	**(19,082)**	**218,927**	**(184,117)**	**9,087**	**7,217,043**
Effect Of Changes In Accounting Policies	-	-	-	-	-	-	-	-	-	-	-
Share capital increase	600,000	-	-	(600,000)	-	-	-	-	-	-	-
from retained earnings	*600,000*	-	-	*(600,000)*	-	-	-	-	-	-	-
Dividends paid	-	-	-	(7,280)	-	-	-	-	-	-	(7,280)
Balances from subsidiaries transaction	-	-	-	-	-	-	-	-	-	-	-
Special fund depreciation	-	-	-	-	-	-	-	-	-	-	-
Change in other reserves	-	-	-	-	(1,378)	-	-	-	-	-	(1,378)
Other changes	(635)	1,082	57,140	(761,543)	-	(16,092)	-	6,585	(1,319)	-	(714,782)
Total comprehensive income for the year	-	-	-	1,750,473	-	(199,908)	(32,176)	260,831	(190,344)	18,417	1,607,293
Balances at December 31, 2020	**4,595,131**	**27,135**	**310,296**	**3,105,419**	**(22,589)**	**(1,305)**	**(51,258)**	**486,343**	**(375,780)**	**27,504**	**8,100,896**
Balances at January 1, 2021	**4,595,131**	**27,135**	**310,296**	**3,105,419**	**(22,589)**	**(1,305)**	**(51,258)**	**486,343**	**(375,780)**	**27,504**	**8,100,896**
Effect Of Changes In Accounting Policies	-	-	-	-	-	-	-	-	-	-	-
Share capital increase	-	-	-	-	-	-	-	-	-	-	-
from retained earnings	-		-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	-
Balances from subsidiaries transaction	-	-	-	-	-	-	-	-	-	-	-
Special fund depreciation	-	-	-	-	-	-	-	-	-	-	-
Change in other reserves	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	(736)	83,037	(87,511)	-	-	-	-	-	-	(5,210)
Total comprehensive income for the year	-	-	-	3,377,964	-	(24,248)	(854)	637,347	(516,877)	6,379	3,479,711
Balances at December 31, 2021	**4,595,131**	**26,399**	**393,333**	**6,395,872**	**(22,589)**	**(25,553)**	**(52,112)**	**1,123,690**	**(892,657)**	**33,883**	**11,575,397**

The accompanying notes are an integral part of these financial statements

Consolidated statement of cash flows
for the year ended December 31, 2021

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

	Notes	2021	2020
Cash flows from operating activities:			
Income from continuing operations after taxation		**3,395,453**	1,733,265
Tax charge	17	**1,282,041**	554,673
Income accrual		**(2,702,648)**	(778,813)
Expense accrual of participation accounts and funds borrowed		**59,153**	176,175
Impairment losses on financial assets (net)		**4,074,374**	3,094,065
Depreciation and amortization		**337,896**	249,972
Net change in derivative financial instruments		**(2,596,009)**	(975,629)
Change in insurance for technical provision	19	**595,816**	425,661
Impact of exchange difference		**178,699**	(757,622)
Provision for employee termination and other provisions		**788,122**	697,583
Impairment in investment property		**(577)**	-
Share of income from equity accounted investees		**(27,947)**	(20,930)
Gain on sale of property and equipment, intangible assets, investment properties and asset held for sale	30	**(209,867)**	(69,676)
Operating income before changes in operating assets and liabilities		**5,174,506**	4,328,724
Net changes in:			
Reserve deposits at the Central Bank of Turkey	5	**(17,841,459)**	(10,056,468)
Due from financing activities	7	**(16,561,697)**	(19,415,924)
Minimum finance lease payments receivables	8	**(6,914,938)**	(2,303,476)
Changes in FVTPL investment activities	6	**(145,396)**	(2,943,023)
Other assets and construction projects	9	**11,530,837**	(9,682,129)
Current accounts and profit/loss sharing investors' accounts	16	**27,790,580**	30,821,630
Other liabilities	19	**13,816,541**	2,545,206
Precious metals		**(6,101,042)**	123,123
Income taxes paid		**(1,100,673)**	(1,111,610)
Net cash used in operating activities		**9,647,259**	(7,693,947)
Cash flows from investing activities:			
Cash obtained from sale of jointly controlled operations, associates and subsidiaries		**-**	-
Purchase of FVTOCI and amortised cost investment securities	6	**(15,367,883)**	(14,691,823)
Proceeds from FVTOCI and amortised cost investment securities	6	**8,567,166**	6,067,423
Purchase of property and equipment, intangible assets and investment properties	11, 13, 14	**(633,689)**	(194,673)
Proceeds from sale of property and equipment, intangible assets and investment properties		**319,452**	79,242
Proceeds from sale of asset and liabilities held for sale		**339,281**	126,809
Net cash used in investing activities		**(6,775,673)**	(8,613,022)
Cash flows from financing activities:			
Dividends paid	22	**-**	(7,280)
Due to financial institutions and banks received		**11,712,699**	6,102,357
Due to financial institutions and banks paid		**(15,939,935)**	(2,816,178)
Sukuk securities issued		**19,085,000**	6,267,842
Sukuk securities redeemed		**(20,602,188)**	(5,600,576)
Issued subordinated debt instruments		**513,954**	388,646
Payments for finance leases		**(52,653)**	(81,876)
Net cash provided by financing activities		**(5,283,123)**	4,252,935
Net increase in cash and cash equivalents		**(2,411,537)**	(12,054,034)
Net foreign exchange difference on cash and cash equivalents		**27,297,785**	5,637,262
Cash and cash equivalents at the beginning of the year	4	**13,995,430**	20,412,202
Cash and cash equivalents at the end of the year	4	**38,881,678**	13,995,430

The accompanying notes are an integral part of these financial statements

1. Corporate information

General

Kuveyt Türk Katılım Bankası A.Ş. (the "Bank"), formerly Kuveyt Türk Evkaf Finans Kurumu A.Ş. (a Turkish joint-stock company-the Bank) was formed in accordance with the provisions of Decree No. 83/7506, issued on December 16, 1983, relating to the establishment of Special Finance Houses in Turkey. The Bank obtained permission from the Central Bank of Turkey (CBT) on February 28, 1989, and commenced its operations on March 31, 1989. Currently, the Bank is continuing its operations under the purview of the Banking Regulation and Supervision Agency ("BRSA") and the Banking Law No. 5411, dated November 1, 2005. The Bank's head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli/İstanbul/Turkey. The parent and the ultimate controlling party of the Bank is Kuwait Finance House (KFH) incorporated in Kuwait. Effective from April 8, 2006, the Bank's commercial title was changed from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş. to comply with the Banking Law No. 5411, dated November 1, 2005.

The consolidated financial statements were authorized for issue by the General Manager and Chief Financial Officer on behalf of the Board of Directors of the Bank on September 13, 2021. The General Assembly has the power to amend the statutory financial statements after issue.

Nature of activities of the Bank and its subsidiaries

The Bank's core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers. Subsidiaries of the Bank are as follows;

Körfez Gayrimenkul Yatırım Ortaklığı A.Ş.

- Körfez Gayrimenkul Yatırım Ortaklığı A.Ş., in which the Bank has 75% shareholding was incorporated in June 1996 in Turkey. Körfez's registered address is Büyükdere Caddesi, No: 129/1, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez's main sources of revenue are from the sales of these projects.

Körfez Tatil Beldesi A.Ş.

- Körfez Tatil Beldesi A.Ş. ("Körfez Tatil Beldesi"), in which the Bank has a 100% shareholding was incorporated in 2001 in Edremit, Turkey. Körfez Tatil Beldesi is engaged in Güre Project, which comprises the construction, selling and operating of 199 "time-sharing" houses in Edremit-Balıkesir.

KT Sukuk Varlık Kiralama A.Ş.

- KT Sukuk Varlık Kiralama A.Ş. has been established on September 23, 2011, in Turkey in order to issue Sukuk Securities.

KT Kira Sertifikaları Varlık Kiralama A.Ş.

- KT Kira Sertifikaları Varlık Kiralama A.Ş. has been established on September 3, 2013, in Turkey.

KT Sukuk Company Limited

- KT Sukuk Company Limited has been established in Cayman Island on July 31, 2015, for the need of subordinated loan for the Bank.

KT Bank AG

- The Bank's subsidiary of KT Bank AG which is 100% owned by the Bank was established in April 2015. Main field of its operations are providing interest free corporate banking services and collecting funds through current and profit/loss sharing accounts in compliance with the regulation.

Katılım Emeklilik ve Hayat Anonim Şirketi

- The Bank established a pension company jointly with Albaraka Türk Katılım Bankası A.Ş, holding 50% of the shares. It is registered with the trade name "Katılım Emeklilik ve Hayat Anonim Şirketi", 895027 registry numbered dated December 17, 2013, by İstanbul Register of Commerce.

KT Portföy Yönetim Anonim Şirketi

- KT Portföy Yönetim Anonim Şirketi, which is 100% owned by the bank was established on May 26, 2015 is operating in Turkey. The main aim of the Company is to serve its customers in every aspect of the fund management business with a participation-based portfolio management company.

Architect Bilişim Sistemleri ve Pazarlama Anonim Şirketi

- The Bank established an IT company with holding 100% of the shares. It is registered with the trade name ''Architect Bilişim Sistemleri ve Pazarlama Anonim Şirketi'', dated December 1, 2015, by Istanbul Register of Commerce.

Neova Sigorta Anonim Şirketi

- Neova Sigorta Anonim Şirketi, which is 100% owned by the bank was established on July 17, 2008 is operating in Turkey. The company's field of activity is to provide insurance services in non-life branches (Safety abuse, financial losses, general liability, general damages, illness and health, aircraft, legal protection, land vehicles, accident, fire, shipping and natural disasters, personal accident, water vehicles).

The investment funds consolidated by the bank are as follows;

Kt Portföy Kuveyt Türk Yabancı Katılım Serbest Özel Fon

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared under the historical cost convention except for financial assets measured at fair value such as derivative financial instruments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

The consolidated financial statements are presented in Turkish Lira ("TL") and except as indicated, financial information presented in TL has been rounded to the nearest thousand.

The Bank and its subsidiaries ("Group") which are incorporated in Turkey, maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the Banking Regulation and Supervision Agency (BRSA), Turkish Commercial Code and Turkish tax legislation. The foreign subsidiaries maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered.

In reclassifications have been made on consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows as of and for the period ended 31 December 2021.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over the counter ("OTC") derivatives, unlisted securities, retirement benefits obligation, expected credit loss, provisions for taxes. Actual results in the future may differ from those reported.

Significant changes in accounting policies are applied retrospectively and previous period financial statements are rearranged. The financial statements of the Bank are prepared in comparison with the previous period in order to allow the determination of financial status and performance trends. Comparative information is rearranged, when necessary, in order to comply with the presentation of the current period financial statements. The Bank rearranged the previous period cash flow statement in order to comply with the presentation of the current period financial statements.

"Interest Rate Benchmark Reform-Stage 2" which was released in December 2020, brought changes in various IAS / IFRSs effective from 1 January 2021, within the scope of the project of transition of the benchmark interest rates carried out by the IASB. It was concluded that as of 31 December 2021, the changes have not significant impact on the Bank's financial statements.

IAS 29 Financial Reporting in Hyperinflationary Economies does not apply to the IFRS financial statements as of December 31, 2021, since the cumulative change in the general purchasing power of the last three years according to Consumer Price Index (CPI) is 74.41%. In this respect, consolidated financial statements as of December 31, 2021 are not adjusted for inflation in accordance with IAS 29.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed as below.

2.2 Significant accounting judgments and estimates

- *Deferred taxes:* Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

- *Fair value of financial instruments:* Where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

- *Expected Credit Loss:* The expected credit loss estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions, and forecasts of future economic conditions.

In preparing these consolidated financial statements, the Bank management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The COVID-19 epidemic, which has emerged in China, has spread to various countries around the world, causing potentially fatal respiratory infections, affects both regional and global economic conditions negatively, as well as causing malfunctions in operations, especially in countries exposed to the epidemic. As a result of the spread of COVID-19 around the world, various measures have been taken in our country as well as in the world in order to prevent the transmission of the virus and it is still being taken. In addition to these measures, economic measures are also taken to minimize the economic impact of the virus outbreak on individuals and businesses in our country and worldwide.

While preparing the year end financial statements as of December 31, 2021, the Bank reflected the possible effects of the COVID-19 outbreak on the significant estimates and judgments used in the preparation of the financial statements. The estimates and assumptions used in the calculation of expected loan losses are explained in the statements on impairment of financial assets.

2.3 Functional and presentation currency

These consolidated financial statements are presented in TL, which is the Bank's functional currency. The functional currency of KT Bank AG, one of the subsidiaries of the Bank, is EUR. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

2.4 New and Revised Turkish Accounting Standards

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 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 and thereafter. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2021 are as follows:

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB issued Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to provide temporary reliefs which address the financial reporting effects when an interbank offering rate (IBOR) is replaced with an alternative nearly risk-free rate (RFR, amending the followings:

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Under this practical expedient, if the interest rates applicable to financial instruments change as a result of the IBOR reform, the situation is not considered as a derecognition or contract modification; instead, this would be determined by recalculating the carrying amount of the financial instrument using the original effective interest rate to discount the revised contractual cash flows.

The practical expedient is required for entities applying IFRS 4 Insurance Contracts that are using the exemption from IFRS 9 Financial Instruments (and, therefore, apply IAS 39 Financial Instruments: Classification and Measurement) and for IFRS 16 Leases, to lease modifications required by IBOR reform.

Relief from discontinuing hedging relationships

- The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.

- Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR.

- For the IAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero.

- The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued.

- As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform.

Separately identifiable risk components

The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

Additional disclosures

Amendments need additional IFRS 7 Financial Instruments disclosures such as; How the entity is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform, quantitative information about financial instruments that have yet to transition to RFRs and if IBOR reform has given rise to changes in the entity's risk management strategy, a description of these changes.

The amendments are mandatory, with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

The amendments did not have a significant impact on the financial position or performance of the Company / the Group.

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.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the the Group.

ii) Standards issued but not yet effective and not early adopted

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 prospectively. 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).

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Amendments to IAS 16 – Proceeds before intended use

In May 2020, the IASB issued amendments to IAS 16 Property, plant and equipment. The amendments 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 retrospectively 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.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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 prospectively 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.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Amendments to IAS 1- Classification of Liabilities as Current and Non-Current Liabilities

In 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.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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, 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 amendments apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of the effective date. Earlier application is permitted.

The amendments did not have a significant impact on the financial position or performance of the Group.

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.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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. The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations should be recognized.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

2.5 Consolidation of subsidiaries

The consolidated financial statements comprise the consolidated balance sheet of the Bank and its subsidiaries, as at December 31, 2021 and 2020 and the consolidated statements of comprehensive income, changes in equity and cash flows of the Bank and its subsidiaries for the years ended December 31, 2021 and 2020, respectively.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Titles, locations of the headquarters, main operations and Group's shares relating the consolidated entities are as follows:

	Title	**Address (City/Country)**	**Bank's share percentage, if different-voting percentage (%)**	**Bank's risk group share percentage (%)**
1	KT Bank AG	Frankfurt/Germany	100	100
2	Neova Katılım Sigorta A.Ş.	Istanbul/Turkey	100	100
3	KT Kira Sertifikaları Varlık Kiralama A.Ş.	Istanbul/Turkey	100	100
4	KT Sukuk Varlık Kiralama A.Ş.	Istanbul/Turkey	100	100
5	KT Portföy Yönetimi A.Ş.	Istanbul/Turkey	100	100
6	Körfez Gayrimenkul Yatırım Ortaklığı A.Ş.	Istanbul/Turkey	75	78.15
7	Architecht Bilişim Sistemleri ve Pazarlama Tic A.Ş.	Istanbul/Turkey	100	100
8	Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İşletmeciliği San.ve Tic. A.Ş.	Istanbul/ Turkey	99.99	99.99

2.6 Foreign currency transactions

Foreign currency translation rates used by the Bank as of respective year ends are as follows:

Dates	**USD / TL**	**EUR / TL**
December 31, 2020	7.41	9.10
December 31, 2021	13.27	15.02

Foreign Subsidiary

As at the reporting date, the assets and liabilities of the Bank's foreign subsidiary are translated into the Bank's presentation currency at the rate of exchange at the balance sheet date, and its income statement is translated at the EUR/TL 15.40218 average exchange rate for the year. Exchange differences arising on translation are taken directly to a separate component of comprehensive income.

2.7 Property and equipment

Property and equipment are stated at cost (as adjusted for inflation to December 31, 2005), less accumulated depreciation and accumulated impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the property and equipment has been put into operation, such as repairs and maintenance, are normally charged to income statement in the year that costs are incurred. Expenditure incurred that result in an increase in the future economic benefits expected from the use of property and equipment is capitalized as an additional cost of property and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	50 years
Furniture and office equipment	3–7 years
Motor vehicles	4-5 years
Leasehold improvements	Shorter of the lease or useful life

The property and equipment's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

2.8 Construction projects

The Group has classified its time-sharing houses as construction projects.

These houses are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

2.9 Investment property

Property held for long-term rental yields and/or capital appreciation which is not occupied by the Group is classified as investment property.

Investment property comprises land and buildings in where they are stated with their fair value.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

2.10 Intangible assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged to the income statement in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. There are no intangible assets with indefinite useful lives.

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

2.11 Impairment of non-financial assets

The carrying values of property and equipment, investment properties, intangible assets and construction projects are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement. Impairment losses recognized during the period are included in "other expenses" in the income statement.

2.12 IFRS 9

- **Disclosures of IFRS 9 Financial Instruments:**

The Group has implemented "IFRS 9 - Financial Instruments" standard as of 1 January 2018 by replacing "IAS 39 - Financial Instruments: Recognition and Measurement." standard. It is recognized a loss allowance for expected credit losses on financial assets and loans measured at amortized cost, financial assets measured at FVOCI, loan commitments and financial guarantee contracts not measured at FVPL based on IFRS 9 requirements.

IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting in accordance with IAS 39 as a policy choice. Accordingly, the Group continue to apply hedge accounting in accordance with IAS 39 in this context.

All recognized financial assets that are within the scope of IFRS 9 are required to be initially measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount outstanding, are generally measured at Fair Value Through Other Comprehensive Income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment in other comprehensive income, with only dividend income generally recognized in profit or loss.

Dividends obtained from such investments are accounted in the financial statements as profit or loss unless they are evidently a part of the recoverable cost of investment.

- **Classification and measurement of financial assets:**

On which category a financial instrument shall be classified at initial recognition depends on both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Assessment of business model

As per IFRS 9, the business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Parent Participation Bank's business models consist of three categories.

Business model aimed to hold assets in order to collect contractual cash flows:

This is a model whose objective is to hold assets in order to collect contractual cash flows are managed to realize cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount outstanding. Reserve deposit, loans and advances to banks, financial assets valued at amortized cost, loans, leasing receivables and advances to customers and other receivables are assessed within this business model.

Business model aimed to collect contractual cash flows and sell financial assets:

This is a model whose objective is achieved by both collecting contractual cash flows and selling financial assets: The Parent Participation Bank may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount outstanding. Financial Assets Measured at Fair Value through Other Comprehensive Income are assessed in this business model.

Other business models:

Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Financial assets measured at fair value through profit/loss and derivative financial assets are assessed in this business model.

- **Impairment:**

Credit portfolio is determined in accordance with customer segments constituting the basis of banking activities. Cyclical Probabilities of Default are converted into Instant Probabilities of Default, and these instant probabilities of default are used to calculate Expected Credit Loss in scope of IFRS 9.

Probability of Default (PD)

Macroeconomic scenarios impact the values of Probability of Default. Three scenarios as Base, Good and Bad and expected credit loss are calculated. The default probabilities of borrowers are changing for each scenario.

- TTC PD values are obtained through the scorecard model,
- TTC PD values are converted into PIT PD values by considering the country and sector information with the expected default frequency model in corporate portfolio,
- Macroeconomic expectations are reflected on the PIT PD values by considering the sector information.

Loss Given Default (LGD)

Loss Given Default –LGD is economic loss incurred due to the default of the obligor. Bank has started to use its new LGD model developed based on its own collection data. It has utilized "Workout LGD" for its LGD model.

Exposure at Default (EAD)

Default Amount (DA) corresponds to the used balance in the reporting date for money loans, and to the balance after the application of the credit conversion rate for non-cash loans and commitment risks. Credit Conversion Factors are applied to obtain EAD for undrawn limits of credit card and overdrafts as well as non-cash loans.

Expected Credit Loss (ECL)

12-month provision amount is calculated for customers in Stage 1 and lifetime provision for customers in Stage 2 and Stage 3. ECL is calculated based on 3 scenarios and multiplied by the following scenario weights to reach the final provision figure.

- Baseline scenario: 40%
- Downside scenario: 30%
- Upside scenario: 30%

Effective interest rates (EIR) are used to discount the expected cash flows to the reporting date in the calculation of ECL.

- **Explanations on expected loss provisions**

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

As of January 1, 2018, the Group has started to apply the terms of IFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

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

Stage 1: Includes financial assets not having significant increase in their credit risk from initial recognition till the following reporting date or financial assets having low credit risk at the reporting date. It is recognized 12-month expected credit losses for such financial assets.
Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized lifetime expected credit losses for such financial assets.

In this context, the basic considerations that are taken into account in determining the significant increase in the credit risk of a financial asset and its transfer to Phase 2 are, but are not limited to, the following;

• Delayed by more than 30 days as of the reporting date,
• Restructuring,
• Close Monitoring,
• Evaluation of distortion in Rating Note.

The definition of the deterioration in the rating is the comparison of the credit rating at the opening date and the rating date at the reporting date by using the Parent Bank's internal rating-based credit rating models. If the rating calculated for the loan at the reporting date exceeds the specified threshold values, the rating is deemed as deterioration.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life-time expected credit losses for such financial assets.

As of December 31, 2021, The Group reflected the data obtained with the best estimation method to the estimates and judgements used in the calculation of expected credit losses, with the best estimation method, for the possible effects of the COVID-19 outbreak. In the light of the aforementioned data, the Group revised its macroeconomic expectations in the calculation of expected credit loss, and the calculation made taking into account the change in PD with the update in the EDF model was reflected in the financial statements. Due to their nature, model updates are reflected in financial statements with a delay due to the macroeconomics effects of events that cause changes and occur at different times. For this reason, the bank establishes additional provisions for the sector or customers that are considered to have a high impact, by making sector-based valuations when deemed necessary to eliminate the timing difference. The Group maintains this approach as of December 2021. When deemed necessary, the Group will review these assumptions according to the course of the pandemic in the future.

Modeling studies were carried out on the principal components of the Expected Loan Loss calculation and the default probability (CTR) models were developed on various loan portfolios. Credit portfolios are determined according to customer segments that form the basis of banking activities. The cyclical default probabilities generated by these models developed for use in the Internal Rating Based Approach (IDD) are translated into the Instantaneous Default Probabilities and these instantaneous default probabilities are used when calculating the Expected Loan Loss on IFRS 9. Loss in Default (LID) calculation is made using models established on the basis of sub-segments based on the bank's internal collection data. Default Amount (TT) corresponds to the balance used in cash at the reporting date for cash loans, non-cash loans and balance after application of the loan to commitment risks.

Macroeconomic scenarios affect TO values. The expected credit loss amount is calculated by weighting 3 different scenarios as Base, Good and Bad scenarios. The probability of default of the debtors and the loss rates in default vary with each scenario.

The following basic criteria are considered for the classification of a financial asset in the third stage.

- Objective Default Definition: It means debt having past due more than 90 days. Current definition of default in the Bank and its consolidated financial subsidiaries is based on a more than 90 days past due definition.

- Subjective Default Definition: It means a debt is considered is unlikely to be paid. Whenever an obligor is considered unlikely to pay its credit obligations, it should be considered as defaulted regardless of the existence of any past-due amount or of the number of days past due.

2.13 Explanations on IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Customer Contracts provides a single and comprehensive model and guide to registering revenue and replaces the IAS 18 Revenue standard. The standard became effective on January 1, 2018 and has no material impact on the consolidated financial statements of the Group.

2.14 Explanations on forward transactions and option contracts and derivative instruments

The Group enters into forward agreements to mitigate its currency risk and to manage its foreign currency liquidity. The Group classifies its derivative instruments as “Derivative Financial Instruments Held for Hedging Purposes” and “Financial asset at fair value through profit or loss” in accordance with “IFRS 9”. Even though some derivative transactions economically hedge risk, since all necessary conditions for hedge accounting are not met, they are accounted for as “Financial assets at fair value through profit or loss” within the framework of “IFRS 9” and are reflected in the “Derivative Financial Assets / Liabilities” account in the balance sheet.

The payables and receivables arising from derivative transactions are recorded in off-balance sheet accounts at their notional amounts.

Fair values of foreign currency forward transactions and swaps are calculated by using the discounted cash flow model. Differences resulting from the changes in the fair values of derivatives held for trading are accounted under ‘Trading Income/Loss’ line in the income statement.

Embedded derivatives are separated from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss. Embedded derivatives are accounted as derivative instruments in-line with “IFRS 9”. If the embedded derivatives are closely related with the host contract, embedded derivatives are accounted for in-line with the relevant standard applicable for the host contract.

While choosing the accounting policy under IFRS 9, the Group has the option to defer the adoption of hedge accounting policy and to continue apply the accounting terms of IAS 39. Within this scope, the Group applies the terms of hedge accounting policy specified under IAS 39. In addition to this, the Group enters into profit share rate and cross currency swap transactions in order to hedge the changes in cash flows of the floating-rate financial instruments. While applying cash flow hedge accounting, the effective portion of the changes in the fair value of the hedging instrument is accounted for under hedging reserves in shareholders’ equity, and the ineffective portion is recognized in income statement. The changes recognized in shareholders’ equity is removed and included in income statement in the same period when the hedged cash flows effect the income or loss.

The Group hedges its cash flow risk arising from foreign currency liabilities by using cross currency swap. The effective portion of the fair value changes of the hedging instruments are recorded in “Hedging funds” under shareholders’ equity. These funds are transferred to profit or loss from equity when the cash flows of the hedged items impact the income statement.

The Group performs effectiveness test at the beginning of the hedge accounting period and at each reporting period. The effectiveness tests are carried out using the "Dollar off-set model" and the hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness. The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. While discontinuing cash flow hedge accounting, the cumulative gains/losses recognized in shareholders' equity and presented under hedging reserves are continued to be kept in this account. When the cash flows of hedged item are recognized in income statement, the gain/losses accounted for under shareholders' equity, are recognized in income statement.

2.15 Explanations on financial assets

The Group classifies and accounts for its financial assets as 'Fair Value Through Profit/Loss', 'Fair Value Through Other Comprehensive Income,' or 'Amortized Cost.' Such financial assets are recognized and derecognized as per the terms of "Recognition and Derecognition in Financial Statements" under the section three of the "IFRS 9 Financial Instruments" regarding the classification and measurements of financial instruments. When financial assets are included in the financial statements for the first time, they are measured at fair value. Transaction costs are initially added to fair value or deducted from fair value at the initial measurement of financial assets other than the "Fair Value at Fair value Through Profit or Loss".

The Group recognizes a financial asset in the financial statements only when it becomes a party to the contractual terms of a financial instrument. During the initial recognition of a financial asset, the business model determined by Bank management and the nature of contractual cash flows of the financial asset are taken into consideration. When the business model determined by the Parent Bank management is changed, all affected financial assets are reclassified and this reclassification is applied prospectively. In such cases, no adjustments is made to gains, losses or profit shares that were previously recorded in the financial statements.

- **Financial assets at fair value through profit or loss:**

Financial assets at fair value through profit or loss are financial assets that are managed within a business model other than the business model whose objective is achieved by holding contractual cashflows for collection and the business model whose objective is achieved by collecting and selling contractual cash flows. Also, in case that the contractual terms of financial assets do not give rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount, such assets are those that are, obtained with the aim of providing profit from the short-term price or other factor fluctuations in the market or are part of a portfolio aiming to obtain short-term profit, regardless of the reason of acquisition. Financial assets at fair value through profit or loss are recorded at their fair value and as of record date they are valued at their fair values. Profits or losses caused by valuation are included in profit/loss accounts.

- **Financial assets at fair value through other comprehensive income:**

A financial asset is classified as at fair value through other comprehensive income when the asset is managed within a business model whose objective is achieved by collecting contractual cash flows and selling the financial asset, as well as when the contractual terms of the financial asset give rise on specified dates to cash flows are solely payments of principal and profit share on the principal amount.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition costs that reflect the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Profit share income calculated with effective profit share method regarding the financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. "Unrealized gains and losses," which is the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income, are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, or the impairment of the asset. "Unrealized gains and losses" are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity. When these assets are collected or disposed of, the accumulated fair value differences reflected in the equity are reflected to the income statement.

Equity securities, which are classified as financial assets at fair value through other comprehensive income, are carried at fair value, in the case that the securities have a quoted market price in an active market and/or the fair values of the securities can be reliably measured. In contrary case, the securities are carried at cost, less provision for impairment.

During initial recognition an entity can make an irrevocable election regarding the presentation of the subsequent changes in 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 that the entity elects to present the changes as described, dividends arising from the investment is accounted in the financial statements as profit or loss.

- **Financial assets measured at amortized cost:**

In the case that a financial asset is held within a business model whose objective is achieved both by collecting contractual cash flows and that the contractual terms of the financial asset give rise to cash flows on specified dates that are solely payments of principal and profit share on the principal amount, the financial asset is classified as financial asset measured at amortized cost.

Financial assets measured at amortized cost; are financial assets, other than loans and receivables, which are held for the purpose of custody until maturity, with conditions necessary for such assets to be held until contractual maturity met, including funding ability; and which have fixed or determinable payments and fixed maturities. Financial assets measured at amortized cost are initially recognized at cost and subsequently measured at amortized cost using the internal rate of return method. Profit share income related to financial assets measured at amortized cost is reflected in the income statement. As of the balance sheet date, the Group does not have any financial assets to be held until maturity.

- **Derivative Financial Assets:**

The major derivative instruments utilized by the Group are foreign currency swaps, cross currency swaps and currency forwards.

Payables and receivables arising from the derivative instruments are recorded in the off-balance sheet accounts at their contractual values.

Derivative transactions are valued at their fair values subsequent to their acquisition. In accordance with the classification of derivative financial instruments, the positive fair value amounts are classified as the “Derivative financial assets valued at fair value through profit or loss; and the negative fair value amounts are classified as the “Derivative financial liabilities valued at fair value through profit or loss”. The fair value differences of derivative financial instruments of fair value through profit or loss derivative transactions are recognized in the income statement under net trading income line in profit/loss from derivative financial transactions. The fair value of derivative instruments is calculated by taking into account the market value of the derivatives or by using the discounted cash flow model.

Net Investment Hedge

The Group enters into foreign currency risk arising from net investments in foreign affiliates are hedged with long-term foreign currency borrowings and deposits and the currency translation differences arising from the conversion of net investments in foreign affiliates and accounts long-term foreign currency borrowings into TL for other profit reserves and hedging reserves, respectively in equity.

2.16 Precious metal accounts

Gold transactions are accounted under “precious metal account” and valuation is performed with the current ounce of gold prices in the market.

2.17 Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.18 Derecognition of financial instruments

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

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

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

2.19 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

2.20 Current accounts and profit / loss sharing investors' accounts

Current accounts and profit/loss sharing investors' accounts are initially recognized at cost, being the fair value. Current accounts are not entitled to profit participation. After initial recognition, all profit / loss sharing accounts are recognized at cost plus attributable profit (or less attributable loss) on credits granted taking into consideration amounts repaid and losses attributable. Profit or losses attributable to profit/loss sharing investors' accounts that result from financing transactions are distributed among such accounts according to each party's contribution to the financing investment.

2.21 Due to other financial institutions and banks

Deposits and funds borrowed are initially recognized at fair value of consideration received less directly attributable transaction costs. After initial recognition, all profit bearing liabilities are subsequently measured at amortized cost using the effective yield method. Amortized cost is calculated by taking into account any discount or premium.

2.22 Employee benefits

The Group has both defined benefit and defined contribution plans as described below:

(a) Defined benefit plans:

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the actuarial valuation by independent actuary. All actuarial gains and losses are recognized in the comprehensive income statement.

(b) Defined contribution plans:

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

2.23 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an expense.

2.24 Leases

- **The group as lessee**

Assets acquired under finance lease agreements are capitalized at the inception of the lease at the “lower of the fair value of the leased asset or the present value of the amount of cash consideration given for the leased asset”. Leased assets are included in the property and equipment and depreciation is charged on a straight-line basis over the useful life of these assets. If there is any diminution in value of the leased asset, a “Provision for value decrease” is recognized. Liabilities arising from the leasing transactions are included in “Financial Lease Payables” on the balance sheet. Interest and foreign exchange expenses regarding lease transactions are charged to the income statement. The Bank can engage in financial lease transactions as the lessor. The Bank records the gross amount of minimum lease receivables comprising of principal and interest amounts as “financial lease receivables” under lease receivables account. The difference between the aggregate of lease receivables and the cost of the related leased assets, corresponding to interest, is recorded under “unearned income” item. The interest income is recognized in the income statement on an accrual basis. Effective January 1, 2019, The Bank adopted IFRS 16 Leases and started to present most leases on-balance sheet except its short-term leases and its low value assets. The Bank did not restate the financial information for the comparative year by choosing the modified approach.

- **The group as lessor**

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019. When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within loans, lease receivables and advances.

2.25 Income and expense recognition

Fees and commissions are recognized based on the purposes for which such fees and commissions are collected and the basis of accounting for any associated financial instrument. Commissions and fees that are collected as an integral part of the profit share rate of loans are treated as an adjustment to the profit share rate. Commissions and fees on loans that are collected as reimbursement of expenses incurred and are not considered as an adjustment to the profit share rate and commission income from various banking services are recognized as income when collected. Fees (such as credit card fees) that are related to servicing a loan are recognized on a straight-line basis over the period of the service is provided.

Income from funds invested from current accounts and equity is recognized on an accrual basis. Income from funds invested from profit/loss sharing accounts is accrued using the effective yield method and the net income is attributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognized in full and generally 60% - 99% of this income is recorded as expense being the profit share distribution (as this is the legal and contractual range for the profit share quotas).

Dividend income is recognized when the Group's right to receive the payment is established.

Income earned on financial assets valued at fair value through other comprehensive income, which are carried at cost less any impairment is reported as dividend income.

Income from the sale of time-sharing houses is recognized when the significant risks and rewards of ownership of the asset have passed to the buyer.

2.26 Income tax

Tax expense / (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Current tax

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. In accordance with the Provisional Article 13 added to the Corporate Tax Law Numbered 5520 with the Law Numbered 7316, the 20% rate foreseen in the calculation of the corporate tax for the corporate earnings of 2021 taxation period is determined as 25% (starting from the declarations to be submitted as of 1 July 2021 and to be valid for the corporate earnings for the taxation period starting from 1 January 2021), and as 23% for the corporate earnings for the 2022 taxation period. In this context, the Corporate Tax rate as of 31 December 2021 is 25%. (31 December 2020: 22%).

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied for 31 December 2021 is 25% (31 December 2020: 22%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

There is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-30 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

According to the Corporate Tax Law, 50% of the capital gains arising from the sale of tangible assets and 75% of the capital gains arising from the sale of equity investments, owned for at least two years, are exempted from corporate tax on the condition that such gains are reflected in the equity from the date of the sale.

In accordance with Article 298/A of the Tax Procedure Law, necessary conditions for inflation adjustment in the calculation of corporate tax as of the end of the 2021 calendar year have been met. However, the application of inflation adjustment in the calculation of corporate tax was postponed to 2023 with the regulation of "Law on the Amendment of the Tax Procedure Law and the Corporate Tax Law" numbered 7352, published in the Official Gazette dated 29 January 2022 and numbered 31734. Accordingly, financial statements prepared in accordance with Tax Procedure Law for 2021 and 2022 and temporaray tax periods of 2023 will not be subject to inflation adjustment. On the other hand, financial statements as of 31 December 2023 will be subject to inflation adjustment regardless the conditions are met or not.

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Withholding tax

In addition to corporate taxes, companies should also calculate withholding tax on dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The withholding tax rate was reduced to 10% (31 December 2020: 15%) with the Presidential Decision No. 4936, which was published in the Official Gazette dated 22 December 2021.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions No.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette No.27130 dated 3 February 2009, certain duty rates included in the articles No.15 and 30 of the new Corporate Tax Law No.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the nonresident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, is 15%. In applying the withholding tax rates on dividend payments to the nonresident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

Deferred tax

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investment in subsidiary and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investment in subsidiary and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The Group calculates and accounts for deferred income taxes for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with "International Accounting Standard for Income Taxes" ("IAS 12"). Deferred tax asset is calculated on all temporary differences other than general provisions to the extent that is probable that taxable profit will be available and deferred tax liability is calculated for all temporary differences. Deferred tax asset and liabilities are shown in the accompanying financial statements on a net basis.

2.27 Fiduciary assets

Assets held by the Bank in a fiduciary, agency or custodian capacity are not included in the balance sheet, since such items are not treated as assets of the Bank.

2.28 Related parties

For the purposes of these financial statements, shareholders, key management personnel and Board of Directors' Members, in each case together with companies controlled by/or affiliated with them and their close family members, associated companies are considered and referred to as related parties.

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity, and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

2.29 Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Annual General Meeting of the Shareholders of the Bank and its subsidiaries.

2.30 Subsequent events

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. Segment reporting

For management purposes, the Group is organized into three main business groups and six sub-segments:

Retail Banking

Principally handling individual customers' current, saving and investment accounts and providing loans, consumer loans, credit cards facilities and funds transfer facilities. There are two subsegments, Retail and Private, under Retail Banking Group.

Retail Segment, portfolio comprised of all individuals that have deposits or sukuk and investment funds under TL 3,000,000 (full amount), real estate loans that are less than TL 1,500,000 (full amount) in Istanbul Regions, TL 750,000 (full amount) in Anatolian Regions, vehicle loans that are less than TL 350,000 (full amount) in all regions and all foreign nationals' real estate loans that are less than TL 750,000 (full amount).

Private segment, portfolio comprised of all individuals that have deposits or sukuk and investment funds more than TL 3,000,000 and real estate loans that are more than TL 1,500,000 (full amount) in Istanbul Regions, TL 750,000 (full amount) in Anatolian Regions, vehicle loans that are more than TL 350,000 (full amount) in all regions and all foreign nationals' real estate loans that are more than TL 750,000 (full amount).

SME Banking

Principally handling loans and other credit facilities and current, saving and investment accounts for institutional customers. There are two sub-segments, Medium Size Business and Micro, under SME Banking Group.

Medium Size Business segment, portfolio comprised of all businesses that have annual sales turnover between TL 10 million - TL 125 million (full amount) and their individual owners.

Micro segment, portfolio comprised of all businesses that have annual sales turnover below TL 10 million (full amount) and their individual owners.

Commercial Banking

Principally handling loans and other credit facilities and current, saving and investment accounts for institutional customers. There are two sub-segments, Commercial and Corporate, under Commercial Banking Group.

Corporate segment, portfolio comprised of all businesses in corporate branches.

Commercial segment, portfolio comprised of all businesses that have annual sales turnover above TL 125 million (full amount) and their individual owners.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

The following table presents income and profit and certain asset and liability information regarding the Group's business segments as of and for the years ended December 31, 2021, and 2020, respectively.

For the period ended December 31, 2021	**Retail Banking**	**SME Banking**	**Commercial Banking**	**Corporate Banking**	**Tresaury, International & Investment Banking, Insurance**	**Segments Total**	**Recon-ciliation**	**Notes**	**Grand Total**
Income from financing activities & sukuk	1,204,764	3,425,614	3,388,247	846,717	4,587,629	13,452,971	-		13,452,971
Intersegment income	4,006,186	(724,622)	(2,067,876)	(512,220)	(701,468)	-	-		-
Total financing income	**5,210,950**	**2,700,992**	**1,320,371**	**334,497**	**3,886,161**	**13,452,971**	**-**		**13,452,971**
Profit shares distributed	(2,798,612)	(573,788)	(98,730)	(41,662)	(1,867,101)	(5,379,893)	-		(5,379,893)
Credit loss expense	(13,359)	(312,224)	(836,073)	(124,758)	(2,787,960)	(4,074,374)	-		(4,074,374)
Net financing income	**2,398,979**	**1,814,980**	**385,568**	**168,077**	**(768,900)**	**3,998,704**	**-**		**3,998,704**
Foreign exchange gain/loss, net	1,056,007	411,191	116,518	6,101	111,405	1,701,222	-		1,701,222
Net trading income/expense	2,782	3,649	3,448	442	1,366,171	1,376,492	-		1,376,492
Net fees & commission and other income/expense	285,229	520,256	263,437	72,299	(633,322)	507,899	-		507,899
Other expenses / income (net)	(334,482)	260,136	463,649	(147,234)	(3,148,892)	(2,906,823)	-		(2,906,823)
Segment profit / (loss)	**3,408,515**	**3,010,212**	**1,232,620**	**99,685**	**(3,073,538)**	**4,677,494**	**-**		**4,677,494**
Tax expenses (current & deferred)	-	-	-	-	-	-	(1,282,041)	(a)	(1,282,041)
Net profit / (loss) for the year	**3,408,515**	**3,010,212**	**1,232,620**	**99,685**	**(3,073,538)**	**4,677,494**	**(1,282,041)**		**3,395,453**
Segment Assets	**11,416,146**	**31,649,283**	**45,790,242**	**12,276,154**	**165,880,421**	**267,012,246**	**-**		**267,012,246**
Segment Liabilities & Equity	**142,712,232**	**54,719,266**	**22,211,622**	**6,257,199**	**29,536,530**	**255,436,849**	**11,575,397**	**(b)**	**267,012,246**

a) Since the tax is calculated on Group's total profit/loss, the tax amount is not included in the performance of segments.

b) Total equity is not allocated to the segments.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

For the period ended December 31, 2020	**Retail Banking**	**SME Banking**	**Commercial Banking**	**Corporate Banking**	**Tresaury, International & Investment Banking, Insurance**	**Segments Total**	**Recon-ciliation**	**Notes**	**Grand Total**
Income from financing activities & sukuk	1,007,378	2,335,107	2,309,181	741,265	3,254,053	9,646,984	-		9,646,984
Intersegment income	2,378,180	(479,836)	(1,356,782)	(246,073)	(295,489)	-	-		-
Total financing income	**3,385,558**	**1,855,271**	**952,399**	**495,192**	**2,958,564**	**9,646,984**	**-**		**9,646,984**
Profit shares distributed	(1,810,845)	(368,516)	(76,650)	(11,825)	(843,011)	(3,110,847)	-		(3,110,847)
Credit loss expense	(10,748)	(383,937)	(795,882)	(512,857)	(1,390,641)	(3,094,065)	-		(3,094,065)
Net financing income	**1,563,965**	**1,102,818**	**79,867**	**(29,490)**	**724,912**	**3,442,072**	**-**		**3,442,072**
Foreign exchange gain/loss, net	309,309	116,196	62,692	3,472	2,529,009	3,020,678	-		3,020,678
Net trading income/expense	8,545	7,361	5,616	181	(2,162,147)	(2,140,444)	-		(2,140,444)
Net fees & commission and other income/expense	204,513	374,377	216,090	59,255	(592,412)	261,823	-		261,823
Other expenses / income (net)	(70,540)	203,501	216,913	(19,479)	(2,626,586)	(2,296,191)	-		(2,296,191)
Segment profit / (loss)	**2,015,792**	**1,804,253**	**581,178**	**13,939**	**(2,127,224)**	**2,287,938**	**-**		**2,287,938**
Tax expenses (current & deferred)	-	-	-	-	-	-	(554,673)	(a)	(554,673)
Net profit / (loss) for the year	**2,015,792**	**1,804,253**	**581,178**	**13,939**	**(2,127,224)**	**2,287,938**	**(554,673)**		**1,733,265**
Segment Assets	**10,931,898**	**22,797,512**	**28,708,153**	**8,990,314**	**86,575,252**	**158,003,129**	**-**		**158,003,129**
Segment Liabilities & Equity	**76,933,228**	**31,443,005**	**10,457,794**	**4,847,663**	**26,220,543**	**149,902,233**	**8,100,896**	**(b)**	**158,003,129**

a) Since the tax is calculated on Group's total profit/loss, the tax amount is not included in the performance of segments.

b) Total equity is not allocated to the segments.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

4. Cash and balances with banks

	December 31, 2021	December 31, 2020
Cash on hand	**7,573,993**	3,643,435
Balances with the Central Bank of Turkey	**16,026,200**	1,993,460
Cash and balances with the Central Bank of Turkey	**23,600,193**	5,636,895
Balances with banks and other financial institutions	**24,344,218**	9,768,610
ECL Allowances	**(27,394)**	(747)
Sub Total	**47,917,017**	15,404,758
Deposit with maturity more than three months	**(9,035,339)**	(1,409,328)
Total	**38,881,678**	13,995,430

As of December 31, 2021, and 2020, "balances with other banks and financial institutions" are made up of demand and time deposits. The time deposits, all of which have original maturities less than three months, can be analyzed as follows:

	2021				2020			
	Amount		**Effective profit rate (average)**		Amount		Effective profit rate (average)	
	TL	**Foreign currency**	**TL**	**Foreign currency**	TL	Foreign currency	TL	Foreign currency
Deposits with other banks and financial institutions	**-**	**8,244,100**	**-**	**1.59%**	1,650,000	1,079,243	17.47%	2.01%
Total	**-**	**8,244,100**			1,650,000	1,079,243		

5. Reserve deposits at the Central Bank of Turkey

	2021		2020	
	Foreign currency (full amount)	**TL**	Foreign currency (full amount)	TL
USD	**1,221,197,179**	**16,203,650**	949,253,588	7,030,675
EUR	**857,715,498**	**12,884,388**	796,738,264	7,250,055
XAU (Standard Gold)	**9,245,131**	**7,196,765**	9,375,659	4,205,335
		36,284,803		18,486,065

In accordance with the "Communiqué Regarding the Reserve Requirements no. 2013/15, the Bank is required to maintain reserves in CBRT for TL and foreign currency liabilities. The reserve requirements can be maintained as TL, USD, EUR and standard gold. CBRT started paying profit share on reserve balances held in USD starting from May 2015 and held in TL starting from November 2014. The reserve rates for TL liabilities vary between 3% and 8% for TL deposits and other liabilities according to their maturities as of December 31, 2021 (December 31, 2020: 1% and 6% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 5% and 25% for deposit and other foreign currency liabilities according to their maturities as of December 31, 2021 (December 31, 2020: 5% and 21% for all foreign currency liabilities). The reserve rates for precious metal liabilities vary between 21% and 26% according to their maturities as of December 31, 2021 (December 31, 2020: 16% and 22% for all foreign currency liabilities).

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

6. Financial assets

- **At Fair Value Through Other Comprehensive Income**

	December 31, 2021	December 31, 2020
Financial Sukuk	**31,850,274**	20,550,945
Fund	**153,949**	132,845
Unlisted Shares	**84,074**	49,146
ECL allowance	**(16,535)**	(9,851)
Total	**32,071,762**	20,723,085

The breakdown of unlisted shares is as follows:

		December 31, 2021		December 31, 2020	
	Nature of business	**Ownership%**	**Amount**	Ownership%	Amount
VISA INC.	Financial service	**-**	**71,784**	-	40,405
Kredi Garanti Fonu A.Ş. (KGF)	Financial institution	**1.49**	**4,897**	1.49	4,897
Swift	Financial service	**-**	**3,567**	-	390
Borsa İstanbul A.Ş.	Exchange entity	**0.0035**	**15**	0.0035	15
JRC Avrasya Derecelendirme A.Ş.	Rating company	**2.86**	**2,754**	2.86	2,754
Tarsim	Insurance Company	**-**	**1,057**	-	685
			84,074		49,146

- **At Fair Value Through Profit or Loss**

Financial at fair value through profit or loss includes sukuk and share certificates. Balance of financial assets at fair value through profit or loss is as below:

	December 31, 2021	December 31, 2020
Sukuk	**12,982,125**	7,813,619
Share Certificates	**-**	-
Total	**12,982,125**	7,813,619

As of 31 December 2021, there are no financial assets at fair value through profit and loss subject to repurchase transactions, given as a collateral or blocked (31 December 2020 – None).

- **At Amortised Cost**

Balance of financial assets valued at amortised cost is as below:

	December 31, 2021	December 31, 2020
Sukuk	**5,935,549**	6,499,810
ECL allowance	**(621)**	(1,094)
Total	**5,934,928**	6,498,716

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Hierarchy of valuation techniques which establishes basis for fair value calculation of financial assets and liabilities

Level I: Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level II: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level III: Inputs for the asset or liability that are not based on observable market data

Fair value hierarchy of the financial assets and liabilities of the Group carried at fair value according to the foregoing principles as of December 31, 2021, and 2020 are given in the table below:

Current Period	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
At fair value through profit or loss	**11,033,471**	**3,347,438**	**-**	**14,380,909**
Share certificates	-	-	-	-
Forward transactions	-	358,296	-	358,296
Swap transactions	-	1,040,488	-	1,040,488
Government sukuk	11,033,471	-	-	11,033,471
Other sukuk	-	1,948,654	-	1,948,654
At fair value through other comprehensive income	**31,790,271**	**281,491**	**-**	**32,071,762**
Equity securities	84,074	-	-	84,074
Government debt securities	31,706,197	-	-	31,706,197
Other marketable securities	-	281,491	-	281,491
Amortised cost	**5,934,928**	**-**	**-**	**5,934,928**
Government debt securities	5,934,928	-	-	5,934,928
Financial liabilities				
Financial liabilities held for trading	**-**	**257,764**	**-**	**257,764**
Forward transactions	-	132,843	-	132,843
Swap transactions	-	124,921	-	124,921
Financial liabilities for hedging purposes	-	-	-	-

Previous Period	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
At fair value through profit or loss	**7,050,998**	**1,224,227**	**-**	**8,275,225**
Share certificates	-	-	-	-
Forward transactions	-	52,326	-	52,326
Swap transactions	-	409,280	-	409,280
Government sukuk	7,050,998	-	-	7,050,998
Other sukuk	-	762,621		762,621
At fair value through other comprehensive income	**20,538,784**	**184,301**	**-**	**20,723,085**
Equity securities	49,146	-	-	49,146
Government debt securities	20,489,638	-	-	20,489,638
Other marketable securities	-	184,301	-	184,301
Amortised cost	**6,498,716**	**-**	**-**	**6,498,716**
Government debt securities	6,498,716	-	-	6,498,716
Financial liabilities				
Financial liabilities held for trading	**-**	**1,676,806**	**-**	**1,676,806**
Forward transactions	-	26,008	-	26,008
Swap transactions	-	1,650,798	-	1,650,798
Financial liabilities for hedging purposes	-	-	-	-

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

7. Due from financing activities, net

December 31, 2021	Gross Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank) (Note 4 and 5)	59,885,220	-	-	**59,885,220**	224	-	-	**224**
Balances with other banks and financial institutions (Note 4)	24,344,218	-	-	**24,344,218**	27,394	-	-	**27,394**
Securities (Note 6)	51,005,974	-	-	**51,005,974**	17,159	-	-	**17,159**
Due from financing activities and Finance lease receivable (Note 7,8)	109,376,476	10,281,329	3,190,650	**122,848,455**	2,817,163	2,913,279	2,852,316	**8,582,758**
Total on-balance sheet financial assets in scope of ECL requirements	**244,611,888**	**10,281,329**	**3,190,650**	**258,083,867**	**2,861,940**	**2,913,279**	**2,852,316**	**8,627,535**

December 31, 2020	Gross Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank) (Note 4 and 5)	24,122,988	-	-	**24,122,988**	28	-	-	**28**
Balances with other banks and financial institutions (Note 4)	9,768,610	-	-	**9,768,610**	747	-	-	**747**
Securities (Note 6)	35,046,365	-	-	**35,046,365**	10,945	-	-	**10,945**
Due from financing activities and Finance lease receivable (Note 7,8)	68,928,561	7,956,118	3,413,759	**80,298,438**	1,141,502	1,518,372	2,788,827	**5,448,701**
Total on-balance sheet financial assets in scope of ECL requirements	**137,866,524**	**7,956,118**	**3,413,759**	**149,236,401**	**1,153,222**	**1,518,372**	**2,788,827**	**5,460,421**

December 31, 2021	**Corporate and Commercial**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Stage 1	92,708,808	2,510,792	2,369,300	11,787,576	109,376,476
Stage 2	9,675,239	100,690	246,696	258,704	10,281,329
Stage 3	3,059,947	16,927	24,991	88,785	3,190,650
Total gross loans	**105,443,994**	**2,628,409**	**2,640,987**	**12,135,065**	**122,848,455**
Stage 1&2 (ECL)	(5,553,251)	(6,923)	(152,329)	(17,939)	(5,730,442)
Stage 3 (ECL)	(2,750,951)	(14,310)	(20,780)	(66,275)	(2,852,316)
Net loans (*)	**97,139,792**	**2,607,176**	**2,467,878**	**12,050,851**	**114,265,697**

December 31, 2020	**Corporate and Commercial**	**Consumer**	**Credit Cards**	**Mortgage**	**Total**
Stage 1	54,726,625	2,027,441	1,232,512	10,941,983	68,928,561
Stage 2	7,418,879	101,993	144,660	290,586	7,956,118
Stage 3	3,275,152	12,920	27,319	98,368	3,413,759
Total gross loans	**65,420,656**	**2,142,354**	**1,404,491**	**11,330,937**	**80,298,438**
Stage 1&2 (ECL)	(2,584,661)	(7,142)	(52,094)	(15,976)	(2,659,873)
Stage 3 (ECL)	(2,691,119)	(10,457)	(23,670)	(63,582)	(2,788,828)
Net loans (*)	**60,144,876**	**2,124,755**	**1,328,727**	**11,251,379**	**74,849,737**

(*) Also includes finance lease receivables.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Distribution of provisions by internal rating/quality:

December 31, 2021	Stage 1	Stage 2	Stage 3	Total
Internal Rating Grade				
Performing	**2,817,163**	**2,913,279**	**-**	**5,730,442**
High Quality	**604,586**	**65,539**	**-**	**670,125**
Medium Quality	**1,030,788**	**6,125**	**-**	**1,036,913**
Average	**947,334**	**1,052,256**	**-**	**1,999,590**
Below Average	**234,455**	**1,789,359**	**-**	**2,023,814**
Non-performing	**-**	**-**	**2,852,316**	**2,852,316**

December 31, 2020	Stage 1	Stage 2	Stage 3	Total
Internal Rating Grade				
Performing	**1,141,502**	**1,518,372**	**-**	**2,659,874**
High Quality	153,288	222	-	153,510
Medium Quality	321,713	550	-	322,263
Average	396,209	230,694	-	626,903
Below Average	270,292	1,286,906	-	1,557,198
Non-performing	**-**	**-**	**2,788,827**	**2,788,827**

	December 31, 2021	December 31, 2020
Performing loans	107,758,094	71,883,923
Performing lease receivables	11,899,711	5,000,756
Non-performing loans and lease receivables	3,190,650	3,413,759
Gross amount	**122,848,455**	**80,298,438**
ECL amount for stage 3 loans	(2,852,316)	(2,788,827)
ECL amount for stage 1&2 loans	(5,730,441)	(2,659,874)
Carrying amount	**114,265,697**	**74,849,737**

Provision movement of the Group as of 31 December 2021 and 31 December 2020:

	December 31, 2021	December 31, 2020
Balance on 1 January 2020	5,448,701	3,048,982
Impairment loss for the year:		
Charge for the year	6,121,461	4,059,407
Recoveries and reversals	(2,579,357)	(1,255,894)
Write-offs and loans sold	(408,047)	(403,794)
Balance at end of the year	**8,582,758**	**5,448,701**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

8. Finance lease receivable, net

Gross investment in finance leases as to their maturity:

	December 31, 2021	December 31, 2020
Not later than 1 year	**4,962,277**	2,249,517
Later than 1 year and not later than 5 years	**7,598,272**	3,089,153
Later than 5 years	**565,607**	352,011
Non-performing receivables	**88,472**	72,515
Lease receivable, gross	**13,214,628**	5,763,196
Less: Unearned finance income	**(1,226,445)**	(689,925)
Net investment in finance leases	**11,988,183**	5,073,271
Less: Allowance for impairment	**(80,158)**	(67,529)
Less: Allowance for non impairment	**(890,250)**	(332,956)
Lease receivable, net	**11,017,775**	4,672,786

As of December 31, 2021, TL 9,035,498 (December 31, 2020 - TL 2,815,541**)** gross lease receivables are denominated in foreign currency (USD and EUR).

Net investment in finance leases as to their maturity:

	December 31, 2021	December 31, 2020
Less than 1 year (*)	**4,188,994**	1,855,693
1 -5 year	**7,258,589**	2,621,536
More than 5 years	**540,600**	596,042
Net investment in finance leases	**11,988,183**	5,073,271

(*) Includes total impaired receivables amounting to TL 88,472 (December 31, 2020 – TL 72,515).

Impacts of Covid-19 Pandemia

The impact of the Covid-19 outbreak on credit portfolio and credit risk indicators is monitored closely. The negative impact of the pandemic is considered while calculating the expected credit loss. In addition to the aforementioned analysis, reverse stress tests are conducted regularly by determining the increase in non-performing loans ratio and exchange rate which will cause the Bank's capital adequacy to decrease to the legal limits.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

9. Other assets

Other assets comprise the followings:

	December 31, 2021	December 31, 2020
Blockage for guarantees given (*)	2,676,402	8,275,047
Clearing accounts	1,029,880	639,138
Prepaid expenses	131,339	63,132
Receivables from banking operations	16,995	36,065
Value added tax (VAT) receivable	4,208	7,379
Other	1,438,248	984,952
	5,297,072	**10,005,713**

(*) As December 2021, Blockage for guarantees given includes CB open market transaction collaterals of EUR 150,000 (December 31,2020 - EUR 875,000).

10. Construction projects, net

Construction projects mainly include construction activities of Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. subsidiary.

	December 31, 2021	December 31, 2020
Uncompleted construction projects	**15,737**	19,698
Kartal Project		
Cost of land	**-**	-
Cost of project	**15,737**	19,698
Kilyos Land		
Cost of land	**-**	-
Güre Tesisi	**67,299**	72,004
Completed construction projects (inventories)	**67,299**	72,004
	83,036	91,702
(Less) Impairment provision for net realizable value	**(26,032)**	(26,609)
Total construction projects, net	**57,004**	65,093

11. Investment properties, net

	December 31, 2021	December 31, 2020
Balance at the beginning of the year	**77,457**	37,646
Additions	**11,128**	39,970
Disposal	**(24,987)**	-
Depreciation charge	**-**	(159)
Transfer to assets held for resale (Note 12)	**-**	-
Transfer from other assets	**-**	-
Balance at the end of the year	**63,598**	77,457
Cost	**45,057**	45,057
Increase in value	**18,541**	32,400
Net carrying amount	**63,598**	77,457

Fair value of the investment properties is TL 63,598 (December 31, 2020 **-** TL 77,457) which is determined based on the valuations carried out by independent qualified valuation companies in December 2021.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

12. Assets and a disposal group held for sale

On December 31, 2021, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL 240,891 (December 31, 2020 – TL 519,087), which are expected to be sold in a time period less than 1 year as non-current assets held for sale. The assets and the determined sales prices have been announced to the public via website of the Bank. Movement of non-current assets held for sale is as follows:

	December 31, 2021	December 31, 2020
Balance at the beginning of the year	**519,087**	473,326
Additions	**61,085**	172,426
Transfer from investment property (Note 11)	**-**	-
Disposals	**(339,281)**	(126,809)
Depreciation Charge	**-**	144
Balance at the end of the year	**240,891**	519,087

Gain on sale of assets held for sale amounting to TL 196,191 is included in other income in the comprehensive income statement (December 31, 2020 – TL 43,938).

13. Property and equipment, net

Current Period	**Buildings**	**Leased Tangible Assets**	**Vehicles**	**Other Tangible Assets**	**Total**
Cost					
Opening balance, 1 January 2021	215,449	655,804	112,287	587,254	1,570,794
Additions	41,323	211,021	60,513	128,170	441,027
Disposals	(6)	(82,490)	(915)	(189,816)	(273,227)
Transfers	4,756	(4,756)	-	(17)	(17)
Impairment / cancellation	-	-	-	-	-
Ending balance, 31 December 2021	261,522	779,579	171,885	525,591	1,738,577
Accumulated Depreciation (-)					
Opening balance, 1 January 2021	38,329	262,759	31,290	306,080	638,458
Amortisation cost	8,073	149,950	30,227	76,199	264,449
Disposals	(5)	(71,598)	(704)	(184,349)	(256,656)
Transfers	2	(2)	-	(16)	(16)
Ending balance, 31 December 2021	46,399	341,109	60,813	197,914	646,235
Cost at the end of period	**261,522**	**779,579**	**171,885**	**525,591**	**1,738,577**
Accumulated depreciation at the end of period (-)	**46,399**	**341,109**	**60,813**	**197,914**	**646,235**
Closing net book value	**215,123**	**438,470**	**111,072**	**327,677**	**1,092,342**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Prior Period	**Buildings**	**Leased Tangible Assets**	**Vehicles**	**Other Tangible Assets**	**Total**
Cost					
Opening balance, 1 January 2020	247,896	512,677	63,199	489,686	1,313,458
Additions	2,520	162,272	49,281	124,638	338,711
Disposals	(34,963)	(49,532)	(193)	(27,077)	(111,765)
Transfers	(4)	(3)	-	7	-
Impairment / cancellation	-	30,390	-	-	30,390
Ending balance, 31 December 2020	215,449	655,804	112,287	587,254	1,570,794
Accumulated Depreciation (-)					
Opening balance, 1 January 2020	30,381	162,826	12,773	251,726	457,706
Amortisation cost	8,107	127,897	18,771	59,032	213,807
Disposals	(159)	(27,961)	(254)	(4,681)	(33,055)
Transfers	-	(3)	-	-	-
Ending balance, 31 December 2020	38,329	262,759	31,290	306,080	638,458
Cost at the end of period	**215,449**	**655,804**	**112,287**	**587,254**	**1,570,794**
Accumulated depreciation at the end of period (-)	**38,329**	**262,759**	**31,290**	**306,080**	**638,458**
Closing net book value	**177,120**	**393,045**	**80,997**	**281,174**	**932,336**

14. Intangible assets, net

	Total
On January 1, 2020	211,050
Additions	176,493
Disposals	(24,385)
Amortization charge for the year	(82,155)
On December 31, 2021 net of accumulated amortization	281,003
Additions	**206,399**
Disposals	**(71,212)**
Amortization charge for the year	**(71,232)**
On December 31, 2021, net of accumulated amortization	**344,958**

On December 31, 2020	
Cost (gross carrying amount)	404,313
Accumulated amortization	(123,310)
Net carrying amount	281,003
On December 31, 2021	
Cost (gross carrying amount)	**539,500**
Accumulated amortization	**(194,542)**
Net carrying amount	**344,958**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

15. Due to other financial institutions and banks, Sukuk securities issued, subordinated loans and money market balances

Due to other financial institutions and banks as of December 31, 2021, and 2020 is as follows;

Original currency	December 31, 2021	December 31, 2020
USD	**3,012,010**	4,464,546
Euro	**1,808,321**	923,911
TL	**256,632**	187,199
Other	**526,101**	358,549
Total	**5,603,064**	5,934,205

As of December 31, 2021, borrowings remaining maturities of which is less than 12 months amount to TL 3,730,665 (As of December 31, 2020 – TL 5,161,042).

As of December 31, 2021, the Bank has no syndicated loans (December 31, 2020 - None).

Sukuk securities as of December 31, 2021, and 2020 is as follows;

		Amount in TL
	December 31, 2021	December 31, 2020
Sukuk certificates issued USD	**-**	3,337,298
Sukuk certificates issued TL	**3,582,377**	1,821,975
Total	**3,582,377**	5,159,273

The financial terms of sukuk securities in issue as of December 31, 2021, are as follows:

Issue date	Maturity date	Currency	Nominal amount (TL)	Profit share rate (%)
29/12/2021	29/03/2022	TL	200,000	17.26
08/12/2021	04/02/2022	TL	300,000	14.70
06/12/2021	04/03/2022	TL	250,000	14.79
01/12/2021	04/02/2022	TL	300,000	14.70
24/11/2021	27/01/2022	TL	175,000	14.79
25/11/2021	26/01/2022	TL	550,000	14.70
26/11/2021	24/02/2022	TL	250,000	14.79
10/11/2021	05/01/2022	TL	600,000	15.78
05/11/2021	03/02/2022	TL	350,000	15.78
05/11/2021	02/02/2022	TL	75,000	15.48
03/11/2021	05/01/2022	TL	100,000	15.78
03/11/2021	14/01/2022	TL	400,000	15.88
27/10/2021	12/01/2022	TL	700,000	15.88
15/10/2021	13/01/2022	TL	250,000	17.75

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

The financial terms of sukuk securities in issue as of December 31, 2020, are as follows:

Issue date	Maturity date	Currency	Nominal amount (TL)	Profit share rate (%)
01/07/2020	27/01/2021	TL	300,000	7.89
12/08/2020	24/02/2021	TL	450,000	9.37
26/08/2020	03/03/2021	TL	350,000	10.16
03/12/2020	13/01/2021	TL	300,000	15.29
23/12/2020	24/03/2021	TL	250,000	16.77
27/10/2020	29/01/2021	TL	198,370	13.07
11/11/2020	13/02/2021	TL	500,000	13.32
17/07/2020	10/02/2021	TL	275,000	8.09
01/11/2020	02/11/2021	USD	3,703,265	5.08

Subordinated loans as of December 31, 2021, and 2020 is as follows;

		Amount in TL
	December 31, 2021	December 31, 2020
Subordinated loan provided by other foreign banks&institutions	**8,100,496**	4,590,265
Total	**8,100,496**	4,590,265

As of December 31, 2021, money market balances include the transactions with Central Bank of Turkey amount to TL 6,495,137 (As of December 31, 2020 – TL 185,225).

16. Current and profit / loss sharing investors' accounts

	December 31, 2021	December 31, 2020
Current accounts:		
Turkish lira	**28,634,914**	14,265,754
Foreign currency	**103,438,281**	59,777,137
	132,073,195	74,042,891
Profit/loss sharing investors' accounts:		
Turkish lira	**28,350,700**	19,034,609
Foreign currency	**59,299,233**	32,702,460
	87,649,933	51,737,069
Blocked accounts:		
Turkish lira	**47,204**	54,946
Foreign currency	**6,455**	2,143
	53,659	57,089
Total current accounts and profit/loss investors' accounts	**219,776,787**	125,837,049
Expense accrual on profit/loss sharing investors' accounts	**246,436**	172,927
Total current accounts and profit/loss sharing investors' accounts	**220,023,223**	126,009,976

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Blocked accounts include receivables of point of sales machine holding depositors which become current account within an average of one - month period.

Current accounts and profit/loss sharing investors' accounts, excluding expense accruals, can be analyzed according to their original maturities as follows:

	December 31, 2021			December 31, 2020		
	TL	**Foreign currency**	**Total**	TL	Foreign currency	Total
Up to 1 month	**40,018,454**	**126,608,715**	**166,627,169**	21,302,314	74,790,131	96,092,445
From 1 month to 3 months	**13,937,071**	**24,152,154**	**38,089,225**	9,437,096	12,946,796	22,383,892
From 3 months to 1 year	**2,116,930**	**7,405,738**	**9,522,668**	1,556,612	3,134,553	4,691,165
Over one year	**913,159**	**4,570,907**	**5,484,066**	1,059,287	1,610,260	2,669,547
	56,985,614	**162,737,514**	**219,723,128**	33,355,309	92,481,740	125,837,049

On December 31, 2021, and 2020, foreign currency and precious metals linked current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

	2021		2020	
	Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Current and blocked accounts:				
USD	**3,441,718,832**	**45,666,997**	2,982,658,212	22,091,147
Euro	**1,300,988,766**	**19,543,128**	746,181,026	6,790,001
Precious metals		**36,383,140**		28,025,054
Other		**1,845,016**		1,281,407
		103,438,281		58,187,609
Profit/loss sharing investors' accounts:				
USD	**2,444,736,545**	**32,438,378**	2,728,383,632	20,207,855
Euro	**936,972,189**	**14,074,286**	605,946,244	5,513,911
Precious metals		**12,786,569**		8,572,365
		59,299,233		34,294,131
		162,737,514		92,481,740

The Bank mainly collects profit/loss sharing accounts from domestic companies and domestic individuals.

Profit/loss sharing accounts include the gain or loss resulting from the investment activities of the Bank and there is no predetermined return on these accounts when depositing money.

17. Income taxes

Corporate Tax

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. In accordance with the Provisional Article 13 added to the Corporate Tax Law Numbered 5520 with the Law Numbered 7316, the 20% rate foreseen in the calculation of the corporate tax for the corporate earnings of 2021 taxation period is determined as 25% (starting from the declarations to be submitted as of 1 July 2021 and to be valid for the corporate earnings for the taxation period starting from 1 January 2021), and as 23% for the corporate earnings for the 2022 taxation period. In this context, the Corporate Tax rate as of 31 December 2021 is 25% (31 December 2020: 22%).

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied for 31 December 2021 is 25% (31 December 2020: 22%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

There is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-30 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

According to the Corporate Tax Law, 50% of the capital gains arising from the sale of tangible assets and 75% of the capital gains arising from the sale of equity investments, owned for at least two years, are exempted from corporate tax on the condition that such gains are reflected in the equity from the date of the sale.

In accordance with Article 298/A of the Tax Procedure Law, necessary conditions for inflation adjustment in the calculation of corporate tax as of the end of the 2021 calendar year have been met. However, the application of inflation adjustment in the calculation of corporate tax was postponed to 2023 with the regulation of "Law on the Amendment of the Tax Procedure Law and the Corporate Tax Law" numbered 7352, published in the Official Gazette dated 29 January 2022 and numbered 31734. Accordingly, financial statements prepared in accordance with Tax Procedure Law for 2021 and 2022 and temporaray tax periods of 2023 will not be subject to inflation adjustment. On the other hand, financial statements as of 31 December 2023 will be subject to inflation adjustment regardless the conditions are met or not.

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Withholding Tax

In addition to corporate taxes, companies should also calculate withholding tax on dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The withholding tax rate was reduced to 10% (31 December 2020: 15%) with the Presidential Decision No. 4936, which was published in the Official Gazette dated 22 December 2021.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions No.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette No.27130 dated 3 February 2009, certain duty rates included in the articles No.15 and 30 of the new Corporate Tax Law No.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the nonresident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, is 15%. In applying the withholding tax rates on dividend payments to the nonresident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

The details of income tax expense are as follows;

	December 31, 2021	December 31, 2020
Current tax expense	**2,124,100**	823,639
Prepaid tax (-)	**(842,080)**	(433,769)
Income taxes payable	**1,282,020**	389,870

	2021	2020
Current tax expense	**(2,141,569)**	(829,426)
Deferred tax (credit)/charge	**859,528**	274,753
Total income tax charge/(credit)	**(1,282,041)**	(554,673)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the years December 31, 2021, and 2020 is as follows:

	December 31, 2021	December 31, 2020
Profit before income tax from continuing operations	**4,677,494**	2,287,938
At Turkish statutory income tax rate of 25% (*2020: 22%*)	**1,029,049**	503,346
Effect of income not subject to tax	**(27,783)**	(20,001)
Effect of expenditure not allowable for income tax purposes	**280,775**	71,328
Income tax charge	**1,282,041**	554,673

Deferred tax as of December 31, 2021, and 2020 is attributable to the following items:

	Deferred tax assets/(liabilities)	
	December 31, 2021	December 31, 2020
IFRS 9 provisions	**781,020**	427,891
Deferred income	**103,388**	73,122
Derivative accrual	**58,624**	243,384
Carryforward tax losses	**115,397**	73,642
Bonus and other benefits	**46,001**	37,460
Reserve for employee termination benefits	**80,393**	48,263
Effect of precious metals valuation	**1,034,507**	-
Other	**64,334**	28,693
Deferred tax assets	**2,283,664**	932,455
Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items	**(16,375)**	(12,842)
FVTOCI valuation differences	**(55,030)**	(48,114)
Effect of derivative transactions valuation	**(298,868)**	-
Effect of precious metals valuation	**(1,877)**	(23,908)
Effect of other temporary differences	**(28,570)**	(12,069)
Deferred tax liabilities	**(400,720)**	(96,933)
Deferred tax asset – net	**1,882,944**	835,522

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Movement of net deferred tax asset is as follows:

	2021	2020
Balance at the beginning of the year	**835,522**	416,853
Deferred tax (charge)/credit recognized in income statement	**859,528**	274,753
Deferred tax (charge)/credit recognized in equity	**139,675**	120,571
Other	**48,219**	23,345
Balance at the end of the year	**1,882,944**	835,522

18. Employee benefit obligations

	December 31, 2021	December 31, 2020
Personnel bonus accrual	**213,920**	145,178
Employee termination benefits	**384,495**	292,276
Total employee benefit obligations	**598,415**	437,454

The movement in reserve for personnel bonus accrual is as follows:

	December 31, 2021	December 31, 2020
Balance at January 1	**145,178**	109,912
Utilized/paid	**(145,178)**	(109,912)
Charge for the year	**213,920**	145,178
Balance at the end of the year	**213,920**	145,178

The movement in reserve for employee termination benefits and other provisions related with employee are as follows:

	December 31, 2021	December 31, 2020
Balance at January 1	**292,276**	180,588
Utilized/paid	**(10,744)**	(4,704)
Service and interest cost	**101,895**	76,172
Actuarial loss/gain (*)	**1,068**	40,220
Balance at the end of the year	**384,495**	292,276

(*) Retirement pay liability arising from current period and amounting TL 1,068 (2020: TL 40,220) is an actuarial loss amount and deferred tax amounting to TL 214 (2020: TL 8,848 related with the retirement pay liability is accounted under statement of other comprehensive income).

Reserve for employee termination benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis 30 days' pay per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2021, and 2020, the Group reflected a liability calculated using the actuarial valuation by independent actuary and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

The amount payable consists of one month's salary limited to a maximum of TL 8,284.51 (full amount) (2020: TL 7,117.17 (full amount)) for each period of service on December 31, 2021.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

There are no agreements for pension commitments other than the legal requirement as explained above. In addition, the liability is not funded, as there is no funding requirement.

The provisions for employment termination benefits of the Group, since the employment termination benefit ceiling is calculated over TL 10,848.59 (full amount) that is effective commencing on January 1, 2022 (January 1, 2022: TL 7,638.96 (full amount)).

The following actuarial assumptions were used in the calculation of the total liability:

	December 31, 2021	December 31, 2020
Discount Rate (%)	**19.10**	12.10
Inflation rate (%)	**15.80**	8.00
Interest rate (%)	**14.00**	10.60

19. Other liabilities and provisions

	December 31, 2021	December 31, 2020
Insurance for Technical Provision	**2,714,630**	2,118,814
Payables to exporters and suppliers	**1,217,727**	289,450
Provision for non-cash loans	**1,112,979**	605,948
Margin call amounts	**1,006,513**	117,141
Clearing accounts	**975,248**	606,584
Provision for distributed profits of the participation accounts	**678,146**	447,552
Deferred revenue for non-cash loans	**446,049**	345,359
Withholding tax and other tax payables	**244,814**	120,963
Security premium for participation funds	**124,526**	89,535
Deductions on resource utilization fund	**6,703**	4,323
Other provisions and liabilities	**557,565**	424,196
Total other liabilities	**9,084,900**	5,169,865

20. Derivative financial assets/liabilities valued at fair value through profit or loss & hedging 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 financial instruments, reference rates or indices.

The table below shows the fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity. The notional 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 notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

The fair values of foreign currency and precious metals forward and swap transactions are determined by comparing the foreign currency rates prevailing on the date of the financial statements to the discounted value of the transaction's forward exchange rates to the date of these financial statements.

								December 31, 2021
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 months**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**
Derivatives held for trading & Hedging Purposes								
Inflows	**1,398,784**	**-**	**36,893,020**	**21,499,096**	**11,714,093**	**1,980,163**	**192,403**	**1,507,265**
Outflows	**-**	**257,764**	**35,716,752**	**21,133,880**	**11,666,551**	**1,840,076**	**188,897**	**887,348**

								December 31, 2020
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading & Hedging Purposes								
Inflows	461,606	-	47,348,502	19,325,473	26,156,847	813,371	62,096	990,716
Outflows	-	1,676,806	49,000,829	20,037,532	27,239,921	764,743	53,027	905,606

- **Explanations on hedge accounting practices**

As of December 31, 2021, the Bank has no hedge transactions (December 31,2020: None)

When the hedging instrument expires, is executed or sold and when the hedge relationship becomes ineffective or is discontinued as a result of the hedge relationship being revoked.

The hedging gains and losses that were previously recognized under equity are transferred to profit or loss when the cash flows of the hedged item a re realized. In case the hedged item is derecognized, hedge accounting is discontinued and within context of fair value hedge accounting, adjustments made to the value of the hedged item are accounted in income statement.

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

Net investment hedge:

As of December 31, 2021, the Bank has no net investment hedge transactions (December 31,2020: None).

Cash flow hedge:

As of December 31, 2021, the Bank has no cash flow hedge transactions (December 31,2020: None).

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

21. Share capital

	December 31, 2021	December 31, 2020
Number of ordinary shares, TL 1, par value. Authorized, issued and outstanding.	**4,595 million**	4,595 million

The movement of the share capital of the Bank (in number and in historical TL) is as follows:

	December 31, 2021		December 31, 2020	
	Number	**TL**	Number	TL
On January 1	**4,595,131,000**	**4,595,131**	3,995,766,000	3,995,766
Shares issued in				
- transfer from retained earnings	**-**	**-**	599,365,000	599,365
At year end	**4,595,131,000**	**4,595,131**	4,595,131,000	4,595,131

The Bank does not have any share type other than common shares. There is no differentiation in the rights, preferences and restriction of the common shares.

As of December 31, 2021, and 2020, the composition of shareholders and their respective % of ownership can be summarized as follows:

	December 31, 2021		December 31, 2020	
	Amount	**%**	Amount	%
Kuwait Finance House	**2,863,098**	**62.24**	2,863,098	62.24
Directorate of Vakıf Foundations, Turkey	**861,086**	**18.72**	861,086	18.72
Wafra International Investment Company, Kuwait	**414,000**	**9.00**	414,000	9.00
Islamic Development Bank	**414,000**	**9.00**	414,000	9.00
Other	**42,947**	**1.04**	42,947	1.04
Total share capital	**4,595,131**	**100**	4,595,131	100

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

22. Legal reserves, retained earnings, dividends paid and proposed and other reserves

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital; but may be used to absorb losses in the event that the general reserve is exhausted.

Dividends paid and proposed

During the current year, the Bank has not paid a dividend of (2020 – TL 7,280) from the profit of the year 2021.

	December 31, 2021	December 31, 2020
Ordinary shares		
Amount	**-**	7,280
TL (full) per share	**0.001**	0.001

Other reserves

The Bank bought 25% share of the joint venture called Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. on September 23, 2011, which was established by Körfez and a third-party company who had 75% and 25% stakes, respectively. Followingly, the Bank bought the 25% stake of the third-party company in Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. for a total consideration of TL 22,589 in exchange of releasing the debt of the third-party company to the Bank amounting to TL 15,888 and taking over the debt of the third-party company to Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. amounting to TL 6,701. The purchase price has been determined based on the expected discounted future cash flows of Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. Since the amount of the non-controlling interest in Körfez İnşaat İş Ortaklığı is negligible, the total consideration amounting to TL 22,589 recognized as a separate component of equity as being the difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid. As of December 31, 2021, this amount is 22,589 TL (December 31, 2020 – 22,589 TL).

23. Earnings per share

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares (“Bonus Shares”) to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are similarly treated. Accordingly, the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares.

There is no dilution of shares as of December 31, 2021, and 2020.

The following reflects the income and per share data used in the basic earnings per share computations:

	December 31, 2021	December 31, 2020
Net profit attributable to continuing operations of the Bank for basic earnings per share	**3,395,453**	1,733,265
Net profit/(loss) attributable to discontinued operations for basic earnings per share	**-**	-
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	**3,377,964**	1,749,657
Weighted average number of ordinary shares for basic earnings per share (thousands)	**4,595,131**	4,455,533
Basic earnings per share (expressed in full TL per share)	**0.739**	0.389

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

24. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2020 - 62.2%) of ordinary shares. Directorate of Vakıf Foundations, Wafra International Investment Company and Islamic Development Bank are major shareholders owning 18.7% (December 31, 2020 - 18.7%), 9.0% (December 31, 2020 – 9.0%) and 9.0% (December 31, 2020 - 9.0%) of ordinary shares, respectively. For the purpose of these financial statements, shareholders of the Bank and parties under common control of the majority Shareholder are referred to as related parties. The related parties also include individuals who are principal owners, key management and members of the Group's Board of Directors and their families.

The following significant balances exist as of December 31, 2021, and 2020 and transactions have been entered into with related parties during the years ended:

i) Balances with financial institutions and due from financing activities:

			December 31, 2021		December 31, 2020
		Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Kuwait Finance House	USD	**-**	**-**	131,040	971
Other related parties	TL	**-**	**24,276**	-	46,486
	USD	**2,442,674**	**32,411**	1,016,919	7,535
	EUR	**507,786**	**7,628**	-	-
			64,315		54,992

ii) Due to other financial institutions and banks:

			December 31, 2021		December 31, 2020
		Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	USD	**20,000,000**	**265,373**	200,000,000	1,481,306
			265,373		1,481,306

iii) Profit/loss sharing investors' and current accounts:

			December 31, 2021		December 31, 2020
		Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Kuwait Finance House (1)	USD	-	-	-	-
	XAU	**403,908**	**314,418**	398,237	178,624
Public Institute for Social Securities KW (1)	TL	-	**10**	176,418	1,307
	USD	**137**	**2**	-	-
İskan Gayrımenkul Yatırım ve Geliştirme A.Ş.	TL	-	**58**	-	32
	USD	**2,229,368**	**30,510**	3,051,316	22,600
Vakıf Finansal Kiralama A.Ş.	TL	-	-	-	125
	USD	-	-	17,212	127
Kredi Garanti Fonu A.Ş.	TL	-	**2**	-	5
	USD	-	-	4,990	37
	EUR	-	-	30	-
Islamic Development Bank	TL	-	**68**	5,146	38
Bazaar Properties	USD	-	-	403	3
Other related parties		-	**2,994**	-	672
			348,062		203,570

(1) Shareholders.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

iv) Profit shares distributed:

		December 31, 2021		December 31, 2020	
		Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Public Institute for Social Securities KW [(1)]	TL	**-**	**10**	-	-
	USD	**-**	**-**	1,086	7
Iskan Gayrimenkul Yatırım ve Geliştirme A.Ş.	TL	**-**	**27**	-	123
	USD	**22,979**	**201**	19,539	127
			238		257

(1) Shareholders.

v) Non-cash credits issued:

		December 31, 2021		December 31, 2020	
		Foreign currency (full)	**TL equivalent**	Foreign currency (full)	TL equivalent
Other related parties	TL	**-**	**2,297**	-	6,632
			2,297		6,632

As of December 31, 2021, no specific provisions have been recognized in respect of loans given to related parties (December 31, 2020 - none).

Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL 107,497 during the year ended December 31, 2021 (December 31, 2020 – TL 85,244).

The key management personnel of the Bank are as follows;

Hamad Abdulmohsen AL MARZOUQ	B.O.D. Chairman
Shadi Ahmed Yacoub ZAHRAN	B.O.D. Member and Audit Committee Chairman
Nadir ALPASLAN	B.O.D. Vice Chairman and Audit Committee
Salah A E AL MUDHAF	B.O.D. Member
Burhan ERSOY	B.O.D. Member
Mohamed Hedi MEJAI	B.O.D. Member and Audit Committee
Ahmad S A A AL KHARJİ	B.O.D. Member
Gehad Mohamed Elbendary ANANY	B.O.D. Member
Ufuk UYAN	B.O.D. Member-Chief Executive Officer

Key management includes 19 other officers together with the above B.O.D. members.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

25. Income from financing activities

	December 31, 2021	December 31, 2020
Income on originated loans from Income / loss sharing accounts	**4,838,804**	3,188,073
Income on originated loans from current accounts and equity	**3,953,513**	3,145,751
Income on deposits with other banks and financial institutions	**453,146**	267,465
Income on finance leases	**602,626**	342,754
Income on sukuk investments	**3,604,882**	2,702,941
Total	**13,452,971**	9,646,984

26. Profit share expenses

	December 31, 2021	December 31, 2020
Expense on participation accounts	**(3,375,323)**	(1,934,480)
Expense on other banks and financial institutions	**(2,004,570)**	(1,176,367)
Total	**(5,379,893)**	(3,110,847)

27. Fees and commission income and expense

	December 31, 2021	December 31, 2020
Fees and commission income		
Commission income from commitments	**159,251**	147,603
Credit card fees and commissions	**312,322**	147,028
POS commission income	**198,049**	118,516
Income from insurance & agency activities	**142,207**	101,074
Commissions on loans	**102,075**	88,712
Money transfer commissions	**103,349**	67,469
Commissions from checks and notes	**26,763**	19,541
Import letter of credit commissions	**15,584**	14,153
Other	**197,190**	158,246
Total	**1,256,790**	862,342

	December 31, 2021	December 31, 2020
Fees and commission expense		
Credit card machine and fees paid for credit cards	**(296,728)**	(136,437)
Mortgage expertise expenses	**(36,547)**	(52,184)
Correspondent bank fees	**(85,596)**	(47,957)
Brokerage fees on borrowings	**(29,767)**	(34,491)
Money transfer commissions	**(25,940)**	(17,357)
Other	**(274,313)**	(312,092)
Total	**(748,891)**	(600,518)

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

28. Net trading income

	December 31, 2021	December 31, 2020
Capital Market Transaction	**69,694**	70,224
Derivative Financial Instruments	**1,306,798**	(2,210,668)
Total	**1,376,492**	(2,140,444)

29. Staff costs

	December 31, 2021	December 31, 2020
Wages and salaries	**(859,996)**	(786,550)
Bonus	**(397,078)**	(260,508)
Social security premiums	**(170,386)**	(140,902)
Other fringe benefits	**(145,466)**	(117,815)
Health expenses	**(32,522)**	(31,440)
Provision for employee termination benefits	**(48,061)**	(29,456)
Other	**(106,259)**	(27,826)
Total	**(1,759,768)**	(1,394,497)

30. Other income

	December 31, 2021	December 31, 2020
Reversal of prior period provisions	**725,132**	1,216,375
Income from sale of assets	**209,867**	69,847
Cancellations of Provisions from Profits to be Distributed to Participation Accounts	**40,443**	-
Rent Income	**5,656**	8,052
Other	**913,204**	131,548
Total	**1,894,302**	1,425,822

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

31. Other expenses

	December 31, 2021	December 31, 2020
Impairment on construction projects (Note 10)	**-**	-
Impairment on investment property (Note 11)	**-**	-
Impairment charges/(reversal)	**-**	**-**
Gross compensation payments	**(1,341,397)**	(1,008,735)
Insurance fund premium expense	**(429,377)**	(126,619)
Repair and maintenance expenses	**(111,139)**	(97,285)
Subscription and membership expenses	**(102,272)**	(87,616)
Advertising expenses	**(79,303)**	(48,875)
Cleaning expense	**(10,180)**	(52,588)
Communication	**(79,083)**	(42,230)
Professional fees	**(75,598)**	(46,234)
Energy expenses	**(31,501)**	(25,327)
Travel and representation expenses	**(11,821)**	(6,642)
Stationery and publishing expenses	**(43,817)**	(9,931)
Nontaxable income	**(12,047)**	(15,998)
Grants and donations	**(2,499)**	(38,784)
Insurance expenses	**(14,524)**	(9,544)
Loss from sale of assets	**(4,967)**	(344)
Other	**(339,484)**	(447,324)
Total	**(2,689,009)**	(2,064,076)

32. Commitments and contingencies

In the normal course of its banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. Such commitments include mainly letters of guarantee, letters of credit and acceptance credits.

The following is a brief summary of significant contingencies and commitments as of December 31, 2021 and 2020.

	December 31, 2021	December 31, 2020
Letters of guarantee issued by the Bank	**11,838,814**	9,588,633
Letters of credit	**4,521,120**	1,685,022
Commitments	**14,261,052**	8,527,791
Acceptance credits	**113,683**	40,996
Other guarantees	**912,257**	546,682
Total	**31,646,926**	20,389,124

<u>Letters of Guarantee</u> **-** are mainly issued on behalf of domestic customers who entered into commitments in the domestic and international markets.

<u>Commitments</u> **-** are mainly check payment commitments, credit cards and other guarantees and commitments.

Except for the Head-Office, Banking Base and four branch buildings, all branch premises of the Bank are leased under operational leases. The lease periods vary between 2-10 years and lease arrangements are cancellable. There are no restrictions placed upon the lessee by entering into these leases.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Expected credit loss measurement of off-balance sheet financial assets:

	31 December 2021							
Expected credit loss measurement	**Carrying Amount**				**ECL Allowance**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Letters of guarantee	10,943,249	419,896	475,669	**11,838,814**	159,056	137,809	472,027	**768,892**
Other Off-Balance Loans	5,403,468	143,571	21	**5,547,060**	14,615	109,433	16	**124,064**
Commitments	13,971,630	237,189	52,233	**14,261,052**	108,979	60,656	50,388	**220,023**
Total	**30,318,347**	**800,656**	**527,923**	**31,646,926**	**282,650**	**307,898**	**522,431**	**1,112,979**

	31 December 2020							
Expected credit loss measurement	**Carrying Amount**				**ECL Allowance**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Letters of guarantee	8,873,377	312,684	402,572	**9,588,633**	96,569	29,857	388,692	**515,118**
Other Off-Balance Loans	2,240,394	32,304	2	**2,272,700**	2,461	406	2	**2,869**
Commitments	8,256,137	218,931	52,723	**8,527,791**	24,967	11,544	51,450	**87,961**
Total	**19,369,908**	**563,919**	**455,297**	**20,389,124**	**123,997**	**41,807**	**440,144**	**605,948**

Fiduciary activities

Assets, other than cash deposits, held by the Bank and its subsidiaries in fiduciary for its customers are not included in the consolidated statement of financial position, since such items are not under the ownership of the Group. The fiduciary activities of the group is as follows:

	December 31, 2021	December 31, 2020
Cheques received for collection	**16,038,314**	9,568,394
Notes received for collection	**2,388,309**	1,853,297
	18,426,623	11,421,691

33. Financial risk management

Introduction

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Procedures and operations throughout the Group are designed towards effectively addressing risk. The Group is exposed to several risks such as credit risk, market risk, operational risk, liquidity risk, profit rate risk, reputational risk, legal risk, etc. Also, the Banks' capital adequacy ratio has to exceed the minimum requirements of the Banking Regulations and Supervision Agency (BRSA). BRSA is the regulatory body for banking industry in Turkey.

Organization of the risk management function

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The mission of the Group Risk Management function is to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives.

The Group Risk Management reports to the Board of Directors through the Internal Systems Committee. Internal Systems Committee is responsible for identifying, measuring, monitoring and reporting regarding risk types including credit risk, market risk, operational risk, liquidity risk, profit rate risk, reputational risk, legal risk, etc. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board of Directors, the Internal Systems Committee and the Audit Committee.

Internal systems and risk management policies

The Group's Risk Management Policies established by the Board of Directors via Internal Systems Committee are implemented and executed by Risk Management Department. The primary objectives of the Risk Management Department are to coordinate the integration of the Risk Management Policies among various business departments and to assess and analyze the risks associated with new products, business processes and key risk indicators. This risk assessment is carried by the Credit Risk Management and Modelling and Market Risk, Operational Risk and Capital Management functions. The Risk Management Department is managed by the Head of Risk Management. Internal Systems, which comprise of Risk Management, Internal Audit, Internal Control and Compliance Departments, are overseen by the Chief Risk Officer who reports directly to the Internal Systems Committee and coordinates communication, reporting and monitoring between the Internal Systems Committee and the Risk Management Department.

Board of directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

The Internal Systems Committee of Board of Directors, which consists of three non-executive directors, oversees, develops and monitors all of risk management and internal systems, policies and guidelines as well as the scope and structure of overall risk management organization and activities. Current Risk Management Policies are approved by Board of Directors and are being reviewed on a yearly basis and updated in case of necessities. The Audit Committee oversees the efficiency and adequacy of internal control and internal audit systems, the functioning of these systems and any related accounting, reporting or legal matters. In addition, the Audit Committee is responsible for coordinating the work of Internal Audit Department, preparing internal audit plans and providing information to the Board of Directors about any non-compliance with the relevant regulations and deficiencies in internal controls, including those highlighted by the BRSA or internal auditors.

Audit committee

The Audit Committee is in charge of and responsible for monitoring the effectiveness and efficiency of the internal systems of the Group, the operation of these systems as well as the accounting and reporting systems within the framework of the Banking Law and relevant regulations and the integrity of the information generated, making preliminary assessments as necessary for the Board of Directors' election of independent auditing firms as well as rating institutions, evaluation and support services firms, monitoring on a regular basis the activities of these establishments which are elected by the Board of Directors and with which contracts are concluded, ensuring the maintenance and coordination, on a consolidated basis, of the internal auditing activities of partnerships which are subject to consolidation pursuant to regulations which take effect as per the Banking Law.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Risk Management Department

Risk Management Department was constituted in order to assess the main risks of the Group. In accordance with the Risk Policies, Risk Management Activities are composed of the following activities;

- Identification of risks that the Group exposes,
- Measurement of risks,
- Monitoring of risks,
- Control and reporting of risks,
- Business Continuity Plan, Process and Procedures.

Internal Audit Department

Risk management processes throughout the Group are audited periodically by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

Credit risk

Credit risk represents risk that the Group will incur a loss because a customer, client or counterparty fails to fulfill, either partially or totally, its contractual obligations.

A customer’s credit limit is established taking into consideration the customer’s financial performance and is then used to monitor the customer’s credit risk.

The Bank’s internal credit rating grades in the application of IFRS 9 is as follows:

Internal rating grade	Internal rating description	12-month Basel PD range
Performing		
1	0.000% - 0.049%	High Grade
2+	0.049% - 0.097%	High Grade
2	0.097% - 0.135%	High Grade
2-	0.135% - 0.188%	High Grade
3+	0.188% - 0.261%	High Grade
3	0.261% - 0.362%	High Grade
3-	0.362% - 0.502%	High Grade
4+	0.502% - 0.696%	High Grade
4	0.696% - 0.965%	High Grade
4-	0.965% - 1.339%	Medium Grade
5+	1.339% - 1.857%	Medium Grade
5	1.857% - 2.576%	Average Grade
5-	2.576% - 3.572%	Average Grade
6+	3.527% - 4.954%	Average Grade
6	4.954% - 6.871%	Average Grade
6-	6.871% - 9.529%	Average Grade
7+	9.529% -13.215%	Average Grade
7	13.215% - 18.327%	Below Average Grade
7-	18.327% - 100.000%	Below Average Grade
Non-performing		
8		Impaired

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Key Drivers	ECL Scenerio	Assigned Weights	2021	2022	2023	2024	2025
Wholesale-Retail							
GDP							
	Baseline	40%	11.44%	3.22%	2.91%	2.98%	2.74%
	Upside	30%	11.44%	4.85%	2.78%	2.63%	2.52%
	Downside	30%	11.44%	(3.89)%	0.58%	3.27%	3.35%
Share Price Index							
	Baseline	40%	28.88%	(2.68)%	1.45%	3.16%	4.31%
	Upside	30%	28.88%	13.00%	1.24%	(0.58)%	0.01%
	Downside	30%	28.88%	(33.72)	6.19%	21.99%	12.54%
Retail							
Balance of Payments							
	Baseline	40%	(49.00)%	(54.16)%	892.62%	145.23%	16.05%
	Upside	30%	(49.00)%	(111.51)%	(213.27)%	80.23%	8.93%
	Downside	30%	(49.00)%	68.93%	(52.24)%	(72.62)%	(121.81)%
Credits on Private Sector (USD)							
	Baseline	40%	(4.57)%	17.42%	4.55%	10.41%	12.89%
	Upside	30%	(4.57)%	14.29%	4.10%	8.19%	11.61%
	Downside	30%	(4.57)%	29.27%	5.02%	14.68%	16.87%
Central Government Expenditure							
	Baseline	40%	22.75%	25.17%	15.34%	14.04%	13.53%
	Upside	30%	22.75%	24.83%	17.52%	13.43%	13.29%
	Downside	30%	22.75%	21.56%	14.25%	15.47%	14.14%
CPI							
	Baseline	40%	18.13%	19.49%	15.65%	14.08%	12.73%
	Upside	30%	18.13%	18.38%	13.62%	12.68%	11.85%
	Downside	30%	18.13%	27.74%	21.94%	16.99%	14.69%
Disposiable Income							
	Baseline	40%	(9.08)%	0.32%	6.16%	0.09%	(2.24)%
	Upside	30%	(9.08)%	4.91%	8.83%	(1.43)%	(2.53)%
	Downside	30%	(9.08)%	(12.51)%	(1.34)%	0.51%	(0.11)%
Manufacturing Employment							
	Baseline	40%	10.81%	6.97%	1.09%	0.53%	0.44%
	Upside	30%	10.81%	8.03%	0.89%	0.21%	0.40%
	Downside	30%	10.81%	0.36%	1.56%	4.71%	1.08%
HPI-Current Prices							
	Baseline	40%	30.33%	11.51%	6.78%	9.16%	9.71%
	Upside	30%	30.33%	12.91%	7.62%	10.20%	10.13%
	Downside	30%	30.33%	8.02%	6.24%	9.08%	8.46%
HPI-Real							
	Baseline	40%	7.14%	(6.14)%	(6.82)%	(3.85)%	(2.32)%
	Upside	30%	7.14%	(4.48)%	(5.38)%	(2.15)%	(1.40)%
	Downside	30%	7.14%	(13.54)%	(9.11)%	(5.36)%	(4.95)%

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows an analysis of the Group's maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the collaterals. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Gross maximum exposure	**December 31, 2021**	December 31, 2020
Cash and balances with Central Bank (including reserve deposits, excluding cash on hand)	**52,311,003**	20,479,525
Balances with banks and other financial institutions	**24,316,824**	9,767,863
Due from financing activities	**103,247,922**	70,176,951
Financial lease receivable, net	**11,017,775**	4,672,786
Financial assets at FVTOCI	**32,071,762**	20,723,085
Financial assets at FVTPL	**12,982,125**	7,813,619
Financial assets valued at amortised cost, net	**5,934,928**	6,498,716
Other assets	**5,297,072**	10,005,713
Derivative financial assets valued at fair value through profit or loss	**1,398,784**	461,606
Total	**248,578,195**	150,599,864
Contingent liabilities	**16,359,934**	11,273,655
Other guarantees	**1,025,940**	587,678
Commitments	**14,261,052**	8,527,791
Total	**31,646,926**	20,389,124
Total credit risk exposure	**280,225,121**	170,988,988

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty and by industry sector.

The maximum cash credit exposure to any counterparty other than the Central Bank as of December 31, 2021, was TL 4,801,869 (December 31, 2020 - TL 1,089,232) and non-cash credit exposure as of December 31, 2021, was TL 508,302 (December 31, 2020 - TL 637,116) before taking account of collateral or other credit enhancements.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	December 31, 2021	December 31, 2020
	Gross exposure	Gross exposure
Financial services	**145,876,018**	75,104,207
Construction and materials	**33,462,614**	24,600,453
General retailers	**26,579,192**	16,779,100
Manufacturing	**26,300,828**	14,754,356
Electricity	**10,451,339**	5,481,169
Health care and social	**4,335,201**	3,467,289
Food and beverages	**5,020,373**	2,879,707
Mining operations	**1,918,927**	2,106,491
Forestry	**428,377**	273,149
Telecommunications	**277,706**	224,394
Real estate	**1,751,034**	430,569
Other	**23,823,512**	24,888,104
Total	**280,225,121**	170,988,988

December 31, 2021	**Gross Amount**				**ECL Amount**			
Geography	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Domestic	102,716,928	8,674,294	3,187,478	**114,578,700**	2,781,524	2,772,468	2,851,523	**8,405,515**
European Union Countries	5,871,966	1,452,846	3,114	**7,327,926**	19,022	4,566	259	**23,847**
OECD Countries	157,505	601	4	**158,110**	652	30	483	**1,165**
Offshore Banking Regions	49	5	-	**54**	-	1	-	**1**
America-Canada	9,890	9	-	**9,899**	15	1	-	**16**
Other	620,138	153,574	54	**773,766**	15,950	136,213	51	**152,214**
Total	**109,376,476**	**10,281,329**	**3,190,650**	**122,848,455**	**2,817,163**	**2,913,279**	**2,852,316**	**8,582,758**

December 31, 2020	**Gross Amount**				**ECL Amount**			
Geography	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Domestic	65,770,510	7,371,213	3,389,417	**76,531,140**	1,133,164	1,487,670	2,775,967	**5,396,801**
European Union Countries	2,824,439	483,320	11,790	**3,319,549**	5,048	1,235	6,196	**12,479**
OECD Countries	3,105	6	605	**3,716**	7	-	345	**352**
Offshore Banking Regions	39	1	-	**40**	-	-	-	**-**
America-Canada	4,194	4	-	**4,198**	4	-	-	**4**
Other	326,274	101,574	11,947	**439,795**	3,279	29,467	6,319	**39,065**
Total	**68,928,561**	**7,956,118**	**3,413,759**	**80,298,438**	**1,141,502**	**1,518,372**	**2,788,827**	**5,448,701**

December 31, 2021	**Maximum expo sure to credit risk**	**Cash**	**Mortgages**	**Promissory notes**	**Pledge on assets**	**Other**	**Total Collateral**	**Net Exposure**
Cash and balances with Central Bank (including reserve deposits, excluding cash on hand)	52,311,003	-	-	-	-	-	-	52,311,003
Balances with banks and other financial institutions	24,316,824	-	-	-	-	-	-	24,316,824
Due from financing activities	103,114,848	3,540,168	36,864,140	10,326,600	9,088,499	6,192,181	66,011,588	37,103,260
Financial lease receivable, net	11,150,849	144,701	1,459,526	359,695	7,240,981	1,514,543	10,719,446	431,403
Financial assets at FVTOCI	32,071,762	-	-	-	-	-	-	32,071,762
Financial assets at FVTPL	12,982,125	-	-	-	-	-	-	12,982,125
Financial assets valued at amortised cost, net	5,934,928	-	-	-	-	-	-	5,934,928
Other assets	5,297,072	-	-	-	-	-	-	5,297,072
Derivative financial assets valued at fair value through profit or loss	1,398,784	-	-	-	-	-	-	1,398,784
TOTAL	**248,578,195**	**3,684,869**	**38,323,666**	**10,686,295**	**16,329,480**	**7,706,724**	**76,731,034**	**171,847,161**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

December 31, 2020	Maximum exposure to credit risk	Cash	Mortgages	Promissory notes	Pledge on assets	Other	Total Collateral	Net Exposure
Cash and balances with Central Bank (including reserve deposits, excluding cash on hand)	20,479,525	-	-	-	-	-	-	20,479,525
Balances with banks and other financial institutions	9,767,863	-	-	-	-	-	-	9,767,863
Due from financing activities	69,906,270	630,416	24,940,215	37,722,336	2,202,100	2,922,642	68,417,709	1,488,561
Financial lease receivable, net	4,943,467	6,466	356,163	3,745,601	160,051	269,434	4,537,715	405,752
Financial assets at FVTOCI	20,723,085	-	-	-	-	-	-	20,723,085
Financial assets at FVTPL	7,813,619	-	-	-	-	-	-	7,813,619
Financial assets valued at amortised cost, net	6,498,716	-	-	-	-	-	-	6,498,716
Other assets	10,005,713	-	-	-	-	-	-	10,005,713
Derivative financial assets valued at fair value through profit or loss	461,606	-	-	-	-	-	-	461,606
TOTAL	150,599,864	636,882	25,296,378	41,467,937	2,362,151	3,192,076	72,955,424	77,644,440

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The main types of collateral obtained are as follows:

For commercial lending, charges over real estate properties, vehicles, cash blockages and trade receivables.

For retail lending, mortgages over residential properties.

Management monitors the market value of collateral during its review of the adequacy of the allowance for impairment losses, and when necessary, requests additional collateral in accordance with the underlying agreement.

The breakdown of performing loans, lease receivables and advances to customers by type of collateral are as follows:

Loans, lease receivables and advances to customers	**December 31, 2021**	December 31, 2020
Secured loans:		
Secured by mortgages	**44,343,707**	23,853,877
Secured by promissory notes	**11,083,774**	38,301,501
Secured by pledge on assets	**21,074,667**	2,724,445
Secured by cash collateral	**5,426,401**	1,043,754
Other collateral	**14,942,801**	6,563,824
Unsecured loans	**22,786,455**	4,397,278
Total performing and close monitoring loans, lease receivables and advances to customers	**119,657,805**	76,884,679

Collaterals received for close monitoring loans:

	December 31, 2021	December 31, 2020
Loans Collateralized by Cash	**531,981**	40,898
Loans Collateralized by Mortgages	**5,770,984**	2,812,178
Loans Collateralized by Pledged Assets	**1,607,952**	191,944
Loans Collateralized by Cheques and Notes	**615,403**	4,304,499
Loans Collateralized by Collaterals	**824,979**	286,583
Unsecured Loans	**930,030**	320,016
Total	**10,281,329**	7,956,118

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Credit quality per class of financial assets

Rating and scoring models for Corporate/Commercial/SME/Retail portfolios are developed based on statistical methods by Risk Management Department. Classes of financial assets graded by ratings and scoring models or External Credit Assesment Institutions are shown the table below as of December 31, 2021.

	Cash Loans	**Non-Cash Loans**	**Total**
High Quality	44.99%	63.93%	47.47%
Medium Quality	32.35%	23.33%	31.16%
Average	15.48%	11.01%	14.90%
Below Average	7.18%	1.73%	6.47%

Aging analysis of Stage 2 on financial assets:

Current Period	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
Due from financing activities:					
Corporate lending	**8,922,761**	**370,807**	**381,671**	**-**	**9,675,239**
Consumer lending	**243,699**	**90,213**	**25,482**	**-**	**359,394**
Credit cards	**215,278**	**13,657**	**17,761**	**-**	**246,696**
Total	**9,381,738**	**474,677**	**424,914**	**-**	**10,281,329**

Previous Period	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	6,855,999	182,907	379,974	-	7,418,880
Consumer lending	260,882	89,602	42,094	-	392,578
Credit cards	127,517	9,634	7,509	-	144,660
Total	7,244,398	282,143	429,577	-	7,956,118

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2021, and 2020 comprise of blocked accounts, property and machinery pledges.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders. In addition, the Group maintains a statutory reserve deposit with the Central Bank of Turkey.

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Maturity analysis of assets and liabilities as of December 31, 2021;

31 December 2021	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Unallocated	Total
Cash and balances with the Central Bank	23,600,193	-	-	-	-	23,600,193
Balances with other banks and financial institutions	24,022,785	318,642	-	-	(24,603)	24,316,824
Reserve deposits at the Central Bank	36,284,803	-	-	-	-	36,284,803
Financial Assets At Fair Value Through Profit Or Loss	1,114,230	617,933	11,000,080	-	249,882	12,982,125
Financial assets valued at amortised cost	4,537,512	204,090	597,524	596,423	(621)	5,934,928
Financial assets at fair value through other comprehensive income	10,372,950	3,600,071	17,927,254	-	171,487	32,071,762
Due from financing activities & finance leae receivables, net	20,023,382	44,000,195	49,634,157	6,111,676	(5,503,713)	114,265,697
Precious metals	7,089,063	-	-	-	-	7,089,063
Derivative financial assets valued at fair value through profit or loss	-	-	-	-	1,398,784	1,398,784
Construction projects, net	-	-	-	-	57,004	57,004
Joint venture	-	-	-	-	89,258	89,258
Investment properties, net	-	-	-	-	63,598	63,598
Property and equipment, net	-	-	-	-	1,092,342	1,092,342
Intangible assets, net	-	-	-	-	344,958	344,958
Deferred tax assets	-	-	-	-	1,882,944	1,882,944
Assets and a disposal group held for sale	-	-	240,891	-	-	240,891
Other assets	-	-	-	-	5,297,072	5,297,072
Total assets	**127,044,918**	**48,740,931**	**79,399,906**	**6,708,099**	**5,118,392**	**267,012,246**
Due to other financial institutions and banks	3,797,268	650,887	1,154,909	-	-	5,603,064
Sukuk securities issued	3,582,377	-	-	-	-	3,582,377
Subordinated Loans	-	-	3,444,133	4,656,363	-	8,100,496
Money market balances	6,495,137	-	-	-	-	6,495,137
Current and profit / loss sharing investors' accounts	195,935,460	12,844,375	8,754,151	2,484,136	5,101	220,023,223
Finance lease payable, net	98,525	89,887	191,626	29,415	-	409,453
Derivative financial instruments	-	-	-	-	257,764	257,764
Employee benefit obligations	-	242,889	-	-	355,526	598,415
Income taxes payable	-	1,282,020	-	-	-	1,282,020
Other liabilities and provisions	-	-	-	-	9,084,900	9,084,900
Liabilities	**209,908,767**	**15,110,058**	**13,544,819**	**7,169,914**	**9,703,290**	**255,436,849**
Net	**(82,863,849)**	**33,630,873**	**65,855,087**	**(461,815)**	**(4,584,898)**	**11,575,397**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Maturity analysis of assets and liabilities as of December 31, 2020:

31 December 2020	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Unallocated	Total
Cash and balances with the Central Bank	5,636,895	-	-	-	-	5,636,895
Balances with other banks and financial institutions	9,127,369	640,494	-	-	-	9,767,863
Reserve deposits at the Central Bank	18,486,065	-	-	-	-	18,486,065
Financial Assets At Fair Value Through Profit Or Loss	5,131,849	2,244,046	349,947	5	87,772	7,813,619
Financial assets valued at amortised cost	3,674,894	382,349	2,441,473	-		6,498,716
Financial assets at fair value through other comprehensive income	449,510	1,835,628	18,324,240	-	113,707	20,723,085
Due from financing activities & finance leae receivables, net	17,036,537	24,701,706	30,700,992	4,907,789	(2,497,287)	74,849,737
Precious metals	988,021	-	-	-	-	988,021
Derivative financial assets valued at fair value through profit or loss	304,725	57,273	99,608	-	-	461,606
Construction projects, net	-	-	-	-	65,093	65,093
Joint venture	-	-	-	-	61,311	61,311
Investment properties, net	-	-	-	-	77,457	77,457
Property and equipment, net	-	-	-	-	932,336	932,336
Intangible assets, net	-	-	-	-	281,003	281,003
Deferred tax assets	-	-	-	-	835,522	835,522
Assets and a disposal group held for sale	-	-	519,087	-	-	519,087
Other assets	-	-	-	-	10,005,713	10,005,713
Total assets	**60,835,865**	**29,861,496**	**52,435,347**	**4,907,794**	**9,962,627**	**158,003,129**
Due to other financial institutions and banks	2,699,161	2,120,830	1,114,214	-	-	5,934,205
Sukuk securities issued	2,083,764	3,075,509	-	-	-	5,159,273
Subordinated Loans	-	2,668,146	1,922,119	-	-	4,590,265
Money market balances	185,225	-	-	-	-	185,225
Current and profit / loss sharing investors' accounts	120,201,207	4,946,413	848,336	14,020	-	126,009,976
Finance lease payable, net	39,052	98,136	183,852	28,254	-	349,294
Derivative financial instruments	1,651,438	12,612	12,756	-	-	1,676,806
Employee benefit obligations	-	196,636	-	-	240,818	437,454
Income taxes payable	389,870	-	-	-	-	389,870
Other liabilities and provisions	-	-	-	-	5,169,865	5,169,865
Liabilities	**127,249,717**	**13,118,282**	**4,081,277**	**42,274**	**5,410,683**	**149,902,233**
Net	**(66,413,852)**	**16,743,214**	**48,354,070**	**4,865,520**	**4,551,944**	**8,100,896**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Analysis of financial liabilities by contractual maturities on an undiscounted basis:

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As of December 31, 2021						
Due to other financial institutions and banks	-	2,991,649	658,252	2,480,089	-	6,129,990
Subordinated loans		-	-	12,416,104	-	12,416,104
Sukuk issued	-	3,633,318	-	-	-	3,633,318
Derivative financial instruments (*)	-	32,800,431	2,028,973	887,348	-	35,716,752
Current accounts	132,126,854	-	-	-	-	132,126,854
Profit and loss sharing accounts (**)	-	77,773,341	8,754,151	1,363,777	5,101	87,896,370
Finance lease payable, net	-	29,682	74,737	247,859	57,175	409,453
Total undiscounted financial liabilities	**132,126,854**	**117,228,421**	**11,516,113**	**17,395,177**	**62,276**	**278,328,841**
As of December 31, 2020						
Due to other financial institutions and banks	-	2,342,053	2,521,517	1,324,509	-	6,188,079
Subordinated loans	-	3,631,598		2,705,648	-	6,337,246
Sukuk issued	-	1,552,625	4,562,605		-	6,115,230
Derivative financial instruments (*)	-	47,277,453	817,770	905,606	-	49,000,829
Current accounts	72,405,970	-	-	-	-	72,405,970
Profit and loss sharing accounts (**)	-	48,586,484	4,946,413	14,020	-	53,546,917
Finance lease payable, net		39,052	98,136	183,852	28,254	349,294
Total undiscounted financial liabilities	**72,405,970**	**103,429,265**	**12,946,441**	**5,133,635**	**28,254**	**193,943,565**

(*) As such derivatives will be settled in gross amounts, notional amounts have been disclosed.
(**) Customers have choice of demanding their accounts anytime by abandoning profit share income.

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
December 31, 2021						
Contingent liabilities and other guarantees (*)	8,136,506	2,560,115	4,614,294	1,967,704	107,255	17,385,874
Commitments	14,261,052	-	-	-	-	14,261,052
Total	**22,397,558**	**2,560,115**	**4,614,294**	**1,967,704**	**107,255**	**31,646,926**
December 31, 2020						
Contingent liabilities and other guarantees	5,572,388	1,490,831	3,146,128	1,584,985	67,001	11,861,333
Commitments	8,527,791	-	-	-	-	8,527,791
Total	14,100,179	1,490,831	3,146,128	1,584,985	67,001	20,389,124

(*) Such liabilities may be liquidated and paid by the Group in case of default or the customers.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates, interest rates and precious metals prices.

The exchange rate risk of the financial positions taken by the Group related to balance sheet and off-balance sheet accounts are measured.

The Group has determined market risk management operations and has taken precautions in order to economically hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Systems of Banks”.

The Board of Directors of the Group evaluates basic risks that it can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the Group. Additionally, the Board of Directors oversees that the Risk Management Group and Senior Management have taken precautions to describe, evaluate, control and manage risks faced by the Group.

Market risk – Non-trading

The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading portfolio of the Group is not significant. Except for the concentration within foreign currency, the Group has no significant concentration of market risk. The Bank has precious metal transactions. Such transactions have also market risk. The analysis below calculates the effect of a reasonably possible movement of the gold price against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

		December 31, 2021			December 31, 2020	
Precious metal	**Increase/ decrease in metal price in %**	**Effect on profit before tax**	**Effect on equity**	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity
Gold	**-10**	**(1,405)**	**(1,405)**	-10	(11,870)	(11,870)
Gold	**+10**	**1,405**	**1,405**	+10	11,870	11,870

Interest risk

The Group operates in non-interest banking sector therefore there is no interest risk.

Currency risk

Exchange rate risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate movements in the market. This exposure is managed by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The analysis below calculates the effect of a reasonably possible movement of the currency rate against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

		December 31, 2021			December 31, 2020	
Currency	**Increase/ decrease in metal price in %**	**Effect on profit before tax**	**Effect on equity**	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity
USD	**+10**	**133,707**	**62,993**	+10	40,048	133,895
USD	**-10**	**(133,707)**	**(62,993)**	-10	(40,048)	(133,895)
EUR	**+10**	**(96,292)**	**(100,232)**	+10	(29,869)	(29,511)
EUR	**-10**	**96,292**	**100,232**	-10	29,869	29,511

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

The concentrations of assets, liabilities and off-balance sheet items:

December 31, 2021

	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank	8,507,019	6,633,844	167,868	2,986,706	18,295,437
Deposits with other banks and financial institutions	2,740,297	2,410,025	963,837	8,885,301	14,999,460
Reserve deposits at the Central Bank	12,884,388	16,124,376	-	7,196,765	36,205,529
Financial assets – financial assets at FVTPL	-	1,706,211	-	10,364,898	12,071,109
Financial assets – financial assets at OCI	6,095,764	9,781,981	-	-	15,877,745
Financial assets – amortised cost	528,903	5,044,810	-	-	5,573,713
Due from financing activities, net	27,801,811	31,361,361	27,396	-	59,190,568
Finance lease receivable, net	5,186,495	3,201,998	-	-	8,388,493
Precious metals	-	-	-	7,089,063	7,089,063
Property and equipment, net	65,286	1,571	-	-	66,857
Intangible assets, net	108,915	14	-	-	108,929
Other assets	2,402,411	382,446	3,698	3,345	2,791,900
Total assets	**66,321,289**	**76,648,637**	**1,162,799**	**36,526,078**	**180,658,803**
Due to other financial institutions and banks	1,826,615	3,044,106	22,779	457,287	5,350,787
Sukuk issued	-	-	-	-	-
Subordinated loans	-	8,100,496	-	-	8,100,496
Current and profit / loss sharing investors’ accounts	32,940,029	79,236,601	1,872,352	48,714,006	162,762,988
Employee benefit obligations	1,284	1,367	-	-	2,651
Finance lease payable, net	45,300	9,819	-	-	55,119
Other liabilities & provisions	1,322,064	2,385,235	56,712	34,781	3,798,792
Total liabilities and equity	**36,135,292**	**92,777,624**	**1,951,843**	**49,206,074**	**180,070,833**
Net balance sheet position	**30,185,997**	**(16,128,987)**	**(789,044)**	**(12,679,996)**	**587,970**
Net off-balance sheet position	**(31,148,919)**	**17,466,057**	**834,822**	**12,694,042**	**(153,998)**

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

December 31, 2020

	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank	1,751,938	2,646,672	93,847	-	4,492,457
Deposits with other banks and financial institutions	689,619	1,204,214	690,343	4,568,842	7,153,018
Reserve deposits at the Central Bank	7,250,055	7,030,675	-	4,205,335	18,486,065
Financial assets – financial assets at FVTPL	885,744	275,145	81,818	5,577,703	6,820,410
Financial assets – financial assets at OCI	368,754	4,970,879			5,339,633
Financial assets – amortised cost	3,857,987	2,373,500	-	-	6,231,487
Due from financing activities, net	12,967,599	11,839,475	17,232		24,824,306
Finance lease receivable, net	1,622,291	1,028,439	-	-	2,650,730
Precious metals	-	-	-	988,021	988,021
Property and equipment, net	13,683	1,173	-	-	14,856
Intangible assets, net	77,261	-	-	-	77,261
Other assets	8,106,276	290,881	2,526	113	8,399,796
Total assets	**37,591,207**	**31,661,053**	**885,766**	**15,340014**	**85,478,040**
Due to other financial institutions and banks	1,360,206	4,271,192	233,373	-	5,864,771
Sukuk issued	-	3,337,298	-	-	3,337,298
Subordinated loans	-	4,590,266	-	-	4,590,266
Current and profit / loss sharing investors' accounts	16,280,443	38,670,358	6,841,552	30,591,520	92,383,873
Employee benefit obligations	-	659	-	-	659
Finance lease payable, net	3,132	779	-	-	3,911
Other liabilities & provisions	376,918	577,731	138,326	899	1,093,874
Total liabilities and equity	**18,020,699**	**51,448,283**	**7,213,251**	**30,592,419**	**107,274,652**
Net balance sheet position	**19,570,508**	**(19,787,230)**	**(6,327,485)**	**(15,252,405)**	**(21,796,612)**
Net off-balance sheet position	**(19,869,202)**	**20,187,707**	**385,215**	**21,195,764**	**21,899,484**

Pricing risk

The Group issues loans with a pre-determined profit rate and receives deposits on the understanding that the depositors participate in the profit or loss resulting from the investment activities and funds utilized by the Group, rather than giving them a pre-determined rate of profit. In this aspect, there is no repricing structure for the financial assets and liabilities of the Group.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, it is managing the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Capital adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by the BRSA and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum 12% as required by BRSA) by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

As of December 31, 2021, and 2020, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders. No changes were made in the objectives, policies and processes from the previous years. Below table is in accordance with consolidated financial statements prepared in accordance with BRSA accounting principles.

Regulatory capital

	December 31, 2021	December 31, 2020
Tier 1 capital	**14,527,528**	9,559,732
Tier 2 capital	**5,549,571**	3,244,385
Deductions from capital	**(118,375)**	(98,649)
Total capital	**19,958,724**	12,705,468
Risk weighted assets amount subject to credit risk	**72,443,211**	52,168,282
Risk weighted assets amount subject to market risk	**5,574,076**	3,838,461
Risk weighted assets amount subject to operational risk	**11,336,427**	7,606,341

	Actual	**Required**	Actual	Required
Tier 1 capital ratio	**12.55%**		12.12%	
Total capital ratio	**22.34%**	**12%**	19.97%	12%

34. Fair value of financial instruments

Fair values

The fair value of the fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of December 31, 2021, the fair value of financing and leasing receivables has been estimated as TL 127,500,496 (December 31, 2020 – TL 78,598,461) whereas their carrying amount is TL 114,241,094 (December 31, 2020 – TL 74,849,737).

Fair value of borrowings at amortized cost is estimated as TL 23,917,751 (December 31, 2020 – TL 16,979,852), whereas their carrying amount is TL 23,781,074 (December 31, 2020 – TL 15,868,968). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term.

For other short-term financial assets and liabilities, fair value is estimated to approximate carrying value due to their short term or non-interest-bearing structures.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristic or by discounting the expected future cash flows at prevailing profit rates.

35. Subsequent events

The tension between Russia and Ukraine since January 2022 has turned into a crisis and an armed conflict as of the date of the report. The Group does not carry out any activities in these two countries that are subject to the crisis. Considering the geographies in which the Group operates, no direct impact is expected on the Group operations.

Within the scope of the bag law numbered 7394, which came into force on April 15, 2022, the corporate tax rate was increased to 25% for banks, factoring and leasing companies, electronic payment and money institutions, authorized foreign exchange institutions, asset management companies, capital market institutions, insurance and reinsurance companies and pension companies which previous corporate tax rates were %23 for 2022 and %20 for 2023 and beyond. The relevant change applied after 1 July 2022.