Odea Bank Anonim Şirketi

Financial Statements
As At and For The Year Ended
31 December 2021
With Independent Auditor's Report Thereon

4 March 2022

This report contains the "Independent Auditor's Report" comprising 4 pages and; the "Financial statements and their explanatory notes" comprising 74 pages.

Odea Bank Anonim Şirketit

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Odea Bank Anonim Şirketi

Qualified Opinion

We have audited the accompanying financial statements of Odea Bank Anonim Şirketi ("the Bank") which comprise the statement of financial position as at 31 December 2021 and the statements of profit or loss, other comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effect of the matter described in the Basis For Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Odea Bank Anonim Şirketi as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Qualified Opinion

The financial statements as at 31 December 2021 include a general provision of total of TRL 130.000 thousand, which was recognized as expense in the current period with a deferred tax asset on this general provision amounting to TRL 32.500 thousand which does not meet the recognition criteria of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". This general provision is provided by the Bank management for the possible effects of the negative circumstances which may arise in economy or market conditions. Had this general provision not been recognized, provisions and deferred tax assets would have been decreased by TRL 130,000 thousand and TRL 32,500 thousand, respectively and net income would have been increased by TL 97,500 thousand as of and for the year ended 31 December 2021.

KPMG

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 Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standard Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment on loans and advances to customers

Refer to *"significant accounting policies"* Note 2(G) to the financial statements relating to impairment on loans and advances to customers.

Key audit matter	*How the matter is addressed in our audit*
As at 31 December 2021, loans and advances to customers comprise 45% of the Bank's total assets. The Bank recognizes its loans and advances to customers in accordance with the IFRS 9 "Financial Instruments". The Bank applies the "expected credit loss model" in determining the impairment of financial assets in accordance with IFRS 9. Significant assumptions and estimates used in the model is reviewed by the Bank management annually. The significant assumptions and estimates used in the model by the Bank's management are as follows: • significant increase in credit risk, • incorporating the forward-looking macroeconomic information in calculation of credit risk, • design and implementation of expected credit loss model	Our procedures for testing the impairment on loans and advances to customers included below: • We tested the design, implementation and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment process with the involvement of information risk management specialists. • We evaluated the adequacy of the subjective and objective criteria that is defined in the Bank's impairment accounting policy compared with IFRS 9. • We evaluated the model and methodology and the evaluation of the calculations were carried out with the control testing and detailed analysis by the involvement of specialist. • We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information and tested their classification. In this context, current status of the loan customer has been evaluated by including forward-looking information and macroeconomic expectations.

The determination of the impairment of loans measured at amortized cost depends on the credit default status, the model based on the change in the credit risk at the first recognition date and the classification of the loans measured at amortized cost according to the model. Establishing an accurate classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets. The Bank calculates expected credit losses on both an individual and a collective basis. Individual provisions consider the estimated future performance of the business and the market value of the collateral provided for credit transactions. The collective basis expected credit loss calculation is based on complex processes which are modelled by using current and past data sets and expectations. The completeness and accuracy of data sets in the model are also considered and the forward-looking expectations are reflected by macroeconomic models. Impairment on loans and advanced to customers was considered to be a key audit matter, due to the significance of the estimates, assumptions including the impact of COVID-19, the level of judgements and its complex structure as explained above.	• We evaluated the accuracy of the expected credit loss calculations by selecting sample for the loans which are assessed on individual basis including the impact of COVID-19 on the assumptions and estimates. • We tested the accuracy and completeness of the data in the calculation models for the loans which are assessed on collective basis. The expected credit loss calculation was tested through recalculation. The models used for the calculation of the risk parameters were examined and the risk parameters for the selected sample portfolios were recalculated. • We assessed the macroeconomic models including the effects of COVID-19, that are used to reflect forward-looking expectations and tested the effect of the risk parameters by recalculation method. • We evaluated the qualitative and quantitative assessments, including the effects of COVID-19, which are used in determining the significant increase in credit risk. • We evaluated the adequacy of the disclosures in the financial statements related to impairment provisions.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Bank's internal control.

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

- Conclude on the appropriateness of management'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 Bank'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 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 Bank to cease to continue as a going concern.

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

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

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

Erdal Tıkmak
Partner
4 March 2022
Istanbul, Turkey

Odea Bank A.Ş.

Statement of financial position
as at 31 December 2021
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Notes	Audited 31 December 2021	Audited 31 December 2020
Assets			
Cash and Cash Equivalents	6	4.690.841	2.479.644
Due from banks	7	4.052.774	3.099.093
Money market placements	7	-	310.151
Financial assets at fair value through profit or loss	8	3.804.511	2.447.693
- Financial assets held for trading	8	101.755	198.213
- Derivative financial assets	8-9	3.702.756	2.249.480
Loans and advances to customers	10	25.192.738	19.361.351
Investment securities	11	11.368.324	8.134.642
- Financial assets at fair value through other comprehensive income	11	5.731.585	4.820.463
- Financial assets at fair value through other comprehensive income pledged as collateral	11	4.307.855	2.260.775
- Financial assets measured at amortized cost	11	712.532	557.405
- Financial assets measured at amortized cost pledged as collateral	11	616.352	495.999
Tangible assets	12	181.790	189.036
Intangible assets	13	147.126	97.369
Deferred tax assets	17	256.329	227.363
Non - current assets held for sale	14	296.839	672.505
Other assets	14	5.426.113	2.959.167
Total assets		**55.417.385**	**39.978.014**
Liabilities			
Deposits	15	38.056.821	24.814.088
Due to banks and money market balances	16	6.131.532	6.161.748
Debt securities issued	16	-	552.739
Subordinated loans and similar debt	16	3.825.218	2.109.077
Derivative financial instruments	9	2.728.749	2.186.716
Current tax liabilities	18	73.803	67.042
Employee benefits	20	92.120	64.506
Other liabilities	19	683.011	458.223
Provisions	21	259.181	108.045
Total liabilities		**51.850.435**	**36.522.184**
Equity			
Share capital	22	3.288.842	3.288.842
Other reserves	23	(75.621)	15.281
Retained earnings		148.041	17.498
Profit for the year		205.688	134.209
Total equity		**3.566.950**	**3.455.830**
Total liabilities and equity		**55.417.385**	**39.978.014**

The accompanying notes set out on pages 7 to 74 form an integral part of these financial statements.

Statement of profit or loss
for the year ended 31 December 2021
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Notes	Audited 31 December 2021	Audited 31 December 2020
Interest income	24	3.974.337	2.698.014
Interest expense	24	(2.947.189)	(1.644.967)
Net interest income		**1.027.148**	**1.053.047**
Fee and commission income	25	129.359	101.585
Fee and commission expense	25	(26.713)	(24.066)
Net fee and commission income		**102.646**	**77.519**
Foreign exchange gains and losses, net	26	(983.991)	88.452
Net trading and fair value income / (loss)	26	1.070.889	(101.568)
Gains from investment securities, net	26	35.028	42.457
Other operating income		93.649	67.729
Total operating income		**1.345.369**	**1.227.636**
Net impairment losses on financial assets	28	(206.298)	(406.709)
Net operating income		**1.139.071**	**820.927**
Personnel expenses	27	(354.445)	(293.116)
Other operating expenses	27	(448.727)	(271.910)
Depreciation of tangible assets	27	(61.739)	(55.130)
Amortization of intangible assets	27	(35.575)	(32.845)
Total operating expenses	27	**(900.486)**	**(653.001)**
Operating profit for the year		**238.585**	**167.926**
Profit before income tax		**238.585**	**167.926**
Current tax expense	17	(37.749)	(20.885)
Deferred tax expense	17	4.852	(12.832)
Profit for the year		**205.688**	**134.209**
Earnings per share			
Basic and diluted per share (in Full TL)		0,063	0,041

The accompanying notes set out on pages 7 to 74 form an integral part of these financial statements.

Statement of other comprehensive income
for the year ended 31 December 2021
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Notes	**Audited 31 December 2021**	**Audited 31 December 2020**
Profit for the year		**205.688**	**134.209**
Other comprehensive income		**(94.568)**	**22.040**
Other comprehensive income that will not be reclassified to profit or loss		**(5.696)**	**(7.918)**
Gains/(losses) on re-measurements of defined benefit plans		(7.120)	(5.717)
Other components of other comprehensive income that will not be reclassified to profit or loss		-	(4.204)
Taxes relating to components of other comprehensive income that will not be reclassified to profit or loss		1.424	2.003
Other comprehensive income that will be reclassified to profit or loss		**(88.872)**	**29.958**
Valuation and/or reclassification profit or loss from financial assets at fair value through other comprehensive income		(134.538)	33.745
Income/(loss) related with cash flow hedges		22.976	3.861
Taxes relating to components of other comprehensive income that will be reclassified to profit or loss		22.690	(7.648)
Total comprehensive income for the year		**111.120**	**156.249**

Odea Bank A.Ş.

Statement of changes in equity
for the year ended 31 December 2021
(Amounts expressed in thousands of TL unless otherwise indicated.)

Audited	**Notes**	**Share Capital (Note 22)**	**Retained Earnings and result of the year**	**Other reserves (Note 23)**	**Total equity**
Balance at 1 January 2020		**3.288.842**	**17.498**	**(6.759)**	**3.299.581**
Total comprehensive income for the year		-	134.209	22.040	**156.249**
Balance at 31 December 2021		**3.288.842**	**151.707**	**15.281**	**3.455.830**
Total comprehensive income for the year		-	205.688	(94.568)	**111.120**
Other (*)		-	(3.666)	3.666	-
Balance at 31 December 2021		**3.288.842**	**353.729**	**(75.621)**	**3.566.950**

(**) TL 3.666 presented under other reserves includes the share sales gain benefited from corporate tax exemption and transferred to the Revaluation Surplus on Tangible and Intangible Assets account.

Statement of cash flows
for the year ended 31 December 2021
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Notes	Audited 31 December 2021	Audited 31 December 2020
Cash flows from operating activities			
Interest received		3.485.746	2.198.284
Interest paid		(2.621.169)	(1.628.716)
Fees and commissions received		65.470	53.346
Income from banking services		63.889	48.239
Trading income		35.028	42.457
Fees and commissions paid		(26.713)	(24.066)
Collections from previously written off loans		518.325	391.648
Cash payments related to employee benefits and similar items		(579.746)	(492.275)
Cash received from other operating activities		-	-
Cash paid for other operating activities		(541.678)	(745.012)
Income taxes paid		(82.125)	(55.532)
Cash flows from operating profits before changes in operating assets and liabilities		**317.027**	**(211.627)**
Changes in operating assets and liabilities			
Trading securities		91.193	(188.601)
Reserve deposits at Central Bank		(2.333.989)	(569.828)
Loans and advances		(6.408.667)	(2.761.526)
Other assets		60.709	(1.056.253)
Deposits from banks		(465.503)	773.752
Deposits from customers		12.999.250	2.765.126
Financial liabilities at fair value through profit or loss		(3.605.485)	(332.343)
Funds borrowed		(1.025.265)	2.906.571
Other liabilities		1.353.344	(504.913)
Net cash (used in/from) operating activities		**665.587**	**1.031.985**
Cash flows from investing activities			
Purchases of financial assets at fair value through other comprehensive income	11	(3.757.908)	(6.393.597)
Proceeds from sale and redemption of financial assets at fair value through other comprehensive income	11	2.963.813	1.208.346
Purchases of assets held for resale	14	-	(306.592)
Proceeds from assets held for resale	14	366.042	224.561
Purchases of tangible assets	12	(27.111)	(30.766)
Proceeds from the sale of tangible assets	12	12.209	9.787
Purchase of intangible assets	13	(85.332)	(55.401)
Purchases of amortized cost securities	11	(71.232)	(30.193)
Proceeds from sale and redemption of amortized cost securities	11	320.126	1.203.877
Other		-	-
Net cash (used in/from) investing activities		**(279.393)**	**(4.169.978)**
Cash flows from financing activities			
Proceeds from funds borrowed		1.528.052	5.296.951
Repayments of funds borrowed		(2.280.702)	(5.317.091)
Payments for finance leases		(33.359)	15.945
Net cash in/from financing activities		**(786.009)**	**(4.195)**
Effects of foreign exchange rate changes on cash and cash equivalents		**3.038.506**	**958.149**
Net decrease/increase in cash and cash equivalents		**2.955.718**	**(2.395.666)**
Cash and cash equivalents at beginning of year		4.013.859	6.409.525
Cash and cash equivalents at end of year		**6.969.577**	**4.013.859**

The accompanying notes set out on pages 7 to 74 form an integral part of these financial statements.

Index for notes to the financial statements

1. General information

Odea Bank A.Ş. (a subsidiary of Bank Audi S.A.L.) was established as a deposit bank with USD 300 Million capital with the permission of BRSA numbered 4432 dated 27 October 2011, which was published in the Official Gazette on 28 October 2011, numbered 28098. Odea Bank A.Ş. started its operations in the "foreign banks founded in Turkey" group, by taking operating permission from BRSA numbered 4963 on 28 September 2012, which was published in Official Gazette dated 2 October 2012 numbered 28429.

The Ultimate parent of the Bank is Bank Audi S.A.L.

Pursuant to the approval of BRSA dated 8 December 2015, The Bank, on 1 March 2016, converted into TL the capital contribution which were obtained from its controlling shareholder Bank Audi S.A.L. amounting to total USD 300 million, and completed the necessary legal and administrative procedures with the relevant authorities and added its converted amount to TL 883.530 to the paid in capital on 31 March 2016. On 10 August 2016, in line with Article 473 and Article 474/2 of the Turkish Commercial Code, The Bank simultaneously reduced the paid in capital by TL 90.838 and increased to TL 3.288.842 where TL 224.451 have been subscribed by Bank Audi S.A.L.,TL 263.394 by European Bank for Reconstruction and Development, TL 209.252 by International Finance Corporation, TL 112.674 by IFC FIG Investment Company S.A.R.L, TL 131.697 by H.H. Sheikh Dheyab Binzayed Binsultan Al-Nahyan and TL 58.532 by Mr. Mohammad Hassan Zeidan.

The Bank is registered in Istanbul, Turkey at the following address: Levent 199, Büyükdere Caddesi No:199 Kat: 35-39 Levent Şişli/ İstanbul. As of 31 December 2021, the Bank is operating with 48 branches and 1.111 employees (31 December 2020: 48 branches and 1.109 employees).

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

A. Basis of preparation and statement of compliance

The financial statements have been prepared on a historical cost basis; except for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which have all been measured at fair value.

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") including the International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB").They were authorized for issuance by the management on 4 March 2022.

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No. 26333 dated 1 November 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by the Public Oversight Accounting and Auditing Standards Authority, additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA") and other relevant rules promulgated by the Turkish Commercial Code and Tax Regulations.

The financial statements are presented in the national currency of the Republic of Turkey the Turkish Lira ("TL").

2. Summary of significant accounting policies (continued)

A. Basis of preparation and statement of compliance (continued)

In preparation of the financial statements of Bank, the same accounting policies are applied as compared to the most recent annual financial statements as of 31 December 2021. Other new IFRS/IAS amendments in effect do not have significant impact on the accounting policies, financial position and performance of the Bank.

Standards and interpretations issued but not yet effective

Standards issued but not yet effective and not early adopted

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

IFRS 17 Insurance Contracts

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

The Bank does not expect that application of IFRS 17 will have significant impact on its financial statements.

Initial Application of IFRS 17 and IFRS 9—Comparative Information (Amendment to IFRS 17)

In December 2021, IASB issued Initial Application of IFRS 17 and IFRS 9—Comparative Information (Amendment to IFRS 17). The amendment is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements. IFRS 17 incorporating the amendment is effective for annual reporting periods beginning on or after 1 January 2023. The Bank does not expect that application of IFRS 17 will have significant impact on its financial statements.

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

On 23 January 2020, IASB issued *Classification of Liabilities as Current or Non-Current* which amends IAS 1 *Presentation of Financial Statements* to clarify its requirements for the presentation of liabilities in the statement of financial position.
The amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current—that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.
The amendments include:

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

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments. However, according to the amendment published on 15 July 2020, IASB decided to defer the effective date of IAS 1 until 1 January 2023.

2. Summary of significant accounting policies (continued)

A. Basis of preparation and statement of compliance (continued)

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

IASB has issued amendments to IAS 1 Presentation of Financial Statements and an update to IFRS Practice Statement 2 Making Materiality Judgements to help companies provide useful accounting policy disclosures on 12 February 2021.
The key amendments to IAS 1 include:

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

IASB also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures.
The amendments are consistent with the refined definition of material previously:
"Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements".
The amendments are effective from 1 January 2023 but companies can apply it earlier.

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments.

Definition of Accounting Estimates (Amendments to IAS 8)

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty which is issued by IASB on 12 February 2021.
The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

Developing an accounting estimate includes both:

- selecting a measurement technique (estimation or valuation technique) – e.g. an estimation technique used to measure a loss allowance for expected credit losses when applying IFRS 9 Financial Instruments; and
- choosing the inputs to be used when applying the chosen measurement technique – e.g. the expected cash outflows for determining a provision for warranty obligations when applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The effects of changes in such inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remains unchanged.

The amendments are effective for periods beginning on or after 1 January 2023, with earlier application permitted, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the company applies the amendments.

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments.

2. Summary of significant accounting policies (continued)

A. Basis of preparation and statement of compliance (continued)

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes

In May 2021 IASB issued *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*, which amended IAS 12 Income Taxes.

The amendments to IAS 12 Income Taxes clarify how companies should account for deferred tax on certain transactions – e.g. leases and decommissioning provisions.

The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

The amendments clarify that the exemption does not apply to transactions such as leases and decommissioning obligations. These transactions give rise to equal and offsetting temporary differences.

For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. If a company previously accounted for deferred tax on leases and decommissioning liabilities under the net approach, then the impact on transition is likely to be limited to the separate presentation of the deferred tax asset and the deferred tax liability.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments.

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

IASB has extended the practical expedient by 12 months – permitting lessees to apply it to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022. The original amendment was issued in May 2020 to make it easier for lessees to account for covid-19-related rent concessions, such as rent holidays and temporary rent reductions, while continuing to provide useful information about their leases to investors.

The amendment is effective for annual reporting periods beginning on or after 1 April 2021. Lessees are permitted to apply it early, including in financial statements not authorised for issue as of 31 March 2021 the date of publication of this amendment. In other words, if the financial statements for the accounting periods before the date of publication of the amendment have not yet been issued, it is possible to apply this amendment for the relevant financial statements. The 2021 amendments are applied retrospectively with the cumulative effect of initially applying it being recognised in opening retained earnings.

The original version of the practical expedient was, and remains, optional. However, the 2021 amendments are, in effect, not optional. This is because a lessee that chose to apply the practical expedient introduced by the 2020 amendments has to consistently apply the extension to eligible contracts with similar characteristics and in similar circumstances.

This means that lessees will need to reverse previous lease modification accounting if a rent concession was ineligible for the original practical expedient under the 2020 amendments but becomes eligible as a result of the extension.

The Bank assessed the impact on its financial statements resulting from the application of the amendments as immaterial.

2. Summary of significant accounting policies (continued)

A. Basis of preparation and statement of compliance (continued)

Reference to the Conceptual Framework (Amendments to IFRS 3)

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

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

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments.

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

In May 2020, IASB issued Property, Plant and Equipment—Proceeds before Intended Use, which made amendments to IAS 16 Property, Plant and Equipment. The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

The amendments improve transparency and consistency by clarifying the accounting requirements—specifically, the amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments.

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

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

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

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

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments.

2. Summary of significant accounting policies (continued)

A. Basis of preparation and statement of compliance (continued)

Annual Improvements to IFRS Standards 2018–2020

Improvements to IFRSs

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

IFRS 1 First-time Adoption of International Financial Reporting Standards

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

IFRS 9 Financial Instruments

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

IFRS 16 Leases, Illustrative Example 13

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

IAS 41 Agriculture

This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13 Fair Value Measurement. The amendments provide the flexibility to use either, as appropriate, in line with IFRS 13.

2. Summary of significant accounting policies (continued)

A. Basis of preparation and statement of compliance (continued)

Annual Improvements to IFRS Standards 2018–2020 (continued)

IBOR Reform and its Effects on Financial Reporting—Phase 2

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

The Phase 2 amendments, Interest Rate Benchmark Reform—Phase 2, address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues). In 2019, the Board issued its initial amendments in Phase 1 of the project.

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

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

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

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

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

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments to interest rate benchmark reform.

(Amounts expressed in thousands of TL unless otherwise indicated.)

2. Summary of significant accounting policies (continued)

B. Foreign currency translation

(a) Functional and presentation currency

The financial statements are presented in Turkish Lira (TL), which is the Bank's functional and the presentation currency, and all values are rounded to the nearest thousands, except when otherwise indicated.

As of 31 December 2021, foreign exchange gains and losses arising from transactions that are completed, translated to TL by using historical foreign currency exchange rates. Balance of the foreign currency denominated monetary assets and liabilities are converted into TL by using foreign currency exchange rates of the Bank for the year end and the resulting exchange differences are recorded as foreign exchange gains and losses.

Foreign currency translation rates used by the Bank are as follows:

	31 December 2021	31 December 2020
USD	13,4901	7,4212
CHF	14,8044	8,4323
GBP	18,2195	10,1276
100 JPY	11,72074	7,1999
EURO	15,3123	9,1141

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

C. Related parties

Parties are considered related to the Bank if below conditions are met;

(a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

2. Summary of significant accounting policies (continued)

C. Related parties (continued)

(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
(vi) The entity is controlled or jointly controlled by a person identified in (a).
(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

For the purpose of these financial statements, shareholders, key management personnel and board members, in each case together with their families and companies controlled by/affiliated with them, associated companies and other companies within the Bank Audi Group. A number of banking transactions were entered into with related parties in the normal course of business.

D. Due from other banks

Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost.

E. Financial assets

Financial instruments comprise financial assets, financial liabilities and derivative instruments. Financial instruments affect liquidity, market, and credit risks on the Bank’s statement of financial position in all respects.

Basically, financial assets create the majority of the commercial activities and operations of the Bank. These instruments expose, affect and diminish the liquidity, credit and interest risks in the financial statements.

All regular way purchases and sales of financial assets are recognized on the settlement date. The settlement date is the date that the asset is delivered to or by the Bank. Settlement date accounting requires (a) accounting of the asset when acquired by the institution and (b) disposing of the asset out of the statement of financial position on the date settled by the institution; and accounting of gain or loss on disposal. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The Bank categorizes its financial assets as “Fair Value Through Profit/Loss”, “Fair Value Through Other Comprehensive Income” or “Measured at Amortized Cost”. Such financial assets are recognized or derecognized according to IFRS 9 Financial Instruments Part 3.

The methods and assumptions used in the recognition and measurement of financial instruments are mentioned below.

2. Summary of significant accounting policies (continued)

E. Financial assets (continued)

Financial Assets at Fair Value Through Profit and Loss

“Financial assets at fair value through profit/loss” are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short-term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making.

Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the statement of profit or loss. Transaction costs related to such assets are recorded as expense at the time of occurrence.

Financial Assets at Fair Value Through Other Comprehensive Income

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

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

Equity instruments, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity instruments that do not have a quoted market price in an active market are measured at fair values based on an appropriate valuation methods.

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

Financial Assets Measured at Amortized Cost

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

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

2. Summary of significant accounting policies (continued)

E. Financial assets (continued)

Financial Assets Measured at Amortized Cost (continued)

“Fair value through other comprehensive income” and “measured at amortized cost” securities portfolio of the Bank includes Consumer Price Indexed (CPI) bonds. These securities are measured and accounted for using the effective interest rate method based on the real coupon rates adjusted with the difference between the reference inflation index at the date of issuance and the realized inflation rate which is officially announced.

Loans and Advances to Customers

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market.

Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method".

Foreign currency indexed loans are converted into TL from the foreign currency rate as of the opening date and followed in TL accounts. Repayments are measured with the foreign currency rate at the payment date, the foreign currency gains and losses are reflected to the statement of income.

Foreign exchange gains and losses on the foreign currency indexed loans are presented under foreign exchange gains and losses in the statement of profit or loss.

Derecognition of a financial asset

Before evaluating whether, and to what extent, derecognition is appropriate, the Bank determines whether those criteria should be applied to a part of a financial asset (or a part of a group of similar financial assets) or a financial asset (or a group of similar financial assets) in its entirety. Criteria is applied to a part of financial asset (or a part of a group of similar financial assets) if, and only if, the part being considered for derecognition meets one of the following three conditions.

(i) The part comprises only specifically identified cash flows from a financial asset (or a group of similar financial assets).

(ii) The part comprises only a fully proportionate (pro rata) share of the cash flows from a financial asset (or a group of similar financial assets).

(iii) The part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

A financial asset (or, a part of a financial asset or a part of group of financial assets, where appropriate) is derecognized when, and only when,

- the contractual rights to the cash flows from the financial asset expire; or
- the contractual rights to the cash flows from the financial asset are transferred; or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in the arrangement without material delay and:
- if the entity transfers substantially all the risks and rewards of ownership of the financial asset or,
- if the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, whether it has retained control of the financial asset.

2. Summary of significant accounting policies (continued)

E. Financial assets (continued)

Derecognition of a financial asset (continued)

If the Bank transfers the contractual rights to the cash flows from the financial asset, or retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in the arrangement without material delay and if the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset and it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset. In this case, the entity also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained.

The Bank has evaluated the non-performing loan portfolio of which contractual rights are transferred to the asset management companies, in the context of above statements and derecognizes the loans that are subject to agreements in which all risks and rewards are transferred to the buyer.

Assessment of business model

The entity's business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. During assessment of the business model for management of financial assets, it must be considered all relevant evidence that is available at the date of the assessment. Such relevant evidence includes below:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

Assessment of the business model is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called "worst case" or "stress case" scenarios.

The Bank's business models are divided into three categories. These categories are defined below:

- A business model whose objective is to hold assets in order to collect contractual cash flows: a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise 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 contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.
- A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: the 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 contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.
- 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.

2. Summary of significant accounting policies (continued)

F. Derivative financial instruments

The derivative transactions mainly consist of options, foreign currency swaps, interest rate swaps, and foreign currency forward contracts. Derivative instruments are initially recorded at their fair values and related transaction costs are recognized in statement of profit or loss at the date of occurrence. The changes in the fair values of derivatives which are not subject to hedge accounting are recorded on statement of financial position under “the portion of derivative financial assets measured at fair value through profit and loss” or “the portion of derivative financial liabilities measured at fair value through profit and loss”, respectively depending on the fair values being positive or negative. Fair value changes for derivatives are recorded in the account of “Profit/losses from derivative financial transactions” within the statement of profit or loss.

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

Embedded derivatives shall be separated from the host and accounted for as a derivative according to IFRS 9 if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss. If an embedded derivative is separated, the host contract shall be accounted for in accordance with the appropriate Standards.

Derivative financial instruments held for hedging purpose

The Bank applied cash flow hedge accounting to mitigate interest rate changes on TL deposit through interest rate swaps.

The Bank utilizes derivative instruments effectively in the process of asset and liability management. 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 Bank continues to apply hedge accounting in accordance with IAS 39 in this context.

Within the scope of cash flow hedge accounting, effective part of the fair value changes of the hedging instrument are accounted in equity under “Cash Flow Hedge Gain/Loss, Shares of Investments Valued by Equity Method in Other Comprehensive Income Classified Through Profit or Loss and Other Accumulated Amounts of Other Comprehensive Income Items Reclassified Through Other Profit or Loss” whereas ineffective part is accounted in the statement of profit or loss.

The Bank hedged its cash flow risk arising from Turkish Lira floating interest rate liabilities by using interest rate swaps. Within the scope of cash flow hedge accounting the fair values being positive or negative and effective portions in the equity under “Other Comprehensive Income Items to be recycled to profit and loss” and ineffective portions in the statement of profit or loss under “profit / loss from derivative financial transaction”.

In the periods in which the cash flows (interest expenses) of the hedged item affects the statement of profit or loss, the profit/ loss of the hedging instrument is recycled to the statement of profit or loss from equity.

Effectiveness tests are performed 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.

2. Summary of significant accounting policies (continued)

F. Derivative financial instruments (continued)

Derivative financial instruments held for hedging purpose (continued)

When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortized to statement of profit or loss under trading account income/loss caption over the maturity of the hedged item from that date of the hedge accounting is discontinued. While expiring, sale, discontinuing cash flow hedge accounting or when no longer effective the cumulative gains/losses recognized in shareholders' equity and presented under "accumulated other comprehensive income or expense to be reclassified to profit or loss" are continued to be kept in this account. When the cash flows of hedged item incur, the gain/losses accounted for under shareholders' equity are recognized in statement of profit or loss considering the original maturity.

A prospective test is performed at the beginning of the hedge accounting and both retrospective and prospective test are performed at each reporting period with Dollar off-set method. According to this method, hedge accounting continues when the result is within a range of 80-125% effectiveness. Depending on the calculated effectiveness ratio, hedging relationship is accounted in accordance with IAS 39 rules.

In case the hedging instrument is not continued due to the termination, realization, sale, termination of hedge accounting or ineffectiveness of the effectiveness test; hedge accounting is terminated. In such cases, the profit/loss accounted under shareholders' equity in cash flow hedge accounting continues to be accounted for under "Other comprehensive income items to be recycled to profit or loss" within equity until the realization of the cash flows of the hedged item. When the cash flows related to the hedging item are realized, the profit/loss accounted under equity is classified in the statement of profit or loss taking into account the original maturity of the hedging instrument.

Renewal of a hedging instrument or transfer to another hedging instrument if it is part of a hedging strategy does not remove the hedging relationship.

The Bank's derivative instruments consist of options, foreign currency and interest swaps and forward foreign currency buy/sell transactions. Derivative instruments are accounted for at their fair values as of the contract date and subsequently valued at fair value. Certain derivative instruments, although economical hedges, are accounted as trading transactions since they are not qualified to be a hedging instrument as per "Financial Instruments: Recognition and Measurement" ("IAS 39"). There are no embedded derivatives separated from the host contract or that are designated as hedging instruments as of end of reporting period.

Interest income and expenses on swap transactions are presented in interest income or expense.

2. Summary of significant accounting policies (continued)

G. Expected Credit Losses

As of 1 January 2018, a loss allowance for expected credit losses is provided by Bank for all financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income, all financial assets which are not measured at fair value through profit or loss, commitments and financial guarantee contracts in accordance with IFRS 9 International Financial Reporting Standard and "Regulation on Procedures and Principles for Classification of Loans and Provisions to be Set Aside" published in the Official Gazette No. 29750 dated 22 June 2016. Equity instruments are not subject to impairment assessment as they are measured at fair value.

The Bank has started its credit calculation method with the expected credit loss models as of 1 January 2018. Expected credit losses include a probability-weighted amount that is determined by evaluating a range of possible outcomes; reasonable and supportable information that are current conditions and forecasts of future economic conditions and the time value of money. The financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1:

They are financial assets that do not have a significant increase in credit risk at initial recognition or since initial recognition. Loss allowance for impairment of credit risk for these assets is recorded in the amount of 12-month expected credit loss.

Stage 2:

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

Stage 3 (Default):

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. In the calculation of expected credit losses, probability of default is considered as 100%. In determining the impairment, the Bank considers the following criteria:

- Delinquency in interest and/or principal payments by more than 90 days or,
- Having the opinion that collection of principal and /or interest will be past due more than 90 days from its maturity or due date due to reasons such as having problems in the financing operating capital or creating additional liquidity due to unfavourable developments in macroeconomic conditions or in the sectors the debtor operates or, independent from all, due to adverse developments peculiar to the debtor

The collections made in the current period are recognized under "Expected Credit Losses" account in statement of profit or loss, the collections from loans which have been fully-provisioned and written-off in the previous periods are recognized under "Other Operating Income" in the statement of profit or loss.

Significant Increase in Credit Risk

The Bank performs qualitative and quantitative assessments for the determination of financial assets that will be classified as Stage 2 due to the significant increase in credit risk.

To make the quantitative assessment, the Bank compares the rating information of the financial asset at the reporting date with the rating information at the date of initial recognition. The change above the defined threshold is considered as significant increase in credit risk, meaning that the credit is classified under Stage 2 loans.

2. Summary of significant accounting policies (continued)

G. Expected Credit Losses (continued)

Within the scope of qualitative assessments, the financial asset has been taken into account as Stage 2, if any of the following criteria occurs:

- Delinquency in principal and/or interest payments, which is between 30 days and 90 days,
- Watchlist exposures,
- Forborne exposures,
- The other retail exposures which belong to an obligor who has a retail exposure that is classified as non-performing loans.

Measurement of Expected Credit Losses

ECL is estimated according to several macroeconomic scenarios and final ECL is an average of each scenario's ECL weighted by scenario probabilities. The parameters subject to the expected credit loss measurement are as follows:

Exposure at Default (EAD): The EAD represents the incurred amortized cost for cash obligations as of reporting date. It refers to the value calculated through credit conversion factors for non-cash loans and commitments.

Credit Conversion Factor (CCF): As of the reporting date, CCF corresponds to the rate used to convert non-cash loans and commitments to loan equivalents. Conversion rates are determined based on Circular 2016/1 published by local regulatory (BRSA) under the Basel 1 Framework.

Lost Given Default (LGD): It represents the economic loss incurred on the loan, if a loan defaults. It is represented as a percentage. The recovery rate summarizes all cash flows from the customer after default, including collections through cash, prior lien mortgages and vehicle pledges. In this context, different LGD values are calculated for the segments in the retail and non-retail portfolios using historical data.

Probability of Default (PD): PD represent the likelihood of default over a specified time period. Based on IFRS 9, the Bank uses two different PDs in order to calculate expected credit losses:

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

The Bank uses two separate internal rating systems for non-retail portfolio in the Corporate and SME segment. The both internal rating models include the borrower's financial information and the answers to the qualitative question set. PD's used in ECL calculation consider both current conditions and historical data. For retail portfolio, the cumulative multiplication of the 12-month averages of the roll rates for each delinquency buckets on the basis of products that are sharing common characteristics is considered as PD.

When expected credit losses are estimated, it is considered that three different macroeconomic scenarios as "Base", "Upside" and "Downside". Macroeconomic scenarios should be reviewed and updated if necessary at least on an annual basis or earlier in case of a major event necessitating a review. Each scenario has its own probability to occur. The expected credit loss amount corresponding to each scenario is discounted to the net present value by using the exposure's contractual rate of interest.

If the loan classified under Stage 1, expected credit losses is calculated by considering 12-month PDs. The Bank calculates expected 12-month credit loss on the basis of a 12-month anticipation of default following the reporting date. The marginal PDs calculated as the difference between the cumulative PDs in two consecutive periods multiplied by the total loss in default calculated on EAD amounts for each horizon. This calculation is performed for each of the three scenarios as described above, each scenario is discounted to the net present value by using the exposure's effective rate of interest from related date and final ECL is derived from average of each scenario ECL weighted by scenario probabilities.

If the loan classified under Stage 2, expected credit losses is calculated by considering lifetime. The expected credit loss measurement, including the use of forward-looking macroeconomic scenarios is similar to that described above however the probability of default is estimate lifetime of the financial instrument.

2. Summary of significant accounting policies (continued)

G. Expected Credit Losses (continued)

For non-retail loans classified under Stage 3, ECL estimated based on individual assessment in accordance with internal policies and IFRS9. Expected credit loss calculation is performed by discounting the expected collections of the financial instrument to its net present value with a defined interest rate.

In addition, the Bank assesses a certain portion of Stage 2 non-retail loans individually in the calculation of the expected credit losses based on IFRS 9. As of December 31, 2021, due to the negative effects of the COVID-19 epidemic, the Bank reviewed its cash flow expectations, collection forecasts and scenario weights for its individual assessed loans, and reflected the related effects to the expected loss provisions with the best estimation approach.

For retail products sharing similar credit risk characteristics, a collective approach is used for ECL measurement. In making this calculation, the Bank takes into consideration the transition rates between the buckets in the thirty-day intervals past due of the financial assets sharing the similar credit risk characteristics as of the end of the month. The probability of loss for related bucket is calculated by multiplying the average of the 12-month transition rates corresponding to each bucket with the average of the 12-month transition rates of afterthought buckets. The outstanding balance per bucket is multiplied by the probability of loss, LGD and weighted average remaining maturity. Finally, expected credit loss is computed by applying the respective impact from the forward-looking model which accounts 3 probability weighted scenarios considering the stage and the remaining maturity of the retail product.

The Bank updates IFRS 9 models at least once a year in accordance with its internal policies. The model update for the probability of default and future expectations was made in the 4th quarter of 2021, and the Bank calculated the expected loss provision with the model updated at the end of 2021.

Approaches to Determine Forward-Looking Economic Scenario

As mentioned above, by using scenarios related to macroeconomic factors, the effect of future expectations is included in the calculation of ECL. The macro indicators that make up these macroeconomic forecasting models are Gross Domestic Product (GDP) and unemployment rate. That macroeconomic model contains more than one scenario that are considered along with their respective probability of occurrence and the weighted average of the results of these scenarios are taken into account in ECL calculations.

Behavioural Maturity Calculation Methodology

The loss allowance for expected credit losses is measured for loans in Stage 1 until the end of maturity for those with less than one year of maturity and one year for loans with a remaining maturity of more than one year. For loans in Stage 2, lifetime (up to maturity) expected credit losses is measured. This calculation is based on the remaining maturity information for each loan. While using this information for products with maturity information, behavioural maturity determined in accordance with internal policies is taken into consideration for products without maturity information such as off-balance sheet items and overdrafts. Expected credit losses are measured over these maturities according to the type of loan.

Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

As of 1 January 2018, The Bank applied the impairment requirements for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through other comprehensive income in accordance with IFRS9 principles. However, the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position.

When the related financial asset is de-recognized from the financial statement, the loss allowance for expected credit losses previously reflected to the other comprehensive income is recycled through profit or loss.

2. Summary of significant accounting policies (continued)

H. Repurchase and reverse repurchase agreements

Securities sold subject to linked repurchase agreements ("repos") are not derecognized from the statement of financial position as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within funds obtained under repo agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase price is treated as interest expense and amortized over the life of repo agreements using the effective interest method.

Securities purchased under agreements to resell ("reverse repos") are recorded as money market placements. The difference between sale and repurchase price is treated as interest and accrued evenly over the life of repo agreements using the effective interest rate method.

I. Property and equipment

All property and equipment are carried at cost less accumulated depreciation and accumulated impairment if any. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful life as follows:

Buildings	50 years
Safety box	50 years
ATM	10 years
Furniture and fixtures and motor vehicles	5-20 years
Office equipment	3-10 years

Gain or loss resulting from disposals of the property and equipment is reflected to the statement of profit or loss as the difference between the net proceeds and net book value.

Normal maintenance and repair cost of the properties are expensed.

There is no pledge, mortgage or any other lien on property and equipment.

Explanations on Leasing Transactions

Tangible assets acquired through financial leasing are recognized as assets and the related liabilities as lease payables in assets and liabilities, respectively. Financial costs on leasing agreements are distributed throughout the lease periods at fixed interest rates. Interest expenses and foreign exchange losses related with financial leasing are accounted in income statement. Depreciation for assets acquired through financial leases is calculated consistently with the same principle as for the tangible assets.

As of the balance sheet date, the Bank does not have authorization for any financial leasing transactions as lessor

Bank- lessee:

The Bank assesses whether the contract has the quality of a lease or whether the lease includes the transaction at the beginning of a contract. In case the contract is transferred for a certain period of time to control the use of the asset defined for a price, it is either leased or includes a lease. The Bank reflects the existence of a right of use and a lease liability to the financial statements at the effective date of the lease.

Right of use assets:

The right to use asset is first recognized by cost method and includes:

a) The initial measurement amount of the lease obligation,

b) The amount obtained by deducting all the rental incentives received from all lease payments made at or before the beginning of the lease;

c) All initial direct costs incurred by the Bank and

2. Summary of significant accounting policies (continued)

I. Property and equipment (continued)

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

a) Accumulated depreciation and accumulated impairment losses are deducted and

b) Measures the restatement of the lease obligation at the restated cost.

IAS 36 Impairment of Assets is applied to determine whether the real estates considered as right-of-use assets are impaired and to account for any impairment loss identified.

Lease Obligations:

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

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

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

a) Increase the book value to reflect the interest on the lease obligation

b) Reduces the book value to reflect the lease payments made and

c) The book value is measured to reflect reassessments and restructuring, or reflect to fixed lease payments as of revised nature.

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

J. Intangible assets

Other intangible assets are recognized for at their cost less accumulated amortization. Other intangible assets are amortized with straight-line method based on their economic lives.

As of the end of the reporting period, all software is purchased and there are no completed or continuing software development projects by the Bank internally.

K. Financial liabilities

Financial liabilities including deposits from banks, customer deposits and other borrowed funds are recognized initially at fair value plus, transaction costs that are directly attributable to the issue of the financial liability. Subsequently, financial liabilities are measured at amortized cost, using the effective interest rate, except for financial liabilities designated at fair value. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

2. Summary of significant accounting policies (continued)

L. Income taxes

(i) Current income tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Taxes other than on income are recognized in other operating expenses (Note 27).

(ii) Deferred income taxes

Deferred income tax is provided on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax liabilities and assets are recognized when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Bank.

Deferred income tax assets resulting from temporary differences, carry forward tax losses and unused tax credits are recognized to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilized (Note 17).

Deferred tax related to fair value remeasurement of financial assets at fair value through other comprehensive income, which are recognized in other comprehensive income, is also recognized in the other comprehensive income.

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.

M. Retirement benefit obligations

Defined Benefit Plans

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum termination indemnities over a 30-day salary to each employee who has completed over one year of service, whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Total benefit is calculated in accordance with IAS 19 “International Accounting Standard on Employee Benefits”.

Such benefit plans are unfunded since there is no funding requirement in Turkey. The cost of providing benefits to the employees for the services rendered by them under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method.

The Bank has no retirement fund or foundation that the employees are the member of.

Defined Contribution Plans

The Bank pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

2. Summary of significant accounting policies (continued)

M. Retirement benefit obligations

Short-term Employee Benefits

In accordance with IAS 19 "International Accounting Standard on Employee Benefits"; the expected cost of accumulating paid absences are measured as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

N. Provisions, contingent assets and contingent liabilities

Provisions and contingent liabilities are accounted in accordance with the "International Accounting Standard for Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37"). Provisions are determined by using the Bank's best expectation of expenses in fulfilling the obligation and discounted to present value if material.

The contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the Bank.

O. Interest income and expense

Interest income and expenses are recognized in the statement of profit or loss on an accrual basis using the effective interest rate method. Starting from 1 January 2018, Bank has started accruing interest income on non-performing loans. Net book value of the non-performing loans (Gross Book Value – Expected Credit Loss) are accrued through effective interest rate.

P. Fee and commission income and expense

All fees and commission income/expenses are recognized as income at the time of realization and during the period where the service is provided. Loan related fees and commissions paid to or received from the other institutions are considered as an integral part of the effective interest rate of a financial instrument and accounted as accrual basis. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction.

R. Share capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Share premium

When shares are issued, the excess of contributions received over the nominal value of the shares issued is recorded as share premium in equity.

(iii) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the statement of financial position date are dealt with in the subsequent events note.

S. Acceptances

Acceptances are realized simultaneously with the payment dates of the customers and they are presented as probable commitments in off-balance sheet accounts.

2. Summary of significant accounting policies (continued)

T. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

U. Cash and cash equivalents

The cash and cash equivalents comprise balances with original maturities less than 90 days including cash and balances with the central banks excluding reserve requirements, reverse repo transactions and loans and advances to banks (Note 6).

V. Non- Current Assets Held for Sale and Discontinued Operations

Property and equipment held-for-sale consist of tangible assets that were acquired due to non-performing receivables are accounted in the financial statements in accordance with the Non-current Assets Held for Sale and Discontinued Operations (IFRS 5).

As of 31 December 2021, the Bank has assets held for sale amounting to TL 296.839 (31 December 2020: TL 672.505).

The Bank, in some portion of the foreclosed assets, provides repurchase right to the debtor. As of 31 December 2021, the right of repurchase value of assets of the Bank is TL 119.669 (31 December 2020: TL 471.297).

3. Significant accounting judgments, estimates and assumptions

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. These disclosures supplement the commentary significant accounting policies (Note 2) and financial risk management (Note 5).

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and the significant judgments (apart from those involving estimations) with the most significant effect on amounts recognized in the financial statements are as follows:

Expected credit losses

The calculation of expected credit losses as disclosed in Note 2.G.

Fair value of derivatives

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values (Note 9).

Tax legislation

Turkish tax legislation is subject to varying interpretations as disclosed in Note 17.

Deferred income tax asset recognition

Deferred income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The rates enacted, or substantively enacted, at the end of the reporting period are used to determine deferred income tax.

The principal temporary differences arise from the difference between the carrying value and tax base of property, plant and equipment, valuation difference on trading and investment securities, remeasurement of financial assets and liabilities at fair value, provision for loan losses and provision for employment termination benefits. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized (Note 17).

Current tax and deferred tax related to items recognized directly in equity are also credited or charged directly to equity.

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.

4. Segment reporting

The Bank provides a full range of banking services and operates in Commercial and Retail business segments. These segments have been determined by considering customer types, size and needs and in accordance with the Bank's organizational structure where the profitability, on the basis of account, customer, customer relationship manager, branch segment and product is generated and followed.

Below are the detailed explanations on business segments:

Corporate and Commercial Banking:

Odeabank offers a wide range of corporate and commercial banking products to clients and benefits from the Group's regional strength and network of corporate banking operations, particularly in the MENA region.

Retail Banking:

Odeabank offers a full range of retail products and services, including conventional checking and savings accounts, fixed-term deposits, loans and housing loans, credit cards and bancassurance products. Odeabank's retail banking activities are offered through three principal divisions: wealth management, debt and credit cards and consumer loans. As at 31 December 2021, Odeabank's retail banking division operated from 48 branches and had more than 492,000 active customers.

Wealth Management

Odeabank's wealth management division invests customer's savings in fixed income instruments, such as deposits and bonds or Eurobonds, mutual funds, equities and alternative investment vehicles, such as derivative products.

Debit and Credit Cards

Odeabank takes into account the needs of its customers while developing its debit and credit card offering, whilst also enabling fast and convenient access to these products. Odeabank Private Card,which is designed for high-income customers in mind, and Bank'O Atlas credit card, which enables frequent travelers to accumulate miles with both flights and shopping, are part of Odeabank's debit and credit card portfolio.

Consumer Loans

As part of its consumer loan activities, Odeabank offers various consumer loan products, including low-interest, low-fee and no-fee general purpose loans, ready-cash fast loans, overdraft accounts for emergency use, mortgage products and housing loans and car loans.

Treasury and Capital Markets:

Odeabank conducts treasury and capital markets activities through its balance sheet management unit (which is responsible for ensuring that the domestic and foreign currency liquidity levels of Odeabank are maintained in a sustainable and healthy way in compliance with applicable laws and regulations), markets unit (which trades in interbank markets in line with the profit goals and limits determined by Odeabank's Board of Directors), and treasury sales unit (which prices transactions, including spot foreign exchange, forward foreign exchange, arbitrage, forward arbitrage, foreign exchange/interest rate swaps, treasury bills, government bonds, Eurobonds and cross currency swaps, as well as designs and offers structured products).

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Segment reporting (continued)

31 December 2021

1- Segment information

	Commercial	Retail	Other and Unallocated(*)	Total
Net interest income	**458.250**	**196.433**	**372.465**	**1.027.148**
Non-Interest income				
Commissions	68.250	37.605	(3.209)	**102.646**
FX Operations & Financial operations	2.560	63.335	56.031	**121.926**
Other operating income	728.957	37.921	(673.229)	**93.649**
Total operating income	**1.258.017**	**335.294**	**(247.942)**	**1.345.369**
Expected Credit Loss	(820.396)	(30.181)	644.279	**(206.298)**
Net operating income	437.621	305.113	396.337	**1.139.071**

2 - Financial Position Information

	Commercial	Retail	Other and Unallocated	Total
Total Assets	26.222.458	496.712	28.698.215	**55.417.385**
Total Liabilities	12.847.179	24.962.140	17.608.066	**55.417.385**

31 December 2020

1-Segment information

	Commercial	Retail	Other and Unallocated	Total
Net interest income	**351.671**	**194.375**	**507.001**	**1.053.047**
Non-Interest income				
Commissions	85.376	28.180	(36.037)	**77.519**
FX Operations & Financial operations	12.629	52.703	(35.991)	**29.341**
Other operating income	14.064	17	53.648	**67.729**
Total operating income	**463.740**	**275.275**	**488.621**	**1.227.636**
Loan loss provisions	(323.635)	20.781	(103.855)	**(406.709)**
Net operating income	**140.105**	**296.056**	**384.766**	**820.927**

2 - Financial Position Information

	Commercial	Retail	Other and Unallocated	Total
Total Assets	20.043.472	604.905	19.329.637	**39.978.014**
Total Liabilities	7.018.564	17.705.171	15.254.279	**39.978.014**

5. Financial risk management

The Bank's Risk Management Unit was established as an independent unit which reports to the Member of Audit Committee who is responsible for the Audit, Internal Control and Risk Management.

Risk management is committed to control processes in order to determine the limits and measurement of operational risks, including the risks comprising of credit, market, interest rate, concentration, counterparty, banking accounts and IT risks.

Risk Management regularly reports to Senior Management and the Audit Committee all the risks the Bank is exposed to and concentrations, and the Bank's own internal limits of the legal limits are monitored daily, weekly, monthly and quarterly. These reports consist of, market risk limits, liquidity and interest rate, credit risk analysis and capital adequacy analysis and daily value at risk (VAR) analysis. These reports are also presented to Asset-Liability Management Committee Audit committee on a monthly basis. Financial instruments in the Bank's portfolio are closely monitored and reported on a daily basis against volatility and market values of market risk instruments.

Monthly scenario analysis on economic capital, capital adequacy, liquidity and profitability scenarios and credit risk on Bank's loan portfolio including benchmark of similar banks are presented to the Audit Committee. Management follows the Bank's performance and the limits by using these detailed reports.

Risk Management Group calculates Basel II capital adequacy calculation, namely Credit Risk, Market Risk and Operational Risk, in accordance with "Regulation on Measurement and Assessment of Capital Adequacy of Bank's" published in the Official Gazette dated 28 June 2012 numbered 28337".

At the Bank, banking processes and policies were established by considering Regulation on the Internal Systems of Banks published in the Official Gazette No. 28337 dated 28 June 2012. Consequently, related procedures/policies are formed and then approved by the Board of Directors at August 2012.

In order to manage operational risks that the Bank is exposed to more effectively and to form an integrated risk management point of view, Operational Risk Policy and IT Continuity Plan was updated.

In order to define, measure, limit and report market risk the Bank is exposed to, Market Risk Policy is formed. When the Bank manages its treasury securities portfolio within the limits determined by the Board of Directors, Risk Management Group checks whether Treasury Department is within these risk limits.

Liquidity Risk is the risk that the Bank cannot fulfill its payment obligations fully and on time due to its insufficient cash inflow or due to inadequate available cash resulting from the mismatch between cash inflows and outflows. In order to define, measure, follow, report the liquidity risk the Bank is exposed to and take necessary actions for the results Liquidity Risk Policy format was prepared with an ongoing and forward-looking basis.

Concentration risk is the risk within credit risk that is exposed according to individual debtor and debtor groups, to debtor groups that indicate similar characteristics in terms of economic and regional sector qualities, on the basis of the assets subject to the collateral securities similar to the risk that is to be considered also within the scope of the market risk and operational risk. In order to define, measure, follow and manage the concentration risk the Bank is exposed to, Concentration Risk Policy is formed. Concentration limits are monitored in compliance with the credit, deposit and related policies.

5. Financial risk management (continued)

Counterparty credit risk refers to the default risk of the counterparty of the transaction before the last payment in the cash flow of this transaction of which brings an obligation to both sides. In order to define, measure, follow and manage the counterparty credit risk the Bank is exposed to Counterparty Credit Risk and Clearing Risk Policy is formed. Counterparty credit risk management is conducted by the Financial Institutions Department of the Bank by taking into account the counterparty's financial reports, general overview, rating, current and expected transaction volumes. The limits for counterparties are determined by the Board of Directors.

"Banking Book" includes all Assets and Liabilities (including credit) except trading securities portfolio. In order to define, measure, follow, report the interest rate risk related to banking book risk the Bank is exposed to and take necessary actions for the results, interest rate risk policy related to banking book is formed. Interest rate risk is managed by senior management in order to avoid losses from adverse interest rate movements.

Within internal capital management scope, the Bank has established a stress test based management by taking into account the estimated maximum loss amount that may occur in credit, operational, market and other risks as well as the changes in the market. Risk Management Procedure is formed in such a way that it includes all the definitions above.

Bank carries out risk mitigation processes and risk hedging for credit risk in accordance with credit risk policies. Risks related to market risk are measured and monitored in accordance with application procedures and policies. In this respect the limits are allocated by the Board of Directors. Limits are monitored, reported, in the event of any limit exceed it is reported to relevant committees and units through documentation by electronic mail. In addition, information about limits on use and loan segment concentration is presented to Audit Committee and the Board of Directors on quarterly.

A. Credit risk

Credit risk is the risk that the Bank is a party in a contract whereby the counterparty fails to meet its obligation and cause to incur a financial loss.

The credit allocation is performed on a debtor and a debtor group basis within the limits and updated on a defined frequency based on market developments. In the credit allocation process, many financial and non-financial criteria are taken into account within the framework of the internal rating procedures of the Bank. These criteria include geographical and sector concentrations. The sector concentrations for loans are monitored closely. In accordance with the Bank's loan policy, the rating of the companies, credit limits and guarantees are considered together, and credit risks incurred are monitored.

Risks and limits related to treasury activities and customer based commercial activities are monitored daily. Moreover, the limits of the correspondent banks that are determined by their ratings and the control of the maximum acceptable risk level in relation to the equity of the Bank are monitored daily. Risk limits are determined in connection with these daily transactions, and risk concentration is monitored systematically concerning off-balance sheet operations.

5. Financial risk management (continued)

A. Credit risk (continued)

Most of the statement of accounts for the loans has been tried to derive from audited financial statements. The unaudited documents result from the timing differences between the loan allocation and the audit dates of the financial statements of the companies and subsequently the audited financial statements are obtained from the companies when the companies are audited. Credit limits are determined according to the audited statement of accounts, and guarantee factors are developed in accordance with the decision of the credit committee considering the characteristics of the transactions and the financial structures of the companies.

For the forward transactions and other similar positions of the Bank, operational limits are set by the Board of Directors and the transactions take place within these limits.

The fulfillment of the benefits and acquirements related to forward transactions is normally realized at maturity. However, in order to minimize the risk, counter positions of existing risks are entered into in the market.

As of 31 December 2021, the proportion of the Bank's top 100 and 200 cash loan customers' in total cash loans is 80% and 88% respectively. (31 December 2020: 74% and 83%)

As of 31 December 2021, the proportion of the Bank's top 100 and 200 customers' non-cash loan balances in total non-cash loans is 63% and 82%. (31 December 2020: 70% and 87%)

5. Financial risk management (continued)

A. Credit risk (continued)

Bank's rating system:

Internal credit rating system is used by The Bank. As a basis for the rating classification; financial data of customers has been processed by the MRA - Moody's Risk Analyst software and output rate is considered.

The risks that are subject to rating models can be allocated as follows.

Rating	Risk Grade	Description
(1) Excellent	1	Exceptional business credit, judged to be of the highest quality, with minimal credit risk. Superior asset quality and financial capacity; excellent and proven management; market leader.
(2) Strong	2+ 2 2-	Very good business credit with very good asset quality, consistently strong liquidity and debt capacity; highly regarded in the industry with strong market share.
(3) Good	3+ 3 3-	Good business credit considered upper-medium grade, subject to low credit risk; good asset quality, strong liquidity and debt capacity. Company is above average size and holds a good position in the industry.
(4) Satisfactory	4+ 4 4-	Acceptable business credit subject to moderate credit risk, considered medium grade and as such may possess certain higher than average risk characteristics. Company has demonstrated adequate to good performance.
(5) Adequate	5+ 5 5-	Average to low business credit subject to moderate credit risk, considered medium grade and as such may possess certain higher risk characteristics. Company has demonstrated adequate performance.
(6) Marginal	6+ 6 6-	Below average business credit subject to high credit risk. Company is likely a lower tier competitor in its industry. Acceptable but requiring close monitoring and support of strong risk mitigants.
(7) Vulnerable	7+ 7 7-	Weak business credit: Judged to be of poor standing and subject to very high credit risk. Constitutes undue and unwarranted credit risk. Currently in performing status not to the point of justifying a Substandard classification.
(8) Substandard	8	Substandard (Default): Unacceptable business credit with normal repayment in jeopardy.
(9) Doubtful	9	Doubtful (Default): Full repayment questionable. Serious problems to the point where partial loss of principal is likely.
(10) Loss	10	Loss (Default): Expected loss. Such an asset may have recovery but not to the point of avoiding loss classification.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

A. Credit risk (continued)

Below table shows the portion of the performing cash loans as per BRSA's scale that is equivalent to the MRA ratings:

31 December 2021

Debtors financial Position	Degree	Portion
Debtor has a solid financial position	1	0%
Debtor has a good financial position	2	37%
Debtor's financial position is at risk within short and medium term	3	54%
Debtor's financial position is at high risk within short term	4	1%
Debtor has been defaulted	5	7%
Debtor has not been rated	6	1%

31 December 2020

Debtors financial Position	Degree	Portion
Debtor has a solid financial position	1	0%
Debtor has a good financial position	2	46%
Debtor's financial position is at risk within short and medium term	3	37%
Debtor's financial position is at high risk within short term	4	2%
Debtor has been defaulted	5	10%
Debtor has not been rated	6	5%

Maximum exposure to credit risk

	2021	2020
Credit risk exposures relating to assets on-statement of financial position:		
Cash and Cash Equivalents	4.690.841	2.479.644
Due from banks	4.052.774	3.099.093
Money market placements	-	310.151
Loans and advances to customers	25.192.738	19.361.351
- Retail (net)	121.752	516.232
- Corporate and Commercial (net)	25.070.986	18.845.119
Financial assets at fair value through profit or loss	3.804.511	2.447.693
- Financial assets held for trading	101.755	198.213
- Derivative financial instruments	3.702.756	2.249.480
Investment securities	11.368.324	8.134.642
- Financial assets at fair value through other comprehensive income	5.731.585	4.820.463
- Financial assets measured at amortized cost	4.307.855	2.260.775
Other assets	5.426.113	2.959.167
Credit risk exposures relating to off-balance sheet items:		
Bank acceptance loans	4.976	9.759
Letters of credit	2.215.994	867.081
Letter of guarantee	4.395.474	2.332.498
Other guarantees	2.066.867	2.176.268
Commitments	4.201.900	4.288.797

The above table represents a worst case scenario of credit risk exposure in the absence of any collateral or credit enhancements.

The main types of collaterals obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, mortgages over real estate properties, cash, guarantee letters, securities, pledges or guarantees
- For retail lending, mortgages over residential properties or pledges on vehicles

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement when necessary.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

A. Credit risk (continued)

Collateral Distribution (*)

31 December 2021	Corporate and Commercial	SME	Retail	Total
Deposit	647.408	60.583	17.192	**725.183**
Mortgage	8.223.941	1.755.900	131.427	**10.111.268**
Assignment of claim	22.052.426	936.285	-	**22.988.711**
Cheque	1.928.585	168.512	-	**2.097.097**
Pledge of vehicle	1.085.353	41.831	921	**1.128.105**
Total	**33.937.713**	**2.963.111**	**149.540**	**37.050.364**

31 December 2020	Corporate and Commercial	SME	Retail	Total
Deposit	680.408	54.827	11.356	**746.591**
Mortgage	7.962.973	2.079.374	218.548	**10.260.895**
Assignment of claim	14.812.365	753.313	-	**15.565.678**
Cheque	954.829	102.530	-	**1.057.359**
Pledge of vehicle	732.235	138.940	2.058	**873.233**
Total	**25.142.810**	**3.128.984**	**231.962**	**28.503.756**

(*) Represents the amounts of the exposures covered by these collaterals.

The details of the loans and advances past due but not impaired which are classified under the performing loans are as follows;

Information on past due but not impaired gross loan and other receivables:

31 December 2021 (*)	Corporate and Commercial	SME	Retail	Total
Not past due and 30 days past due	23.568.930	992.144	299.295	**24.860.369**
30-90 days past due	133.575	136.157	36.367	**306.099**
Other (**)	358.992	54.169	365	**413.526**
Total	**24.061.497**	**1.182.470**	**336.027**	**25.579.994**

31 December 2020 (*)	Corporate and Commercial	SME	Retail	Total
Not past due and 30 days past due	15.836.271	1.477.270	382.086	**17.695.627**
30-90 days past due	24.692	44.024	38.566	**107.282**
Other (**)	1.111.822	21.554	43.196	**1.176.572**
Total	**16.972.785**	**1.542.848**	**463.848**	**18.979.481**

(*) According to the internal segmentation of the bank.
(**) Refers to loans and receivables over 90 days for which operational process for restructuring continuing for significant portion.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

A. Credit risk (continued)

Sectoral risk breakdown of financial instruments

The Bank uses BRSA definitions for the economic sectors in order to be able to make comparisons with the banking sector wide figures. These definitions are also in line with NACE (European Classification of Economic Activities) classifications which are used within the EU. Through the credit policy, the Board of Directors sets the sectoral limits on lending, and these limits can only be altered by a decision from the Board of Directors. Sectoral classification is defined in terms of the borrower's activity area, not based on collaterals.

31 December 2021

	Central Banks and Central Governments	Agriculture	Construction	Financial Institutions	Manufacturing	Wholesale and retail trade	Professional services	Individuals	Total
Cash and balances with central bank	4.690.841	-	-	-	-	-	-	-	4.690.841
Due from banks	-	-	-	4.052.774	-	-	-	-	4.052.774
Derivative financial assets	-	-	-	3.001.121	-	35.772	-	665.863	3.702.756
Financial assets at fair value through profit and loss	924	-	-	100.831	-	-	-	-	101.755
Financial assets at fair value through other comprehensive income	8.207.693	-	-	1.831.747	-	-	-	-	10.039.440
Financial assets measured at amortized cost	1.328.884	-	-	-	-	-	-	-	1.328.884
As of 31 December 2021	**14.228.342**	**-**	**-**	**8.986.473**	**-**	**35.772**	**-**	**665.863**	**23.916.450**

31 December 2020

	Central Banks and Central Governments	Agriculture	Construction	Financial Institutions	Manufacturing	Wholesale and retail trade	Professional services	Individuals	Total
Cash and balances with central bank	2.479.644	-	-	-	-	-	-	-	**2.479.644**
Due from banks	-	-	-	3.099.093	-	-	-	-	**3.099.093**
Derivative financial liabilities	-	-	-	2.114.870	-	15.209	-	119.401	**2.249.480**
Financial assets at fair value through profit and loss	20.925	-	-	177.288	-	-	-	-	**198.213**
Financial assets at fair value through other comprehensive income	5.644.888	-	-	1.436.350	-	-	-	-	**7.081.238**
Financial assets measured at amortized cost	1.053.404	-	-	-	-	-	-	-	**1.053.404**
As of 31 December 2020	**9.198.861**	**-**	**-**	**6.827.601**	**-**	**15.209**	**-**	**119.401**	**16.161.072**

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

A. Credit risk (continued)

The following tables provide a summary of the Bank's Stage 2 loans;

31 December 2021

	Loans under restructuring	Not under the scope of restructuring	Total
Watchlist	6.346.562	2.047.924	8.394.486
Significant Increase in Credit Risk	-	445.720	445.720
Total	**6.346.562**	**2.493.644**	**8.840.206**

Sectoral risk breakdown of cash and non-cash loans of the Bank are as follows;

31 December 2021

	Cash Loans	Non-Cash Loans
Real Estate / Shopping Mall / Commercial Units	6.270.187	387.808
Electric & Gas & Water Resources	2.564.972	51.401
Tourism	3.564.441	82.439
Real Estate Dealing	1.081.676	76.380
Wholesale & Retail	1.407.290	1.502.047
Others in Manufacturing Industry	2.281.886	2.083.700
Finance	1.154.613	761.496
Social Service and Health Services	725.424	106.349
Other Personal Services	791.471	25.765
Metal Industry	1.367.278	382.917
EPC (*)	940.132	399.827
Textile	616.469	750.611
Transportation, Storage & Communication	385.480	262.413
Machinery and Equipment	288.351	68.824
Food and Beverage Industry	633.541	737.996
Mining Industry	313.327	43.300
Education	97.660	100
Farming, Forest and Hunting	75.677	358.843
Fishing	56.494	2.328
Other	414.291	598.767
Public Administration and National Defence	162.078	-
Total	**25.192.738**	**8.683.311**

(*) Engineering, Procurement and Construction

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

A. Credit risk (continued)

31 December 2020

	Cash Loans	Non-Cash Loans
Real Estate / Shopping Mall / Commercial Units	4.269.785	227.162
Tourism	2.285.887	50.333
Electric & Gas & Water Resources	2.075.621	66.241
Others in Manufacturing Industry	2.041.740	1.098.163
Wholesale & Retail	1.713.582	743.089
Finance	950.143	462.166
Metal Industry	854.865	578.483
Real Estate Dealing	748.983	29.339
EPC (*)	752.105	363.466
Other Personal Services	736.151	46.065
Social Service and Health Services	691.032	96.448
Textile	581.826	570.213
Food and Beverage Industry	449.546	446.409
Transportation, Storage & Communication	433.892	224.788
Machinery and Equipment	227.931	41.450
Mining Industry	165.197	50.308
Farming, Forest and Hunting	159.440	260.019
Education	71.594	357
Fishing	52.768	18.731
Public Administration and National Defence	46.713	-
Other	52.550	12.376
Total	**19.361.351**	**5.385.606**

(*) Engineering, Procurement and Construction

Geographical Information

The Bank's geographical information is based on the location of the Bank's assets. Substantially all of the Bank's activities are conducted in Turkey and Turkey is the home country of the Bank, which is also the main operating company. The Bank conduct substantially all of its business activities with local customers in Turkey.

B. Market risk

The Bank has defined market risk management operations and taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" which was published in the Official Gazette on 28 June 2012 numbered 28337 and "Regulation Regarding Banks' Shareholders' Equity".

The Board of Directors determines the limits for the basic risk that the Bank is exposed to. Those limits are revised periodically in line with the market forces and strategies of the Bank. Additionally, the Board of Directors has ensured that the risk management division and senior management has taken necessary precautions to describe, evaluate, control and manage risks faced by the Bank.

Interest rate and exchange rate risks, arising from the volatility in the financial markets are measured, and in the computation of capital adequacy, the amount subject to risk calculated by using the standard is taken into consideration.

The major measurement techniques used to measure and control market risk are outlined below.

(a) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Risk Management, also indicated in the market risk policy of the Bank, include: FX and interest rate stress testing, where stress movements are applied to the FX position and to the banking book. The results of the stress tests are reviewed by ALCO.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

B. Market risk (continued)

i) Currency risk

Currency risk indicates the probability of loss that the Banks is subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Bank are taken into consideration and value at risk is calculated by using the standard method.

The Board of Directors sets limits for the positions and stop losses which are followed up daily and weekly. Any possible changes in the foreign currency transactions in the Bank's positions are also monitored.

The table below summarizes the Bank's assets and liabilities at carrying amounts, categorized by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale foreign currency derivative financial instruments.

31 December 2021

	Foreign currency			
	EUR	**USD**	**Other**	**Total**
Assets				
Cash and Cash Equivalents	851.865	3.119.593	23.876	3.995.334
Due from banks	167.474	3.582.152	104.821	3.854.447
Money market placements	-	-	-	-
Financial assets at fair value through profit and loss	132	19.052	-	19.184
Loans and advances to customers (*)	7.988.548	6.209.981	-	14.198.529
Investment securities				-
- Financial assets at fair value through other comprehensive income	779.679	3.244.410	-	4.024.089
- Financial assets measured at amortized cost	222.706	842.217	-	1.064.923
Other assets	2.946.529	1.744.416	241.015	4.931.960
Total assets	**12.956.933**	**18.761.821**	**369.712**	**32.088.466**
Liabilities				
Deposits	6.555.086	16.821.887	3.867.260	27.244.233
Funds provided from other financial institutions (**)	1.410.748	6.135.260	-	7.546.008
Other liabilities	27.488	227.688	120	255.296
Total liabilities	**7.993.322**	**23.184.835**	**3.867.380**	**35.045.537**
Net balance sheet position (***)	**4.963.611**	**(4.423.014)**	**(3.497.668)**	**(2.957.071)**
Off-balance sheet derivative instruments net notional position	(3.949.693)	1.973.525	3.953.282	1.977.114
Net foreign currency position	**1.013.918**	**(2.449.489)**	**455.614**	**(979.957)**

(*) Foreign currency indexed loans amounting to TL 51.452 are included in the loan portfolio. Expected loss provisions are not considered.
(**) Subordinated liabilities and Money market balances are included.
(***) Mark to market on Derivative financial assets / liabilities have not been included in the net balance sheet position.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

B. Market risk (continued)

31 December 2020

	Foreign currency			
	EUR	USD	Other	Total
Assets				
Cash and Cash Equivalents	427.660	1.763.749	11.034	2.202.443
Due from banks	152.953	2.428.402	178.179	2.759.534
Money market placements	-	-	-	-
Financial assets at fair value through profit and loss	1.116	29.931	-	31.047
Loans and advances to customers (*)	5.387.015	4.035.706	-	9.422.721
Investment securities				-
- Financial assets at fair value through other comprehensive income	347.107	2.144.471	-	2.491.578
- Financial assets measured at amortized cost	362.788	499.740	-	862.528
Other assets	1.536.104	801.595	161.712	2.499.411
Total assets	**8.214.743**	**11.703.594**	**350.925**	**20.269.262**
Liabilities				
Deposits	4.680.387	10.545.501	1.857.123	17.083.011
Funds provided from other financial institutions (**)	1.035.472	4.006.327	-	5.041.799
Other liabilities	5.793	135.134	128	141.055
Total liabilities	**5.721.652**	**14.686.962**	**1.857.251**	**22.265.865**
Net balance sheet position (***)	**2.493.091**	**(2.983.368)**	**(1.506.326)**	**(1.996.603)**
Off-balance sheet derivative instruments net notional position	(2.322.666)	3.587.527	1.470.316	2.735.177
Net foreign currency position	**170.425**	**604.159**	**(36.010)**	**738.574**

(*) Foreign currency indexed loans amounting to TL 79.143 are included in the loan portfolio. Expected loss provisions are not considered.
(**) Subordinated liabilities and Money market balances are included.
(***) Mark to market on Derivative financial assets / liabilities have not been included in the net balance sheet position.

At 31 December 2021, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 13,4901= USD 1, and TL 15,3123= EUR 1.
For the purpose of calculating currency risks, foreign currency indexed loans and securities have been reported in this table in the relevant currency of indexation.

Currency risk sensitivity:

The Bank holds EUR (Euro) and USD (US Dollars) currencies as a result of foreign currency transactions and manages it by using miscellaneous financial instruments.

As of 31 December 2021, the Bank's net foreign exchange exposure as per internal calculation is presented below:

31 December 2021	EURO	USD	OTHER FC	TOTAL
Net currency position including on-balance sheet and off-balance sheet	3.435	(57.497)	(124.889)	(178.951)

31 December 2020	EURO	USD	OTHER FC	TOTAL
Net currency position including on-balance sheet and off-balance sheet	(25.153)	(86.450)	58.714	(52.889)

The internal currency risk calculation includes derivative financial assets / liabilities, securities valuation differences and similar positions which are not included in the FCNGP Regulation of the BRSA and options are taken into account with their delta equivalents for internal currency risk management purposes.
The maximum and minimum positions presented in Other FC column of internal foreign exchange exposure calculation are TL 72.770 and TL (198.361) respectively (31 December 2020: TL 56.937 and TL (62)).
The table below represents the sensitivity of the Bank to 10% change of currency exchange rates (USD and EUR). 10% change is the assumption of parity change that may be faced in a possible fluctuation used in the Bank’s stress test scenarios.

	Change in currency rate in %	Effect on profit or loss (*)		Effect on equity (*)	
		31 December 2021	31 December 2020	31 December 2021	31 December 2020
USD	10%	(5.750)	(8.645)	(5.750)	(8.645)
USD	(10)%	5.750	8.645	5.750	8.645
EUR	10%	344	(2.515)	344	(2.515)
EUR	(10)%	(344)	2.515	(344)	2.515

(*) Excluding tax effect.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

B. Market risk (continued)

ii) Interest rate risk

Interest rate risk shows the probability of loss related to the changes in interest rates depending on the Bank's position, and it is managed by the Asset-Liability Committee. The interest rate sensitivity of assets, liabilities and off-balance sheet items related to this risk are measured by using the standard method and included in the market risk for capital adequacy.

Risk Management Group performs duration, maturity and sensitivity analysis to protect the effect of interest rate volatility and reported to the Asset-Liability Committee.

Simulations on interest income are performed in connection with the forecasted economic indicators used in the budget of the Bank. The negative effects of the fluctuations in the market interest rates on the financial position and the cash flows are minimized by revising budgeted targets.

The Bank management follows the market interest rates daily and revises the interest rates of the Bank whenever necessary.

Since the Bank monitors maturity mismatches very closely a significant interest rate risk exposure is not expected.

The table below summarizes the Bank's exposure to interest rate risk at 31 December 2021. Included in the table are the Bank's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

31 December 2021	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and Cash Equivalents	1.232.412	-	-	-	3.458.429	4.690.841
Due from banks	148.391	-	-	-	3.904.383	4.052.774
Financial assets at fair value through profit or loss	100.940	27	364	424	-	101.755
Money market placements	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	727.452	1.918.110	5.675.018	1.713.605	5.255	10.039.440
Loans and advances to customers	10.111.589	4.341.269	5.910.594	5.216.542	(387.256)	25.192.738
Financial assets measured at amortized cost	68.129	415.299	591.965	259.647	(6.156)	1.328.884
Other assets(*)	1.286.680	831.303	154.385	1.430.388	6.308.197	10.010.953
Total assets	**13.675.593**	**7.506.008**	**12.332.326**	**8.620.606**	**13.282.852**	**55.417.385**
Liabilities						
Customer deposits	29.016.619	965.113	55.197	-	8.019.892	38.056.821
Debt securities issued	-	-	-	-	-	-
Subordinated Liabilities	-	-	-	3.833.893	(8.675)	3.825.218
Due to banks and money market balances	2.574.313	283.732	1.424.864	-	1.848.623	6.131.532
Other liabilities (**)	521.520	304.678	466.656	1.435.896	4.675.064	7.403.814
Total liabilities and equity	**32.112.452**	**1.553.523**	**1.946.717**	**5.269.789**	**14.534.904**	**55.417.385**
Net interest repricing gap	**(18.436.859)**	**5.952.485**	**10.385.609**	**3.350.817**	**(1.252.052)**	**-**
Off-balance sheet derivative instruments long position	57.862.067	7.412.368	503.327	13.490.144	-	79.267.906
Off-balance sheet derivative Instruments short position	(25.100.034)	(10.989.296)	-2.867.262	(41.144.937)	-	(80.101.529)

(*) Other assets includes tangible assets, intangible assets, deferred tax, held for sale assets and other assets.
(**) Other liabilities includes derivative financial liabilities, employee benefits, taxes, provisions, equity and other liabilities.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

B. Market risk (continued)

31 December 2020	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and Cash Equivalents	364.565	-	-	-	2.115.079	2.479.644
Due from banks	150.071	-	-	-	2.949.022	3.099.093
Financial assets at fair value through profit or loss	172.927	4.402	11.470	9.414	-	198.213
Money market placements	310.151	-	-	-	-	310.151
Financial assets at fair value through other comprehensive income	786.966	1.128.397	4.320.894	839.871	5.110	7.081.238
Loans and advances to customers	3.915.905	4.614.976	6.939.900	3.508.700	381.870	19.361.351
Financial assets measured at amortized cost	37.651	229.426	573.661	218.125	(5.459)	1.053.404
Other assets (*)	465.041	164.663	308.979	1.310.797	4.145.440	6.394.920
Total assets	**6.203.277**	**6.141.864**	**12.154.904**	**5.886.907**	**9.591.062**	**39.978.014**
Liabilities						
Customer deposits	19.864.747	998.429	4.902	-	3.946.010	24.814.088
Debt securities issued	499.205	63.841	-	-	(10.307)	552.739
Subordinated Liabilities	-	-	-	2.109.077	-	2.109.077
Due to banks and money market balances	3.730.547	347.003	743.784	315.344	1.025.070	6.161.748
Other liabilities (**)	371.973	198.264	304.643	1.311.626	4.153.856	6.340.362
Total liabilities and equity	**24.466.472**	**1.607.537**	**1.053.329**	**3.736.047**	**9.114.629**	**39.978.014**
Net interest repricing gap	**(18.263.195)**	**4.534.327**	**11.101.575**	**2.150.860**	**476.433**	**-**
Off-balance sheet derivative instruments long position	12.735.678	8.450.212	4.342.097	16.149.036	-	41.677.023
Off-balance sheet derivative Instruments short position	(12.559.233)	(8.381.042)	(4.336.426)	(16.149.036)	-	(41.425.737)

(*) Other assets includes tangible assets, intangible assets, deferred tax, held for sale assets and other assets.
(**) Other liabilities includes derivative financial liabilities, employee benefits, taxes, provisions,equity and other liabilities.

The interest rate risk for all on-balance sheet and off-balance sheet items, which are interest sensitive, and for banking accounts has been calculated. In calculation of interest rate risk, the bank has no any assumptions for early repayment of loans and demand deposits. Interest rate risk arising from banking accounts is calculated and is reported to BRSA monthly.

Economic value differences resulted from interest rate instabilities calculated according to Regulation on Measurement and Evolution of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method.

Below table summarizes the economic value differences resulting from interest rate volatility calculated according to the Regulation on Measurement and Evolution of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method of BRSA.

31 December 2021:

Unit of Currency	Applicable Shock (+ / -) (base point)	Profit/ Loss	Profit / Equity Capital – Loss / Equity Capital
TL	500	(315.432)	-3,97%
	-400	295.894	3,73%
EUR	200	(485.082)	-6,11%
	-200	26.127	0,33%
USD	200	43.203	0,54%
	-200	(44.975)	-0,57%
Total (For Positive Shock)		**(757.311)**	**-9,54%**
Total (For Negative Shock)		**277.046**	**3,49%**

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

B. Market risk (continued)

31 December 2020:

Unit of Currency	Applicable Shock (+ / -) (base point)	Profit/ Loss	Profit / Regulatory Equity Capital – Loss / Regulatory Equity Capital
TL	500	(344.119)	(5,76)%
	-400	317.035	5,30%
EUR	200	(149.073)	(2,49)%
	-200	(30.113)	(0,50)%
USD	200	(153.532)	(2,57)%
	-200	47.086	0,79%
Total (For Positive Shock)	**-**	**(646.724)**	**(10,82)%**
Total (For Negative Shock)	**-**	**334.008**	**5,59%**

The tables below summarises weighted average interest rates for financial instruments by major currencies outstanding at 31 December 2021 and 31 December 2020 based on yearly contractual rates.

	31 December 2021		
	EUR (%)	**USD (%)**	**TL (%)**
Assets			
Cash and Cash Equivalents	-	-	8,50
Due from banks	-	0,08	-
Financial assets at fair value through profit and loss	5,64	7,42	23,70
Money market placements	-	-	-
Financial assets at fair value through other comprehensive income	4,23	4,49	24,16
Loans and advances to customers	4,45	6,21	17,80
Financial assets measured at amortized cost	4,50	6,62	14,16
Liabilities			
Bank deposits	-	-	14,38
Customer deposits	0,47	0,99	16,23
Due to banks and money market balances	-	1,82	13,99
Subordinated liabilities	-	7,63	-
Debt securities issued	1,60	4,52	-

	31 December 2020		
	EUR (%)	**USD (%)**	**TL (%)**
Assets			
Cash and Cash Equivalents	-	-	10,64
Due from banks	-	1,30	16,98
Financial assets at fair value through profit and loss	2,85	5,08	17,38
Money market placements	-	-	17,84
Financial assets at fair value through other comprehensive income	4,00	3,92	16,80
Loans and advances to customers	5,14	6,92	13,71
Financial assets measured at amortized cost	2,82	6,52	8,99
Liabilities			
Bank deposits	-	-	-
Customer deposits	1,65	2,48	14,83
Due to banks and money market balances	-	2,84	16,98
Subordinated liabilities	-	7,63	-
Debt securities issued	-	-	9,61

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

C. Liquidity risk

Liquidity risk occurs when there is insufficient cash or cash inflows to meet the cash outflows completely and timely.

Liquidity risk may also occur when the market penetration is not adequate, when the open positions cannot be closed quickly at suitable prices and sufficient amounts due to barriers and break-ups at the markets.

The Bank's policy is to establish an asset structure that can meet all kinds of liabilities by liquid sources at all times. In order to maintain this, the Board of Directors of the Bank continuously determines standards for the liquidity ratios and monitors them.

According to the general policies of the Bank, the maturity and interest rate structure of assets, and liabilities is always monitored. A positive difference is tried to be established between the yields of assets and liabilities on the statement of financial position and their costs. In this sense, various crisis scenarios which are prepared by Risk Management Group are presented to Senior Management and Audit Committee.

The calculation method used to measure the banks compliance with the liquidity limit is set by Banking Regulatory and Supervision Agency ("BRSA"). In November 2006, BRSA issued a new communique on the measurement of liquidity adequacy of the banks. The Bank's liquidity ratios in 2021 and 2020 are as follows:

	Current Year-31.12.2021		Prior Year-31.12.2020	
	TL+FC	FC	TL+FC	FC
Lowest	241,65	264,16	145,68	140,19
Week	03.12.2021	31.12.2021	01.01.2021	06.11.2020
Highest	392,84	631,82	225,51	294,45
Week	19.11.2021	24.12.2021	20.11.2020	27.11.2020
Average	310,03	399,97	179,06	194,03

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

C. Liquidity risk (continued)

When the funding and liquidity sources are considered, the Bank covers majority of its liquidity need by diversified and steady base deposits and in addition to this source, it makes use of pre-financing and other institutional funding and borrowings syndication products to generate additional sources.

The following table presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, which include interest to be paid at maturity, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

31 December 2021

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits	8.019.892	28.351.856	1.859.684	81.060	-	38.312.492
Debt securities issued	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	6.592.097	6.592.097
Due to banks and money market balances	10.856	2.872.575	1.705.153	-	2.001.847	6.590.431
Total liabilities	**8.030.748**	**31.224.431**	**3.564.837**	**81.060**	**8.593.944**	**51.495.020**

(*) Undiscounted maturities of deposits represent the contractual maturities whereas such balances have demand nature due to their callable status until maturities.

31 December 2020

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits	3.946.010	20.208.238	1.043.445	5.765	-	25.203.458
Debt securities issued	-	443.091	83.944	70.201	-	597.236
Subordinated liabilities	-	-	-	-	3.626.470	3.626.470
Due to banks and money market balances	641.592	4.114.455	15.935	1.212.969	399.320	6.384.271
Total liabilities	**4.587.602**	**24.765.784**	**1.143.324**	**1.288.935**	**4.025.790**	**35.811.435**

(*) Undiscounted maturities of deposits represent the contractual maturities whereas such balances have demand nature due to their callable status until maturities.

Analysis of contractual expiry by maturity of the Bank's derivative financial instruments:

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
As of 31 December 2021						
Gross settled						
Purchase of foreign exchange forward contracts	1.722.709	1.482.176	1.179.148	234.796	-	4.618.829
Sale of foreign exchange forward contracts	(1.786.542)	(1.510.463)	(1.157.988)	(240.020)	-	(4.695.013)
Purchase of currency swaps	15.179.774	1.693.095	979.430	647.655	-	18.499.954
Sale of currency swaps	(14.609.149)	(1.647.648)	(843.754)	(744.415)	-	(17.844.966)
Purchase of interest rate swap agreement	234.900	269.801	4.333.590	2.497.072	27.654.793	34.990.156
Sale of interest rate swap agreement	(234.900)	(269.801)	(4.333.590)	(2.497.072)	(27.654.793)	(34.990.156)
Purchase of foreign currency sell and buy options	1.658.582	3.031.262	3.593.856	-	-	8.283.700
Sale of foreign currency sell and buy options	(1.642.677)	(2.107.816)	(4.715.880)	-	-	(8.466.373)
Purchase of interest rate sell and buy options	-	-	-	-	13.490.144	13.490.144
Sale of interest rate sell and buy options	-	-	-	-	(13.490.144)	(13.490.144)
Total	**522.697**	**940.606**	**(965.188)**	**(101.984)**	**-**	**396.131**

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

C. Liquidity risk (continued)

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
As of 31 December 2020						
Gross settled						
Purchase of foreign exchange forward contracts	977.529	624.098	357.128	198	-	1.958.953
Sale of foreign exchange forward contracts	(951.310)	(607.661)	(344.784)	(156)	-	(1.903.911)
Purchase of currency swaps	10.286.842	1.302.854	477.077	843.772	-	12.910.545
Sale of currency swaps	(10.362.763)	(1.166.847)	(579.739)	(838.101)	-	(12.947.450)
Purchase of interest rate swap agreement	-	615.143	4.095.466	3.420.066	15.332.570	23.463.245
Sale of interest rate swap agreement	-	(615.143)	(4.095.466)	(3.420.066)	(15.332.570)	(23.463.245)
Purchase of foreign currency sell and buy options	1.655.695	733.937	482.063	5.462	-	2.877.157
Sale of foreign currency sell and buy options	(2.212.026)	(903.398)	(726.216)	(6.166)	-	(3.847.806)
Purchase of interest rate sell and buy options	-	-	169.398	-	7.421.242	7.590.640
Sale of interest rate sell and buy options	-	-	(169.398)	-	(7.421.242)	(7.590.640)
Total	**(606.033)**	**(17.017)**	**(334.471)**	**5.009**	**-**	**(952.512)**

D. Operational risk

Operational risk is defined as the risk of losses due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. Legal and compliance risk is a sub-category of operational risk: it is the risk to negatively impact the earnings from violations or noncompliance with laws, rules, regulations, agreements, prescribed practices or ethical standards. Operational Risk Management department ("ORM") monitors the Bank's operational risk exposure in accordance to standards and policies, collects operational risk data in a web-based database, performs the risk indicators' identification, the scenario analysis assessment, Business Continuity Management and assures the quality of data gathered in accordance to Basel II standards, proposes insurance hedging on operational risks and prepares risk mitigation plans. ORM performs second level controls, manages and measures the Bank's operational risks.

For regulatory purposes and consideration in statutory capital adequacy ratio, the Bank calculates the amount subject to operational risk with the basic indicator method in accordance with Section 4 of the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No. 28337 dated 28 June 2012.

The value at operational risk is calculated according to the basic indicator approach of "Regulation regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette No. 28337 dated 28 June 2012.

	2 PY Amount	1 PY Amount	CY Amount	Total / Total number of years for which gross income is positive	Rate (%)	Total
Gross income	1.319.634	1.345.000	1.203.049	1.289.228	15	193.384
The amount subject to operational risk (Total*12,5)						2.417.300

E. Capital management

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank; BRSA requires the banks to maintain a prescribed ratio of minimum 8% with a guidance of 12% of total capital to total risk-weighted assets.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

E. Capital management (continued)

The Bank's regulatory capital is analysed into two tiers:

Tier 1 capital, capital is composed of the total amount of paid up capital, legal, voluntary and extra reserves, profits for the period after tax provisions and profits for previous years. The total amount of banks' losses for the period and losses for previous years is taken into account as a deduction item, in the calculation of Tier 1 capital.

Tier 2 capital, is composed of the total amount of general provisions for credits, fixed assets revaluation fund, revaluation of financial assets measured at fair value through other comprehensive income and equity investments, subordinated loans received, free reserves set aside for contingencies and the fund for increase in the value of securities.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

The Bank's regulatory capital adequacy position at 31 December 2021 and 2020 are as follows:

	31 December 2021	31 December 2020
Capital Requirement for Credit Risk (Value at Credit Risk*0.08) (CRCR)	2.184.150	2.111.972
Capital requirement for market risk (II) (Value at Market Risk*0.08) (MRCR)	96.103	88.784
Capital requirement for operational risk (III) (ORCR)	193.384	211.509
Shareholders' Equity	7.936.802	5.976.985
Shareholders' Equity/((CRCR+MRCR+ORCR) * 12,5) * 100 %	**25,67**	**19,82**

As of 31 December 2021 in accordance with BRSA's decision dated December 8, 2020 and numbered 9312 and dated September 16 2021 and numbered 9795, the amount subject to credit risk in capital adequacy calculations calculated by taking into account the simple arithmetic average of the Central Bank foreign exchange buying rates for the last 252 business days before the calculation date. Additionally, negative revaluation differences of the securities classified under "Financial Assets Measured at Fair Value through Other Comprehensive Income" which acquired before 21 December 2021 has not been included in capital calculation. Had the Bank not applied these regulations, the equity amount as of 31 December 2021 would be calculated as TL 7.663.009 and the capital adequacy standard ratio would be calculated as 20,58 %.

F. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (ie an exit price). The estimated fair values of financial instruments have been determined by the Bank using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a current market exchange.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair values at 31 December 2021 and 2020:

	31 December 2021		31 December 2020	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:	**40.613.836**	**36.450.633**	**30.905.237**	**30.466.663**
Due from banks and money market placements	4.052.774	4.052.774	3.409.244	3.409.244
Loans and advances to customers	25.192.738	21.090.439	19.361.351	18.894.824
Financial assets at fair value through other comprehensive income	10.039.440	10.039.440	7.081.238	7.081.238
Financial assets measured at amortized cost	1.328.884	1.267.980	1.053.404	1.081.357
Financial liabilities:	**48.022.246**	**47.564.172**	**33.637.652**	**32.952.638**
Deposits	38.056.821	38.059.987	24.814.088	24.817.284
Debt securities issued, subordinated liabilities and due to banks	9.956.750	9.504.185	8.823.564	8.135.354

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

F. Fair value of financial instruments (continued)

Determination of fair value and fair value hierarchy:

Fair values of remaining financial assets and liabilities carried at cost, including cash and cash equivalents, reserve deposits at Central Bank, current account of loan customers and funds borrowed are considered to approximate their respective carrying values due to their short-term nature.

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

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

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments using valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

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

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Assets and liabilities measured at fair value

31 December 2021	Level 1	Level 2	Level 3(*)	Total
Financial Assets	**10.116.957**	**3.721.739**	**5.255**	**13.843.951**
Financial Assets at Fair Value through Profit and Loss	82.772	18.983	-	101.755
Financial Assets at Fair Value through Other Comprehensive Income	10.034.185	-	5.255	10.039.440
Derivative Financial Assets at Fair Value through Profit and Loss	-	3.702.756	-	3.702.756
Derivative Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	-
Financial Liabilities	**-**	**2.728.749**	**-**	**2.728.749**
Derivative Financial Liabilities at Fair Value Through Profit and Loss	-	2.728.749	-	2.728.749
Derivative Financial Liabilities at Fair Value Through Other Comprehensive Income	-	-	-	-

(*)The Bank has 3rd level financial assets amounting to TL 5.255 (31 December 2020: TL 5.110). The exchange increase in current period is amounting to TL 145.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Financial risk management (continued)

F. Fair value of financial instruments (continued)

31 December 2020	Level 1	Level 2	Level 3	Total
Financial Assets	7.263.540	2.260.281	5.110	9.528.931
Financial Liabilities	-	2.186.716	-	2.186.716

6. Cash and Cash Equivalents

Cash and Cash Equivalents:

	31 December 2021	31 December 2020
TL	695.507	277.201
Foreign currency	3.995.334	2.202.443
Total	**4.690.841**	**2.479.644**

Cash and cash equivalents for the purpose of presentation in the statement of cash flows

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition:

Beginning of the period	Current Period	Prior Period
Cash	**2.478.711**	**1.790.375**
Cash in TL/foreign currency	284.213	192.338
Central Bank of Republic of Turkey	2.194.498	1.598.037
Cash equivalents	**1.535.148**	**4.619.150**
Receivables from banks and other financial institutions	1.225.148	2.559.150
Receivables from money market placements	310.000	2.060.000
Total cash and cash equivalents	**4.013.859**	**6.409.525**

End of the period	Current Period	Prior Period
Cash	**4.679.039**	**2.478.711**
Cash in TL/foreign currency	1.138.673	284.213
Central Bank of Republic of Turkey	3.540.366	2.194.498
Cash equivalents	**2.290.538**	**1.535.148**
Receivables from banks and other financial institutions	2.290.538	1.225.148
Receivables from money market placements	-	310.000
Total cash and cash equivalents	**6.969.577**	**4.013.859**

(Amounts expressed in thousands of TL unless otherwise indicated.)

6. Cash and Cash Equivalents (continued)

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.

The required reserve rates for TL liabilities vary between 3 % and 8% for TL deposits and other liabilities according to their maturities as of 31 December 2021 (31 December 2020: 1 % and 6% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 5% and 26% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2021 (31 December 2020: 5% and 22% for all foreign currency liabilities). With the Communiqué numbered 2019/15, and dated August 9, 2019, the application of required reserve ratios differentiated according to loan growth was abolished on 11 December 2020. 8,5% interest rate is applied by the CBRT for Required Reserves in Turkish Lira. No interest is paid for required reserves kept in USD by the CBRT since 19 September 2019.

Within the scope of the Communiqué No. 2021/14 on Supporting the Conversion of Turkish Lira Deposit and Participation Accounts, the conversion rate from foreign currency deposit accounts in US dollars, Euros and British Pounds and participation fund accounts in foreign currency to time deposits and participation funds in Turkish lira as of the obligation date of 15/4/2022 It has been decided not to apply an annual commission of 1,5% to the banks that have reached the 10% level and the 20% level as of the 8/7/2022 obligation date, up to the amount to be kept for their liabilities until the end of 2022.

7. Due from banks and money market balances

			31 December 2021
	Domestic	**Foreign**	**Total**
TL:			
Nostro/ demand deposits	198.222	-	**198.222**
Time deposits	105	-	**105**
Interbank money market and reverse repo	-	-	**-**
	198.327	**-**	**198.327**
Foreign currency:			
Nostro/ demand deposits (*)	82.417	3.772.030	**3.854.447**
Time deposits	-	-	**-**
	82.417	**3.772.030**	**3.854.447**
Total (**)	**280.744**	**3.772.030**	**4.052.774**

(*) As of 31 December 2021, nostro/ demand deposits include collaterals amounting to TL 1.559.575 given to the foreign banks for the derivative transactions.

(**) Expected credit loss amounting to TL 81 recognized for due from banks and financial institutions as of 31 December 2021.

			31 December 2020
	Domestic	**Foreign**	**Total**
TL:			
Nostro/ demand deposits	189.399	-	**189.399**
Time deposits	150.160	-	**150.160**
Interbank money market and reverse repo	310.151	-	**310.151**
Total	**649.710**	**-**	**649.710**
Foreign currency:			
Demand deposits (*)	37.815	2.721.719	**2.759.534**
Time deposits	-	-	-
Total	**37.815**	**2.721.719**	**2.759.534**
Total (**)	**687.525**	**2.721.719**	**3.409.244**

(*) As of 31 December 2020, nostro/ demand deposits include collaterals amounting to TL 1.873.930 given to the foreign banks for the derivative transactions.

(**) Expected credit loss amounting to TL 55 recognized for due from banks and financial institutions as of 31 December 2020.

(Amounts expressed in thousands of TL unless otherwise indicated.)

8. Financial assets at fair value though profit or loss

	31 December 2021	31 December 2020
Derivative financial instruments	3.702.756	2.249.480
Financial assets at fair value through profit or loss	101.755	198.213
Total financial assets at fair value through profit or loss	**3.804.511**	**2.447.693**

9. Derivative financial instruments

The Bank utilizes the following derivative instruments with the general purpose of minimising market risk carried by balance sheet instruments and/or meeting customer demand:

"Currency forwards" represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions. Forwards are customized contracts transacted in over-the-counter (OTC) market. The Bank has credit exposure to the counterparties of forward contracts.

"Currency and interest rate swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of the principal as well. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value and the liquidity of the market.

"Options" are contractual agreements that convey the right to the buyer and the obligations to the writer to buy or sell an asset at a specified price either at a fixed future date or at any time within a specified period. Major part of the Bank's option book activity stems from the clients' needs; therefore, to meet the client demands Bank actively runs an option book on the residual open positions which are not fully covered.

31 December 2021

	Contract/ notional amount (aggregate of buy and sell)	Fair values assets	Fair values liabilities
Derivative financial instruments			
Foreign exchange derivatives:			
Currency forwards	9.313.842	132.977	280.492
Currency swaps	36.344.920	1.493.987	788.818
Currency options	16.750.073	423.818	165.780
Total foreign exchange derivatives	**62.408.835**	**2.050.782**	**1.235.090**
Interest rate derivatives:			
Interest rate swaps	67.730.312	1.384.535	1.318.656
Options	26.980.288	175.003	175.003
Total interest rate derivatives	**94.710.600**	**1.559.538**	**1.493.659**
Total derivative financial instruments	**157.119.435**	**3.610.320**	**2.728.749**
Derivatives for cash flow hedge			
Interest rate swaps	2.250.000	92.436	-
Total derivatives for hedge accounting	**2.250.000**	**92.436**	**-**
Total	**159.369.435**	**3.702.756**	**2.728.749**

(Amounts expressed in thousands of TL unless otherwise indicated.)

9. Derivative financial instruments (continued)

31 December 2020

	Contract/ notional amount (aggregate of buy and sell)	Fair values assets	Fair values liabilities
Derivative financial instruments			
Foreign exchange derivatives:			
Currency forwards	3.862.864	67.601	34.494
Currency swaps	25.876.554	632.854	637.044
Currency options	6.706.404	22.256	36.310
Total foreign exchange derivatives	36.445.822	722.711	707.848
Interest rate derivatives:			
Interest rate swaps	46.926.490	1.335.552	1.287.651
Options	15.181.280	191.217	191.217
Total interest rate derivatives	62.107.770	1.526.769	1.478.868
Total derivative financial instruments	**98.553.592**	**2.249.480**	**2.186.716**
***Derivatives for* cash flow hedge**			
Interest rate swaps	-	-	-
Total derivatives for hedge accounting	**-**	**-**	**-**
Total	**98.553.592**	**2.249.480**	**2.186.716**

As of 31 December 2021, The Bank applies cash flow hedge accounting using interest swap transactions to hedge its TL customer deposits partially amounting to 1.125.000 TL with short term cyclical basis (31 December 2020: None).

Within the scope of cash flow hedge accounting, the amount on balance sheet under “Derivative financial assets at fair value through other comprehensive income” is TL 92.436, the effective portion of the change in the fair value of the hedging instrument which is accounted for in the equity under “Other accumulated comprehensive income that will be reclassified in profit or loss” after tax is amounting to TL 23.938 and the ineffective portion of derivative financial liabilities accounted under “Profit/losses from derivative financial transactions” within the income statement is nil.

(Amounts expressed in thousands of TL unless otherwise indicated.)

10. Loans and advances to customers

31 December 2021	**Commercial**	**Retail**	**Total**
Standard Loans (*)	16.447.515	292.273	**16.739.788**
Watchlist (*)	8.350.732	43.754	**8.394.486**
Significant Increase in Credit Risk(*)	445.720	-	**445.720**
Non-performing Loans	1.867.157	121.971	**1.989.128**
Expected credit losses (-) (Stage 3)	(869.302)	(65.008)	**(934.310)**
Total	**26.241.822**	**392.990**	**26.634.812**

(*) Represents gross amounts.

31 December 2020	**Commercial**	**Retail**	**Total**
Standard Loans (*)	12.121.279	377.680	**12.498.959**
Watchlist (*)	5.054.517	86.168	**5.140.685**
Significant Increase in Credit Risk (*)	1.339.837	-	**1.339.837**
Non-performing Loans	2.157.785	122.698	**2.280.483**
Expected credit losses (-) (Stage 3)	(857.564)	(68.904)	**(926.468)**
Total	**19.815.854**	**517.642**	**20.333.496**

(*) Represents gross amounts.

(Amounts expressed in thousands of TL unless otherwise indicated.)

10. Loans and advances to customers (continued)

Loans and advances to the public sector and private sector are as follows:

	31 December 2021	31 December 2020
Public sector	162.078	46.713
Private sector	25.030.660	19.314.638
Total	**25.192.738**	**19.361.351**

The movement of total non-performing loans (Stage 3):

	Balance 31 December 2020	Transfers to non-performing loans	Collections	Sales	Balance 31 December 2021
Retail	122.698	147.942	(148.669)	-	121.971
Commercial	2.157.785	111.213	(369.656)	(32.185)	1.867.157
Total	**2.280.483**	**259.155**	**(518.325)**	**(32.185)**	**1.989.128**

Movements in the expected credit losses are as follows:

	Stage 1	Stage 2	Stage 3	Total
Beginning Balance (1 January 2021)	**92.773**	**839.561**	**926.468**	**1.858.802**
Additions	117.943	794.665	395.558	1.308.166
Disposals (-)	(106.921)	(287.157)	(389.840)	(783.918)
Sales (-)	-	-	-	-
Write-offs (-)	-	-	(32.185)	(32.185)
Transfers to Stage 1	17.932	(17.932)	-	-
Transfers to Stage 2	(2.315)	2.315	-	-
Transfers to Stage 3	(92)	(34.217)	34.309	-
Balance at the end of the period	**119.320**	**1.297.235**	**934.310**	**2.350.865**

	Stage 1	Stage 2	Stage 3	Total
Beginning Balance (1 January 2020)	**81.785**	**653.824**	**1.465.137**	**2.200.746**
Additions	98.827	773.224	394.033	1.266.084
Disposals (-)	(102.305)	(332.277)	(461.140)	(895.722)
Sales (-)	-	(100.805)	-	(100.805)
Write-offs (-)	-	-	(611.501)	(611.501)
Transfers to Stage 1	30.896	(30.896)	-	-
Transfers to Stage 2	(16.413)	16.413	-	-
Transfers to Stage 3	(17)	(139.922)	139.939	-
Balance at the end of the period	**92.773**	**839.561**	**926.468**	**1.858.802**

(Amounts expressed in thousands of TL unless otherwise indicated.)

11. Investment securities

Financial assets at fair value through other comprehensive income

	31 December 2021	31 December 2020
Debt securities - at fair value:		
Turkish Government bonds and treasury bills	10.034.185	7.076.128
Lebanese Government Eurobonds and treasury bills	-	-
Share Certificates	5.255	5.110
Equity securities - at fair value	-	-
Listed	-	-
Unlisted	-	-
Total securities	**10.039.440**	**7.081.238**

As of 31 December 2021 financial assets at fair value through other comprehensive income pledged as collateral and also subject to repurchase agreement amount to TL 1.857.808 (31 December 2020: TL 3.345.438).

The movement in financial assets at fair value through other comprehensive securities at during the years is as follows:

	31 December 2021	31 December 2020
At January 1	**7.081.238**	**1.147.310**
Additions	3.757.908	6.393.597
Disposals / redemption	(2.963.813)	(1.208.346)
Interest accruals and changes in fair value	82.031	267.313
Foreign currency differences and realized gain or loss	2.082.076	481.364
Transfers, net	-	-
At December 31	**10.039.440**	**7.081.238**

Financial assets measured at amortized cost

	31 December 2021	31 December 2020
Debt securities - at amortized cost - listed:		
Turkish Government Eurobonds and treasury bills	1.256.875	1.053.404
Foreign government bonds	72.009	-
Total securities	**1.328.884**	**1.053.404**

As of 31 December 2021 financial assets measured at amortized cost pledged as collateral and also subject to repurchase agreement amounting TL 616.352 (31 December 2020: TL 495.999).

(Amounts expressed in thousands of TL unless otherwise indicated.)

11. Investment securities (continued)

Financial assets measured at amortized cost (continued)

Movement in the expected credit losses for financial assets measured at amortized cost:

	Stage 1	Stage 2	Stage 3	Total
Beginning Balance (1 January 2021)	**5.459**	**-**	**-**	**5.459**
Additions	6.069	-	-	6.069
Disposals (-)	(5.372)	-	-	(5.372)
Write-offs (-)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Balance at the end of the period	**6.156**	**-**	**-**	**6.156**

	Stage 1	Stage 2	Stage 3	Total
Beginning Balance (1 January 2020)	**40.927**	**-**	**-**	**40.927**
Additions	7.372	-	-	7.372
Disposals (-)	(42.840)	-	-	(42.840)
Write-offs (-)	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Balance at the end of the period	**5.459**	**-**	**-**	**5.459**

The movement in financial assets measured at amortized cost during the years is as follows:

	31 December 2021	31 December 2020
At 1 January 2020	**1.053.404**	**2.311.700**
Additions	71.232	30.193
Redemptions	(314.667)	(1.162.948)
Transfers	-	-
Foreign currency differences	525.071	(120.082)
Expected Credit Loss	(6.156)	(5.459)
At 31 December 2021	**1.328.884**	**1.053.404**

(Amounts expressed in thousands of TL unless otherwise indicated.)

12. Tangible assets

	31 December 2021	31 December 2020
Cost	486.217	457.191
Accumulated depreciation and impairment (-)	304.427	268.155
Net book amount	**181.790**	**189.036**

	Closing Balance December 31, 2020	Additions	Disposals	Other	Change in estimate	Ending Balance December 31, 2021
Cost:						
Land and buildings	9.174	-	-	-	-	9.174
Leased tangible assets	163.077	14.124	-	-	-	177.201
Vehicles	-	-	-	-	-	-
Other	284.940	27.111	(12.209)	-	-	299.842
Total Cost	**457.191**	**41.235**	**(12.209)**	**-**	**-**	**486.217**

	Closing Balance December 31, 2020	Additions	Disposals	Other	Change in estimate	Ending Balance December 31, 2021
Accumulated Depreciation:						
Land and buildings	1.498	183	-	-	-	1.681
Leased tangible assets	62.404	33.359	(13.829)	-	-	81.934
Vehicles	-	-	-	-	-	-
Other	204.253	28.197	(11.638)	-	-	220.812
Total Accumulated Depreciation	**268.155**	**61.739**	**(25.467)**	**-**	**-**	**304.427**
Net Book Value	**189.036**	**(20.504)**	**13.258**	**-**	**-**	**181.790**

(Amounts expressed in thousands of TL unless otherwise indicated.)

13. Intangible assets

	31 December 2021	31 December 2020
Cost	380.232	294.900
Accumulated amortization(-)	233.106	197.531
Net book amount	**147.126**	**97.369**

Movements of other intangible assets were as follows:

	Closing Balance December 31, 2020	Additions	Disposals	Other	Change in estimate	Ending Balance December 31, 2021
Cost:						
Software cost	294.900	85.332	-	-	-	380.232
Other intangible assets	-	-	-	-	-	-
Total Cost	**294.900**	**85.332**	**-**	**-**	**-**	**380.232**

	Closing Balance December 31, 2020	Period Charge	Disposals	Other	Change in estimate	Ending Balance December 31, 2021
Accumulated Depreciation:						
Software cost	197.531	35.575	-	-	-	233.106
Other intangible assets	-	-	-	-	-	-
Total Accumulated Depreciation	**197.531**	**35.575**	**-**	**-**	**-**	**233.106**
Net Book Value	**97.369**	**49.757**	**-**	**-**	**-**	**147.126**

14. Other assets and non-current assets held for sale

	31 December 2021	31 December 2020
Restricted Central Bank Reserves	4.748.852	2.394.878
Loan related assets	402.515	371.972
Credit card receivables	188.874	103.138
Prepaid expenses (*)	40.595	68.264
Settlement accounts	30.516	11.493
Other	14.761	9.422
Total	**5.426.113**	**2.959.167**

(*) Prepaid expenses mainly constitute prepaid rents, charges and other items.

Movements in assets held for resale during the years, were as follows:

	31 December 2021	31 December 2020
Cost		
At 1 January 2021	672.505	590.474
Additions	-	306.592
Disposals	(366.042)	(224.561)
Other	(9.624)	-
At 31 December 2021	**296.839**	**672.505**

(Amounts expressed in thousands of TL unless otherwise indicated.)

15. Deposits

	31 December 2021	31 December 2020
Customer deposits	38.056.821	24.814.088
Total Deposits	**38.056.821**	**24.814.088**

31 December 2021	Demand			Time			
	TL	FC	Total	TL	FC	Total	Grand Total
Corporate and Commercial	923.345	2.007.871	2.931.216	1.866.547	8.116.986	9.983.533	12.914.749
Retail	279.475	4.809.201	5.088.676	7.743.221	12.310.175	20.053.396	25.142.072
Customer Deposits	**1.202.820**	**6.817.072**	**8.019.892**	**9.609.768**	**20.427.161**	**30.036.929**	**38.056.821**

(*) Foreign exchange-protected deposit instrument, the operating rules of which are determined by the Ministry of Treasury and Finance and the CBRT, and which ensures that TL deposits are valued with interest rates and are protected against foreign exchange rates, started to be offered to bank customers as of the current accounting period reported. As of 31 December 2021, total deposit amount includes TL 489.997 thousand TL deposits within this scope.

31 December 2020	Demand			Time			
	TL	FC	Total	TL	FC	Total	Grand Total
Corporate and Commercial	449.191	1.055.972	1.505.163	941.875	4.590.593	5.532.468	7.037.631
Retail	174.222	2.266.625	2.440.847	6.165.789	9.169.821	15.335.610	17.776.457
Customer Deposits	**623.413**	**3.322.597**	**3.946.010**	**7.107.664**	**13.760.414**	**20.868.078**	**24.814.088**

(Amounts expressed in thousands of TL unless otherwise indicated.)

16. Subordinated liabilities and due to banks and money market balances

	31 December 2021	31 December 2020
Due to banks and money market balances	6.131.532	6.161.748
Debt securities issued	-	552.739
Subordinated liabilities	3.825.218	2.109.077
Total	**9.956.750**	**8.823.564**

a) Information on subordinated liabilities:

The Bank, on August 1, 2017 issued the Basel III compliant, 10 year, semi-annual fixed 7,625% coupon paying bond of USD 300 million to foreign domicile investors. The bond, with the permission of BRSA dated July 17, 2017 was classified as Tier II sub-loan. As of 31 December 2021, the total amount of Tier II sub-loan the Bank has bought back amounts to USD 24.535 thousand. The Bank has not redeemed or cancelled the shares in circulation, thus selling back any portion of such amount at any time is completely at the Bank management's discretion.

Movement of subordinated liabilities for the year ending at 31 December 2021 is as follows:

Movement for subordinated liabilities	2021	2020
Balance at the beginning of the year	2.109.077	1.735.813
Proceeds during the year	-	1.855
Repayments during the year	-	(53.571)
Effect of exchange rate changes on the balance of cash held in foreign currencies	1.663.094	413.491
Change in accrual balance	53.047	11.489
Balance at the end of the year	**3.825.218**	**2.109.077**

b) Information on due to banks:

a) Information on banks and other financial institutions:

	31 December 2021			31 December 2020		
	TL	FC	Total	TL	FC	Total
From domestic banks and institutions	535.015	-	535.015	360.958	15.209	376.167
From foreign banks, institutions and funds	-	3.371.615	3.371.615	-	2.239.588	2.239.588
Total	**535.015**	**3.371.615**	**3.906.630**	**360.958**	**2.254.797**	**2.615.755**

b) Maturity analysis of funds borrowed:

	31 December 2021			31 December 2020		
	TL	FC	Total	TL	FC	Total
Short-term	535.015	1.663.019	2.198.034	360.958	863.875	1.224.833
Medium and long-term	-	1.708.596	1.708.596	-	1.390.922	1.390.922
Total	**535.015**	**3.371.615**	**3.906.630**	**360.958**	**2.254.797**	**2.615.755**

(Amounts expressed in thousands of TL unless otherwise indicated.)

16. Subordinated liabilities and due to banks (continued)

c) Information on money market balances:

As of 31 December 2021, the Bank has funds provided under repurchase agreements amounting to TL 2.224.902 (31 December 2020: TL 3.545.993).

d) Information on debt securities issued:

	31 December 2021		31 December 2020	
	TL	**FC**	**TL**	**FC**
Bond	-	-	552.739	-
Total	-	-	**552.739**	**-**

17. Taxation

	December 31, 2021	December 31, 2020
Current tax expense	(37.749)	(20.885)
Deferred tax expense	4.852	(12.832)
Tax expense	**(32.897)**	**(33.717)**

According to the Article 32 of the Corporate Tax Law No 5520, accepted in the meeting of Grand National Assembly of Turkey (TBMM) on June 13, 2006 and announced in the Official Gazette dated June 21, 2006, the corporate tax rate has been decreased from 30% to 20%, effective from January 1, 2006 as per the Article 37 of the Corporate Tax Law.

According to Provisional Article 13 added to the Corporate Tax Law, Corporate Tax at 20% shall be applied as 25% for corporate earnings for the 2021 taxation period and 23% for corporate earnings for the 2022 taxation period.

In accordance with tax legislation, temporary tax is paid at the rate in force in the relevant period on earnings generated as of quarterly periods, and the amounts paid are deducted from the calculated tax on annual earnings.

Tax returns are required to be filed between the first and twenty-fifth day of the fourth month following the balance sheet date and paid in one installment until the end of the related month.

According to the Corporate Tax Law, tax losses can be carried forward for a maximum period of five years following the year in which the losses are incurred. Tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

The Bank makes necessary provisions over results of current period operations related with Income Tax and Corporate Tax liabilities.

The balance resulting from netting off prepaid taxes and the corporate tax provision is shown in the current tax asset or liability as being positive or negative, respectively.

The Law No. 7352, dated January 20, 2022, on the amendment of the Tax Procedure Law and the Corporate Tax Law was enacted with the Official Gazette numbered 31734 on January 29, 2022. It has been decided that the financial statements will not be subject to inflation adjustment in the 2021 and 2022 accounting periods, including the temporary accounting periods, and in the provisional tax periods of the 2023 accounting period, regardless of whether the conditions for the inflation adjustment within the scope of the Repeated Article 298 are met.

(Amounts expressed in thousands of TL unless otherwise indicated.)

17. Taxation (continued)

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Corporations file their tax returns within the 25th of the fourth month following the close of the financial year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and if they find any corrections then the tax amount to be paid might be changed as well.

Deferred income taxes

In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date. The Law regarding amendments on Certain Tax Laws was approved in The Grand National Assembly of Turkey on 15 April 2021 and the Law was published in the Official Gazette on 22 April 2021. Accordingly, the corporate income tax rate will be determined as 25% and 23%for the years 2021 and 2022. According to the Law that have been enacted, deferred tax asset and liabilities shall be measured at the tax rate 25% that are expected to apply to these periods when the assets is realised or the liability is settled. For the periods 2022 and after deferred tax assets and liabilities were measured by 23% and 20% tax rate. As of 31 December 2021, the Bank calculated deferred tax on its assets and liabilities according to the rates corresponding to the relevant periods.

The deferred income tax assets and liabilities represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return in accordance with the applicable tax law plus any available tax loss carried forward from previous years.

The temporary differences giving rise to the deferred income tax assets and deferred income tax liabilities are as follows:

	Cumulative Temporary Differences	Deferred Tax Asset/ Liability	Cumulative Temporary Differences	Deferred Tax Asset/ Liability
	31 December 2021	31 December 2021	31 December 2020	31 December 2020
Difference between net book value and tax value of financial assets	53.856	10.855	68.587	13.717
Provisions (*)	2.760.097	571.979	2.058.998	411.800
Deferred commissions	36.862	7.372	37.550	7.510
Tangible assets differences	15.922	3.184	11.076	2.215
Valuation differences	2.973.831	623.100	2.163.483	432.697
Other	76.809	17.753	65.728	13.146
Deferred Tax Asset	**5.917.377**	**1.234.243**	**4.405.422**	**881.085**
Valuation differences	3.702.756	777.579	2.320.184	464.037
Other	1.003.000	200.335	948.423	189.685
Deferred income tax liabilities	**4.705.756**	**977.914**	**3.268.607**	**653.722**
Deferred income tax assets, net	**1.211.621**	**256.329**	**1.136.815**	**227.363**

(*) Provisions does not include loan impairment.

(Amounts expressed in thousands of TL unless otherwise indicated.)

17. Taxation (continued)

The movements of net deferred income taxes during the years were as follows:

	31 December 2021	31 December 2020
Balance at 1 January 2021	**227.363**	**245.840**
(Charge) / credit for the year, net	4.852	(12.832)
Financial assets at fair value through other comprehensive income revaluation reserve	24.114	(5.645)
Balance at 31 December 2021	**256.329**	**227.363**

There are no deductible temporary differences for which no deferred tax asset is recognized in the statement of financial position.

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Bank for the years ended 31 December 2021 and 2020 is as follows:

	31 December 2021	31 December 2020
Profit/(loss) before income tax	238.585	167.926
Income tax using the domestic corporation tax rate 25% (*)	(59.646)	(33.585)
Reversal of previously recognized tax losses	-	105.432
Current year tax that has effect on deferred tax asset	64.498	(84.679)
Total income tax expense in the statement of profit or loss	**4.852**	**(12.832)**

(*) %20 for 2020.

Income tax effects relating to components of other comprehensive income

			31 December 2021
	Gross amount	Tax (expense) income	Net-of tax amount
Fair value gains on financial assets at fair value through other comprehensive income	(134.538)	26.948	(107.590)
Cash flow hedge reserve	22.976	(4.258)	18.718
Other	(7.120)	1.424	(5.696)
Other comprehensive income/(loss) for the year (net presentation)	**(118.682)**	**24.114**	**(94.568)**

(Amounts expressed in thousands of TL unless otherwise indicated.)

17. Taxation (continued)

			31 December 2020
	Gross amount	**Tax (expense) income**	**Net-of tax amount**
Fair value gains on financial assets at fair value through other comprehensive income	33.745	(5.731)	28.014
Cash flow hedge reserve	3.861	(1.917)	1.944
Other	(9.921)	2.003	(7.918)
Other comprehensive income/(loss) for the year (net presentation)	**27.685**	**(5.645)**	**22.040**

18. Employee benefits

	31 December 2021	**31 December 2020**
Employee termination benefit provision	26.355	16.611
Unused vacation provision	9.513	7.895
Personnel premium	56.252	40.000
Total of provision for employee benefits	**92.120**	**64.506**

Movements in the employee termination benefit provision during the year:

	31 December 2021	**31 December 2020**
Balance at the beginning of period	**16.611**	**8.216**
Service Cost	3.273	2.439
Interest expense	2.892	1.879
Actuarial gain/loss transferred to equity	7.120	5.717
Payments during the period	(3.541)	(1.640)
Balance at the end of period	**26.355**	**16.611**

Reserve for employment termination benefits

In accordance with the existing labor law, the Bank is required to make lump-sum termination indemnities to each employee who has completed over one year of service and whose employment is terminated due to retirement or for reasons other than resignation and misconduct.

The Bank has calculated provision for employee severance benefits in the accompanying financial statements in accordance with TAS 19 “Employee Benefits” by using the “Projection Method” and discounted the total provision by using the current market yield at the balance sheet date on government bonds based on their past experiences in the issues of completion of personnel service period and severance pay eligibility.

The principal actuarial assumptions used at the dates of financial position are as follows:

	31 December 2021	**31 December 2020**
Discount rate in real terms	3,33%	3,01%
Interest rate	24,00%	12,80%
Estimated salary/ Employee termination benefit increase rate	20,00%	9,50%

(Amounts expressed in thousands of TL unless otherwise indicated.)

19. Provisions

Provisions	**31 December 2021**	**31 December 2020**
Provision for non - cash loans	58.722	61.942
Provision for outstanding legal claims	60.113	27.000
General reserve for possible risks	130.000	-
Other	10.346	19.103
Total	**259.181**	**108.045**

Movements in the provision for non-cash loans:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Beginning Balance (1 January 2021)	**37.851**	**14.203**	**9.888**	**61.942**
Additions	43.725	7.592	252	51.569
Disposals (-)	(45.305)	(8.588)	(895)	(54.788)
Sales (-)	-	-	-	-
Write-offs (-)	-	-	-	-
Transfers to Stage 1	102	(102)	-	-
Transfers to Stage 2	(34)	34	-	-
Transfers to Stage 3	(10)	(2)	12	-
Balance at the end of the period	**36.329**	**13.137**	**9.257**	**58.723**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Beginning Balance (1 January 2020)	**17.640**	**7.297**	**9.799**	**34.736**
Additions	49.494	21.417	1.240	72.151
Disposals (-)	(29.090)	(14.382)	(1.473)	(44.945)
Sales (-)	-	-	-	-
Write-offs (-)	-	-	-	-
Transfers to Stage 1	2.394	(2.394)	-	-
Transfers to Stage 2	(2.584)	2.584	-	-
Transfers to Stage 3	(3)	(319)	322	-
Balance at the end of the period	**37.851**	**14.203**	**9.888**	**61.942**

20. Current Tax Liabilities

Current Tax Liabilities	**31 December 2021**	**31 December 2020**
Corporate tax liability	-	17.847
Banking and insurance transaction tax	23.006	9.026
Taxes from returns on stocks and bond	27.357	26.116
Income tax from salaries	6.050	4.339
Others	17.390	9.714
Total	**73.803**	**67.042**

(Amounts expressed in thousands of TL unless otherwise indicated.)

21. Other Liabilities

Other liabilities	**31 December 2021**	**31 December 2020**
Lease Liabilities	120.180	120.954
Credit card payables	193.540	109.344
Cheques in clearance	115.570	117.124
Due to saving deposit insurance fund	11.690	10.128
Social security duties	-	-
Others	242.031	100.673
Total	**683.011**	**458.223**

Explanations on lease obligations (Net):

	31 December 2021		**31 December 2020**	
	Gross	**Net**	**Gross**	**Net**
Less Than 1 Year	7.820	7.290	6.758	6.368
Between 1-4 Years	99.176	78.390	47.354	34.720
More Than 4 Years	54.275	34.500	121.683	79.866
Total	**161.271**	**120.180**	**175.795**	**120.954**

(Amounts expressed in thousands of TL unless otherwise indicated.)

22. Share capital

As of 31 December 2021 the historic amount of paid-in share capital of the Bank consists of 3.288.842.000 authorized shares with a nominal value of TL 1 each.

The issued and fully paid-in share capital and share premium are as follows:

	31 December 2021		31 December 2020	
Shareholders	**Participation rate (%)**	**TL**	**Participation rate (%)**	**TL**
Bank Audi sal	76,42%	2.513.293	76,42%	2.513.293
European Bank for Reconstruction and Development	8,01%	263.394	8,01%	263.394
International Finance Corporation	6,36%	209.252	6,36%	209.252
H.H Sheikh Dheyab Binzayed Binsultan Al-Nahyan	4,00%	131.697	4,00%	131.697
IFC FIG Investment Company S.a.r.l	3,43%	112.674	3,43%	112.674
Mr. Mohammad Hassan Zeidan	1,78%	58.532	1,78%	58.532
Total share capital	**100,00**	**3.288.842**	**100,00**	**3.288.842**

Earnings per share:

	31 December 2021	31 December 2020
Bank's profit	205.688	134.209
Weighted Average Number of Issued Ordinary Shares (Thousand)	3.288.842	3.288.842
Earnings Per Share (in Full TL)	**0,063**	**0,041**

23. Other Reserves

	31 December 2021	31 December 2020
Revaluation reserve - financial assets at fair value through other comprehensive income	(43.524)	64.066
Cash flow hedge reserve	(23.938)	(42.656)
Other reserve (*)	(2.198)	(2.198)
Other	(5.961)	(3.931)
Total other reserves	**(75.621)**	**15.281**

(*) As per International Accounting Standards 32, the Bank accounted stamp tax expenses and competition board fees resulted from the capital increase transaction amounting TL 2.198 under equity.

Under the Turkish Commercial Code (TCC), the Bank is required to create the following legal reserves from appropriation of earnings, which are available for distribution only in the event of liquidation or losses:

a) First legal reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.

b) Second legal reserve, appropriated at the rate of at least 10% of distribution in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.

Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless the reserve exceeds 50% of paid-in share capital.

(Amounts expressed in thousands of TL unless otherwise indicated.)

24. Net interest income

	31 December 2021	31 December 2020
Interest & similar income		
Interest on loans	2.656.174	1.848.864
Interest received from reserve deposits	45.685	2.552
Interest received from banks	17.877	62.734
Interest received from money market transactions	7.438	60.834
Interest received from marketable securities portfolio	1.218.541	620.038
Other interest income	28.622	102.992
Total interest & similar income	**3.974.337**	**2.698.014**
Interest & similar expense on:		
Interest on deposits	(2.032.530)	(1.026.393)
Interest on funds borrowed	(45.227)	(42.579)
Interest on money market transactions	(432.557)	(173.087)
Interest on securities issued	(285.678)	(278.410)
Finance lease interest expenses	(23.497)	(27.805)
Other interest expenses	(127.700)	(96.693)
Total interest & similar expense	**(2.947.189)**	**(1.644.967)**
Net interest income	**1.027.148**	**1.053.047**

25. Net fee and commission income

	31 December 2021	31 December 2020
Fee and commission income on:		
General banking income	7.350	5.836
Brokerage and custody income	26.033	13.891
Trade finance income	66.269	53.802
Electronic cards	21.474	18.548
Insurance income	1.438	1.043
Corporate finance	1.190	848
Other fees and commissions	5.605	7.617
Total fee and commission income	**129.359**	**101.585**
Fee and commission expense on:		
General banking expense	(20.866)	(11.803)
Electronic cards	(4.807)	(5.311)
Other	(1.040)	(6.952)
Total fee and commission expense	**(26.713)**	**(24.066)**
Net fee and commission income	**102.646**	**77.519**

(Amounts expressed in thousands of TL unless otherwise indicated.)

26. Net trading and fair value income and net gains / losses from investment securities

	31 December 2021	31 December 2020
Net trading and fair value gains and losses	(983.991)	88.452
Foreign exchange gains/losses (*)	1.070.889	(101.568)
Gains from investment securities, net	35.028	42.457
Total	**121.926**	**29.341**

(*) Foreign exchange gains/losses include the spot legs of forward contracts and options in addition to the translated foreign currency assets and liabilities.

27. Other operating expenses

	31 December 2021	31 December 2020
Personnel expenses	**354.445**	**293.116**
Salaries and related benefits	302.876	242.822
Social and regulatory expenses	35.113	29.234
Medical and life insurance	7.216	8.669
Food and beverage	5.681	5.525
Training and seminars	2.765	1.309
Other staff expenses	737	5.512
Transportation	57	45
Other operating expenses	**448.727**	**271.910**
Buildings rental and related expenses	8.113	6.549
Information technology	53.846	52.463
Taxes and similar disbursements	28.212	37.319
Regulatory fees	40.375	20.934
Professional and outsourcing fees	31.107	25.762
Advertising fees	23.900	17.505
Credit cards expenses	20.938	16.047
Telephone and mailing expenses	10.097	8.098
Subscription to communication services	13.268	9.472
Maintenance machines and material	7.407	6.786
Insurance premiums	6.738	5.105
Office supplies	1.883	2.354
Other expenses (*)	202.843	63.516
Depreciation of property & equipment	**61.739**	**55.130**
Amortization of intangible assets	**35.575**	**32.845**
Total	**900.486**	**653.001**

(*) Includes Free provision expense amounting to TL 130.000.

28. Fees for Services Received from Independent Auditor / Independent Audit Firm

The fee (excluding VAT) information for the reporting period regarding the services received from the independent auditor or independent audit firm in accordance with the decision of the POA dated 26 March 2021 is given in the table below.

	31 December 2021 (*)	31 December 2020 (*)
Audit Fee	1.495	909
Tax Advisory Fee	-	-
Other Advisory Fees	8	40
Total	**1.503**	**949**

(*) Services received from KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi are presented.

(Amounts expressed in thousands of TL unless otherwise indicated.)

29. Net impairment/recoveries on financial assets

	31 December 2021	31 December 2020
12-Month Expected Credit Losses (Stage 1)	101.069	83.026
Significant İncrease İn Credit Risk (Stage 2)	368.136	249.094
Credit-Impaired (Stage 3)	495.355	437.246
Income from Reversal of Prior Years' Provisions	(758.262)	(362.657)
Total	**206.298**	**406.709**

30. Commitments and contingent liabilities

In the normal course of its activities, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in these financial statements, including letters of guarantee, acceptances and letters of credit. The following is a summary of significant commitments and contingent liabilities.

Legal proceedings

As of the balance sheet date, there are no lawsuits filed against the Bank and for which provision has been booked due to their likelihood of being lost. The Bank has not any contingent liability with a high probability of realization regarding continuing lawsuits.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as and if required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

(Amounts expressed in thousands of TL unless otherwise indicated.)

30. Commitments and contingent liabilities (continued)

31 December 2021 (*)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	2.215.994	-	-	2.215.994
Letter of guarantees	-	4.395.474	-	-	4.395.474
Acceptance credits	-	4.976	-	-	4.976
Other guarantees	-	2.066.867	-	-	2.066.867
Total	**-**	**8.683.311**	**-**	**-**	**8.683.311**

31 December 2020 (*)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	867.081	-	-	**867.081**
Letter of guarantees	-	2.332.498	-	-	**2.332.498**
Acceptance credits	-	9.759	-	-	**9.759**
Other guarantees	-	2.176.268	-	-	**2.176.268**
Total	**-**	**5.385.606**	**-**	**-**	**5.385.606**

(*) Based on expected maturities.

Assets under management

Assets under management include client assets managed or deposited with the Bank, where, the client decides how these assets are to be invested.

As of 31 December 2021, assets under management comprise of mutual funds and bills and bonds amounting TL 7.939.125 (31 December 2020: TL 6.348.721).

(Amounts expressed in thousands of TL unless otherwise indicated.)

31. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by Bank Audi.

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

(i) Balances with related parties:

	31 December 2021	31 December 2020
Other related parties		
Direct and indirect shareholders of the Bank		
Loans and other receivables	424	-
Total Loans and other receivables	**424**	**-**
Other related parties		
Deposits	8.413	5.162
Direct and indirect shareholders of the Bank		
Deposits	10.856	641.592
Direct and indirect shareholders of the Bank		
Debt securities and other funds borrowed	-	-
Total liabilities	**19.269**	**646.754**
Other related parties		
Credit related commitments	561	526
Direct and indirect shareholders of the Bank		
Credit related commitments	15.486	24.198
Total commitments and contingent liabilities	**16.047**	**24.724**

(ii) Transactions with related parties:

	31 December 2021	31 December 2020
Total interest and fee income	**36**	**52**
Interest expense on deposits	1.175	734
Interest expense on derivative transactions	361.391	701.616
Total interest and fee expense	**362.566**	**702.350**

(iii) Balances with directors and other key management personnel:

Gross payment made to the executive management in 2021 is TL 31.410 (31 December 2020 TL 25.486).

32. Events after the reporting period

None.