Aktif Yatırım Bankası Anonim Şirketi and Its Subsidiaries

Consolidated Financial Statements
As at and for the year ended
31 December 2021 with
Independent Auditor's Report Thereon

11 April 2022

This report contains "Independent Auditor's Report" comprising 5 pages and "Consolidated Financial Statements and Related Disclosures and Footnotes" comprising 68 pages.

Independent Auditor's Report

To the Shareholders of Aktif Yatırım Bankası Anonim Şirketi,

Qualified Opinion

We have audited the consolidated financial statements of Aktif Yatırım Bankası Anonim Şirketi ("the Bank") and its subsidiaries (together refer to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statements of profit or loss and other comprehensive income, changes in 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 effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Qualified Opinion

As stated in Note 23, the accompanying consolidated financial statements as at 31 December 2021 include a general reserve amounting TL 187,000 thousand had been recognized as expense in prior periods, which does not meet the requirements of International Accounting Standard ("IAS") 37 "Provisions, Contingent Liabilities and Contingent Assets". This general reserve is provided by the Group management for the possible effects of the negative circumstances which may arise in economy or market conditions.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 of loans and advances to customers

Refer to "Significant accounting policies" Note 3.10 to the consolidated financial statements relating to the impairment of 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 40% of the Group's total assets. The Group recognizes its loans and advances to customers in accordance with IFRS 9 Financial Instruments ("Standard"). The Group applies the "expected credit loss model" in determining the impairment of loans and advances to customers in accordance with the Standard. This model, which contains significant assumptions and estimates, is reviewed by the Group management annually. The significant assumptions and estimates used in the model by the Group's management are as follows: ✓ Significant increase in credit risk, ✓ Incorporating the forward looking macroeconomic information in calculation of credit risk, and ✓ Design and implementation of expected credit loss model.	Our procedures for testing impairment of 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 Group's business model whose objective is to hold financial assets in order to collect contractual cash flows and we tested the appropriateness of the loan agreements with the model by selecting samples. • We evaluated the adequacy of the subjective and objective criteria that is defined in the Group's impairment accounting policy compared with the Standard. • We evaluated the Group's business model and methodology and the calculations carried out by the Group with the control testing and detailed analysis by the involvement of specialist.

The determination of the impairment of loans and advances to customers 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 and advances to customers 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 Group calculates expected credit losses on a collective basis. The collective basis expected credit loss calculation is a complex process which is modelled by using current and past data sets, expectations and the forward looking expectations are reflected by macroeconomic models. Impairment on loans and advances to customers has been identified as a key audit matter, due to its complex structure, significant estimates and management's judgments.	• 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, the current status of the loan customer has been evaluated on prospective information and macroeconomic variables. • 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 which are used to reflect forward looking expectations and tested the effect of the risk parameters by recalculation method. • We evaluated the qualitative and quantitative factors which are used in determining the significant increase in credit risk. • We evaluated the sufficiency and appropriateness of the notes to the consolidated financial statements related to impairment of loans and advances to customers.

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

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

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

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

We communicate with 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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

Alper Güvenç
Partner

11 April 2022
İstanbul, Turkey

Aktif Yatırım Bankası Anonim Şirketi and Its Subsidiaries

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AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Statement of Financial Position
As at 31 December 2021
(Currency - In thousands of Turkish Lira ("TL"))

	Note	31 December 2021	31 December 2020
ASSETS			
Cash and cash equivalents	*9*	6,969,791	1,508,229
Reserve deposits at Central Bank	*10*	1,918,773	1,251,914
Financial assets at fair value through profit or loss	*11*	1,205,936	699,294
Trade and other receivables		580,078	70,526
Inventories		22,002	12,843
Loans and advances to customers	*13*	14,170,454	10,176,417
Investment securities	*12*	9,118,367	6,242,050
Equity accounted investees	*14*	105,420	76,765
Tangible assets	*15*	206,289	528,114
Intangible assets	*16*	244,088	232,240
Goodwill	*7*	22,632	22,632
Deferred tax assets	*22*	34,928	63,172
Assets held for sale	*18*	105,004	79,024
Other assets	*17*	781,102	934,938
Total assets		**35,484,864**	**21,898,158**
LIABILITIES			
Trading liabilities	*11*	153,991	143,559
Trade and other payables		343,291	205,387
Obligations under repurchase agreements	*19*	5,364,023	4,078,171
Lease liabilities	*24*	8,947	8,194
Debt securities issued	*21*	8,765,887	7,449,428
Funds borrowed	*20*	8,925,604	2,917,314
Provisions	*23*	340,433	320,901
Income taxes payable	*22*	45,588	44,468
Deferred tax liability	*22*	5,468	13,989
Other liabilities	*25*	8,315,577	4,114,703
Total liabilities		**32,268,809**	**19,296,114**
EQUITY			
Share capital	*26*	1,198,095	1,198,095
Legal reserves		127,094	104,541
Fair value reserves		(174,381)	17,801
Actuarial gain/ (loss)		(7,077)	(3,497)
Special funds		62,024	61,173
Translation reserves		27,953	9,385
Retained earnings		1,977,595	1,213,292
Total equity attributable to equity holders of the Group		**3,211,303**	**2,600,790**
Non-controlling interests		4,752	1,254
Total equity		**3,216,055**	**2,602,044**
Total liabilities and equity		**35,484,864**	**21,898,158**

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Statement of Profit or Loss and Other Comprehensive Income
As at 31 December 2021
(Currency - In thousands of Turkish Lira ("TL"))

	Note	**2021**	**2020**
Interest income	*27*	3,119,610	2,008,512
Interest expense	*27*	(1,833,519)	(1,121,765)
Net interest income		**1,286,091**	**886,747**
Fees and commission income	*28*	283,279	179,105
Fees and commission expense	*28*	(175,028)	(118,033)
Net fee and commission income		**108,251**	**61,072**
Net trading gain/loss	*29*	30,345	84,365
Sales income	*30*	434,225	390,490
Other income	*31*	174,299	135,660
Net impairment loss on financial assets	*13,32*	(88,549)	(99,000)
Operating expenses		(644,767)	(491,679)
- Personnel expenses	*33*	*(290,804)*	*(231,557)*
-Depreciation and amortisation	*15,16*	*(80,652)*	*(78,419)*
-Administrative expenses	*34*	*(273,311)*	*(181,703)*
Cost of sales		(30,885)	(50,339)
Cost of services	*30*	(95,634)	(53,783)
Other operating expenses	*35*	(87,944)	(119,780)
Total operating income		**1,085,432**	**743,753**
Share of profit of equity accounted investee	*14*	(7,454)	(9,719)
Profit before income tax		**1,077,978**	**734,034**
Income tax expense	*22*	(287,624)	(173,987)
Net profit for the year from continuing operations		**790,354**	**560,047**
Profit attributable to			
Equity holders of the Bank		786,856	559,777
Non-controlling interest		3,498	270
Profit for the year		**790,354**	**560,047**
Other comprehensive income			
Items that will not be reclassified to profit or loss:		**2,543**	**(4,216)**
Change in actuarial (loss) / gain related to employee benefits	*23*	(4,847)	(3,117)
Equity investments at FVOCI –change in fair value		8,209	(2,288)
Tax effect	*22*	(819)	1,189
Items that are or may be reclassified subsequently to profit or loss:		**(178,886)**	**(41,110)**
Debt investments at FVOCI –change in fair value		(263,533)	(57,875)
Foreign currency translation differences		18,568	3,837
Special fund		1,210	251
Income tax on other comprehensive income	*22*	64,869	12,677
Other comprehensive income for the year, net of tax		**(176,343)**	**(45,326)**
Total comprehensive income for the year		**614,011**	**514,721**
Total comprehensive income attributable to:			
Equity holders of the Bank		610,513	514,451
Non-controlling interest		3,498	270
Total comprehensive income for the year		**614,011**	**514,721**
Basic and diluted earnings per share (full TL amount per TL 1 face value each)	2.5	0.659	0.469

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2020
(Currency - In thousands of Turkish Lira ("TL"))

	Note	Share capital	Adjustment to share capital	Legal reserves	Fair Value Reserves	Translation reserves	Actuarial gain/(loss)	Special funds	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2020		**1,193,585**	**4,510**	**87,456**	**64,728**	**5,548**	**(1,066)**	**71,495**	**670,600**	**2,096,856**	**984**	**2,097,840**
Total comprehensive income for the year												
Profit for the year		-	-	-	-	-	-	-	559,777	559,777	270	560,047
Other comprehensive income		-	-	-	(46,927)	3,837	(2,431)	195	-	(45,326)	-	(45,326)
Equity investments at FVOCI – net change in fair value		-	-	-	*(1,785)*	-	-	-	-	*(1,785)*	-	*(1,785)*
Debt investments at FVOCI – net change in fair value		-	-	-	*(45,142)*	-	-	-	-	*(45,142)*	-	*(45,142)*
Net change in actuarial gain related to employee benefits		-	-	-	-	-	*(2,431)*	-	-	*(2,431)*	-	*(2,431)*
Foreign currency translation differences		-	-	-	-	*3,837*	-	-	-	*3,837*	-	*3,837*
Other		-	-	-	-	-	-	*195*	-	*195*	-	*195*
Total comprehensive income for the year		-	-	-	**(46,927)**	**3,837**	**(2,431)**	**195**	**559,777**	**514,451**	**270**	**514,721**
Transactions with owners, recorded directly in equity												
Transfer to reserves		-	-	17,085	-	-	-	-	(17,085)	-	-	-
Changes in non-controlling interests		-	-	-	-	-	-	(10,517)	-	(10,517)	-	(10,517)
Total transactions with owners, recorded directly in equity		-	-	**17,085**	-	-	-	**(10,517)**	**(17,085)**	**(10,517)**	-	**(10,517)**
At 31 December 2020	**26**	**1,193,585**	**4,510**	**104,541**	**17,801**	**9,385**	**(3,497)**	**61,173**	**1,213,292**	**2,600,790**	**1,254**	**2,602,044**

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

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2021

(Currency - In thousands of Turkish Lira (“TL”))

	Note	Share capital	Adjustment to share capital	Legal reserves	Fair Value Reserves	Translation reserves	Actuarial gain/(loss)	Special funds	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2021		**1,193,585**	**4,510**	**104,541**	**17,801**	**9,385**	**(3,497)**	**61,173**	**1,213,292**	**2,600,790**	**1,254**	**2,602,044**
Total comprehensive income for the year												
Profit for the year		-	-	-	-	-	-	-	786,856	786,856	3,498	790,354
Other comprehensive income		-	-	-	(192,182)	18,568	(3,580)	851	-	(176,343)	-	(176,343)
Equity investments at FVOCI – net change in fair value		-	-	-	*6,157*	-	-	-	-	*6,157*	-	*6,157*
Debt investments at FVOCI – net change in fair value		-	-	-	*(198,339)*	-	-	-	-	*(198,339)*	-	*(198,339)*
Net change in actuarial gain related to employee benefits		-	-	-	-	-	*(3,580)*	-	-	*(3,580)*	-	*(3,580)*
Foreign currency translation differences		-	-	-	-	*18,568*	-	-	-	*18,568*	-	*18,568*
Other		-	-	-	-	-	-	*851*	-	*851*	-	*851*
Total comprehensive income for the year		-	-	-	**(192,182)**	**18,568**	**(3,580)**	**851**	**786,856**	**610,513**	**3,498**	**614,011**
Transactions with owners, recorded directly in equity												
Transfer to reserves		-	-	22,553	-	-	-	-	(22,553)	-	-	-
Total transactions with owners, recorded directly in equity		-	-	**22,553**	-	-	-	-	**(22,553)**	-	-	-
At 31 December 2021	**26**	**1,193,585**	**4,510**	**127,094**	**(174,381)**	**27,953**	**(7,077)**	**62,024**	**1,977,595**	**3,211,303**	**4,752**	**3,216,055**

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

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2021
(Currency - In thousands of Turkish Lira ("TL"))

	Note	2021	2020
Cash flows from operating activities			
Net profit for the year		790,354	560,047
Adjustments for:			
Depreciation and amortisation expenses	15,16	80,652	78,419
Retirement pay provision expense	23	6,117	5,417
Unused vacation provision expense		3,759	(425)
Bonus provision expense		83,470	81,741
Impairment on financial assets	32	88,549	99,000
Net interest income and expense		(1,286,091)	(886,747)
Share of profit of equity investee	14	7,454	9,719
General reserve	31	-	54,000
Foreign exchange loss / (gain)		(1,995,865)	(461,343)
Gain on sale of assets	31	(150,201)	(65,762)
Gain on sale of subsidiary	31	-	(44,637)
Other accruals		(232,460)	66,325
Income tax	22	287,624	173,987
		(2,316,638)	**(330,259)**
Change in reserve deposit at Central Bank	9	(666,859)	(292,631)
Change in trading assets		(159,166)	(168,157)
Change in loans and advances to customers		(2,934,226)	(2,413,667)
Change in other assets		(369,671)	(443,608)
Change in obligations under repurchase agreements		1,287,294	1,814,047
Proceeds from borrowings		4,781,625	(2,085,954)
Change in other liabilities		4,277,032	1,622,214
		6,216,029	**(1,967,756)**
Interest received		2,931,024	1,788,462
Interest paid		(1,790,845)	(1,283,941)
Retirement pay provision and unused vacation paid	23	(3,007)	(4,947)
Bonus payment		(44,976)	(44,976)
Income tax paid	22	(219,052)	(194,866)
Net cash used in operating activities		**873,144**	**259,732**
Cash flows from investing activities			
Purchase of investment securities		(13,177,605)	(9,800,694)
Sale of investment securities		10,091,807	7,448,586
Purchase of tangible assets	15	(68,579)	(47,209)
Purchase of equity accounted investees	14	(17,541)	(22,965)
Proceeds from the sale of tangible assets		363,362	106,578
Proceeds from the sale of subsidiary		-	74,702
Purchase of intangible assets	16	(63,623)	(54,514)
Proceeds from the sale of intangible assets	16	-	37,637
Net cash used in investing activities		**(2,872,179)**	**(2,257,879)**
Cash flows from financing activities			
Proceeds from debt securities issued		120,370,664	50,935,623
Repayment of debt securities issued		(119,228,508)	(49,394,449)
Lease payments		(2,919)	(6,304)
Net cash provided from financing activities		**1,139,237**	**1,534,870**
Net increase/(decrease) in cash and cash equivalents		**3,039,593**	**(2,761,292)**
Effect of exchange rate fluctuations on cash		2,412,210	434,570
Cash and cash equivalents on 1 January	9	1,502,219	3,828,941
Cash and cash equivalents on 31 December	**9**	**6,954,022**	**1,502,219**

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

Notes to the consolidated financial statements

(Currency - In thousands of Turkish Lira ("TL"))

1. Reporting entity

Aktif Yatırım Bankası Anonim Şirketi (''the Bank") was incorporated under the name of Çalık Yatırım Bankası A.Ş. in Turkey in July 1999. The Bank changed its name as Aktif Yatırım Bankası A.Ş. on 1 August 2008.

The Bank operates as an investment bank and is mainly involved in corporate and consumer services such as cash or non-cash, financial leasing, factoring, corporate lending. As an investment bank, the Bank borrows funds from other banks, financial markets, partners and credit customers but is not entitled to receive deposits from customers.

The head office of the Bank is located at Esentepe Mah. Kore Şehitleri Cad. No: 8/1 Şişli İstanbul, and the Bank have also ten branches. The Bank employs 795 people as at 31 December 2021 (31 December 2020: 764).

As at 31 December 2021 and 2020, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	31 December 2021		31 December 2020	
	Amount	**%**	**Amount**	**%**
Çalık Holding A.Ş.	1,186,791	99.43	1,186,791	99.43
Çalık Denim Tekstil San. ve Tic. A.Ş.	3,597	0.30	3,597	0.30
Ahmet Çalık	1,599	0.13	1,599	0.13
Başak Yönetim Sistemleri A.Ş.	799	0.07	799	0.07
Irmak Yönetim Sistemleri A.Ş.	799	0.07	799	0.07
Total paid-in-capital	**1,193,585**	**100.00**	**1,193,585**	**100.00**
Restatement effect per IAS 29	4,510		4,510	
Total share capital	**1,198,095**		**1,198,095**	

The Bank and its subsidiaries are hereafter referred to as ''the Group". The Group controls equity stakes in companies that are active in the areas of technology system integration, payment centre, insurance brokerage, consulting in real estate projects, real estate, Islamic financial leasing and electronic payment systems. Activities carried out in these business areas and main companies are explained below in summary.

Sigortayeri Sigorta ve Reasürans Brokerliği A.Ş. ("Sigortayeri") is an online insurance comparison website which ensures the best match between insurance products and customer needs in minutes. Operating across the global market since 2013, Sigortayeri has differentiated its corporate insurance services under the brand of "Asron Sigorta" since May 2017.

EPost Elektronik Perakende Otomasyon Satış Ticaret A.Ş. ("Epost") operates as a retail vendor sales channel and provides secured devices that businesses use in conducting sales and payments collection transactions.

E-Kent Geçiş Sistemleri ve Biletleme Teknolojileri A.Ş. ("E-Kent") is a technology integrator mainly offering sports and events ticketing and access control solutions and public transportation automated fare collection solutions to provide infrastructural transformation and introduces value added profitable business models. In addition, as a result of the tender performed by Turkey Football Federation (TFF) in 2013, the Company is appointed as 'E-Ticket System Integrator' and realized the World's largest stadium transformation project including infrastructure transformation in 53 stadiums in 29 different cities, access control and monitoring systems, centralized integrated ticketing and stadium box office services infrastructure.

Pavo Teknik Servis Elektrik Elektronik Sanayi ve Ticaret A.Ş. ("Pavo") with its long-standing experience in cash register systems, offers local and foreign customers a solution in the field of payment systems, especially in financial approved cash registers (New Generation Payment Recorder).

1. Reporting entity *(continued)*

N Kolay Ödeme Kuruluşu A.Ş. ("N Kolay") is one of the biggest payment institution in Turkey by volume. N Kolay business model mainly focuses on bill payment, money transfers and other financial services.

Emlak Girişim Danışmanlığı A.Ş. ("Emlak Girişim A.Ş.") was founded on January 2013 in order to seize business opportunities in real estate and construction industries, participate in investment projects, especially those in the renewable energy industry (solar power and biomass), and become a major player in international trade. In the real estate industry, the Company aims to be a leader with direct partnerships, profit-loss sharing investments and urban renewal projects. The Company invests and conducts activities in a variety of industries including energy, construction, professional services and security systems. The most important investment by Emlak Girişim A.Ş. is Istanbul International Finance Center (IIFC), one of the biggest regional planning projects of Turkey with a construction site sprawling over 3 million square meters, set to be among the top finance centers in the world. Major financial actors involved in the project are the Central Bank of the Republic of Turkey, the Capital Markets Board, Halk REIT (Real Estate Investment Trust), Vakıf REIT and Emlak Konut A.Ş. In a profit-sharing partnership model, Emlak Girişim A.Ş. completed a significant investment Project into the Metropol İstanbul project in Ataşehir district in İstanbul. Emlak Girişim A.Ş. invested in 2018 in the office building of 11.250 m² in Şişli district, İstanbul which will be rented to Aktif Bank and Sigortayeri as Headquarters. Total investment amount of the office building is around TL 355 mn. Also in 2017, the Company became one of the biggest players in the renewable energy industry with the investments into the solar power plants with the capacity of 33,5 MWp Project, in addition to the EPC services to the solar power projects with a capacity of 32 MWp for three SPPs in three cities. Emlak Girişim is still keen to develop partnerships and projects in licensed SPP projects and biomass power plant projects.

Euroasian Leasing Company ("ELC") is the first in Russia to provide leasing solutions to the SME sector in accordance with the Islamic principles.

Kazakhstan Ijara Company Jsc. ("KIC") carries on Islamic leasing business. The aim of firm in Kazakhstan is to support the development of small and medium enterprises (SMEs) by providing alternative sources of Shariah compliant financing for their projects.

Euro Mediterranean Investment Company ("EMIC") is a real estate development and portfolio management company in North Cyprus.

UPT Ödeme Hizmetleri A.Ş. ("UPT") is Turkey's first and only local, global money transfer and payment platform for domestic and international transfers to account, credit cards or for cash payments in multiple currencies. UPT established a subsidiary named UPT Lithuania UAB ("UPT Lithuania") in Lithuania on 4 December 2019. UPT Lithuania discontinued its operations as at 22 June 2021.

Mükafat Portföy Yönetimi A.Ş. ("Mükafat") strives to carve out a niche for itself with its alternative investment products such as Private Equity Funds and Real Estate Funds. Mükafat is also managing Mutual Funds as well as Pension Funds. The Company's trade name has been changed to Aktif Portföy Yönetimi on 8 June 2020.

Tasfiye Halinde Haliç Finansal Kiralama A.Ş. ("Haliç) is the first financial leasing company offering Islamic products to its customers in Turkey, Haliç develops customer-tailored development packages for its customers, especially SMEs, as well as financing options in order to provide support to their investments in technological machines and equipment. Haliç is in liquidation process as at the reporting date.

Halk Yenilenebilir Enerji A.Ş.: The Company, which established in April 2017, is engaged in the construction of solar energy production facilities.

1. Reporting entity *(continued)*

Eko Biokütle Enerji Üretim A.Ş.: The company will establish two biomass power plants with a capacity of 12 MWp in Şanlıurfa for the production of electricity from the cotton stalk within the scope of the electricity generation support of YEKDEM regulation – no: 5346 which entitles the company to sell the electricity by $6.3 cent per kWh for electricity generation from biomass through 10 years.

Secom Aktif Güvenlik Yatırım A.Ş.: Secom Aktif Güvenlik Yatırım A.Ş is established as an HoldCo (a holding/umbrella company) to acquire and to invest in Kent Güvenlik A.Ş by the shareholders of Secom Co. Ltd (%50) and Emlak Girişim Danışmanlığı A.Ş. (%50).

Secom Aktif Elektronik Güvenlik Çözümleri A.Ş. is established for the purposes below:

- Security systems and services (Monitoring and installation of security systems such as theft and fire alarm, electronic safe, verification of the alarms and activation of the units such as police, fire department).
- Import, export, manufacture, trade and marketing all kinds of security systems materials.
- Engineering and installation of fire, burglar and general purpose alarm systems for the public and/or private buildings.
- Establishing, operating alarm-monitoring centers within the framework of the related laws and accepting subscribers to the monitoring center.

Dome Zero Inc: Dome Zero Inc operates in packing solutions sector.

Workindo Teknoloji ve İnsan Kaynakları Danışmanlık A.Ş. ("Sigortayeri"): Workindo is established to operate in business to business professional services.

2. Basis of preparation

2.1 Statement of compliance

The Bank and its subsidiaries operating in Turkey maintain their books of account and prepare their statutory consolidated financial statements in Turkish Lira ("TL") in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), Turkish Accounting Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority, Capital Markets Board of Turkey, the Turkish Commercial Code and tax legislation. The foreign subsidiaries maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered. The accounting policies and valuation principles applied in the preparation of accompanying financial statements are determined and applied in accordance with principles in the context of IAS and IFRS.

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB"). The consolidated financial statements were authorised for issue by the Group's management on 11 April 2022.

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation, except for the following:

- derivative financial instruments are measured at fair value
- financial assets measured at fair value through profit or loss
- financial assets measured at fair value through other comprehensive income

2.3 Functional and presentation currency

These consolidated financial statements are presented in TL, which is the Bank's functional currency. Except as indicated, financial information presented in TL has been rounded to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. In preparing these consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at 31 December 2020.

The COVID-19 epidemic, which emerged in 2020 and has global impacts, causes disruptions in operations and creates uncertainties both in regional and global economic conditions. As of 31 December 2021, the Bank has reflected the effects of the outbreak on the estimates used in the expected loan loss calculations in the light of the available information and developments.

(Currency - In thousands of Turkish Lira (“TL”))

2. Basis of preparation *(continued)*

2.5 Earnings per share

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“bonus shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the year in which they were issued and for each earlier period.

There is no bonus share issuance as at 31 December 2021 (31 December 2020: None).

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

	31 December 2021	31 December 2020
Profit attributable to equity holders of the Bank	786,856	559,777
Weighted average number of ordinary shares in issue	1,193,585	1,193,585
Basic and diluted earnings per share (full TL amount per TL 1 face value each)	**0.659**	**0.469**

3. Significant accounting policies

3.1 Accounting in hyperinflationary economies

The consolidated financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the Turkish Lira based on International Accounting Standard (“IAS”) No. 29 “Financial Reporting in Hyperinflationary Economies” as at 31 December 2005. IAS 29 requires that consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current on the reporting date, and that corresponding figures for prior periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey has been 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute (“TURKSTAT”). By taking this into consideration, together with the sustained positive trend in quantitative factors, such as the stabilisation in financial and monetary markets, decrease in interest rates and the appreciation of TL against USD and other hard currencies, it was declared that Turkey should be considered a non-hyperinflationary economy under IAS 29 from 1 January 2006 as stated in International Standards Alert No. 2006/17 issued on 8 March 2006. Therefore, IAS 29 has not been applied to the accompanying consolidated financial statements starting from 1 January 2006.

According to the announcement made by Public Oversight Accounting and Auditing Standards Authority on 20 January 2022, due to the fact that cumulative change in the general purchasing power of the last 3 years was 74.41%; it has been stated that businesses applying TFRS do not need to make any adjustments in their financial statements for 2021 within the scope of TAS 29 Financial Reporting in High Inflation Economies. Therefore, no inflation adjustment has been applied on the financial statements dated 31 December 2021 in accordance with TAS 29.

3. Significant accounting policies *(continued)*

3.2 Foreign currency transactions

Foreign currency transactions

Transactions in the financial statements of the Group are recorded in TL, which is the Bank's functional currency and the presentation currency for the accompanying consolidated financial statements. Transactions in foreign currencies are translated into the functional currency of the Group at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into TL at the exchange rates ruling at date of the statement of financial position with the resulting exchange differences recognized in income as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in income as realized during the period.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to TL at foreign exchange rates ruling at the date of the statement of financial positions. The revenues and expenses of foreign operations are translated to TL using average exchange rates. Foreign exchange differences arising on translation are recognized directly in a separate component of equity. When a foreign operation is disposed of in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

3.3 Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the consolidated financial statements of the Bank and entities controlled by the Bank. The control exists if and only if; 1) when the Bank has the power over an affiliate which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities, 2) exposure, or rights, to variable returns from its involvement with the affiliate, 3) the ability to use its power over the affiliate to affect the amount of its returns. The Bank reassess its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

3. Significant accounting policies *(continued)*

3.3 Basis of consolidation *(continued)*

Business combinations(continued)

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint ventures are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within the Group equity and any gain/loss arising is recognised directly in equity.

(Currency - In thousands of Turkish Lira ("TL"))

3. Significant accounting policies *(continued)*

3.3 Basis of consolidation *(continued)*

Group entities

Subsidiaries	Country of Incorporation	Direct ownership 31 December 2021	Direct ownership 31 December 2020	Indirect ownership 31 December 2021	Indirect ownership 31 December 2020
Insurance Brokerage					
Sigortayeri Sigorta ve Reasürans Brokerliği A.Ş.	Turkey	100.00%	100.00%	-	-
Payment Systems					
Epost Elektronik Perakende Otomasyon Satış Tic. A.Ş.	Turkey	99.86%	99.86%	-	-
E-Kent Geçiş Sistemleri ve Biletleme Teknolojileri A.Ş.	Turkey	-	-	99.86%	99.86%
N Kolay Ödeme Kuruluşu A.Ş. (Formerly known as N Kolay Mağazacılık A.Ş.)	Turkey	90.04%	90.04%	-	-
UPT Ödeme Hizmetleri A.Ş.	Turkey	100.00%	100.00%	-	-
UPT Lithuania UAB	Lithuania	-	100.00%	-	-
Real Estate					
Emlak Girişim Danışmanlığı A.Ş.	Turkey	100.00%	100.00%	-	-
Service					
Pavo Teknik Servis Elektrik Elektronik Sanayi ve Ticaret A.Ş.	Turkey	-	-	100.00%	100.00%
Mükafat Portföy Yönetimi A.Ş.	Turkey	80.00%	80.00%	-	-
Solar Energy					
İpek Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	100.00%
Esen Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	100.00%
Mehtap Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Tanyeri Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Seher Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	100.00%
Ufuk Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Yakamoz Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Duru Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	100.00%
Deniz Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	100.00%
Kasımpatı Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	100.00%
Martı Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	100.00%
Nilüfer Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Mercan Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Çiğdem Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Defne Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Gelincik Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Leylak Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Lilyum Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Akuamarin Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Ametist Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Aytaşı Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Güneştaşı Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Kaplan Gözü Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Kuvars Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Lapis Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Oniks Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Opal Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Turkuvaz Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Other					
İnovaban İnovasyon ve Finansal Danışmanlık A.Ş.	Turkey	-	-	67.00%	67.00%
Attivo Bilişim Anonim Şirketi	Turkey	-	-	90.00%	90.00%
Oniki Teknoloji A.Ş. (formerly known as Epost Dış Ticaret A.Ş.)	Turkey	-	-	99.86%	99.86%
Eko Biokütle Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Passo Spor Oyunları Kulübü Yazılım ve Pazarlama A.Ş.	Turkey	-	-	74.90%	74.90%

Equity accounted investees	Country of Incorporation	31 December 2021 Ownership	31 December 2020 Ownership
Kazakhstan Ijara Company Jsc	Kazakhstan	14.31%	14.31%
Euroasian Leasing Company	Republic of Tatarstan	36.71%	36.71%
Tasfiye Halinde Haliç Finansal Kiralama Anonim Şirketi	Turkey	32.00%	32.00%
Halk Yenilenebilir Enerji Anonim Şirketi	Turkey	50.00%	50.00%
Euro Mediterianean Investment Company	Turkish Republic of Northern Cyprus	25.53%	25.53%
Secom Aktif Güvenlik Yatırım A.Ş.	Turkey	50%	50%
Secom Aktif Elektronik Güvenlik Çözümleri A.Ş.	Turkey	50%	50%
Dome zero Inc.	USA	1.98%	1.98%
Workindo Teknoloji ve İnsan Kaynakları Danışmanlık A.Ş.	Turkey	33.33%	33.33%
Kırmızı Elmas Enerji Ve Alt Yapı Yat. A.Ş. - Emlak Gir. Dan.A.Ş.- Hitachi Europe Ltd. İş Ortaklığı	Turkey	33.33%	33.33%
Aktif Fortis Enerji Anonim Şirketi	Turkey	50%	-

3. Significant accounting policies *(continued)*

3.4 Interest income / expense

Interest is recorded according to the effective interest rate method (rate equal to the rate in calculation of present value of future cash flows of financial assets or liabilities) defined in the IFRS 9 Financial instruments standard by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. In applying the effective interest method, an entity identifies fees that are an integral part of the effective interest rate of a financial instrument. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, unless the financial instrument is measured at fair value, with the change in fair value being recognised in profit or loss. In those cases, such fees are accounted as revenue or expense when the instrument is initially recognised in the financial statements.

When applying the effective interest method, it is amortised any fees, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate over the expected life of the financial instrument.

In case an interest was accrued on a security before its acquisition, the collected interest is divided into two parts as interest before and after the acquisition and only the interest income of the period after the acquisition is recorded as interest income in the financial statements.

If the expectations for the cash flows in the financial asset are revised for reasons other than the credit risk, the amendment is reflected in the carrying amount of the asset and in the related statement of profit or loss and other comprehensive income line and is amortised over the estimated life of the financial asset.

If the financial asset is impaired and classified as a non-performing receivable, the effective interest rate is applied to the amortized cost of the asset for subsequent reporting periods. Such interest income calculation is performed on an individual contract basis for all financial assets subject to impairment calculation. The effective interest rate is used for the calculation of loss given default parameter in the expected credit loss models and therefore the calculated expected credit losses, includes this calculated interest amount. Accordingly a reclassification is performed between the accounts of "expected credit losses" expense and "interest income from loans" for such calculated interest amount. If the credit risk of the financial instrument improves to the extent that the financial asset is no longer considered as impaired and the improvement can be attributed to an incident that eventually takes place (such as an increase in the loan's credit rating), the system calculates interest income at subsequent reporting periods by applying the effective interest rate to the gross amount.

3.5 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are provided.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

3.6 Net trading income

Net trading income/(expense) includes gains and losses arising from sale of financial assets measured at fair value through profit or loss (FVPL) and through other comprehensive income (FVOCI) in addition to changes in fair value of financial assets measured at FVPL and derivatives.

3.7 Dividends

Dividend income is recognised when the right to receive income is established.

3. Significant accounting policies *(continued)*

3.8 Leases

The Group has started to apply IFRS 16 Leases standard as of 1 January 2019.

IFRS 16 Leases standard abolishes the dual accounting model currently applied for lessees through recognising finance leases in the balance sheet whereas not recognising operational lease. Instead, it is set forth a single model similar to the accounting of finance leases (on balance sheet). The lease transactions were started to be recognised under "Tangible Fixed Assets" as an asset (tenure) and under "Financial Lease Liabilities" as a liability. For lessors, the accounting stays almost the same.

The Group recognizes the right of use and the lease liabilities on the financial statements at the effective date of the lease. The right of use is measured initially at cost value and subsequently measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for the re-measurement of the lease obligation. IAS 36 Impairment of Assets is applied in order to determine whether the real estates that are entitled to use have been impaired and to recognize the impairment loss.

IFRS 16 introduces a single leasing accounting model for lessees. As a result, the Group, as a lessee, has acquired the lease rights representing the lease rights representing the right to use the underlying asset and the lease payments to the financial statements. Accounting for the lessor is similar to the previous accounting policies.

Recognition of right of use assets:

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

- The initial measurement amount of the lease obligation,

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

- All initial direct costs incurred by the Group and

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

- Accumulated depreciation and accumulated impairment losses are deducted and

- Measures the restatement of the lease obligation at the restated cost.

The Group applies depreciation provisions in IAS 16 Property, Plant and Equipment while depreciating the right of use assets.

The Lease obligations

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

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

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

- Increase the book value to reflect the interest on the lease obligation

- Reduces the book value to reflect the lease payments made and

- 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.

3.9 Other operations revenue

The Group recognises revenue based on the following five principles in accordance with the IFRS 15, "Revenue from Contracts with Customers Standard" effective from 1 January 2018:

- Identification of customer contracts
- Identification of performance obligations
- Determination of the transaction price in the contracts
- Allocation of transaction price to the performance obligations
- Recognition of revenue when the performance obligations are satisfied

The Group evaluates each contracted obligation separately and respective obligations, committed to deliver the distinct goods or perform services, are determined as separate performance obligations.

The Group determines at contract inception whether the performance obligation is satisfied over time or at a point in time. When the Group transfers control of a good or service over time, and therefore satisfies a performance obligation over time, then the revenue is recognised over time by measuring the progress towards complete satisfaction of that performance obligation.

When a performance obligation is satisfied by transferring promised goods or services to a customer, the Group recognises the revenue as the amount of the transaction price that is allocated to that performance obligation. The goods or services are transferred when the control of the goods or services is delivered to the customers.

Following indicators are considered while evaluating the transfer of control of the goods and services:

a) presence of Group's collection right of the consideration for the goods or services,

b) customer's ownership of the legal title on goods or services,

c) physical transfer of the goods or services,

d) customer's ownership of significant risks and rewards related to the goods or services,

e) customer's acceptance of goods or services.

If the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less, the promised amount of consideration for the effects of a significant financing component is not adjusted. On the other hand, when the contract effectively constitutes a financing component, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised on an accrual basis as other operating income.

3. Significant accounting policies *(continued)*

3.9 Other operations revenue *(continued)*

The Group generates revenue primarily from banking services, payment solutions, money transfer services, insurance brokerage, transportation solutions, ticketing services, portfolio management, energy production and real estate.

The Group recognizes revenue generated from the services given as the customers benefit from the services at their premises at a point in time.

Customers obtain control of energy produced when the energy delivered to distributing point and invoices are issued according to contractual terms. Revenue is recognised when the energy production amount is measured reciprocally and reconciled between the Group and customers at their premises.

The Group recognizes revenue generated from real estate sales as control of each of the independent sections are obtained and have been accepted by customers at their premises at a point in time.

3.10 Financial assets and liabilities

Recognition

The Group initially recognises loans and advances to customers, investment securities, funds borrowed, customer accounts and debt securities issued on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities *(continued)*

Fair value measurement (continued)

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Derivative financial instruments

The Group enters into transactions with derivative instruments including forwards, swaps, currency options and interest rate cap/floor agreements in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however, since they do not qualify for hedge accounting under the specific provisions of International Accounting Standard 39 – Financial instruments: Recognition and measurement ("IAS 39"), they are treated as derivatives held for trading. IFRS 9 also includes new hedge accounting rules aiming alignment with risk management activities. IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting provisions of IAS 39 as a policy choice. Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognised in profit or loss.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Identification and measurement of impairment

As of 1 January 2018, the Group recognizes provisions for impairment in accordance with IFRS 9 requirements. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions. These financial assets are divided into three categories depending on the gradual. The Group calculates expected credit losses based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

Probability of Default (PD): PD refers to the likelihood that a loan will default within a specified time horizon, which is usually set at 12 months, given certain characteristics. The Group uses two different probability of default rates while calculating expected credit losses as per the IFRS 9.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities *(continued)*

Identification and measurement of impairment (continued)

- 12-month PD: as the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months) following the balance sheet date.

- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

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

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

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

Stage 2: Includes financial assets which have a significant increase in credit risk since initial recognition but an unbiased evidence does not occur. Lifetime expected credit losses are recognized for these financial instruments.

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

Rating system for corporate loans

Internal credit risk assessment system of the Bank grades loans in 12 categories in the wide range from the highest (AAA) to the lowest (D3).

The Bank utilizes an internal rating system, which is based on quantitative and qualitative data. Rating table for each customer is prepared annually by CRM and reviewed by the Credit Allocation Department based on year-end financials and updated information.

For Financial Risks (objective) the company can get maximum 70 points and for Business and Sector Risks (subjective) maximum 30 points, respectively. Financial risk is assessed considering financial indicators and ratios like equity strength, profitability, liquidity and profit margins. On the other hand, business risk is freely evaluated by the rater based on information available, intelligence and track record of the company and owners. Market position, prospects for growth, as well as ownership strength is appraised. These soft and hard facts lead us to reach final "Risk Rating" of the company.

Equity structure, profitability and liquidity are the basic parameters that affect financial risk (objective). Indebtedness, profitability and rational equity structure analysis are evaluated by means of 12 financial ratios which have 30 % effect on rating calculation. For the purpose of evaluating trend analysis based on company's financial statements, 21 ratios are calculated which have 30 % effect on rating calculation. Foreign currency position and effect on equity thereof are evaluated by means of 3 ratios which have 10 % effect on rating calculation.

Sector, shareholder's financial power, institutionalization and intelligence records are the parameters that affect business risk (subjective). Business risk is evaluated by means of 19 questions. Corporate branch executives are responsible for answering aforementioned questions accurately. As for financial statement analysis, Independent Auditor's Reports or Corporate Tax Declaration Reports (balance sheet and income statement) are taken into consideration. Financial statements of last 3 periods are evaluated and trend of financial structure in the course of these periods is taken into consideration.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities *(continued)*

Identification and measurement of impairment (continued)

Rating system for consumer loans (continued)

There is a comprehensive rule-based systematic infrastructure in personal loan. In this structure, besides the KKB (Credit Bureau) information, the customer's demographic information, employment information, risk center data, bank database information etc. is also used.

The structure, which includes rule-based and comprehensive strategy trees, enables the implementation of more common policy rules. A scorecard structure which works with Cut-off logic is only included in the N Kolay Personal Loans which is given by the digital channel, but not preferred in the application of PTT and Dealer loans.

PTT Retirement Loans are a credit system based on automatic collection from pension, therefore the systems have been developed especially to guarantee the collection process from the salary and prevent the customer from borrowing more than the amount of pension.

Dealers are intermediary for lending of vehicle credits- especially second hand- and credits for durables goods like furniture, refrigerator, washing machine, etc. For the dealer channel, credit applications are evaluated based on main Aktif Bank's strategies and dealers' risk segments. Dealers' risk segments are based on non-performing loan ratio and profit for each dealer. The vehicle mentioned in the loan is taken as collateral then loan disbursement is realized.

In addition, the risk measurement of policy trees and rules is reviewed and analysed as necessary, with the rejection / grey area / automatic approval rules and performance trees for all credit products being reviewed at least once a year.

The scorecard system for the digital channel -which includes N Kolay Personal Loans that receives too many loan applications-, was started in 2017 and validation was completed in April 2019 and in September 2020 the scorecard will be renewed.

Forward-looking macroeconomic information

The Group incorporates forward-looking macroeconomic information including Unemployment Rate, Consumer Confidence Index (CCI), Composite Leading Indicator (CLI) and Consumption Expenditure of General Government, when assessing the significant increase in credit risk and expected credit loss calculation. Forward-looking expectations for these parameters are updated at least once a year and used in expected credit loss calculations.

Significant increase in credit risk

In the event of a significant increase in credit risk, the financial asset is transferred to Stage 2.

Qualitative and quantitative considerations taken into determining the significant increase in the credit risk of a financial asset as follows;

- Delay days as of the reporting date is 30 or more
- Refinancing and restructuring the credit account
- Loans under close monitoring
- Significant increase in probability of default.

Definition of the significant increase in the probability of default, the comparison of the probability of default at the opening date of the loan with the probability of default at the reporting date. If the probability of default calculated for the loan at the reporting date exceeds the set thresholds, it is considered to be a deterioration of the probability of default. The thresholds used in the probability of default are differentiated on the basis of segment/credit group.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities *(continued)*

Identification and measurement of impairment (continued)

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full;
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

3.11 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances with Central Bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as cash and cash equivalents, and the underlying asset is not recognised in the Group's consolidated financial statements. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.12 Explanations and disclosures on financial assets

The Group categorizes and recognizes its financial assets as "Financial Assets at Fair Value through Profit/Loss", "Financial Assets Measured at Fair Value through Other Comprehensive Income" or "Financial Assets at Measured at Amortized Cost". Such financial assets are recognized or derecognized according to IFRS 9 Financial Instruments. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets Measured at Fair Value through Profit or Loss", transaction costs are added to fair value or deducted from fair value.

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

3. Significant accounting policies *(continued)*

3.12 Explanations and disclosures on financial assets *(continued)*

Financial assets measured at fair value through profit or loss

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

Financial assets measured at fair value through other comprehensive income

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

Financial assets measured 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 measured at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets measured at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. "Unrealized gains and losses" arising from the difference between the amortized cost and the fair value of financial assets measured at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity.

Equity securities, which are classified as financial assets measured at fair value through other comprehensive income, are carried at fair value.

At initial recognition, it can be made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such election is made on an instrument by instrument basis. Amounts presented in other comprehensive income shall not be subsequently recycled to profit or loss. However, the cumulative gain or loss shall be recycled to prior period's profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. IFRS 9 impairment requirements are not applicable for equity instruments.

3. Significant accounting policies *(continued)*

3.12 Explanations and disclosures on financial assets *(continued)*

Financial assets measured at amortized cost

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

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

Loans

Loans are non-derivative financial assets that have fixed or determinable payments terms and are not quoted in an active market. Stated 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".

The Group's all loans are recorded under the "Measured at Amortized Cost" account.

3.13 Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognised in the consolidated statement of financial position and are measured in accordance with the accounting policy for either financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income or financial assets at measured at amortized cost as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognised on an accruals basis over the period of the transaction and are included in "interest income" or "interest expense".

3.14 Trade receivables

Trade receivables that are created by way of providing goods or services directly to a debtor are carried at amortised cost. Trade receivables, net of unearned financial income, are measured at amortised cost, using the effective interest rate method, less the unearned financial income. Short duration receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant.

As of 1 January 2018, the Group recognizes provisions for impairment in accordance with IFRS 9 requirements.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is recognised in profit or loss.

3.15 Inventories

Inventories are valued at the lower of cost or net realisable value. Cost elements included in inventories are materials, labour and an appropriate amount for factory overheads. The cost of borrowings is not included in the costs of inventories. The cost of inventories is determined on the weighted average basis for each purchase. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Inventories consist of raw material, semi-finished goods, finished goods, commercial goods and other stocks.

3. Significant accounting policies *(continued)*

3.16 Tangible assets

Recognition and measurement

Items of tangible assets are restated for the effects of inflation to 31 December 2005, less accumulated depreciation and impairment losses. Tangible assets acquired after 31 December 2005 is reflected at cost, less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs

The cost of replacing part of an item of machinery or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of tangible assets are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible assets. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for as at 31 December 2021 and 2020 are as follows:

- machinery or equipment 3-25 years
- furniture and fixtures 2-60 years
- motor vehicles 5 years
- other fixed assets 2-50 years

Leasehold improvements are depreciated on a straight-line method over the shorter of the lease term and their useful lives.

3.17 Intangible assets

(i) Service agreements

Service agreements acquired in a business combination are recognised at fair value at the acquisition date. The service agreements have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the service agreements.

(ii) Software

Software acquired by the Group is restated for the effects of inflation to 31 December 2005, less accumulated amortisation and impairment losses. Intangible assets acquired after 31 December 2005 are reflected at cost, less accumulated amortisation and impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

3. Significant accounting policies *(continued)*

3.17 Intangible assets *(continued)*

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is 3 to 15 years.

(iii) Goodwill

Goodwill that arises upon the acquisition of subsidiaries the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative bargain), it is recognised immediately in profit or loss.

Acquisitions of non-controlling interests

Acquisition of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(iv) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they meet the definition of an intangible asset and their fair value can be measured reliably. Cost of such intangible assets is the fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets acquired separately.

3.18 Non-current assets held for sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

3.19 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed on each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

3. Significant accounting policies *(continued)*

3.19 Impairment of non-financial assets *(continued)*

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.20 Funds borrowed and debt securities issued

Funds borrowed and debt securities issued are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.21 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contract is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3.22 Employee benefits

Under IAS 19, the Group determines the net interest expense (income) for the period on the net defined benefit liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability at the beginning of the annual period, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments.

3. Significant accounting policies *(continued)*

3.22 Employee benefits *(continued)*

Consequently, the net interest on the net defined benefit liability now comprises:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect on the asset ceiling.

As per revised IAS 19, all actuarial gain or losses are recognized under other comprehensive income starting from 1 January 2013.

3.23 Trade and other payables

Trade payables are payments to be made arising from the purchase of goods and services from suppliers within the ordinary course of business. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.24 Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of prior years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed on each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.25 Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

3.26 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3. Significant accounting policies *(continued)*

3.27 Borrowing costs

The Group, whenever required, generates funds from domestic and foreign sources in the form of borrowings, and bill and bond issuances in the local and international markets. The funds borrowed are recorded at their purchase costs and valued at amortised costs using the effective interest method.

An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.

4. New and Revised International Financial Reporting Standards

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

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 information that is more useful to users of financial statements. IFRS 17 has an effective date of 1 January 2023 but companies can apply it earlier.

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

The revised Conceptual Framework (Version 2018)

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018, IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amended “definition of material “was added to the important definition and it was stated that this expression could lead to similar results by not giving and giving misstating information.

4. New and Revised International Financial Reporting Standards *(continued)*

Amendments to IAS 1 and IAS 8 - Definition of Material *(continued)*

In addition, with these amendments, the terminology used in its definition of material has been aligned with the terminology used in the Conceptual Framework for Financial Reporting (Version 2018). Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 1 and IAS 8.

Amendments to IFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. IASB has issued amendments to IFRS 3 Business Combinations to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. With these amendments confirmed that a business must include inputs and a process, and clarified that the process shall be substantive and the inputs and process must together significantly contribute to creating outputs. It narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a concentration test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. This is a simplified assessment that results in an asset acquisition of substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020; with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 3.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Interest Rate Benchmark Reform, which amended IFRS 9, IAS 39 and IFRS 7 issued in September 2019, added Section 6.8 and amended paragraph 7.2.26. About this issue, IASB identified two groups of accounting issues that could affect financial reporting. These are:

• pre-replacement issues—issues affecting financial reporting in the period before the reform; and

• replacement issues—issues that might affect financial reporting when an existing interest rate benchmark is either reformed or replaced.

IASB considered the pre-replacement issues to be more urgent and decided to address the following hedge accounting requirements as a priority in the first phase of the project:

(a) The highly probable requirement;

(b) Prospective assessments;

(c) IAS 39 retrospective assessment; and

(d) Separately identifiable risk components.

All other hedge accounting requirements remain unchanged. A company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform. The Group shall apply these amendments for annual periods beginning on or after 1 January 2020 with earlier application permitted.

5. Use of estimates and judgements

Management decides to the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 6).

Key sources of estimation uncertainty

Allowances for loan losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.10.

Probability of Default (PD): PD refers to the likelihood that a loan will default within a specified time horizon, which is usually set at 12 months, given certain characteristics. The Group uses two different probability of default rates while calculating expected credit losses as per the IFRS 9.

- 12-month PD: as the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months) following the balance sheet date.

- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

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

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

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

Stage 2: Includes financial assets which have a significant increase in credit risk since initial recognition but an unbiased evidence does not occur. Lifetime expected credit losses are recognized for these financial instruments.

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

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full;
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

5. Use of estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

Allowances for loan losses (continued)

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.10. For financial instruments that require varying degrees of judgement depending liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include:

Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in accounting policy 3.10.

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

Level 1: Quoted market price (unadjusted) in an active market for 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 Group 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 Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like forwards and currency 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.

(Currency - In thousands of Turkish Lira ("TL"))

5. Use of estimates and judgements *(continued)*

Critical accounting judgements in applying the Group's accounting policies *(continued)*

This table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

At 31 December 2021	Note	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	*11*	3,113	1,202,823	-	1,205,936
Investment securities – FVOCI portfolio	*12*	3,834,570	4,541,950	-	8,376,520
		3,837,683	**5,744,773**	**-**	**9,582,456**
Trading liabilities	*11*	-	(153,991)	-	(153,991)
		-	**(153,991)**	**-**	**(153,991)**

At 31 December 2020	Note	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	*11*	985	698,309	-	699,294
Investment securities – FVOCI portfolio	*12*	2,685,522	3,085,086	-	5,770,608
		2,686,507	**3,783,395**	**-**	**6,469,902**
Trading liabilities	*11*	-	(143,559)	-	(143,559)
		-	**(143,559)**	**-**	**(143,559)**

Financial asset and liability classification

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances. The classification of financial assets is explained in footnote 3.12.

Deferred taxes

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized.

The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. If based on the weight of all available evidence, it is the Group's belief that taxable profit will not be available sufficient to utilize some portion of these deferred tax assets, then some portion of or all of the deferred tax assets are not recognized.

5. Use of estimates and judgements *(continued)*

Critical accounting judgements in applying the Group's accounting policies *(continued)*

Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

6. Financial risk management

Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Operational risks.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Audit Committee and Risk Management Department, which are responsible for developing and monitoring Bank risk management policies in their specified areas. The Audit Committee has non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

(Currency - In thousands of Turkish Lira ("TL"))

6. Financial risk management *(continued)*

Credit risk *(continued)*

Management of credit risk

The Bank's credit risk management strategy is based on a three-part methodology that embraces the customer selection, credit allocation, and credit pricing stages. Since it was founded, the Bank has always managed its credit risks by taking a portfolio-logic approach. This sums up the Bank's basic risk management strategy.

In the first stage of the lending process, industry weightings are determined and firms that are seeking credit are given a preliminary screening. This initial check is followed by the credit allocation stage in which firms are individually rated and the Bank's guarantee strategy is determined according to the results of this rating. In the final stage of the lending process, prices are determined by taking a risk-premium approach.

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements. Similar financial instruments include derivatives. Financial instruments such as loans and funds are not disclosed in the tables below unless they are offset in the statement of financial position.

Such collateral is subject to each agreement terms. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The Group receives and gives collateral in the form of cash in respect of the derivative transactions.

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

					Related amounts not offset in the statement of financial position		
	Types of financial assets	**Gross amounts of recognised financial assets**	**Gross amounts of recognised financial liabilities offset in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**Financial instruments (including non-cash collateral)**	**Cash collateral received**	**Net amount**
31 December 2021	Derivatives trading assets	384,822	-	384,822	(384,822)	-	-
31 December 2020	Derivatives trading assets	97,862	-	97,862	(97,862)	-	-

(Currency - In thousands of Turkish Lira ("TL"))

6. Financial risk management *(continued)*

Credit risk *(continued)*

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements (continued)

					Related amounts not offset in the statement of financial position		
	Types of financial liabilities	**Gross amounts of recognised financial liabilities**	**Gross amounts of recognised financial assets offset in the statement of financial position**	**Net amounts of financial liabilities presented in the statement of financial position**	**Financial instruments (including non-cash collateral)**	**Cash collateral received**	**Net amount**
31 December 2021	Derivatives trading liabilities	153,991	-	153,991	(153,991)	-	-
31 December 2020	Derivatives trading liabilities	143,559	-	143,559	(143,559)	-	-

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full;
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Allowance for impairment

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

(Currency - In thousands of Turkish Lira ("TL"))

6. Financial risk management *(continued)*

Credit risk *(continued)*

Write-off policy

The Group writes off a loan balance, and any related allowances for impairment losses, when Bank determines that the loan is uncollectible. This determination is reached after considering information such as occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

	Loans and advances to customers	
	Gross	**Net**
31 December 2021		
Individually impaired	448,957	151,009
31 December 2020		
Individually impaired	318,636	59,512

Concentration risk by location

The Group's total risk for loans and advances to customers and investment debt securities are mainly concentrated on Turkey. The Group monitors concentrations of credit risk for cash loans and advances to customer and non-cash loans to customers by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	31 December 2021				31 December 2020			
Sector	**Cash loans**	**%**	**Non-cash loans**	**%**	**Cash loans**	**%**	**Non-cash loans**	**%**
Construction	449,847	3	729,703	16	568,455	6	489,664	24
Financial institution	899,204	6	565,794	13	375,145	4	462,634	22
General services	229,999	2	1,813	-	343,524	3	7	-
Textile	1,189,547	7	384,496	9	1,215,727	11	129,914	6
Mining	603,913	4	24,019	1	587,156	6	1,433	-
Telecommunication	660,282	5	2,952	-	393,440	4	1,760	-
Electricity industry	244,895	2	506,712	11	34,033	-	331,660	15
Public	-	-	-	-	66,291	1	-	-
Energy industry	1,067,046	8	829,351	19	685,636	7	157,511	7
Trade	528,589	4	479,155	11	354,935	3	135,671	6
Transportation	68,438	-	27,656	1	2,861	-	72,870	3
Sports	-	-	1,000	-	736,603	7	6,020	-
Chemistry industry	-	-	69,135	2	-	-	45,679	2
IT industry	48	-	200,308	4	808	-	124,576	6
Agriculture	1,427,042	10	325,949	7	276,019	3	51,177	2
Consumer Loans	6,559,511	47	-	-	4,469,926	44	-	-
- Credit card	47,686	-	-	-	45,048	-	-	-
- Auto loans	855,457	6	-	-	417,458	4	-	-
- Mortgage loans	643	-	-	-	730	-	-	-
- Other Consumer Loans	5,655,725	41	-	-	4,006,690	40	-	-
Other	242,093	2	318,161	6	65,858	1	161,937	7
Total	**14,170,454**	**100**	**4,466,204**	**100**	**10,176,417**	**100**	**2,172,513**	**100**

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

(Currency - In thousands of Turkish Lira ("TL"))

6. Financial risk management *(continued)*

Liquidity risk *(continued)*

The Bank funds its short-term liquidity with interbank. In the case of long-term liquidity need, the Bank utilises capital market instruments. Additionally, the Bank also funds itself from the domestic and foreign market when it needs additional funds.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to short-term funds borrowed. For this purpose, net liquid assets are considered as including cash and cash equivalents and trading debt securities for which there is an active and liquid market less any short-term funds borrowed and commitments. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the BRSA.

	31 December 2021	**31 December 2020**
Average for the year	114%	105%
Maximum for the year	129%	126%
Minimum for the year	103%	92%

Residual contractual maturities of financial liabilities

	Note	**Carrying amount**	**Gross nominal inflow / (outflow)**	**On demand**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
31 December 2021									
Non-derivative liabilities									
Obligations under repurchase agr.	19	5,364,023	(5,369,587)	-	(4,192,488)	(1,027,616)	(137,951)	(11,532)	-
Debt securities issued	21	8,765,887	(8,878,125)	-	(5,235,347)	(2,421,041)	(803,331)	(418,406)	-
Funds borrowed	20	8,925,604	(9,001,173)	-	(3,929,986)	(4,647,142)	(424,045)	-	-
Trade and other payables		343,291	(344,048)	-	(91,561)	(143,319)	(43,454)	(65,714)	-
Financial lease liabilities	24	8,947	(14,826)	-	(273)	(547)	(2,416)	(9,491)	(2,099)
Customer accounts (*)	25	3,965,956	(3,965,956)	(3,965,956)	-	-	-	-	-
Derivative financial instruments									
Inflow	11	(384,822)	10,795,813	-	3,198,720	1,657,635	3,952,468	1,986,990	-
Outflow	11	153,991	(10,585,725)	-	(3,174,135)	(1,642,479)	(3,785,351)	(1,983,760)	-
		27,142,877	**(27,363,627)**	**(3,965,956)**	**(13,425,070)**	**(8,224,509)**	**(1,244,080)**	**(501,913)**	**(2,099)**

(*) Included in other liabilities.

	Note	**Carrying amount**	**Gross nominal inflow / (outflow)**	**On demand**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
31 December 2020									
Non-derivative liabilities									
Obligations under repurchase agr.	19	4,078,171	(4,088,558)	-	(2,950,496)	(1,048,875)	(70,775)	(18,412)	-
Debt securities issued	21	7,449,428	(7,645,445)	-	(4,636,562)	(2,074,881)	(915,427)	(18,575)	-
Funds borrowed	20	2,917,314	(2,932,076)	-	(843,667)	(1,329,524)	(459,660)	-	(299,225)
Trade and other payables		205,387	(207,828)	-	(72,824)	(35,599)	(49,343)	(50,062)	-
Financial lease liabilities	24	8,194	(14,479)	-	(220)	(440)	(1,981)	(8,854)	(2,984)
Customer accounts (*)	25	2,414,666	(2,414,737)	(2,377,383)	(17,868)	(19,486)	-	-	-
Derivative financial instruments									
Inflow	11	(97,862)	6,411,724	-	2,646,044	1,328,079	1,877,269	560,332	-
Outflow	11	143,559	(6,489,123)	-	(2,637,961)	(1,365,803)	(1,925,036)	(560,323)	-
		17,118,857	**(17,380,522)**	**(2,377,383)**	**(8,513,554)**	**(4,546,529)**	**(1,544,953)**	**(95,894)**	**(302,209)**

(*) Included in other liabilities.

(Currency - In thousands of Turkish Lira ("TL"))

6. Financial risk management *(continued)*

Liquidity risk *(continued)*

The gross nominal inflow / (outflow) disclosed in the table above is the contractual, undiscounted cash flow on the financial liability or commitment.

Market risk

Market risk is the risk that, measured by changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) which will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in Asset and Liability Committee ("ALCO").

Exposure to market risks – trading portfolios

The principal tool used to measure and control market risk exposure within the Bank's portfolios is Standard Method.

A summary of the Standard Method position of the Bank's portfolios on 31 December 2021 and 2020 and during the period is as follows:

	31 December 2021	31 December 2020
Interest rate risk	6,313	13,112
Foreign currency risk	33,070	4,159
Other risk	33,342	7,716
	72,725	**24,987**

The following table sets out the allocation of assets subject to market risk.

	Carrying amount	Market risk measuring
31 December 2021		
Financial assets measured at fair value through profit or loss	3,381	3,381
Derivative financial assets	384,822	384,822
31 December 2020		
Financial assets measured at fair value through profit or loss	100,565	100,565
Derivative financial assets	97,862	97,862

(Currency - In thousands of Turkish Lira ("TL"))

6. Financial risk management *(continued)*

Interest rate risk

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management Department of the Bank in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position is as follows:

	Note	Carrying amount	Unallocated	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years
31 December 2021								
Cash and cash equivalents	9	6,969,791	-	579,701	6,390,090	-	-	-
Reserve deposits at Central Bank	10	1,918,773	-	-	1,918,773	-	-	-
Financial assets at fair value through profit or loss	11	1,205,936	384,822	817,733	-	268	-	3,113
Loans and advances to customers	13	14,170,454	20,181	-	4,567,420	1,870,893	6,673,649	1,038,311
Investment securities	12	9,118,367	16,642	-	3,416,547	1,229,694	3,354,769	1,100,715
		33,383,321	**421,645**	**1,397,434**	**16,292,830**	**3,100,855**	**10,028,418**	**2,142,139**
Obligations under repurchase agr.	19	5,364,023	-	-	5,215,269	137,281	11,473	-
Debt securities issued	21	8,765,887	-	-	7,559,407	790,859	415,621	-
Lease liabilities	24	8,947	-	-	357	1,143	6,752	695
Funds borrowed	20	8,925,604	-	-	8,504,800	420,804	-	-
Trading liabilities	11	143,559	143,559		-	-	-	-
		23,208,020	**143,559**	**-**	**21,279,833**	**1,350,087**	**433,846**	**695**
Interest rate gap		**10,175,301**	**278,086**	**1,397,434**	**(4,987,003)**	**1,750,768**	**9,594,572**	**2,141,444**

	Note	Carrying amount	Unallocated	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years
31 December 2020								
Cash and cash equivalents	9	1,508,229	-	222,888	1,285,341	-	-	-
Reserve deposits at Central Bank	10	1,251,914	-	-	1,251,914	-	-	-
Financial assets at fair value through profit or loss	11	699,294	97,862	500,867	18,735	80,845	985	-
Loans and advances to customers	13	10,176,417	(36,026)	-	4,274,263	823,295	4,852,977	261,908
Investment securities	12	6,242,050	5,992	-	969,107	1,049,508	3,452,860	764,583
		19,877,904	**67,828**	**723,755**	**7,799,360**	**1,953,648**	**8,306,822**	**1,026,491**
Obligations under repurchase agr.	19	4,078,171	-	-	3,990,921	69,944	17,306	-
Debt securities issued	21	7,449,428	-	-	6,623,525	810,230	15,673	-
Financial lease liabilities	24	8,194	-	-	234	780	4,838	2,342
Funds borrowed	20	2,917,314	-	-	2,165,793	452,296	-	299,225
Trading liabilities	11	143,559	143,559	-	-	-	-	-
		14,596,666	**143,559**	**-**	**12,780,473**	**1,333,250**	**37,817**	**301,567**
Interest rate gap		**5,281,238**	**(75,731)**	**723,755**	**(4,981,113)**	**620,398**	**8,269,005**	**724,924**

(Currency - In thousands of Turkish Lira ("TL"))

6. Financial risk management *(continued)*

Interest rate risk *(continued)*

Interest rate sensitivity

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities in accordance with the regulation on measurement and evaluation with the standard shock method. An analysis of the Bank's sensitivity is as follows:

		31 December 2021		31 December 2020	
Currency	**Applied Shock (+/- x basis points)**	**Gains /Losses**	**Gains (Losses)/ Shareholder's Equity**	**Gains /Losses**	**Gains (Losses)/ Shareholder's Equity**
TL	500	(245,638)	(8.16) %	(278,923)	(12.08)%
	(400)	219,933	7.30%	256,681	11.11%
EUR	200	102,166	3.39%	17,445	0.76%
	(200)	5,363	0.18%	4,736	0.21%
USD	200	(92,057)	(3.06) %	(120,013)	(5.20)%
	(200)	99,722	3.31%	45,348	1.96%
Total (for negative shocks)		**325,018**	**10.79%**	**306,765**	**13.28%**
Total (for positive shocks)		**(235,529)**	**(7.83)%**	**(381,491)**	**(16.52)%**

Summary of average interest rates

As at 31 December 2021 and 2020, the summary of average interest rates for different assets and liabilities is as follows:

	31 December 2021			31 December 2020		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and cash equivalents	1.04	0.25	8.50	0.84	3.09	12.00
Loans and advances to customers	4.18	6.23	27.35	6.79	7.60	23.12
Investment securities – Financial assets measured at fair value through other comprehensive income	3.94	5.87	19.00	4.50	6.16	13.40
Investment securities – Financial assets measured at amortized cost	-	7.06	20.26	-	7.12	14.89
Liabilities						
Obligations under repurchase agreements	0.51	1.07	15.13	1.58	2.81	17.07
Debt securities issued	0.98	1.72	19.86	1.37	2.79	18.18
Funds borrowed	0.63	1.63	14.70	1.06	2.23	14.02

(Currency - In thousands of Turkish Lira ("TL"))

6. Financial risk management *(continued)*

Foreign currency risk

31 December 2021	**Euro**	**USD**	**Other**	**Total**
Cash and cash equivalents	2,241,980	4,202,840	177,244	6,622,064
Reserve deposits at Central Bank	711,183	1,101,477	106,113	1,918,773
Financial assets at fair value through profit or loss	-	-	-	-
Trade and other receivables	-	-	-	-
Loans and advances to customers	2,500,769	2,770,205	-	5,270,974
Investment securities	200,533	4,621,837	9	4,822,379
Equity accounted investees	-	7,196	4,292	11,488
Other assets	10,652	96,801	22	107,476
Trade and other payables	-	-	-	-
Funds borrowed	(887,679)	(3,939,517)	(72,508)	(4,899,704)
Obligations under repurchase agreements	(556,248)	(3,240,391)	(124,235)	(3,920,874)
Debt securities issued	(845,385)	(1,563,731)	-	(2,409,116)
Other liabilities	(2,986,198)	(2,797,314)	(1,872,441)	(7,655,953)
Net statement of financial position	**389,607**	**1,259,403**	**(1,781,504)**	**(132,494)**
Derivative financial instruments	(374,688)	(977,296)	1,785,337	433,354
Net total position	**14,919**	**282,108**	**3,833**	**300,860**

31 December 2020	**Euro**	**USD**	**Other**	**Total**
Cash and cash equivalents	489,188	561,729	27,369	1,078,286
Reserve deposits at Central Bank	466,393	647,363	138,158	1,251,914
Financial assets at fair value through profit or loss	-	-	-	-
Trade and other receivables	-	-	-	-
Loans and advances to customers	1,753,017	1,210,002	-	2,963,019
Investment securities	284,423	2,718,723	5	3,003,151
Equity accounted investees	-	20,122	14,847	34,969
Other assets	39,003	152,090	14	191,107
Trade and other payables	-	-	-	-
Funds borrowed	(446,876)	(1,749,969)	(76,906)	(2,273,751)
Obligations under repurchase agreements	(429,396)	(2,652,426)	(25,582)	(3,107,404)
Debt securities issued	(196,945)	(831,256)	-	(1,028,201)
Other liabilities	(1,799,850)	(1,051,133)	(757,979)	(3,608,962)
Net statement of financial position	**158,957**	**(974,755)**	**(680,074)**	**(1,495,872)**
Derivative financial instruments	(170,892)	732,104	705,261	1,266,473
Net total position	**(11,935)**	**(242,651)**	**25,187**	**(229,399)**

(Currency - In thousands of Turkish Lira (“TL”))

6. Financial risk management *(continued)*

Foreign currency risk *(continued)*

Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies on 31 December 2021 and 2020 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

31 December 2021	**Equity**	**Profit or loss**
Euro	1,492	(202)
USD	28,211	21,911
Other currencies	383	383
	30,086	**22,092**

31 December 2020	**Equity**	**Profit or loss**
Euro	(1,194)	(1,986)
USD	(24,265)	(26,741)
Other currencies	2,519	2,519
	(22,940)	**(26,208)**

A 10 percent strengthening of the TL against the foreign currencies on 31 December 2021 and 2020 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank’s operations and are faced by all business entities.

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering as whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this framework, an appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

All the operational risks that are exposed during the operations, the risk levels of the operations and/or new products/services, together with the losses of the Bank arising from operational risks are regularly monitored by the Risk Management Department of the Bank, and if deemed necessary, the risk levels are updated and periodically reported to the Risk Committee and the Board of Directors.

The Bank calculated the value of operational risk in accordance with the fourth section regarding the “Computation of Value of Operational Risk” of the circular, “Regulation on Measurement and Assessment of Capital Adequacy of Banks” Communiqué, using gross profit of the last three years 2020, 2019 and 2018 (“the Basic Indicator Approach). The amount calculated as TL 128,495 as at 31 December 2021 (31 December 2020: TL 110,246) represents the operational risk that the Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk. Value of operational risk amounted to TL 1,606,181 (31 December 2020: TL 1,378,073) and is calculated as 12.5 times the operational risk.

(Currency - In thousands of Turkish Lira ("TL"))

6. Financial risk management *(continued)*

Capital management

The Bank's lead regulator, BRSA, sets and monitors capital requirements for the Bank as a whole.

Capital adequacy ratio has been calculated in accordance with the "Regulation on Measurement and Assessment of Capital Adequacy of Banks", "Credit Risk Mitigation Techniques" and "Calculation of Risk weighted Amounts for Securitizations" Communiqués.

Capital adequacy ratio is calculated based on total capital requirements needed for credit risk, market risk and operational risk. Credit risk is calculated by holding risk-weighted assets and non-cash loans subject to risk weights in the relevant legislation and considering risk mitigation techniques; the standard method is used to calculate market risk and the basic indicator approach is used to calculate operational risk. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital.

The Bank's regulatory capital positions are as follows:

	2021	**2020**
Tier 1 Capital	2,877,416	2,224,941
Tier 2 Capital	133,920	84,529
Total regulatory capital	3,011,336	2,309,470
Value at credit, market and operational risks	21,899,641	16,047,490
Capital ratios (%)		
Total regulatory capital ratio	13.75	14.39
Total tier 1 capital ratio	13.14	13.87

Financial assets and liabilities

Accounting classification and fair values

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets or valuation techniques. However, the Group expects no significant difference between the fair value and carrying value of the financial instruments below since most of the financial instruments' maturities are short-term except for the loans and advances to customers and investment securities- financial assets measured at amortised cost. These instruments include cash and cash equivalents, reserve deposits at Central Bank, trade and other receivables, trade and other payables, obligations under repurchase agreements, debt securities issued, funds borrowed and miscellaneous liabilities.

For disclosure purpose, valuation technique used for determining the fair value of the loans and advances to customers is net present value model. Assumptions and inputs used in net present value model include benchmark interest rates, credit spreads or other premium used in estimating discount rates. The fair value measurement for fixed rate loans and receivables are calculated by using the discounted cash flow method and has been categorised as a Level 2 fair value based on the inputs to the valuation technique used.

The fair value of financial assets measured at amortized cost is determined based on quoted market prices. If the market prices cannot be obtained, the quoted market prices of other marketable securities are used for which have the same qualification in terms of interest, maturity and other terms.

The objective of valuation technique is to arrive at a fair value determination that reflects the prices of the loans and advances to customers and investment securities at the reporting date that would have been determined by market participants acting at arm's length.

The fair value hierarchy for the financial instruments measured at fair value at the end of the reporting period is presented in note 5, Use of estimates and judgements.

(Currency - In thousands of Turkish Lira ("TL"))

6. Financial risk management *(continued)*

Financial assets and liabilities *(continued)*

Accounting classification and fair values *(continued)*

The table below sets out the Group's classification of each class of financial assets and liabilities and their fair values.

	Note	Financial assets at fair value through profit or loss	Financial assets measured at amortized cost	Financial assets measured at FVOCI	Total carrying amount	Fair value
31 December 2021						
Cash and cash equivalents	*9*	-	6,969,791	-	6,969,791	6,969,791
Trade and other receivables		-	580,078	-	580,078	580,078
Reserve deposits at Central Bank	*10*	-	1,918,773	-	1,918,773	1,918,773
Financial assets at fair value through profit or loss	*11*	1,205,936	-	-	1,205,936	1,205,936
Loans and advances to customers	*13*	-	14,170,454	-	14,170,454	13,951,089
Investment securities	*12*	-	741,847	8,376,520	9,118,367	9,133,949
		1,205,936	**24,380,943**	**8,376,520**	**33,963,399**	**33,759,616**
Trading liabilities	*11*	153,991	-	-	153,991	153,991
Trade and other payables		-	343,291	-	343,291	343,291
Lease liabilities	*24*	-	8,947	-	8,947	8,947
Obligations under rep. agr.	*19*	-	5,364,023	-	5,364,023	5,364,023
Debt securities issued	*21*	-	8,765,887	-	8,765,887	8,765,887
Funds borrowed	*20*	-	8,925,604	-	8,925,604	8,925,604
		153,991	**23,407,752**	**-**	**23,561,743**	**23,561,743**

	Note	Financial assets at fair value through profit or loss	Financial assets measured at amortized cost	Financial assets measured at FVOCI	Total carrying amount	Fair value
31 December 2020						
Cash and cash equivalents	*9*	-	1,508,229	-	1,508,229	1,508,229
Trade and other receivables		-	70,526	-	70,526	70,526
Reserve deposits at Central Bank	*10*	-	1,251,914	-	1,251,914	1,251,914
Financial assets at fair value through profit or loss	*11*	699,294	-	-	699,294	699,294
Loans and advances to customers	*13*	-	10,176,417	-	10,176,417	9,959,059
Investment securities	*12*	-	471,442	5,770,608	6,242,050	6,256,717
		699,294	**13,478,528**	**5,770,608**	**19,948,430**	**19,745,739**
Trading liabilities	*11*	143,559	-	-	143,559	143,559
Trade and other payables		-	205,387	-	205,387	205,387
Financial lease liabilities		-	8,194	-	8,194	8,194
Obligations under rep. agr.	*19*	-	4,078,171	-	4,078,171	4,078,171
Debt securities issued	*21*	-	7,449,428	-	7,449,428	7,449,428
Funds borrowed	*20*	-	2,917,314	-	2,917,314	2,917,314
		143,559	**14,658,494**	**-**	**14,802,053**	**14,802,053**

7. Business combinations

Goodwill arising from Emlak Girişim and Pavo is TL 22,632 (31 December 2020: TL 22,632).

(Currency - In thousands of Turkish Lira ("TL"))

8. Segment reporting

The Group's main business segments are retail and corporate banking, consisting of loans, customer accounts and other transactions and balances with retail and corporate customers, investment banking, including trading and corporate finance activities and brokerage, containing insurance services. Operating income includes net interest income, fee and commission income, net trading gain, sales income and other income. Operating expense consists of fee and commission expense, personnel expense, depreciation and amortization expense, administrative expense and other expenses.

2021	**Retail banking**	**Corporate banking**	**Investment banking**	**Other banking**	**Total banking**	**Brokerage**	**Other**	**Combined**	**Adjustments**	**Total**
Operating income	629,607	431,513	536,474	105,154	1,702,748	203,619	335,926	2,242,293	(100,578)	2,141,715
Operating expense	(349,615)	(61,495)	(170,703)	(202,025)	(783,838)	(31,180)	(349,297)	(1,164,315)	100,578	(1,063,737)
Income from operations	**279,992**	**370,018**	**365,771**	**(96,871)**	**918,910**	**172,439**	**(13,371)**	**1,077,978**	**-**	**1,077,978**
Income tax expense	-	-	-	(222,847)	(222,847)	(42,766)	(22,011)	(287,624)	-	(287,624)
Net income for the year	**279,992**	**370,018**	**365,771**	**(319,718)**	**696,063**	**129,673**	**(35,382)**	**790,354**	**-**	**790,354**
Segment assets	6,349,203	8,201,051	18,543,007	-	33,093,261	486,893	1,275,855	34,856,009	(870,608)	33,985,401
Investments in equity participations	-	-	387,358	-	387,358	-	298,546	685,904	(580,484)	105,420
Other assets	-	-	-	1,001,974	1,001,974	863	312,672	1,315,509	78,537	1,394,046
Total assets	**6,349,203**	**8,201,051**	**18,930,365**	**1,001,974**	**34,482,593**	**487,756**	**1,887,073**	**36,857,422**	**(1,372,555)**	**35,484,867**
Segment liabilities	10,996,863	9,561,111	10,504,429	-	31,062,403	22,271	1,202,789	32,287,463	(8,725,717)	23,561,746
Equity and other liabilities	-	-	-	3,420,190	3,420,190	465,485	684,284	4,569,959	7,353,162	11,923,121
Total liabilities and equity	**10,996,863**	**9,561,111**	**10,504,429**	**3,420,190**	**34,482,593**	**487,756**	**1,887,073**	**36,857,422**	**(1,372,555)**	**35,484,867**
Other segment items										
Capital investment	-	-	-	-	-	-	-	-	-	149,743
Depreciation	-	-	-	-	-	-	-	-	-	80,652

2020	**Retail banking**	**Corporate banking**	**Investment banking**	**Other banking**	**Total banking**	**Brokerage**	**Other**	**Combined**	**Adjustments**	**Total**
Operating income	368,863	301,998	492,665	88,977	1,252,503	158,123	382,484	1,793,110	(99,709)	1,693,401
Operating expense	(316,430)	(61,151)	(101,370)	(182,338)	(661,289)	(20,016)	(377,771)	(1,059,076)	99,709	(959,367)
Income from operations	**52,433**	**240,847**	**391,295**	**(93,361)**	**591,214**	**138,107**	**4,713**	**734,034**	**-**	**734,034**
Income tax expense	-	-	-	(140,570)	(140,570)	(30,680)	(2,737)	(173,987)	-	(173,987)
Net income for the year	**52,433**	**240,847**	**391,295**	**(233,931)**	**450,644**	**107,427**	**1,976**	**560,047**	**-**	**560,047**
						-	-			
Segment assets	4,469,926	5,972,540	9,267,907	-	19,710,373	348,848	464,720	20,523,941	(562,668)	19,961,273
Investments in equity participations	-	-	387,358	-	387,358	-	269,891	657,249	(580,484)	76,765
Other assets	-	-	-	1,085,050	1,085,050	4,423	697,770	1,787,243	72,877	1,860,120
Total assets	**4,469,926**	**5,972,540**	**9,655,265**	**1,085,050**	**21,182,781**	**353,271**	**1,432,381**	**22,968,433**	**(1,070,275)**	**21,898,158**
Segment liabilities	8,679,354	5,489,398	4,199,403	-	18,368,155	16,009	732,790	19,116,954	(4,314,901)	14,802,053
Equity and other liabilities	-	-	-	2,814,626	2,814,626	337,262	699,591	3,851,479	3,244,626	7,096,105
Total liabilities and equity	**8,679,354**	**5,489,398**	**4,199,403**	**2,814,626**	**21,182,781**	**353,271**	**1,432,381**	**22,968,433**	**(1,070,275)**	**21,898,158**
Other segment items										
Capital investment	-	-	-	-	-	-	-	-	-	101,723
Depreciation	-	-	-	-	-	-	-	-	-	75,631

(Currency - In thousands of Turkish Lira ("TL"))

9. Cash and cash equivalents

	31 December 2021	31 December 2020
Cash and balances with Central Bank	6,285,528	*1,029,937*
- Cash on hand	*262,158*	*77,072*
- Unrestricted balances with Central Bank	*6,023,370*	*952,865*
Placements at money markets	-	100,051
Placements with other banks	684,263	378,241
Cash and cash equivalents	**6,969,791**	**1,508,229**
Less: Interest income accruals on cash and cash equivalents	(15,769)	(6,010)
Cash and cash equivalents in the statement of cash flows	**6,954,022**	**1,502,219**

Explanation for statement cash flows

The effect of changes in foreign exchange rates on cash and cash equivalents includes the foreign exchange differences resulted from the translations of cash and cash equivalents in foreign currencies into TL at the exchange rates prevailing at the three months periods.

Expected credit losses on cash and cash equivalents (-)

	31 December 2021				31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January	**358**	**-**	**-**	**358**	**381**	**-**	**-**	**381**
Transfer to stage 1	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Provision for the period	*810*	-	-	*810*	-	-	-	-
Recoveries and reversals	-	-	-	-	*(24)*	-	-	*(24)*
Balances at the end of the period	**1,168**	**-**	**-**	**1,168**	**358**	**-**	**-**	**358**

10. Reserve deposits at Central Bank

	31 December 2021	31 December 2020
Foreign currency	1,918,773	1,251,914
	1,918,773	**1,251,914**

According to the regulations of the Central Bank of Turkish Republic (the "Central Bank"), banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Group's day-to-day operations.

The Banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency liabilities in TL and USD at the rates of 3-8% and 5-26%, respectively according to their maturity terms as per the Communiqué no. 2005/5 "Reserve Deposits" of the Central Bank of Turkey (31 December 2020: 1-6% for TL and 5-22% for USD).

(Currency - In thousands of Turkish Lira ("TL"))

11. Financial assets at fair value through profit or loss and trading liabilities

	31 December 2021			31 December 2020
	Interest rate %	**Latest maturity**	**Carrying amount**	**Carrying amount**
Financial assets at fair value through profit or loss				
- Government bonds and treasury bills	4.38	8 July 2027	3,113	985
- Corporate Bonds	4.45	18 September 2022	268	99,580
- Investment funds	-	-	817,733	500,867
Derivative assets				
- Foreign exchange			384,822	97,862
-Swap contracts			*230,452*	*74,404*
-Forward contracts			*25,287*	*16,758*
-Futures			*122,158*	*-*
-Options			*6,925*	*6,700*
Total			**1,205,936**	**699,294**

Financial assets at fair value through profit and loss, which are subject to repurchase agreements as at 31 December 2021 are amounting to TL 316,734 (31 December 2020: TL 99,580).

Trading liabilities

	31 December 2021	31 December 2020
Derivative liabilities		
-Foreign exchange	153,991	143,559
-Swap contracts	*32,424*	*124,255*
-Forward contracts	*115,519*	*13,314*
-Options	*6,048*	*5,990*
Total	**153,991**	**143,559**

On the reporting date, the total notional amounts of outstanding derivative financial instruments contracts to which the Group is committed are as follows:

	31 December 2021	31 December 2020
Forward foreign exchange contracts – buy (*)	1,151,424	1,212,863
Forward foreign exchange contracts – sell (*)	1,132,360	1,209,788
Swap foreign exchange contracts – buy	5,245,179	3,859,906
Swap foreign exchange contracts – sell	5,078,122	3,942,625
Swap interest rate contracts – buy	2,269,060	551,000
Swap interest rate contracts – sell	2,269,060	551,000
Option contracts – buy	1,124,187	787,955
Option contracts – sell	1,115,591	785,710
Future contracts – buy	714,394	-
Future contracts – sell	698,800	-

(*) Includes spot and forward transactions

There is no derivative transaction for hedging purpose.

(Currency - In thousands of Turkish Lira ("TL"))

12. Investment securities

31 December 2021	Interest rate %	Latest maturity	Carrying amount
Financial assets measured at amortized cost			
- Corporate bonds	6.82-23.28	31 December 2024	741,847
Financial assets measured at fair value through other comprehensive income			
- Government bonds	3.22-25.68	11 May 2047	3,829,570
- Corporate bonds	2.18-24.50	25 April 2030	4,546,950
			9,118,367

31 December 2020	Interest rate %	Latest maturity	Carrying amount
Financial assets measured at amortized cost			
- Corporate bonds	7.12-23.28	31 December 2024	471,442
Financial assets measured at fair value through other comprehensive income			
- Government bonds	2.04-23.03	11 May 2047	2,685,522
- Corporate bonds	4.19-23.28	25 April 2030	3,085,086
			6,242,050

As at 31 December 2021, TL 945,946 and TL 6,046,993 of investment securities are given as collateral for performing transaction at stock exchange and repurchase agreement, respectively (31 December 2020: TL 358,175 and TL 4,661,424, respectively).

The debt securities issued by the Bank's related parties on 28 June 2021 and 16 July 2021 and with a fair value of TL 764,827 as of 31 December 2021 were included in the investment securities of the Bank. The cash loans extended by the Bank to the related parties decreased as much as the debt securities acquired from the related parties.

Expected credit losses on financial assets measured at fair value through other comprehensive income

	31 December 2021				31 December 2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January	**729**	**-**	**-**	**729**	**477**	**-**	**-**	**477**
Transfer to stage 1	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Provision for the period	*351*	-	-	*351*	*252*	-	-	*252*
Recoveries and reversals	-	-	-	-	-	-	-	-
Balances at the end of the period	**1,080**	**-**	**-**	**1,080**	**729**	**-**	**-**	**729**

Expected credit losses on financial assets measured at amortized cost

	31 December 2021				31 December 2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January	**64**	**-**	**-**	**64**	**38**	**-**	**-**	**38**
Transfer to stage 1	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Provision for the period	*29*	-	-	*29*	*26*	-	-	*26*
Recoveries and reversals	-	-	-	-	-	-	-	-
Balances at the end of the period	**93**	**-**	**-**	**93**	**64**	**-**	**-**	**64**

(Currency - In thousands of Turkish Lira ("TL"))

13. Loans and advances to customers

As at 31 December 2021 and 2020, all loans and advances to customers are recognized at amortised cost.

	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	31 December 2021			**31 December 2020**		
Other lending	14,599,230	(428,776)	14,170,454	10,517,114	(340,697)	10,176,417
Corporate loans	7,669,402	(58,459)	7,610,943	5,778,947	(72,456)	5,706,491
Consumer loans	6,929,828	(370,317)	6,559,511	4,738,167	(268,241)	4,469,926
	14,599,230	**(428,776)**	**14,170,454**	**10,517,114**	**(340,697)**	**10,176,417**

The credit quality analysis of cash loans is as follows

	31 December 2021			31 December 2020		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1	*13,128,751*	-	-	9,563,272	-	-
Stage 2	-	*1,021,522*	-	-	635,206	-
Stage 3	-	-	*448,957*	-	-	318,636
Total Loans	**13,128,751**	**1,021,522**	**448,957**	**9,563,272**	**635,206**	**318,636**

The movement of the non-performing loans is as follows:

	31 December 2021	31 December 2020
Opening balance	**318,636**	**316,551**
Addition	216,863	68,907
Collection	(79,779)	(66,298)
Debt sales and write-offs	(6,763)	(524)
Balance at the end of the period	**448,957**	**318,636**

Expected credit losses on loans and advances to customers

	31 December 2021				31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January	**50,422**	**31,151**	**259,124**	**340,697**	**31,331**	**19,350**	**193,097**	**243,778**
Transfer to stage 1	3,565	(3,025)	(540)	-	*1,550*	*(1,367)*	*(183)*	-
Transfer to stage 2	(3,731)	6,936	(3,205)	-	*(1,043)*	*1,181*	*(138)*	-
Transfer to stage 3	(1,083)	(7,203)	8,286	-	*(205)*	*(4,304)*	*4,509*	-
Provision for the period	42,862	46,071	99,990	188,923	*26,707*	*22,776*	*93,740*	*143,223*
Recoveries and reversals	(21,885)	(13,252)	(65,707)	(100,844)	*(7,918)*	*(6,485)*	*(31,901)*	*(46,304)*
Debt sales and write-offs	-	-	-	-	-	-	-	-
Balances at 31 December	**70,150**	**60,678**	**297,948**	**428,776**	**50,422**	**31,151**	**259,124**	**340,697**

(Currency - In thousands of Turkish Lira ("TL"))

13. Loans and advances to customers *(continued)*

Credit quality of loans and advances to customer

	2021				
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**2020 Total**
Current	12,867,375	368,918	-	13,236,293	9,415,336
Overdue < 30 days	261,376	362,587	-	623,963	592,522
Overdue > 30 days	-	290,017	448,957	738,974	509,256
Total	**13,128,751**	**1,021,522**	**448,957**	**14,599,230**	**10,517,114**

The collaterals held against loans including accruals are presented below as per the collateral type, up to the outstanding total amount of exposures.

2021	**Corporate/Commercial Loans**	**Consumer Loans**	**Credit Cards**	**Total**
Cash collateral	7,758	-	-	7,758
Pledge assets	5,374,792	849,048	-	6,223,840
Unsecured	2,286,852	6,029,097	51,683	8,367,632
Total	**7,669,402**	**6,878,145**	**51,683**	**14,599,230**

2020	**Corporate/Commercial Loans**	**Consumer Loans**	**Credit Cards**	**Total**
Cash collateral	165,253	-	-	165,253
Pledge assets	3,159,094	423,377	-	3,582,471
Unsecured	2,454,600	4,264,222	50,568	6,769,390
Total	**5,778,947**	**4,687,599**	**50,568**	**10,517,114**

Financial lease receivables

None (31 December 2020: None).

(Currency - In thousands of Turkish Lira ("TL"))

14. Equity accounted investees

Carrying amount of equity accounted investees is summarized below:

	31 December 2021	31 December 2020
Aktif Bank Sukuk Varlık Kiralama A.Ş.(*)	100	100
Kazakhstan Ijara Company Jsc.	35,953	19,302
Euroasian Leasing Company	12,472	6,752
Euro Mediterranean Investment Company	10,605	8,918
Haliç Finansal Kiralama Anonim Şirketi	8,788	6,704
Idea Farm Ventures Limited	8,095	8,095
Oniki Teknoloji A.Ş. (formerly known as Epost Dış Ticaret A.Ş.)	50	50
Dome Zero Inch.	820	820
Secom Aktif Yatırım A.Ş.	-	18,951
Workindo Teknoloji ve İnsan Kaynakları Danışmanlık A.Ş.	6,023	5,424
Kırmızı Elmas Enerji Ve Alt Yapı Yat. A.Ş. - Emlak Gir. Dan.A.Ş.- Hitachi Europe Ltd. İş Ortaklığı	2,732	1,649
Aktif Fortis Enerji A.Ş.	19,782	-
Equity accounted investees	**105,420**	**76,765**

(*) Aktif Bank Sukuk Varlık Kiralama A.Ş. ("VKŞ") engages in the operating activities of issuance of Sukuk. According to IFRS 10, the Bank should have the power, exposure to variable returns and the ability to use such power to affect those returns over the company. On the other hand, the Bank does not have power on VKŞ's financial statements, exposure or rights to variable returns from its involvement with VKŞ and the ability to use its power over VKŞ to affect the VKŞ's returns. Thus, VKŞ does not comply with consolidation requirements of IFRS 10 so, it is not consolidated in the financial statements as at 31 December 2021 and 31 December 2020.

	2021	2020
Balance at 1 January	76,765	60,976
Share of profit/(loss) of equity-accounted investees	(7,454)	(9,719)
Additions	17,541	22,965
Currency translation difference	18,568	2,543
Balance at 31 December	**105,420**	**76,765**

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group, is as follows:

2021	Ownership (%)	Total assets	Total liabilities and Equity	Profit / (loss) in the year
Aktif Bank Sukuk Varlık Kiralama A.Ş.	100	3,405,293	3,405,111	182
Kazakhstan Ijara Company Jsc.	14.31	457,170	441,358	15,812
Euroasian Leasing Company	36.71	38,748	38,079	669
Euro Mediterranean Investment Company	25.53	108,420	101,822	6,598
Tasfiye Halinde Haliç Finansal Kiralama Anonim Şirketi	32	31,468	24,955	6,513
Idea Farm Ventures Limited	30	25,183	25,183	-
Oniki Teknoloji A.Ş. (formerly known as Epost Dış Ticaret A.Ş.)	99.86	50	50	-
Dome zero inch.	1.98	-	-	-
Secom Aktif Yatırım A.Ş.	50	146,574	229,362	(82,788)
Workindo Teknoloji ve İnsan Kaynakları Danışmanlık A.Ş.	33.33	24,329	22,528	1,801
Kırmızı Elmas Enerji Ve Alt Yapı Yat. A.Ş.	33.33	7,944	4,698	3,246
Aktif Fortis Enerji A.Ş.	50	37,571	23,462	14,109

2020	Ownership (%)	Total assets	Total liabilities and Equity	Profit / (loss) in the year
Aktif Bank Sukuk Varlık Kiralama A.Ş.	100	2,168,679	2,168,650	29
Kazakhstan Ijara Company Jsc.	14.31	207,862	196,729	11,133
Euroasian Leasing Company	36.71	21,052	20,751	301
Euro Mediterranean Investment Company	25.53	77,240	72,034	5,206
Haliç Finansal Kiralama Anonim Şirketi	32	28,417	27,896	521
Idea Farm Ventures Limited	30	16,447	16,447	-
Oniki Teknoloji A.Ş. (formerly known as Epost Dış Ticaret A.Ş.)	99.86	50	50	-
Secom Aktif Yatırım A.Ş.	50	116,965	141,767	(24,802)
Dome zero inch.	1.98	-	-	-
Workindo Teknoloji ve İnsan Kaynakları Danışmanlık A.Ş.	33.33	20,802	21,781	(979)
Kırmızı Elmas Enerji Ve Alt Yapı Yat. A.Ş.	33.33	-	577	(577)

(Currency - In thousands of Turkish Lira ("TL"))

15. Tangible assets

	Buildings	Machinery and equipment	Furniture and fixtures	Leasehold improvements	Motor vehicles	Construction in progress	Right-of-use assets	Other fixed assets	Total
Cost									
Balance on 1 January 2020	-	299,484	44,575	7,664	14,869	356,161	8,178	13,493	744,424
Additions	9,915	7,688	6,096	5	498	16,417	1,712	6,590	48,921
Transfers	339,278	(1,321)	7,519	-	-	(345,476)	-	-	-
Disposals	-	(101,317)	(64)	(736)	(1,182)	(7,782)	(559)	(3,519)	(115,159)
Balance on 31 December 2020	**349,193**	**204,534**	**58,126**	**6,933**	**14,185**	**19,320**	**9,331**	**16,564**	**678,186**
Balance on 1 January 2021	349,193	204,534	58,126	6,933	14,185	19,320	9,331	16,564	678,186
Additions	-	49,817	7,739	1	270	9,416	1,835	1,336	70,414
Transfers	-	213	230	-	-	(443)	-	-	-
Disposals	(349,193)	(193)	(8,574)	(3)	(168)	(14,565)	-	(42)	(372,738)
Balance on 31 December 2021	**-**	**254,371**	**57,521**	**6,931**	**14,287**	**13,728**	**11,166**	**17,858**	**375,862**
Depreciation and impairment									
Balance on 1 January 2020	-	83,098	34,541	4,825	2,687	-	971	4,340	130,462
Depreciation for the year	2,788	11,426	8,065	120	3,046	-	1,217	1,529	28,191
Disposals	-	(7,960)	(5)	(115)	(371)	-	(99)	(31)	(8,581)
Transfers	-	(783)	783	-	-	-	-	-	-
Balance on 31 December 2020	**2,788**	**85,781**	**43,384**	**4,830**	**5,362**	**-**	**2,089**	**5,838**	**150,072**
Balance on 1 January 2021	2,788	85,781	43,384	4,830	5,362	-	2,089	5,838	150,072
Depreciation for the year	2,738	11,910	7,687	63	2,807	-	1,524	2,148	28,877
Disposals	(5,526)	(107)	(3,666)	(3)	(62)	-	-	(12)	(9,376)
Transfers	-	-	-	-	17	-	-	(17)	-
Balance on 31 December 2021	**-**	**97,584**	**47,405**	**4,890**	**8,124**	**-**	**3,613**	**7,957**	**169,573**
Carrying amounts									
Balance on 1 January 2020	-	216,386	10,034	2,839	12,182	356,161	7,207	9,153	613,962
Balance on 31 December 2020	346,405	118,753	14,742	2,103	8,823	19,320	7,242	10,726	528,114
Balance on 31 December 2021	-	156,788	10,116	2,041	6,163	13,728	7,553	9,901	206,289

(Currency - In thousands of Turkish Lira ("TL"))

16. Intangible assets

	Software	Computer programme	Rights	Total
Cost				
Balance on 1 January 2020	64,790	116,732	303,391	484,913
Additions:				
-Purchases	23,793	-	6,786	30,579
-Internally developed	-	23,935	-	23,935
Disposals	-	-	(45,684)	(45,684)
Transfers	-	-	-	-
Balance on 31 December 2020	**88,583**	**140,667**	**264,493**	**493,743**
Balance on 1 January 2021	88,583	140,667	264,493	493,743
Additions:				
-Purchases	31,220	122	2,110	33,452
-Internally developed	-	30,171	-	30,171
Disposals	(49)	(68)	-	(117)
Transfers	74	-	(74)	-
Balance on 31 December 2021	**119,828**	**170,892**	**266,529**	**557,249**
Amortisation and impairment				
Balance on 1 January 2020	37,977	47,345	134,000	219,322
Amortisation for the year	5,565	15,887	28,776	50,228
Disposals	-	-	(8,047)	(8,047)
Transfers	-	-	-	-
Balance on 31 December 2020	**43,542**	**63,232**	**154,729**	**261,503**
Balance on 1 January 2021	43,542	63,232	154,729	261,503
Amortisation for the year	6,172	18,215	27,388	51,775
Disposals	(49)	(68)	-	(117)
Transfers	-	-	-	-
Balance on 31 December 2021	**49,665**	**81,379**	**182,117**	**313,161**
Carrying amounts				
Balance on 1 January 2020	26,813	69,387	169,391	265,591
Balance on 31 December 2020	45,041	77,435	109,764	232,240
Balance on 31 December 2021	70,163	89,513	84,412	244,088

There is no capitalised borrowing cost related to the internally developed software during the year (31 December 2020: None).

(Currency - In thousands of Turkish Lira ("TL"))

17. Other assets

	31 December 2021	31 December 2020
Prepaid expenses	432,193	521,972
Blocked accounts	85,488	99,995
Guarantees given	82,022	151,114
Advances given	66,552	75,246
Suspense accounts	10,241	28,203
Credit card accounts	3,170	161
Income accrual	3,117	36,869
Others	98,319	21,378
	781,102	**934,938**

18. Assets held for sale

	2021	2020
Balance at 1 January	79,024	71,999
Addition	27,245	8,140
Disposal	(1,265)	(1,115)
Balance at 31 December	**105,004**	**79,024**

19. Obligations under repurchase agreements

	31 December 2021	31 December 2020
Obligations under repurchase agreements-TL	1,403,092	794,538
Obligations under repurchase agreements-FC	3,920,874	3,107,404
Money market fundings-TL	40,057	176,229
	5,364,023	**4,078,171**

20. Funds borrowed

	31 December 2021	31 December 2020
Domestic banks – TL	3,748,301	450,057
Domestic banks – Foreign currency	30,245	88,209
Foreign banks – TL	277,599	193,506
Foreign banks – Foreign currency	4,869,459	2,185,542
	8,925,604	**2,917,314**

21. Debt securities issued

As at 31 December 2021 and 2020, all debt securities issued are at amortised cost.

	31 December 2021	31 December 2020
Debt securities issued-TL	6,356,771	6,421,227
Debt securities issued-FC	2,409,116	1,028,201
	8,765,887	**7,449,428**

	31 December 2021	31 December 2020
Nominal of debt securities issued	9,400,185	8,206,246
Unaccrued interest expense	(634,298)	(756,818)
	8,765,887	**7,449,428**

(Currency - In thousands of Turkish Lira ("TL"))

21. Debt securities issued *(continued)*

In 2021, the Group issued TL debt securities with maturities between 3 January 2022 and 4 September 2023 (2020: 4 January 2021 and 4 November 2022). The interest rate for TL debt securities is between 11%-27% (2020: 8.61%-22.39%).

In 2021, the Group issued USD denominated debt securities with maturities between 3 January 2022 and 7 May 2026 (2020: 4 January 2021 and 8 June 2022). The interest rate for USD debt securities is between 0.80%-4.75% (2020: 0.50%-4.65%).

In 2021, the Group issued EUR denominated debt securities with maturities between 3 January 2022 and 6 December 2026 (2020: 4 January 2021 and 30 July 2021). The interest rate for EUR debt securities is between 0.40%-2.50% (2020: 0.40%-2.31%).

22. Taxation

General information

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

In accordance with the regulation introduced by the Law No. 7316 on the "Procedure for Collection of Public Receivables and the Law Amending Some Laws", this rate has been determined to be applied as 25% for the corporate incomes for the taxation periods of 2021 and as 23% for the corporate incomes for the taxation periods of 2022.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end balance sheet date and taxes must be paid in one instalment by the end of the fourth month.

As at 31 December 2021 and 2020, the current tax liability is as follows:

	31 December 2021	31 December 2020
Income tax liability	220,172	219,181
Prepaid taxes	(174,584)	(174,713)
Income taxes payable	**45,588**	**44,468**

For the year ended 31 December 2021 and 2020, the income tax expense recognised in profit or loss and income tax recognised directly in equity are as follows:

Recognised in profit or loss

	2021	2020
Current tax expense from continuing operations	(203,851)	(198,198)
Deferred tax from continuing operations	(83,773)	24,211
Total income tax	**(287,624)**	**(173,987)**

(Currency - In thousands of Turkish Lira ("TL"))

22. Taxation *(continued)*

Reconciliation of effective tax rate

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

	2021	Rate %	2020	Rate %
Profit for the year	790,354		560,047	
Total income tax expense	287,624		173,987	
Profit before income tax	**1,077,978**		**734,034**	
Income tax using the domestic corporation tax rate	(269,495)	(25.00)	(161,487)	(22.00)
Non-deductible expenses	(4,076)	(0.38)	(12,868)	(1.75)
Usage of non-utilized tax losses	-	-	(1,233)	(0.17)
Tax exempt income	(3,726)	(0.35)	-	-
Other	(10,327)	(0.96)	1,601	0.22
Total income tax in the profit or loss	**(287,624)**	**(26.69)**	**(173,987)**	**(23.70)**

Deferred tax

Recognised deferred tax assets and liabilities

The deferred tax included in the statement of financial position and recognised in profit or loss and in equity are as follows:

	31 December 2021			31 December 2020		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Financial assets measured at fair value through other comprehensive income	28,832	-	28,832	-	(9,045)	(9,045)
Reserve for employee benefits	7,774	-	7,774	4,626	-	4,626
Tangible assets and intangible assets	11,554	(20,967)	(9,413)	11,490	(13,105)	(1,615)
Tax losses carried forward	35,140	-	35,140	-	-	-
Expected credit losses	26,784	-	26,784	16,906	-	16,906
Other	-	(59,657)	(59,657)	38,311	-	38,311
Deferred tax	**110,084**	**(80,624)**	**29,460**	**71,333**	**(22,150)**	**49,183**

Recognised deferred tax assets and liabilities in the statement of financial position are as follows:

	31 December 2021	31 December 2020
Deferred tax assets	34,928	63,172
Deferred tax liabilities	(5,468)	(13,989)
	29,460	**49,183**

Movements in temporary differences during the year

2021	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Financial assets measured at fair value through other comprehensive income	(9,045)	(25,266)	63,143	28,832
Reserve for employee benefits	4,626	1,940	1,208	7,774
Tangible assets and intangible assets	(1,615)	(7,798)	-	(9,413)
Tax losses carried forward	-	35,140	-	35,140
Expected credit losses	16,906	9,878	-	26,784
Other	38,311	(97,667)	(301)	(59,657)
	49,183	**(83,773)**	**64,050**	**29,460**

(Currency - In thousands of Turkish Lira ("TL"))

22. Taxation *(continued)*

Deferred tax *(continued)*

Movements in temporary differences during the year *(continued)*

2020	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Financial assets measured at fair value through other comprehensive income	(5,907)	(16,374)	13,236	(9,045)
Reserve for employee benefits	6,573	(2,633)	686	4,626
Tangible assets and intangible assets	(21,984)	20,369	-	(1,615)
Tax losses carried forward	462	(462)	-	-
Expected credit losses	9,928	6,978	-	16,906
Acquisition of subsidiaries	(5,026)	5,026	-	-
Other	27,060	11,307	(56)	38,311
	11,106	**24,211**	**13,866**	**49,183**

Expiration schedule of carry forward tax losses is as follows:

	31 December 2021	31 December 2020
Expiring in 2020	-	-
Expiring in 2021	-	-
Expiring in 2022	-	-
Expiring in 2023	-	-
Expiring in 2024	35,140	-
Total	**35,140**	**-**

23. Provisions

	31 December 2021	31 December 2020
Provision for possible losses (*)	187,000	187,000
Vacation pay liability	7,811	4,052
Employee termination benefits	22,082	14,125
Other (**)	123,540	115,724
Total	**340,433**	**320,901**

(*) As at 31 December 2021, the accompanying consolidated statement of financial position includes a provision amounting to TL 187,000 provided by the Group management in line with conservatism principle considering the circumstances which may arise from any changes in the economy or market.

(**) Includes bonus, lawsuit and other provisions.

Employee termination benefits

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 8.28 and TL 7.12 on 31 December 2021 and 2020, respectively) per year of employment at the rate of pay applicable on the date of retirement or termination. In the consolidated financial statements as at 31 December 2021 and 2020, the Group reflected a liability calculated using the hypothetical method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds on the reporting date.

(Currency - In thousands of Turkish Lira ("TL"))

23. Provisions *(continued)*

The principal actuarial assumptions used on the reporting dates are as follows:

	31 December 2021	31 December 2020
Discount rate	19.10%	12.40%
Inflation rate	15.60%	9.70%

The movement in provision for employee termination benefits is as follows:

	2021	2020
Opening balance	14,125	10,538
Interest cost	1,586	1,130
Service cost	4,531	4,287
Payment during the year	(3,007)	(4,947)
Actuarial loss/(gain)	4,847	3,117
Balance at the end of the year	**22,082**	**14,125**

24. Lease liabilities

	31 December 2021	31 December 2020
Due in one year	1,500	1,015
One to two years	1,510	1,214
Two to three years	1,484	1,238
Three to four years	1,445	1,216
Over four years	3,008	3,511
	8,947	**8,194**

25. Other liabilities

	31 December 2021	31 December 2020
Customer accounts (*)	3,965,956	2,414,666
Intermediary payment account	3,630,810	1,292,047
Cash collaterals received	181,648	70,403
Expense accrual	105,756	115,737
Suspense accounts	97,655	41,273
Taxes and due payable	61,821	43,200
Credit card accounts	58,618	2,493
Payables to compulsory government funds	21,733	13,702
Blocked amounts	47,964	45,755
Unearned income	4,569	6,632
Other	139,047	68,795
	8,315,577	**4,114,703**

(*) The Bank is not entitled to collect deposits. The customer accounts represent the current balances of loan customers.

26. Capital and reserves

	31 December 2021	31 December 2020
Number of common shares, TL 1,000 (in full TL), par value (Authorised and issued)	1,193,585	1,193,585

As at 31 December 2021 and 2020, all issued shares are fully paid and there is no preference shares assigned to shareholders of the Bank.

(Currency - In thousands of Turkish Lira ("TL"))

26. Capital and reserves *(continued)*

Share capital and share premium

As at 31 December 2021 and 2020, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	31 December 2021		31 December 2020	
	Amount	**%**	**Amount**	**%**
Çalık Holding A.Ş.	1,186,791	99.43	1,186,791	99.43
Çalık Denim Tekstil San. ve Tic. A.Ş.	3,597	0.30	3,597	0.30
Ahmet Çalık	1,599	0.13	1,599	0.13
Başak Yönetim Sistemleri A.Ş.	799	0.07	799	0.07
Irmak Yönetim Sistemleri A.Ş.	799	0.07	799	0.07
Total paid-in-capital	**1,193,585**	**100.00**	**1,193,585**	**100.00**
Restatement effect per IAS 29	4,510		4,510	
Total share capital	**1,198,095**		**1,198,095**	

Reserves

Fair value reserves

As at 31 December 2021, this reserve includes the cumulative net change in the fair value of financial assets measured at fair value through other comprehensive income until the investment is derecognised or impaired.

Fair value reserve is as follows:

	31 December 2021		31 December 2020	
	TL	**FC**	**TL**	**FC**
Valuation differences	(94,144)	(80,237)	(7,686)	25,487
Total	**(94,144)**	**(80,237)**	**(7,686)**	**25,487**

Other reserves

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

Actuarial gain/ (loss)

As per revised IAS 19, all actuarial gain or losses are recognized under other comprehensive income starting from 1 January 2013.

Special funds

Special funds refer to the funds allocated from net income or retained earnings due to the tax advantage of local legal regulations.

Translation reserves

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(Currency - In thousands of Turkish Lira ("TL"))

27. Net interest income

	2021	2020
Interest income		
Loans and advances to customers	2,175,941	1,438,735
Investment securities	861,443	488,432
Cash and cash equivalents	80,502	80,127
Other	1,724	1,218
Total interest income	**3,119,610**	**2,008,512**
Interest expense		
Debt issued	1,399,026	841,879
Funds borrowed	255,488	151,440
Money market transactions	159,392	90,966
Other	19,613	37,480
Total interest expense	**1,833,519**	**1,121,765**
Net interest income	**1,286,091**	**886,747**

28. Net fee and commission income

	2021	2020
Fees and commission income		
Intermediary commissions	108,680	54,124
Commitment fee	60,431	6,063
Financial guarantee contracts issued	40,077	25,597
Remittance fee	6,700	42,391
Delivery fee	1,126	33,658
Other	66,265	17,272
Total fees and commission income	**283,279**	**179,105**
Fees and commission expense		
Clearance commissions	96,721	94,652
Credit card commissions	73,091	14,869
Financial guarantee contracts issued	2,700	3,349
Other	2,516	5,163
Total fees and commission expense	**175,028**	**118,033**
Net fees and commission income	**108,251**	**61,072**

29. Net trading loss / gain

	2021	2020
Foreign exchange gain/(loss)	(306,646)	(2,137)
Trading account gain/(loss)	112,873	89,861
Gain/(loss) from derivative financial instruments	224,118	(3,359)
Total	**30,345**	**84,365**

(Currency - In thousands of Turkish Lira ("TL"))

30. Sales income and cost of services

Sales income:

	2021	2020
Revenue from sale of goods	50,509	32,334
Insurance commission income	106,014	136,722
Transaction and other commission income	193,297	125,307
Revenue from cash register POS	19,231	31,583
Revenue from energy sales	53,378	55,468
Other sales income	11,796	9,076
Total	**434,225**	**390,490**

Cost of services:

	2021	2020
Dealer commission and other commission expenses	63,652	32,194
Maintenance expenses	3,658	2,228
Consultancy expenses	7,662	10,494
Cost of goods sold	7,564	3,499
Rent expenses	3,280	4,141
Other expenses	9,818	1,227
Total	**95,634**	**53,783**

31. Other income

	2021	2020
Gain on sale of subsidiary	-	44,637
Gain on sale and purchase of assets	150,201	65,762
Other	24,097	25,261
Total	**174,299**	**135,660**

32. Net impairment on financial assets

	2021	2020
Stage 3	38,824	66,027
Stage 1, 2	49,725	32,973
Total	**88,549**	**99,000**

33. Personnel expenses

	2021	2020
Wages and salaries	191,699	151,208
Social security premiums	43,594	37,051
Provision for employee benefits	7,704	9,179
Other	47,807	34,119
Total	**290,804**	**231,557**

(Currency - In thousands of Turkish Lira (“TL”))

34. Administrative expenses

	2021	2020
System usage expenses	19,997	20,254
Publicity expenses	48,332	23,857
Taxes and dues other than on income	41,844	26,721
Maintenance expenses	16,240	15,702
Communication expenses	21,475	14,803
Outsource expenses	34,765	16,628
Consultancy expenses	17,078	12,164
Expenses on vehicles	5,926	4,349
Others	67,654	47,225
Total	**273,311**	**181,703**

35. Other operating expenses

	2021	2020
Provision for possible losses	-	54,000
Marketing expenses	5,552	8,848
Other	82,392	56,932
Total	**87,944**	**119,780**

36. Related parties

Parent and ultimate controlling party

The Bank is controlled by Çalık Holding A.Ş. which owns 99.43% of ordinary shares (31 December 2020: 99.43%).

Compensation of key management personnel of the Group

Total salaries and other benefits paid to the Board of Members and top management during the year is TL 51,900 (31 December 2020: TL 44,763).

Balances with related parties

31 December 2021	Related party balances	Total balance	Rate (%)
Loans and advances to customers	2,051,887	14,170,454	14.48
Other liabilities (Customer accounts)	38,001	3,965,956	0.96
Debt securities issued	2,884	8,765,887	0.03
31 December 2020	**Related party balances**	**Total balance**	**Rate (%)**
Loans and advances to customers	2,622,259	10,176,417	25.77
Other liabilities (Customer accounts)	94,164	2,414,666	3.90
Debt securities issued	29,565	7,449,428	0.40

(Currency - In thousands of Turkish Lira ("TL"))

36. Related parties *(continued)*

Off statement of financial position balances with related parties

31 December 2021	Related party balances	Total balance	Rate (%)
Non-cash loans	726,822	4,466,204	16.27

31 December 2020	Related party balances	Total balance	Rate (%)
Non-cash loans	133,585	2,172,513	6.15

Transactions with related parties

	2021	2020
Interest income on loans	310,004	295,588
Fee and commission income	10,451	5,524
Other expenses	10,762	14,987

37. Commitments and contingencies

	31 December 2021	31 December 2020
Letters of guarantee	2,918,525	1,959,356
Letters of credit	396,043	133,618
Other guarantees	1,151,636	79,539
Total non-cash loans	**4,466,204**	**2,172,513**
Check limits	3,914	3,293
Other commitments	313,684	176,994
Total	**4,783,802**	**2,352,800**

38. Subsequent events

None.