TÜRKİYE VAKIFLAR BANKASI
TÜRK ANONİM ORTAKLIĞI
AND IT'S SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 2021
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

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Report on the Audit of the Consolidated Financial Statements

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

Qualified Opinion

We have audited the accompanying consolidated financial statements of Türkiye Vakıflar Bankası T.A.O. (the "Bank") and its subsidiaries (together will be referred as "the Group"), which comprise the consolidated statement of financial position as at December 31, 2021, consolidated statement of income and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, except for the effects of the matter on the consolidated financial statements described in the Basis for Qualified Opinion paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and 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 explained in Note 22, the accompanying condensed consolidated financial position as at December 31, 2021 includes a free provision at an amount of TL 1,772,000 thousands, of which TL 1,072,000 thousands was provided in prior years and TL 700,000 thousands was provided in the current period by the Group management for the possible effects of the negative circumstances which may arise from the possible changes in the economy and market conditions which does not meet the recognition criteria of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37"). In relation to aforementioned free provision, the accompanying condensed consolidated financial position as at December 31, 2021 includes deferred tax at an amount of TL 389,400 thousands of which TL 214,400 thousands was recognized in prior years and TL 175,000 thousands was recognized in the current period. Due to the fact that the above-mentioned items do not meet the recognition criteria of the IAS 37, the "Retained Earnings" and "Profit for the period" as of 31 December 2021 are understated by TL 1,382,600 thousands and TL 525,000 thousands respectively.

Other Matter

The consolidated IFRS financial statements of the Group as at 31 December 2020 was audited by another audit firm. Audit firm expressed a qualified opinion in their report issued on May 20, 2021 since the consolidated financial statements which included in their reports dated May 20, 2021 include a free provision at an amount of TL 1,072,000 thousands out of which TL 852,000 thousands was provided in prior years and TL 220,000 thousands was provided with its related deferred tax amounting to TL 214,400 within 2020 by the Group management for the possible effects of the negative circumstances which may arise from the possible changes in the economy and market conditions.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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. For each matter below, our description of how our audit addressed the matter is provided in that context. We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Key Audit Matter	How the Key Audit Matter is addressed in our audit
Financial impact of IFRS 9 "Financial Instruments" standard and recognition of classification, measurement and impairment on financial assets and related important disclosures	
As presented in Note 2.3, the Group recognizes expected credit losses of financial assets in accordance with IFRS 9 Financial Instruments standard. We considered impairment of financial assets as a key audit matter since: - Amount of on and off balance sheet items that are subject to expected credit loss calculation is material to the financial statements. - There are complex and comprehensive requirements of IFRS 9. - The classification of the financial assets is based on the Group's business model and characteristics of the contractual cash flows in accordance with IFRS 9 and the Group uses significant judgment on the assessment of the business model and identification of the complex contractual cash flow characteristics of financial instruments. - Policies implemented by the Group management include compliance risk to the regulations and other practices. - Processes of IFRS 9 are advanced and complex. - Judgements and estimates used in expected credit loss, complex and comprehensive. - Disclosure requirements of IFRS 9 are comprehensive and complex.	Our audit procedures included among others include: - Evaluating the appropriateness of accounting policies as to the requirements of IFRS 9, Group's past experience, local and global practices. - Reviewing and testing of processes which are used to calculate expected credit losses by involving our Information technology and process audit specialists. - Evaluating the reasonableness and appropriateness of management's key estimates and judgements in expected credit loss calculations including the responses to COVID-19, through selection of methods, models, assumptions and data sources. - Evaluation of the reasonableness and appropriateness of key judgments and estimates determined by management and the methods, judgments and data sources used in calculating expected loss, taking into account standard requirements, industry and global practices - Reviewing the appropriateness of criteria in order to identify the financial assets having solely payments of principal and interest and checking the compliance to the Group's Business model. - Reviewing the Group's classification and measurement models of the financial instruments and comparing with IFRS 9 requirements - Evaluating the alignment of the significant increase in credit risk determined during the calculation of expected credit losses, default definition, restructuring definition, probability of default, loss given default, exposure at default and macro-economic variables that are determined by the financial risk management experts with the Group's past performance, regulations, and other processes that has forward looking estimations. - Assessing the completeness and the accuracy of the data used for expected credit loss calculation. - Testing the mathematical accuracy of expected credit loss calculation on sample basis. - Evaluating the judgments and estimates used for the individually assessed financial assets. - Evaluating the necessity and accuracy of the updates made or required updates after the modeling process - Auditing of IFRS 9 disclosures.

Pension Fund Obligations	
Employees of the Group are members of Türkiye Vakıflar Bankası T.A.O. Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı, ("the Fund"), which is established in accordance with the temporary Article 20 of the Social Security Act No. 506 and related regulations. The Fund is a separate legal entity and foundation recognized by an official decree, providing all qualified employees with pension and post-retirement benefits. As disclosed in the Note 2.3 to the financial statements, Banks will transfer their pension fund to the Social Security Institution and the authority of the "Council of Ministers" on the determination of the mentioned transfer date is changed as "President" in the Decree Law No. 703 published in the Official Gazette numbered 30473 and dated July 9, 2018. The valuation of the Pension Fund liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, demographic assumptions, inflation rate estimates and the impact of any changes in individual pension plans. The Group Management uses Fund actuaries to assist in assessing these assumptions. Considering the subjectivity of key assumptions and estimate used in the calculations of transferrable liabilities and the effects of the potential changes in the estimates used together with the uncertainty around the transfer date and given the fact that technical interest rate is prescribed under the law, we considered this to be a key audit matter.	It has been addressed whether there have been any significant changes in regulations governing pension liabilities, employee benefits plans during the period, that could lead to adjust the valuation of employee benefits. Support from actuarial auditor of our firm, has been taken to assess the appropriateness of the actuarial assumptions and calculations performed by the external actuary. Furthermore; the accuracy and adequacy of the footnotes in the consolidated financial statements of the Group have been evaluated.

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

We communicate with 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 to 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

Damla Harman, SMMM
Partner

Istanbul, Turkey
April 26, 2022

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2021

INDEPENDENT AUDITOR'S REPORT

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TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021
(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Notes	Current Period December 31, 2021	Prior Period December 31, 2020
ASSETS			
Cash and balances with Banks and Central Banks	6	158,385,969	96,503,879
Financial assets at fair value through profit or loss ("FVPL")	7	37,916,115	16,199,275
- Securities	*7*	*16,669,689*	*7,458,290*
- Derivative Financial Instruments	*7*	*21,246,426*	*8,740,985*
Financial assets at fair value through other comprehensive income ("FVOCI")		140,754,621	85,007,132
- Debt Securities		*138,931,699*	*83,909,766*
- Equity Securities		*1,822,922*	*1,097,366*
Financial assets at amortised cost ("AC")		656,321,168	486,469,939
- Loans and advances to banks	*9*	*4,328,812*	*2,859,402*
- Loans and advances to customers	*10*	*578,138,620*	*424,869,881*
- Debt securities		*73,853,736*	*58,740,656*
Investments accounted for using the equity method		616,257	538,516
Current tax assets		3,963	3,090
Deferred tax assets	23	484,167	1,454,935
Property, plant and equipment	13	4,214,501	5,007,371
Intangible assets	13	430,514	371,942
Assets classified as held for sale	14	755,253	1,256,254
Other assets	15	29,368,052	19,500,813
Total assets		**1,029,250,580**	**712,313,146**
LIABILITIES AND EQUITY			
Financial liabilities at fair value through profit or loss		5,490,278	6,083,301
- Derivative financial instruments	*16*	5,490,278	6,083,301
Financial liabilities at amortised cost		934,107,827	635,894,015
- Deposits from banks	*17*	*33,227,916*	*23,033,197*
- Deposits from customers	*18*	*562,216,819*	*394,243,244*
- Obligations under repurchase agreements	*8*	*148,717,362*	*101,312,205*
- Funds borrowed	*19*	*98,439,676*	*51,692,048*
- Debt securities issued	*20*	*62,537,627*	*46,154,523*
- Subordinated debts	*21*	*28,968,427*	*19,458,798*
Current tax liabilities	23	1,106,142	955,837
Deferred tax liabilities	23	27,601	57,628
Liabilities directly associated with assets classified as held for sale	14	-	-
Other liabilities and provisions	22	33,658,057	21,759,880
Total liabilities		**974,389,905**	**664,750,661**
Equity attributable to owners of the parent			
Share capital	25	4,705,768	4,705,768
Share premium		6,301,000	6,300,980
Revaluation surplus		4,640,824	3,087,838
Reserves		3,407,890	2,776,999
Retained earnings		34,364,677	29,755,015
Total equity attributable to owners of the parent		**53,420,159**	**46,626,600**
Non-controlling interests	**25**	**1,440,516**	**935,885**
Total equity		**54,860,675**	**47,562,485**
Total liabilities and equity		**1,029,250,580**	**712,313,146**
Commitments and contingencies		**361,627,509**	**216,928,292**

The notes on pages 7 to 85 are an integral part of these consolidated financial statements

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021
(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Notes	Current Period December 31, 2021	Prior Period December 31, 2020
Interest income			
Interest on loans measured at AC		53,157,911	37,070,419
Interest on securities		18,826,612	10,414,784
- *Measured at FVPL*		240,985	115,374
- *Measured at FVOCI*		9,315,289	4,407,480
- *Measured at AC*		9,270,338	5,891,930
Interest on deposits at banks		63,099	81,021
Interest on money market placements		3,756	3,388
Interest received from reserve deposits		906,502	151,349
Other interest income		390,054	283,743
Total interest income		**73,347,934**	**48,004,704**
Interest expense			
Interest on deposits		(31,007,288)	(16,446,255)
Interest on money market deposits		(13,560,184)	(4,552,830)
Interest on funds borrowed		(1,901,817)	(1,508,717)
Interest expense on securities issued		(6,256,561)	(4,601,930)
Other interest expense		(265,456)	(478,762)
Total interest expense		**(52,991,306)**	**(27,588,494)**
Net interest income		**20,356,628**	**20,416,210**
Fee and commission income		5,750,870	3,843,383
Fee and commission expense		(1,495,052)	(859,303)
Net fee and commission income	**27**	**4,255,818**	**2,984,080**
Operating income			
Net trading income		(6,197,169)	58,345
Net foreign exchange gains		2,023,348	(2,387,572)
Other income	28	1,790,685	2,650,107
Total operating income		**(2,383,136)**	**320,880**
Operating expenses			
Salaries and employee benefit expenses	29	(4,140,318)	(3,483,392)
Provision for loan impairment, net of recoveries		(5,027,817)	(6,183,517)
Depreciation and amortisation		(546,886)	(502,591)
Taxes other than on income		(372,046)	(357,752)
Other expenses	30	(5,478,363)	(5,250,616)
Total operating expenses		**(15,565,430)**	**(15,777,868)**
Share of profit of associates accounted for using the equity method		95,031	61,796
Profit before income tax		**6,758,911**	**8,005,098**
Income tax expense	23	(1,128,525)	(1,536,117)
Profit for the period		**5,630,386**	**6,468,981**
Attributable to:			
Owners of the Parent		5,422,694	6,392,954
Non-controlling interest	25	207,692	76,027
Basic and diluted earnings per 100 share on profit for the year	24	1.3884	1.9134

The notes on pages 7 to 85 are an integral part of these consolidated financial statements.

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

	Notes	Current Period December 31, 2021	Prior Period December 31, 2020
.			
Profit for the period		**5,630,386**	**6,468,981**
Other comprehensive income			
Items that will not be classified to profit or loss:			
Re-measurement of post - employment benefit obligation		(68,215)	(95,895)
Revaluation of property, plant and equipment		(3,330)	216,117
Other accumulated comprehensive income that will not be reclassified in profit or loss		731,723	191,803
Related tax	23	(22,071)	(11,050)
Items that will be reclassified subsequently to profit or loss:			
Foreign currency translation differences		448,082	259,352
Net change in fair value of financial assets at FVOCI		887,365	59,032
Income (Loss) Related with Hedges of Net Investments in Foreign Operations		(262,351)	(141,050)
Other items		-	-
Income tax related to items that will be reclassified subsequently to profit or loss	23	(208,977)	(10,851)
Other comprehensive income for the year, net of income tax		**1,502,226**	**467,458**
.			
Total comprehensive income for the year		**7,132,612**	**6,936,439**
.			
Total comprehensive income attributable to:			
Owners of the Parent		6,926,327	6,924,393
Non-controlling interest		206,285	12,046

The notes on pages 7 to 85 are an integral part of these consolidated financial statements.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021
(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

	Attributable to Owners of the Parent									
			Revaluation Surplus							
	Share Capital	**Share premium**	**Fair value reserves**	**Revaluation Fund**	**Other**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Prior Period End Balance	**4,705,768**	**6,300,980**	**1,654,649**	**950,771**	**482,418**	**2,776,999**	**29,755,015**	**46,626,600**	**935,885**	**47,562,485**
Profit for the Period	**-**	**-**	**-**	**-**	**-**	**-**	**5,422,694**	**5,422,694**	**207,692**	**5,630,386**
Other comprehensive income										
Re-measurements of defined benefit plans	-	-	-	-	-	-	(53,166)	**(53,166)**	(1,507)	**(54,673)**
Change in revaluation surplus	-	-	695,676	(2,996)	-	-	-	**692,680**	100	**692,780**
Foreign currency translation differences	-	-	-	-	448,082	-	-	**448,082**	-	**448,082**
Net change in fair value of FVOCI, net of tax	-	-	690,268	-	-	-	-	**690,268**	-	**690,268**
Other items	-	-	-	-	(274,231)	-	-	**(274,231)**	-	**(274,231)**
Total other comprehensive income	**-**	**-**	**1,385,944**	**(2,996)**	**173,851**	**-**	**(53,166)**	**1,503,633**	**(1,407)**	**1,502,226**
Total comprehensive income for the period	**-**	**-**	**1,385,944**	**(2,996)**	**173,851**	**-**	**5,369,528**	**6,926,327**	**206,285**	**7,132,612**
Transfer to reserves	-	-	-	-	-	711,849	(711,849)	-	-	-
Dividends paid	-	-	-	-	-	-	(6,162)	**(6,162)**	(603)	**(6,765)**
Capital Increase	-	-	-	-	-	-	-	-	-	-
Other items	-	20	(3,813)	-	-	(80,958)	(41,855)	**(126,606)**	298,949	**172,343**
Total contributions by and distributions to owners of the parent, recognized directly in equity	**-**	**20**	**(3,813)**	**-**	**-**	**630,891**	**(759,866)**	**(132,768)**	**298,346**	**165,578**
Balances at December 31, 2021	**4,705,768**	**6,301,000**	**3,036,780**	**947,775**	**656,269**	**3,407,890**	**34,364,677**	**53,420,159**	**1,440,516**	**54,860,675**

The notes on pages 7 to 85 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Attributable to Owners of the Parent								Non-controlling interest	Total equity
			Revaluation Surplus							
	Share Capital	Share premium	Fair value reserves	Revaluation Fund	Other	Reserves	Retained earnings	Total		
Prior Period End Balance	**3,300,146**	**721,594**	**1,547,161**	**757,641**	**299,323**	**2,557,712**	**23,613,291**	**32,796,868**	**1,113,757**	**33,910,625**
Profit for the Period	-	-	-	-	-	-	**6,392,954**	**6,392,954**	**76,027**	**6,468,981**
Other comprehensive income										
Re-measurements of defined benefit plans	-	-	-	-	-	-	(75,803)	**(75,803)**	(507)	**(76,310)**
Change in revaluation surplus	-	-	182,836	193,130	-	-		**375,966**	1,319	**377,285**
Foreign currency translation differences	-	-	-	-	324,145	-	-	**324,145**	(64,793)	**259,352**
Net change in fair value of FVOCI, net of tax	-	-	48,181	-	-	-	-	**48,181**	-	**48,181**
Other items	-	-	-	-	(141,050)	-	-	**(141,050)**	-	**(141,050)**
Total other comprehensive income	-	-	**231,017**	**193,130**	**183,095**	-	**(75,803)**	**531,439**	**(63,981)**	**467,458**
Total comprehensive income for the period	-	-	**231,017**	**193,130**	**183,095**	-	**6,317,151**	**6,924,393**	**12,046**	**6,936,439**
Transfer to reserves	-	-	-	-	-	291,093	(291,093)	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-
Capital Increase	1,405,622	5,579,386	-	-	-	-	-	**6,985,008**	-	**6,985,008**
Other items	-	-	(123,529)	-	-	(71,806)	115,666	**(79,669)**	(189,918)	**(269,587)**
Total contributions by and distributions to owners of the parent, recognized directly in equity	**1,405,622**	**5,579,386**	**(123,529)**	-	-	**219,287**	**(175,427)**	**6,905,339**	**(189,918)**	**6,715,421**
Balances at December 31, 2020	**4,705,768**	**6,300,980**	**1,654,649**	**950,771**	**482,418**	**2,776,999**	**29,755,015**	**46,626,600**	**935,885**	**47,562,485**

The notes on pages 7 to 85 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

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

	Notes	Current Period December 31, 2021	Prior Period December 31, 2020
Profit for the year		5,630,386	6,468,981
Adjustments for:			
Income tax expense	23	407,467	2,040,485
Provision for incurred loan losses, net of recoveries		5,027,817	6,183,517
Depreciation and amortization	13	546,886	425,783
Provision for short term employee benefits		(42,036)	227,920
Provision for retirement pay liability and unused vacations		523,603	474,312
Unearned premium reserve		-	97,692
Change in provision for outstanding claims	30	-	33,203
Derivative financial instruments		(250,786)	(1,462,453)
Other provision expenses	30	(712,297)	293,224
Net interest income		(16,134,361)	(15,377,477)
Share of profit of equity-accounted investees		(95,031)	(61,796)
Gain on sale of subsidiaries		-	(804,835)
Other non-cash adjustments		(3,880,689)	(10,196,542)
		(8,979,041)	**(11,657,986)**
Loans and advances to banks		352,621	(1,597,667)
Reserve deposits		(32,816,068)	(28,590,543)
Financial assets at fair value through profit or loss		(9,006,979)	(5,150,313)
Loans and advances to customers		(68,784,847)	(150,822,769)
Other assets		10,159,114	(5,862,471)
Deposits from banks		10,134,720	8,432,229
Deposits from customers		45,474,978	154,947,146
Obligation under repurchase agreements		38,078,815	75,775,230
Other liabilities and provisions		9,619,718	4,024,625
Interest received		73,347,934	48,004,704
Interest paid		(52,991,306)	(27,588,494)
Taxes paid		(676,340)	(2,231,192)
Cash (used in)/provided by operating activities		**13,913,319**	**57,682,499**
Cash flows from investing activities:			
Dividends received	28	23,394	17,633
Acquisition of property and equipment		(2,993,160)	(1,694,221)
Proceeds from the sale of property and equipment		2,498,576	580,116
Acquisition of intangible assets		(80,551)	(77,171)
Proceeds from the sale of intangible assets		(1,465)	2,639
Acquisition of investment securities		(47,518,330)	(89,569,548)
Proceeds from sale of investment securities		33,816,474	28,040,172
Other cash inflow/(outflow) from investing activities		(50,842)	(935,335)
Cash used in by investing activities		**(14,305,904)**	**(63,635,715)**
Cash flows from financing activities:			
Proceeds from issue of debt securities and subordinated liabilities		39,559,480	36,292,714
Repayments of debt securities and subordinated liabilities		(14,440,092)	(19,071,449)
Repayments of funds borrowed		(52,534,154)	(24,408,154)
Proceeds from funds borrowed		65,386,766	31,110,252
Proceeds from issues of shares and other equity securities		-	7,000,000
Share issue cost		-	(15,016)
Financial lease payments		(364,167)	(377,295)
Cash provided by financing activities		**37,607,833**	**30,531,052**
Effect of foreign exchange rate fluctuations on cash and cash equivalents		5,935,716	25,608
Net (decrease)/ increase in cash and cash equivalents		**43,150,964**	**24,603,444**
Cash and cash equivalents at the beginning of the year	6	55,670,015	31,066,571
Cash and cash equivalents at the end of the year	**6**	**98,820,979**	**55,670,015**

The notes on pages 7 to 85 are an integral part of these consolidated financial statements

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

1. GENERAL INFORMATION

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

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

The Bank provides corporate, commercial and retail banking services through a network of 936 domestic branches and 4 foreign branches in New York, Bahrain, Iraq and Qatar in total 940 branches (December 31, 2020: 933 domestic, 3 foreign, in total 936 branches). As at December 31, 2021, the Bank has 16,929 (December 31, 2020: 16,748) employees. Additionally, the Bank has a subsidiary in banking sector in Austria, titled as Vakıfbank International AG. The Bank's head office is located at Saray Mahallesi, Dr.Adnan Büyükdeniz Caddesi, No: 7/A-B, Ümraniye - İstanbul.

As at December 31, 2021 The shareholder having control over the shares of The Parent Bank is the Republic of Turkey Ministry of Treasury and Finance.

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

The Parent Bank's shareholders structure as at December 31, 2021 and December 31, 2020 is stated below:

Shareholders December 31, 2021	Number of Shares (100 unit)	Nominal Value of the Shares – Thousands of TL	Share Percentage (%)
Türkiye Varlık Fonu (Group D)	1,405,622,490	1,405,622	35.99
TC Hazine ve Maliye Bakanlığı (Group A)	1,075,058,640	1,075,058	27.52
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	10.31
TC Hazine ve Maliye Bakanlığı (Group B)	387,673,328	387,673	9.93
Other appendant foundations (Group B)	2,591,250	2,591	0.07
Other real persons and legal entities (Group C)	1,527,393	1,528	0.04
Publicly traded (Group D)	630,596,723	630,597	16.14
Paid-in capital	**3,905,622,490**	**3,905,622**	**100.00**
Adjustment to share capital (*)		800,146	
Total		**4,705,768**	

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

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

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

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

1. GENERAL INFORMATION (Continued)

These consolidated financial statements were approved for issue on April 26, 2022.

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

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

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

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

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

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

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

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

December 31, 2021	**Direct Shareholding Interest (%)**	**Indirect Shareholding Interest (%)**
Subsidiaries:		
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. (*)	17.37	17.37
Vakıf Enerji ve Madencilik A.Ş.	65.50	80.48
Taksim Otelcilik A.Ş.	51.00	51.00
Vakıf Faktoring A.Ş.	78.39	80.62
Vakıf Finansal Kiralama A.Ş.	58.71	58.71
Vakıf Yatırım Menkul Değerler A.Ş.	99.25	99.40
Vakıfbank International AG	100.00	100.00
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. (*)	48.95	48.95
World Vakıf UBB Ltd in Liquidation (**)	83.00	83.59
Vakıf Elektronik Para ve Ödeme Hizmetleri AŞ	100.00	100.00
Associates:		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sınai Kalkınma Bankası A.Ş.	8.38	8.38

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

1. GENERAL INFORMATION (Continued)

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

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

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

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

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

1. GENERAL INFORMATION (Continued)

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

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

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

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

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

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

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

Vakıf Elektronik Para ve Ödeme Hizmetleri AŞ, established in 2021 to operate in the field of electronic money and payment services. Its head office is in İstanbul.

The Bank has also the following associates:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Standards Interpretation Committee ("IFRIC").

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant laws and regulations. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared in accordance with IFRS and presented in Turkish Lira ("TL"). For the purpose of fair presentation in accordance with IFRS, certain adjustments and reclassifications have been made to the statutory financial statements.

Covid-19 virus, which first appeared in China and spread rapidly worldwide in a short time, started to appear in our country in March 2020. Declared as an epidemic by the World Health Organization, Covid-19 had economic and social impacts worldwide. In order to slow down the epidemic, many measures have been taken, including in our country, to restrict travels around the world, to take quarantine measures, to increase distance work, and various arrangements are made to reduce the economic effects of the epidemic. The Group has explained the effects of Covid-19, which it reflects in the financial statements dated December 31, 2021, in the following sections.

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

According to the statement declared by POA on January 20, 2022, it has been stated that there is no requirement for entities to make any adjustments within the scope of TAS 29 Financial Reporting Standard in High Inflation Economies in the financial statements of 2021. In this context, no inflation adjustment was made in accordance with IAS 29 while preparing the financial statements as of December 31, 2021.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 New and Revised International Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at December 31, 2021:

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2021 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2021 and thereafter. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

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

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

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

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

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

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

Relief from discontinuing hedging relationships

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 New and Revised International Financial Reporting Standards (Continued)

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

Separately identifiable risk components

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

Additional disclosures

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

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

Amendments to IFRS 16 - Covid-19-Related Rent Concessions and Covid-19-Related Rent Concessions beyond 30 June 2021

In May 2020, the IASB amended IFRS 16 to provide relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic (2020 amendment). The 2020 amendment does not apply to lessors. In March 2021, the Board amended IFRS 16 to extend the availability of the practical expedient by one year (2021 amendment). The practical expedient in the 2021 amendment applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

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

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

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

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted.

The Group will wait until the final amendment to assess the impacts of the changes

Amendments to IFRS 3 – Reference to the Conceptual Framework

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 New and Revised International Financial Reporting Standards (Continued)

Amendments to IAS 16 – Proceeds before intended use

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

There is no transition relief for the first time adopters.

Amendments to IAS 37 – Onerous contracts – Costs of Fulfilling a Contract

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

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023; early application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group

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

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

Amendments to IAS 8 - Definition of Accounting Estimates

In February 2021, the Board issued amendments to IAS 8, in which it introduces a new definition of ‘accounting estimates’. The amendments issued to IAS 8 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the Board. The amendments apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of the effective date. Earlier application is permitted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 New and Revised International Financial Reporting Standards (Continued)

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

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

Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments issued to IAS 12 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability. The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for all deductible and taxable temporary differences associated with leases and decommissioning obligations should be recognized.

Annual Improvements – 2018–2020 Cycle

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates

Accounting in hyperinflationary countries

Financial statements of the entities located in Turkey have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 - Financial Reporting in Hyperinflationary Economies as at December 31, 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years 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 was 35.61% as at December 31, 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute. This, together with the sustained positive trend in quantitative factors, such as the stabilization in capital and money markets, decrease in interest rates and the appreciation of TL against the US Dollar and other hard currencies have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from January 1, 2006.

Functional and Presentation Currency

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

Judgments and Estimates

The preparation of the consolidated financial statements in accordance with IFRS, including International Accounting Standards ("IAS") requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the statement of income and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

The actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is disclosed below. These disclosures supplement the commentary on financial risk management.

Information on Expected Credit Loss ("ECL")

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

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

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

Expected Credit Loss (ECL) Calculation - Input and Forecasting Methodologies

Exposure at Default (EAD): Represents the amount of risk on the default date of the borrower in case of default. According to IFRS 9 in calculating EAD, the estimation of how customer risk rating changes over time is important. Amount of EAD for cash and non-cash loans are calculated in different ways.

Cash loans are divided into two parts as loans with payment plan and loans without payment plan. For loans with payment plan, EAD is calculated by considering the installments to be paid in the future. For cash loans without payment plan, EAD is calculated by keeping credit balance constant. For non-cash loans and limit commitments EAD is calculated by regarding to credit conversion factor and behavioral maturity periods.

Loss Given Default: The ratio that provides the uncollectable amount of the loans in the process after the default. The LGD ratio is the division of the uncollectable amount of a defaulted loan into the defaulted loan amount. This ratio enables to predetermine the risks in the case of default for the active credit portfolio and allows for provision under IFRS 9. In LGD methodology, all non-performing loans amounts and long term collection process has been taken into account and LGD rate is calculated after deducting net collections amounts from the default amount and discounted with effective interest rates or approxiamate rate over the net amounts with an approximate value.

For corporate and retail portfolios, different LGD calculations are performed. Since the dragging effect, LGD rates in corporate portfolios are considered on customer basis. For retail portfolios, LGD rates are considered on credit basis. In order to differentiate variable risk characteristics in accordance with IFRS 9, individual and corporate segments are divided into its own LGD ratios according to different risk factors.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Information on Expected Credit Loss ("ECL") (Continued)

Expected Credit Loss (ECL) Calculation - Input and Forecasting Methodologies (Continued)

The models used in PD calculations were developed based on historical data on past and quarterly and non-defaultable loans. PD rates used within the scope of IFRS 9 are calculated separately for each rating model and rating information. In this context, firstly, PD rates are calculated from historical data (through the cycle) from this model and rating values, then lifetime default rate curves are created. These lifetime default rate curves provide the following two basic estimation data in the calculation of expected credit losses as follows:

- 12 Months PD ratio: The probability of default within 12 months from the reporting date estimate

- Lifetime PD ratio: Estimation of the probability of default over the expected life of the financial instrument

The models developed under IFRS 9 have detailed segment structures based on corporate and retail portfolios.

While creating the corporate PD rates, the rating values assigned to the customers as of the date of each rating and the customers who default on the corporate side are considered. Retail portfolios are divided into sub-segments according to product groups and lifetime default rate curves vary according to product groups. By taking into account the periodic PD rates, a PD rate scale is generated on the basis of rating and model code through the cycle.

The relation of all risk parameters with macroeconomic conditions has been tested and it has been determined that macroeconomic conditions have an effect on the probability of default. In this context, macroeconomic forecasts are taken into account in changing the probability of default.

Different macroeconomic models have been created for the retail portfolio and commercial portfolio, and macroeconomic forecasts affect the expected loss provision calculations in two separate scenarios, base and bad. The scenario weights used in the calculation of the "Expected Credit Loss Provision" were reconsidered in the year of 2020 and the weight of negative scenario was increased and adjustments were made in macroeconomic estimates in order to reflect the effects of Covid-19. The same approach has been continued in 2021. The future macroeconomic expectations taken into account into IFRS 9 are in line with the Bank's current budget and ISEDES forecasts.

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

Macroeconomic forecasts and risk delinquency data used in risk parameter models are re-evaluated every quarter to reflect changes in economic conjuncture and are updated if needed.

The maximum period to determine the expected credit losses except for demand and revolving loans is up to the contractual life of the financial asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Information on Expected Credit Loss ("ECL") (Continued)

Staging

Financial assets are divided into the following three categories based on the increase in the credit risks observed since the initial acquisition:

Stage 1:

Financial assets that do not have a significant increase in the credit risk at the first time they are received in the financial statements or after the first time they are taken to the financial statements. For these assets, credit risk impairment provision is accounted for 12 months expected credit losses. The Parent Bank applies the expected 12-month default probabilities to the estimated default amount and multiplies with the loss given default and downgrades to the present day with the original effective interest rate of the loan. For these assets, an expected 12-month credit loss is recognized and interest income is calculated over the gross carrying amount. 12-month expected credit loss is the loss arising from possible risks in the first 12 months following the reporting date.

Stage 2:

A financial asset is transferred to stage 2 in the event that there is a significant increase in the credit risk after the first time the financial asset is taken in the financial statements. The Parent Bank determines the credit risk impairment provision of the financial asset according to lifetime expected credit loss. Lifetime expected credit losses are credit losses arising from all events that may occur during the expected life of the financial asset. The probability of default, and loss given default are estimated over the life of the loan including the use of multiple scenarios. Expected cash flows are discounted using the original effective interest rate.

Stage 3:

Stage 3 includes financial assets with objective evidence of impairment as of the reporting date. Lifetime expected credit loss is recorded for these assets. The Parent Bank's methodology for loans at this stage is similar to loans classified in Stage 2, but the probability of default is considered 100%. Loss given default is calculated considering the period the loan waits in the non-performing loans and an aging curve formed from the historical data.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Significant Increase in Credit Risk

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

Past Due Date; significant increase in the credit risk since the granting date in the case of loans overdue more than 30 days.

Restruction: Classification of financial assets under the stage2 as a result of the emergence of privileges and financial difficulties in the case of restructuring of financial receivables.

Qualitative Criteria: Implementation of set of qualitative criteria set by The Parent Bank in accordance with the information obtained.

Quantitative Criteria: As of the reporting date, the default risk for the borrower and the default risk as of the date of the initial allowance are compared with the change in the grade / score information as a result of the application of statistically determined threshold values.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Default Definition

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

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

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

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

Fair value

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Fair value (Continued)

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

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

Significant accounting policies are as follows;

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and the subsidiaries.

Subsidiaries are those investees that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The Bank reassesses its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Companies where the Bank exercises significant influence, but not control are accounted for using the equity method.

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(a) Basis of consolidation (Continued)

A share transfer agreement was signed with TVF Finansal Yatırımlar AŞ on April 22, 2020 for Güneş Sigorta AŞ and Vakıf Emeklilik ve Hayat AŞ and the same share transfers were completed as of the same date. In the previous period, the aforementioned subsidiaries were consolidated over Non-Current Assets or Disposal Groups "Held for Sale" and "From Discontinued Operations" in the Assets and Liabilities section of the balance sheet, and in the income statement they were consolidated with full consolidation method. Subsidiaries were excluded from the scope of consolidation after the transaction. Balances belonging to income and expense items realized until the sale transaction date of the mentioned subsidiaries are accounted in the consolidated income statement.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognized at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group’s share of net assets of an associate are recognized as follows: (i) the Group’s share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group’s share of other comprehensive income is recognized in other comprehensive income and presented separately, (iii); all other changes in the Group’s share of the carrying value of net assets of associates are recognized in profit or loss within the share of result of associates. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized gains and losses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Bank and its subsidiaries’ interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Foreign currency transactions

Transactions are recorded in TL, which represents functional currency of the group’s entities except for World Vakıf UBB Ltd. in Liquidation and Vakıfbank International AG. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into functional currency at the exchange rates ruling at the end of reporting period with the resulting exchange differences recognized in profit or loss as foreign exchange gains or losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

***Foreign currency transactions* (Continued)**

In March 24, 2020, Türkiye Vakıflar Bankası T.A.O. Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (ESV) shares, which are presented in the paid-in capital of Vakıfbank International AG Turkey Foundations Bank, are purchased by the Bank. Because of the exchange risk arise from the 75.7 Million EUR of Vakıfbank International AG's paid-in capital shares amounting to 100 Million EUR, the fair value hedging strategy has been applied. In this context, 76.8 Million EUR portion of the securities issued by the Bank on 24 April 2019 with a nominal amount of 700 million Euros and the redemption date of 24 April 2024, were determined as hedging instruments. In this transaction, fair value changes related to the investment abroad, which is a hedged item, are reflected in the income statement as long as the hedging transaction is effective. In this context, as of December 31, 2021, the foreign exchange income presented in the income statement is TL 458,639. The effectiveness of the transaction is the degree to balance the changes in the fair value of the hedged item that can be associated with the hedged currency risk by the hedging instrument.

As of December 31, 2021, it was identified that the evaluations that were made about the process to protect from the net investment hedge were effective. Efficiency testing, which is consistent with the Parent Bank's risk strategies, is conducted using the "Dollar off-set method" in the protection from risk process. According to this method, hedging compares the change in value of protection subject from risk with the change in value of protection tool from risk and calculates the relation with the effectiveness ratio of the hedge. The calculated effectiveness ratio is being evaluated within the IAS-39 Financial Instruments: Recognition and Measurement standards and hedge accounting principles are being applied. The Parent Bank documents the hedging strategies along with risk management goals. Hedge accounting ends when protection subject from risk ends or being sold or effectiveness test results are not effective anymore.

Foreign operations

The functional currencies of the foreign subsidiaries, World Vakıf UBB Ltd. In Liquidation and Vakıfbank International AG, are US Dollar and Euro, respectively and their financial statements are translated to the presentation currency, TL, for consolidation purposes, as summarized in the following paragraphs.

- The assets and liabilities of the foreign subsidiaries are translated at the exchange rate ruling at the end of the respective reporting period.
- The income and expenses of foreign operations are translated to TL using average exchange rates.
- Foreign currency differences arising from the translation of the financial statements of the foreign operations into TL for consolidation purpose are recognized in other comprehensive income and accumulated in the foreign currency translation reserve ("translation reserve"). Where a foreign operation is disposed of, in part or full, the full amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

(c) Interest

Interest income and expense are recognized in the consolidated profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Interest income and expense presented in the consolidated statement of profit or loss and other comprehensive income include:

- interest on financial assets and liabilities at amortized cost on an effective interest rate basis,
- interest on financial assets at fair value through other comprehensive income on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss.

(d) Fees and commission

Fees and commission income and expenses 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, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, commissions for insurance business (see also accounting policy *(s)*) are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

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

(e) Net trading income

Net trading income includes gains and losses arising from revaluation and disposals of financial assets at fair value through profit or loss, the disposal of available-for-sale financial assets, and gains and losses on derivative financial instruments held for trading purpose.

(f) Dividends

Dividend income is recognized when the right to receive the income is established. Dividends are reflected as a component of other operating income.

(g) Leases

The Group as the lessee

The difference between operating leases and financial leases has been eliminated with the “IFRS 16 Leases” effective as of January 1, 2019, and on the transition date, the Group has applied the simplified transition approach and elected not to restate comparative figures. The group operates as a lessee and lessor.

The Group started to apply the “IFRS 16 Leases” standard which went into effect on January 1, 2019 to leases of service buildings and car rentals. However ATMs which are determined as low value by the Parent Bank and short term lease contracts with a duration of 12 months or less, have been evaluated within the scope of the exemption granted by the standard. The payments for these contracts are recorded as expense in the period they occured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

The Group as the lessee (Continued)

In accordance with "IFRS 16 Leases" standard, the Group calculates the "right of use" amount on the basis of the present value of the lease payments of the fixed asset leased at the beginning of the lease and includes them in "Property, plant and equipment". The securities/properties having a right to use were capitalised by showing them under property, plant and equipment. In calculating assets having a right to use, outstanding rent amounts were discounted by a specific rate, considering the remaining term of the lease contract signed with the property owner, to determine net present value.

Instead of recognising leases in the scope of the "IFRS 16 Leases" standard as expenses or prepaid expenses, the Group recognised the total lease liabilities to be paid by the end of the lease contract as "Other Liabilities and Provisions" under liabilities on the balance sheet. Changes that may impact the lease liability are remeasured and included in the balance sheet accounts.

Monthly interest and depreciation are calculated on the net present value based on the period of the lease contract, and are recognised on the income statement.

The Group as the lessor

When the Group is the lessor in a financial lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized.

(h) Income taxes

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

Corporate tax

Turkey

Corporate tax rate is 20% in Turkey according to Article 32 of the Corporate Taxes Law No. 5520. However, with the "Law On The Procedure Of Collection Of Public Receivables And The Law On Amendments To Some Laws" No. 7316 published in the Official Gazette dated April 22, 2021, this rate will be applied at a rate of 25% for 2021 and 23% for 2022 revenues. Accordingly, the corporate tax rate of 20% was applied in the first temporary tax period of 2021 and 25% from the second temporary tax period. This rate is applied to total income of the Bank adjusted for certain disallowable expenses, exempt income and any other allowances.

Dividends paid to resident institutions and institutions working through local offices or representatives are not subject to withholding tax. Except for the dividend payments to those institutions, the withholding tax rate on the dividend payments is 15.0%. In applying the withholding tax rates on dividend payments to non-resident institutions and individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax. No further tax is paid if the profit is not distributed.

Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Corporate tax (Continued)

75% of the profit from sales of associate shares that held at least 2 years and 50% of the profit from sales of real estates are exceptional from corporate taxes if there is a capital increase according to Corporate Tax Law or it is hold for 5 years on a special fund account.

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of the 25th day of the fourth month following the close of the accounting period to which they relate. Tax returns are open to inspection for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue assessments based on their findings.

As the end of 2021 calendar year , the necessary conditions for inflation adjustment have been fulfilled in the calculation of corporate tax, within the framework of the repetitive provision of Article 298/A of the Tax Procedure Law. However, with the regulation made with the "Law on the Amendment of the Tax Procedure Law and the Corporate Tax Law" numbered 7352 published in the Official Gazette dated 29 January 2022 and numbered 31734, the application of inflation adjustment in the calculation of corporate tax was postponed to 2023. Accordingly, TPL financial statements for the 2021 and 2022 accounting periods including the provisional tax periods will not be subject to inflation adjustment, 2023 accounting period will not be subject to inflation adjustment as of the temporary tax periods and it will be subject to inflation adjustment regardless of whether the TPL financial statements inflation adjustments conditions have been met.

Foreign subsidiary

The corporate tax rate for the Group’s subsidiary in Austria has been determined as 25.0%. Prepaid corporate taxes for every three months are computed and paid using the related period’s tax rate. Taxes which have been paid for previous periods can be deducted from corporate taxes computed on annual taxable income. According to the Double Taxation Treaty Agreement between Turkey and Austria, Turkish corporations in Austria possess the right to benefit from tax returns of 10.0% on interest earned from the investments and loans granted in Turkey.

Deferred taxes

Deferred tax assets and liabilities are recognized on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities outside a business combination which affect neither accounting nor taxable profit.

The deferred tax assets and liabilities are reported as net in the consolidated financial statements only if the Group has a legal right to set off current year tax assets and current year tax liabilities and the deferred tax assets and deferred tax liabilities related to same taxable entity.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Transfer pricing regulations

In Turkey, the transfer pricing provisions have been stated under the Article 13 of the Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing, dated November 18, 2007 sets details about implementation.

If a taxpayer enters into transactions regarding the sale or purchase of goods and services with related parties, where the prices are not set in accordance with the arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

Transfer pricing regulations (Continued)

The files that should be sent to the tax authorities are prepared in accordance with the existing transfer pricing regulations. However such documents are open for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue tax assessments based on their findings.

Investment incentives

As per the provisional Article no. 69, effective from January 1, 2006, added to the Income Tax Law no. 193 by Law no. 5479 dated April 8, 2006 and published in Official Gazette no. 26133, tax payers could deduct investment incentives which were calculated according to the legislative provisions (including tax rate related provisions) in force on December 31, 2005, only from the taxable income for the years 2006, 2007, and 2008. The rights of tax payers who could not deduct investment incentives fully or partially due to insufficient taxable income during those years, were lost as at December 31, 2008.

In accordance with the decision taken by the Turkish Constitutional Court on October 15, 2009, the "2006, 2007 and 2008." clause of the provisional Article no. 69 of the Income Tax Law mentioned above, is repealed and the time limitation for the use of the investment incentive is removed. The repeal related to the investment incentive was enacted and issued in the January 8, 2010 Official Gazette number 27456. Accordingly, the Group's subsidiary operating in finance leasing business will be able to deduct its remaining investment incentives from taxable income in the future without any time limitation.

As per "Law regarding amendments to the Income Tax Law and Some Other Certain Laws and Decree Laws" accepted on July 23, 2010 at the Grand National Assembly of Turkey, the expression of "can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate) valid at this date" has been amended as "can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate as explained in the second clause of the temporary article no 61 of the Law) valid at this date" and the following expression of " Investment incentive amount used in determination of the tax base shall not exceed 25% of the associated taxable income. Tax is computed on the remaining income per the enacted tax rate" has been added. This Law has been published in the Official Gazette on August 1, 2010.

The clause "The amount which to be deducted as investment incentive to estimate tax base cannot exceed 25% of related income" which has been added to first clause of the temporary 69th article of Law No: 193 with the 5th article of Law No: 6009 on Amendments to Income Tax Law and Some Other Laws and Decree Laws has been abrogated with the February 9, 2012 dated decisions no: E.2010/93 and K.2012/20.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(i) Financial Assets

Recognition

It shall be recognised a financial asset or a financial liability in the statement of financial position when, and only when, an entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting.

At initial recognition, the Group shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification and Measurement of Financial Instruments

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Financial Assets at Fair Value Through Profit or Loss

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

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

Financial Assets at Fair Value Through Other Comprehensive Income

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

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

Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Financial Assets at Fair Value Through Other Comprehensive Income (Continued)

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

Financial Assets Measured at Amortized Cost

Financial assets that are held for collection of contractual cash flows where those 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.

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

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially a similar asset) at a fixed price on a future date (“reverse repo” or “stock borrowing”), the arrangement is accounted for as a loan and advance, and the underlying asset is not recognized in the Group’s financial statements. Such financial assets are presented separately on the face of consolidated statement of financial position.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

See also *specific instruments* below.

Measurement

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all financial assets at fair value through other comprehensive income are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities and financial assets at amortised cost are measured at amortized cost less impairment losses. The amortized 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 amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the reporting date.

Fair values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the contractual forward rates discounted to the balance sheet date with the current market rates. The resulting gain or loss is reflected in the income statement.

In the assessment of fair value of interest rate swap instruments, interest amounts to be paid or to be received due to/from the fixed rate on the derivative contract are discounted to the balance sheet date with the current applicable fixed rate in the market that is prevailing between the balance sheet date and the interest payment date, whereas interest amounts to be paid or to be received due to/from the floating rate on the derivative contract are recalculated with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date and are discounted to the balance sheet date again with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date. The differences between the fixed rate interest amounts and floating rate interest amounts to be received/paid are recorded in the profit/loss accounts in the current period.

The fair value of call and put option agreements are measured at the valuation date by using the current premium values of all option agreements, and the differences between the contractual premiums received/paid and the current premiums measured at valuation date are recognized in the statement of income.

Futures transactions are valued on a daily basis by the primary market prices and related unrealized gains or losses are reflected in the income statement.

De-recognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

Financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as at the date the Group commits to sell the assets. The specific identification method is used to determine the gain or loss on de-recognition.

Financial assets at amortised cost are derecognized on the date they are transferred by the Group.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

Offsetting

Financial assets and liabilities are set off and the net amount presented in the consolidated 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 realize 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.

Specific instruments

Cash and cash equivalents: Cash and cash equivalents which is a base for preparation of consolidated statement of cash flows includes cash in TL, cash in FC (foreign currency), cheques, balances with the Central Bank, money market placements and loans and advances to banks whose original maturity is less than three months.

Loans and advances to banks and customers: Loans and advances provided by the Group to banks and customers are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

Finance lease receivables: Leases where substantially all the risks and rewards incident to ownership of an asset are substantially transferred to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest method. Finance lease receivables are included in loans and advances to customers.

Factoring receivables: Factoring receivables are the loans and advances to customers arising from a financial transaction whereby the customers sell their accounts receivable (i.e., invoices) to the Group at a discount in exchange for immediate money with which to finance continued business. Factoring receivables are measured at amortized cost using the effective interest method after deducting unearned interest income and specific provision if impairment exists.

Deposits, funds borrowed, debt securities issued and subordinated debts: Deposits, funds borrowed, debt securities issued and subordinated debts are the Group's sources of debt funding. Deposits, funds borrowed, debt securities issued and subordinated debts are initially measured at fair value plus directly attributable transactions costs, and subsequently measured at their amortized cost using the effective interest method.

(j) Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially 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 recognized. The amounts paid are recognized 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 recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets held for trading, held to maturity or available-for-sale 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 recognized on an accruals basis over the period of the transaction and are included in "interest income" or "interest expense".

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(k) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. The Group pursues only the properties for use according to their fair values in terms of separating the land and buildings within the context of IAS 16 as at December 31, 2016. As a result of the valuation by the independent appraisal company, revaluation difference of (TL 2,996) after deferred tax effect is followed as the revaluation surplus under shareholder's equity.

Gains/losses arising from the disposal of the property and equipment are recognized in profit or loss and calculated as the difference between the net book value and the net sales price. Maintenance and repair costs incurred for property and equipment are recorded as expense unless they extend the economic useful life of related asset.

There are no changes in the accounting estimates that are expected to have an impact in the current or subsequent periods. Property and equipment are depreciated based on the straight line method. Depreciation rates and estimated useful lives are:

Property and equipment	Estimated useful lives (years)	Depreciation Rates (%)
Buildings	50	2
Office equipment, furniture and fixture, and motor vehicles	5-10	10-20
Vehicles obtained through finance leases	4-5	20-25

(l) Intangible assets

The Group's intangible assets consist of software programs. Intangible assets are recorded at cost. The costs of the intangible assets purchased before December 31, 2005 are restated for the effects of inflation from the purchasing dates to December 31, 2005, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortized based on straight line amortization. The economic lives of intangible assets vary within the range of three and fifteen years and hereby the amortization rates applied are between 33.33% and 6.67%.

(m) Provisions

A provision is recognized 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 recognized 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.

(n) Employee benefits

Pension and other post-retirement obligations

The Bank has a defined benefit plan for its employees as described below:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependents will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(n) Employee benefits (Continued)

Pension and other post-retirement obligations

T. Vakıflar Bankası T.A.O. Memur ve Hizmetleri Emekli ve Sağlık Yardım Sandığı Vakfı ("the Fund"), is a separate legal entity and a foundation recognized by an official decree, providing pension and post-retirement medical benefits to all qualified Bank employees. The Fund has a defined benefit plan ("the Plan") under which the Bank pays a mixture of fixed contributions, and additional contractual amounts. The Plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	Employer %	Employee %
Pension contributions	11.0	9.0
Medical benefit contributions	7.5	5.0

This Plan is composed of the contractual benefits of the employees, which are subject to transfer to the Social Security Foundation ("SSF") ("pension and medical benefits transferable to SSF") and other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation ("excess benefits").

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, will occur within three years from the enactment of the Law no. 5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law") in May 2008.

Pension and medical benefits transferable to SSF:

As per the provisional Article no. 23 of the Turkish Banking Law no. 5411 ("Banking Law") as approved by the Turkish Parliament on October 19, 2005, pension funds which are in essence similar to foundations are required to be transferred directly to SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability, if any, on the transfer should be performed having regard to the methodology and parameters determined by the commission established by the Ministry of Labor and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated December 15, 2006 ("Decree") for the purpose of determining the principles and procedures to be applied during the transfer of funds. However they said Article was vetoed by the President and at November 2, 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional Article no. 23.

On March 22, 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional Article no. 23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette no. 26731, dated December 15, 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(n) Employee benefits (Continued)

Following the publication of the verdict, the Grand National Assembly of Republic of Turkey ("Turkish Parliament") worked on the new legal arrangements by taking the cancellation reasoning into account.

On April 17, 2008, the New Law was accepted by the Turkish Parliament and was enacted on May 8, 2008 following its publication in the Official Gazette no. 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The three year period has expired on May 8, 2011. According to the decision of the Council of Ministers published on the Official Gazette dated April 9, 2011 no. 27900, the time frame for related transfer has been extended for two years. Within the postponement right granted to the Council of Ministers through the change in the first clause of the 20th provisional article of the "Social Insurance and General Health Insurance Law no. 5510" published on the Official Gazette no. 28227 dated March 8, 2012, the transfer process has been postponed for one more year with the decision of the Council of Ministers published on the Official Gazette no. 28987 dated April 30, 2014. The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated April 23, 2015 numbered 29335. "Council of Ministers" expression in "Council of Ministers is authorized to determine the date of transfer to the Social Security Institution" stated in provisional article 20 of Social Insurance and Universal Health Insurance Law No. 5510 is replaced with the "President" pursuant to the paragraph (I) of Article 203 of Statutory Decree No. 703 promulgated in repeated Official Gazette No. 30473, dated July 2018.

Excess benefit not transferable to SSF:

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF.

Actuarial valuation:

The technical financial statements of the Fund are audited by the certified actuary according to the "Actuaries Regulation" which is issued as per Article no. 21 of the Insurance Law no. 5684. As per the actuarial report dated January 2020, there is no technical or actual deficit determined which requires provision against.

Transferable Retirement and Health Liabilities:	**December 31, 2021**	**December 31, 2020**
Net Present Value of Transferable Retirement Liabilities	(10,570,828)	(9,103,430)
Net Present Value of Transferable Retirement and Health Contributions	10,470,302	7,319,847
General Administration Expenses	(105,708)	(91,034)
Present Value of Pension and Medical Benefits Transferable to SSF (1)	(206,234)	(1,874,618)
Fair Value of Plan Assets (2)	7,215,596	6,577,453
Asset Surplus over Transferrable Benefits ((2)-(1)=(3))	7,009,362	4,702,835

Actuarial assumptions used in valuation of Non Transferable Benefits based on IAS 19 are as follows:

Discount Rates	**December 31, 2021**	**December 31, 2020**
Benefits Transferable to SSF	9.80%	9.80%
Non Transferable Benefits	2.50%	2.50%

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(n) Employee benefits (Continued)

Distribution of total assets of the Retirement Fund as of December 31, 2021 and December 31, 2020 is presented below:

	December 31, 2021	December 31, 2020
Bank placements	4,183,613	2,462,572
Government Bonds and Treasury Bill, Fund and Accrual Interest Income	518,000	1,476,099
Tangible assets (*)	2,232,947	2,387,853
Other	281,036	250,929
Total	**7,215,596**	**6,577,453**

(*) The tangible assets value indicates all the stocks' and real estate properties' market values, as of December 31, 2021.

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labor Law. IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity.

Other benefits to employees

The Group has provided for undiscounted employee benefits earned during the financial period as per services rendered in the accompanying consolidated financial statements.

(o) Items held in trust

Assets, other than cash deposits, held by the Group in fiduciary or agency capacities for their customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not the assets of the Group.

(p) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The financial guarantee contracts are subsequently carried at the higher of this amortized amount and the present value of any expected payment when a payment under the guarantee has become probable.

(r) Insurance business

Through its insurance subsidiaries, the Group enters into contracts that contain insurance risk. An insurance contract is a contract under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk covers all risks except for financial risks.

Investment contracts are those contracts which transfer financial risk without significant insurance risk. Financial risk is the risk of a possible future change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided, that it is not specific to a party to the contract, in the case of a non-financial variable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(r) Insurance business (Continued)

Insurance and investment contracts issued/signed by the insurance subsidiaries are accounted for as follows:

Earned premiums: For short-term insurance contracts, premiums are recognized as revenue, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at reporting date is recognized as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions given or received and deferred acquisitions costs, and are net of any taxes and duties levied on premiums.

For long-term insurance contracts, premiums are recognized as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under operating income in the accompanying consolidated statement of comprehensive income.

Premium received for an investment contract, is not recognized as revenue. Premiums for such contracts are recognized directly as liabilities.

Reserve for unearned premiums: The reserve for unearned premiums represents the proportions of the premiums written in a period that relate to the period of risk subsequent to the reporting date, without deductions of commission or any other expense. Reserve for unearned premiums is calculated for all contracts except for the insurance contracts for which the Group provides actuarial provisions. The reserve for unearned premiums is also calculated for the annual premiums of the annually renewed long-term insurance contracts. The reserve for unearned premiums is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

Reserve for outstanding claims: The reserve for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. A provision for claims incurred but not reported ("IBNR") is also established as described below. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends ("Actuarial Chain Ladder Method"). At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. In addition to that, the Group also reassesses its notified claims provision at each reporting date on an 'each claim-file' basis. The reserve for outstanding claims is not discounted for the time value of money. The reserve for outstanding claims is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

Receivables from reinsurance activities: In the accompanying consolidated financial statements, receivables from reinsurance activities are presented under other assets. There receivables comprise the actual and estimated amounts, which, under contractual reinsurance agreements, are recoverable from reinsurers in respect of technical provisions. Reinsurance assets relating to technical provisions are established based on the terms of the reinsurance contracts and valued on the same basis as the related reinsured liabilities.

Subrogation, salvage and quasi income: The Group may account for income accrual for subrogation receivables without any voucher after the completion of the claim payments made to the insuree. If the amount cannot be collected from the counterparty insurance company, the Group provides provision for uncollected amounts due for six months. If the counter party is not an insurance Company, the provision is provided after four months.

Long term insurance contracts: Long term insurance contracts are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life and individual accident policies based on actuarial assumptions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(r) Insurance business (Continued)

Long term insurance contracts are calculated as the difference between the net present values of premiums written in return of the risk covered by the Group and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Ministry of Treasury and Finance, which are applicable for all Turkish insurance companies. Long term insurance contracts are presented under other liabilities and provisions in the accompanying consolidated financial statements.

Investment contracts: Premiums received for such contracts are recognized directly as liabilities under investment contract liabilities. These liabilities are increased by bonus rate calculated by the Group and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. Profit sharing reserves are the reserves provided against income obtained from asset backing investment contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the Group from the eligible surplus available to date.

Deferred acquisition cost and deferred commission income: Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. Deferred acquisition costs are amortized on a straight-line basis over the life of the contracts. Deferred acquisition costs are presented under other assets in the accompanying consolidated financial statements.

Commission income obtained against premiums ceded to reinsurance firms are also deferred and amortized on a straight-line basis over the life of the contracts. Deferred commission income is presented under other liabilities and provisions in the accompanying consolidated financial statements.

Liability adequacy test: At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses are taken into consideration. Any deficiency is immediately charged to the consolidated statement of comprehensive income.

If the result of the test is that a loss is required to be recognized, the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

(s) Individual pension business

Individual pension system receivables presented under 'other assets' in the accompanying consolidated financial statements consists of 'receivable from pension investment funds for investment management fees', 'entrance fee receivable from participants' and 'receivables from the clearing house on behalf of the participants'. Pension funds are the mutual funds that the individual pension companies invest in, by the contributions of the participants. Shares of the participants are kept at the clearing house on behalf of the participants.

Fees received from individual pension business consist of investment management fees, fees levied on contributions and entrance fees. Fees received from individual pension business are recognized in other income in the accompanying consolidated profit or loss and other comprehensive income.

Investment management fees are the fees charged to the pension funds against the hardware, software, personnel and accounting services provided to those pension funds.

Fees levied on contributions may be deducted over the participants' contributions for the operational costs of the services rendered by the Group. The upper limit for such deductions is 2% over the contributions.

Entrance fees are received by the Group from participants during entry into the system and for the opening of a new individual pension account. In some pension plans, the Group receives some or all of the entrance fees when the participants leave the group before the completion of a 5-years 'staying period'. If the participants keep their pension accounts in the Group more than 5 years, the entrance fee is not charged in these pension plans. In such cases, the Group does not recognize the entrance fee as revenue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Accounting Policies, Judgements and Estimates (Continued)

(t) Earnings per share

Basic earnings per share from continuing operations disclosed in the accompanying consolidated profit or loss and other comprehensive income is determined by dividing the net profit for the period by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. There are no potentially dilutive instruments. 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, such Bonus Shares issued are regarded as issued shares.

(u) Subsequent events

Post-balance sheet events that provide additional information about the Group’s position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

(v) 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.

(y) Assets classified as held for sale and related liabilities

As per IFRS 5 - “Non-current Assets Held for Sale and Discontinued Operations”, a fixed asset classified as an asset kept for sales purposes (or a group of fixed assets to be disposed of) is measured with either its book value or fair value less costs to sell (with the lower one). A discontinued operation is a part of the Group’s business classified as sold or held-for-sale. The operating results of the discontinued operations are disclosed separately in the income statement. The Group has no discontinued operations.

As per the Board of Directors decision in December 13th, 2019, the Bank has started the process of transfer of shares held in subsidiaries Güneş Sigorta and Vakıf Emeklilik ve Hayat AŞ respectively, including publicly held shares, to a new company to be established by Türkiye Varlık Fonu Yönetimi AŞ These two companies have been removed from the subsidiaries account and started to be classified under the Assets Held for Sale and Discontinued Operations account. The method of consolidation of the related companies is specified in the note 2.3.a Basis of consolidation.

On April 22, 2020, a share transfer agreement was signed between TVF Financial Investments as the buyer and the Parent Bank as the seller, in order to transfer the Parent Banks shares which represent 51.1% of Güneş Sigorta AŞ’s capital and 53.9% of Vakıf Emeklilik ve Hayat AŞ’s capital to TVF Financial Investments AŞ ("TVF Financial Investments"). The share transfer has been completed as of the same date.

As of April 22, 2020, all of the shares owned by the Parent Bank in Güneş Sigorta AŞ and Vakıf Emeklilik ve Hayat AŞ were transferred to TVF Finansal Yatırımlar AŞ, and the Parent Bank have not had any shares left in the relevant companies.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4. Statement of Cash Flows

The cash and cash equivalents balance comprises Cash and balances with Banks and Central Banks (excluding restricted reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the Group's operations. Cash flow movements of subsidiaries which are classified as held for sale asset are demonstrated in each related line of cash flow statement as if these subsidiaries are consolidated with full consolidation method in 2021.

Changes in cash and cash equivalents related to investing activities reflect cash flows resulting from acquisitions and disposals of subsidiaries, as well as acquisitions and disposals of premises and equipment. Changes in cash and cash equivalents related to financing activities reflect the cash inflows and outflows resulting from transactions with shareholders and cash flows related to subordinated debt.

2.5. Other Matters

Classifications

"Income from reversal of the provisions for loans from prior periods" amounting to TL and "Provision for loan impairment" amounting to TL 6,913,502, which were previously presented as a gross under "Other Income" and; "Provision for loan impairment, net of recoveries", respectively are begun presenting as a net basis in aforementioned line items of statement of income. In addition "Collections from Previously Written of Loans" amounting to TL and Previously Written off Loan Expenses amounting to TL 834,885 which were previously presented as a gross basis under "Other income" and; "Other expenses", respectively are also begun presenting as a net basis. The comparative prior period of the income statement dated December 31, 2021 are also shown in line with the current period.

2.6 Explanations on IFRS 16 Standard

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

	December 31, 2021		
	Service Buildings	**Vehicles**	**Total**
Lease payables	1,473,531	63,270	1,536,801
Deferred rental expenses	545,224	11,561	556,785
Lease payables (Net)	**928,307**	**51,709**	**980,016**
Right of use assets	837,337	49,178	886,515

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

Short term lease contracts with a duration of 12 months or less and lease contracts for ATMs that are determined to be of low value by the Group have been evaluated within the scope of the exemption recognized by the standard, and payments for these contracts are recorded as expense in the period they occur. In this context, 92,072 thousand TL (December 31, 2020: TL 81,040) of rent was paid in the related period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Use of Estimates and Judgements and Seasonality of Operations

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

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

As of December 31, 2021, the Group has reflected the possible effects of the Covid -19 pandemic to the macro economic forecasts which are used in the calculation of expected loan loss provisions. Scenario weights used in calculation of the expected loan loss provisions were reconsidered and the bad scenario weight was increased in order to reflect the effects of Covid-19.

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

3. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

This note presents information about the Group's exposure to each of the risks below, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The Group has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risk,
- operational risk,

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the Audit Committee. Consequently, the Risk Management Department of the Bank, which carries out the risk management activities and works independently from executive activities, report to the Board of Directors.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, 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 Group, 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 risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(a) Introduction and overview (Continued)

In order to ensure the compliance with the rules as altered pursuant to Articles 23, and 29 to 31 of the Banking Law no. 5411 and Articles 36 to 69 of the Regulation on Internal Systems within the Banks, dated June 28, 2012 the Bank revised the written policies and implementation procedures regarding management of each risk encountered in its activities in September 2012.

Audit Committee: The Audit Committee consists of two members of the Board of Directors who do not have any executive functions. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- The supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Group, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- The preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- The maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

(b) Credit risk

Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth, covering the counterparty risks arising from not only from loans and debt securities but also credit risks originating from the transactions defined as loans in the Banking Law.

Management of credit risk

For credit risk management purposes the Risk Management Department is involved in

- the determination of credit risk policies in coordination with the Bank's other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- contribution to the formation of rating and scoring systems,
- submitting to the Board of Directors and the senior management not only credit risk management reports about the credit portfolio's distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration, but also scenario analysis reports, stress tests and other analyses, and
- studies regarding the formation of advanced credit risk measurement approaches.

The credit risk is assessed through the internal rating system of the Group, by classifying loans from highest grade to lowest grade according to the probability of default. As of December 31, 2021, consumer loans are excluded from the internal rating system of the Bank. The risks that are subject to rating models can be allocated as follows:

Category*	**Share in the Total % December 31, 2021**	**Share in the Total % December 31, 2020**
Above average	43.13	37.36
Average	41.84	46.96
Below average	12.35	13.68
Unrated	2.68	2.00
Total	**100.00**	**100.00**

(*) Rating scale on the table has been determined between 1 - 10, and average score has been selected as 4-5

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Credit quality per class of financial assets as of December 31, 2021 and 2020 are as follows;

December 31, 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total allowance for impairment (Stage 1+2+3)**	**Total**
Cash and balances with Banks and Central Banks (excluding cash on hand)	154,428,726	-	-	(14,229)	154,414,497
Financial assets at fair value through profit or loss	37,916,115	-	-	-	37,916,115
Securities	16,669,689	-	-	-	16,669,689
Derivative financial instruments	21,246,426	-	-	-	21,246,426
Financial assets at fair value through OCI	140,754,621	-	-	-	140,754,621
Debt Securities	138,931,699	-	-	-	138,931,699
Equity Securities	1,822,922	-	-	-	1,822,922
Financial assets at amortised cost	589,841,176	73,943,228	19,139,928	(26,603,164)	656,321,168
Loans and advances to banks	4,329,884	-	-	(1,072)	4,328,812
Loans and advances to customers	511,649,309	73,943,228	19,139,928	(26,593,845)	578,138,620
- Commercial	382,901,929	59,528,751	14,873,779	(22,695,907)	434,608,552
- Consumer	105,744,802	2,040,095	3,035,923	(2,348,992)	108,471,828
- Credit cards	23,002,578	597,891	951,568	(1,175,456)	23,376,581
- Lease receivables (*)	-	4,769,553	211,779	(268,969)	4,712,363
- Factoring receivables (*)	-	7,006,938	66,879	(104,521)	6,969,296
Debt Securities	73,861,983	-	-	(8,247)	73,853,736
Other assets	7,521,742	-	-	(45,973)	7,475,769
Total	**930,462,380**	**73,943,228**	**19,139,928**	**(26,663,366)**	**996,882,170**

(*) Simplified approach has been applied for lease and factoring receivables so no staging allocation has been performed.

December 31, 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total allowance for impairment (Stage 1+2+3)**	**Total**
Cash and balances with Banks and Central Banks (excluding cash on hand)	93,390,761	-	-	(2,868)	93,387,893
Financial assets at fair value through profit or loss	16,199,275	-	-	-	16,199,275
Securities	7,458,290	-	-	-	7,458,290
Derivative financial instruments	8,740,985	-	-	-	8,740,985
Financial assets at fair value through OCI	85,007,132	-	-	-	85,007,132
Debt Securities	83,909,766	-	-	-	83,909,766
Equity Securities	1,097,366	-	-	-	1,097,366
Financial assets at amortised cost	447,901,811	42,790,050	17,930,171	(22,152,093)	486,469,939
Loans and advances to banks	2,860,294	-	-	(892)	2,859,402
Loans and advances to customers	386,294,265	42,790,050	17,930,171	(22,144,605)	424,869,881
- Commercial	276,933,204	32,549,755	15,029,808	(18,483,054)	306,029,713
- Consumer	94,967,658	1,251,391	1,758,795	(2,197,849)	95,779,995
- Credit cards	14,393,403	243,970	863,752	(1,114,329)	14,386,796
- Lease receivables	-	3,055,519	215,491	(256,529)	3,014,481
- Factoring receivables	-	5,689,415	62,325	(92,844)	5,658,896
Debt Securities	58,747,252	-	-	(6,596)	58,740,656
Other assets	4,825,010	-	-	(124,424)	4,700,586
Total	**647,323,989**	**42,790,050**	**17,930,171**	**(22,279,385)**	**685,764,825**

The table below shows the maximum exposure to credit risk for the components of the financial statements;

Gross maximum exposure	**December 31, 2021**	**December 31, 2020**
Cash and balances with Banks and Central Banks (excluding cash on hand)	154,414,497	93,387,893
Financial assets at fair value through profit or loss	37,916,115	16,199,275
Financial assets at fair value through OCI ("FVOCI")	140,754,621	85,007,132
- Debt Securities	*138,931,699*	*83,909,766*
- Equity Securities	*1,822,922*	*1,097,366*
Financial assets at amortised cost ("AC")	656,321,168	486,469,939
- Loans and advances to banks	*4,328,812*	*2,859,402*
- Loans and advances to customers	*578,138,620*	*424,869,881*
- Debt securities	*73,853,736*	*58,740,656*
Other assets	7,475,769	4,700,586
Total	**996,882,170**	**685,764,825**
Financial guarantees	193,402,399	102,446,309
Loan commitments	168,225,110	114,481,983
Total	**361,627,509**	**216,928,292**
Total credit risk exposure	**1,358,509,679**	**902,693,117**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Sectorial distribution of the performing loans and advances to customers

	December 31, 2021		December 31, 2020	
	Amount	**%**	**Amount**	**%**
Consumer loans	107,784,897	18.41	96,219,049	22.43
Mortgage loans	48,263,833	8.24	40,613,169	9.47
General purpose loans	49,889,975	8.52	49,525,489	11.55
Overdraft checking accounts	9,027,685	1.54	5,599,393	1.30
Auto loans	600,326	0.10	478,516	0.11
Other consumer loans	3,078	-	2,482	-
Manufacturing	169,809,346	29.00	113,832,924	26.53
Wholesale and retail trade	73,444,817	12.54	58,080,392	13.54
Transportation and telecommunication	74,558,206	12.73	48,418,802	11.28
Construction	63,825,821	10.90	41,169,434	9.59
Credit cards	23,600,469	4.03	14,637,373	3.41
Hotel, food and beverage services	21,743,941	3.71	14,975,711	3.49
Financial institutions	7,194,493	1.23	5,761,819	1.34
Agriculture and stockbreeding	4,757,664	0.81	3,184,954	0.74
Health, social and education services	4,530,596	0.77	4,422,847	1.03
Other	34,342,287	5.86	28,381,010	6.62
Total performing loans and advances to customers	**585,592,537**	**100.00**	**429,084,315**	**100.00**

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower’s financial position and where the Group has made concessions that it would not otherwise consider.

Carrying amount per class of loans whose terms have been renegotiated:

	December 31, 2021	December 31, 2020
Loans and receivables		
Commercial	23,827,121	14,578,505
Consumer	683,617	786,423
Credit Cards	157,800	66,585
Total	**24,668,538**	**15,431,513**

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

Write-off policy

The amendment with respect to the regulation on the Principles and Procedures Regarding the Classification of Loans and Reserves Set Aside for These Loans entered into force with its publication in the Official Gazette No.30961 on November 27, 2019. Pursuant to the regulation, the banks are enabled to write down and move off the balance sheet the portion of a loan which is classified as “Group V Loan” (Loans Classified as Loss) if it cannot reasonably be expected to be recovered. In accordance with the amendment in the related regulation on provisions, the deduction of loans from the records is an accounting practice and does not result in the right to waive. In the current period, a write-off transaction has been made for non-performing loans in the amount of TL 834,885 for which 100% provision has been made (December 31, 2020: TL 890,789).

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Set out below is an analysis of the gross and net (of specific impairment) amounts of individually impaired assets by risk grade.

December 31, 2021	Loans and advances to customers		Other assets	
	Gross	Net	Gross (*)	Net (*)
Individually Impaired	19,139,928	4,521,520	-	-

December 31, 2020	Loans and advances to customers		Other assets	
	Gross	Net	Gross (*)	Net (*)
Individually Impaired	17,930,171	4,212,271	-	-

(*) Impaired insurance receivables are included.

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2021 and 2020.

The breakdown of performing cash loans and advances to customers and non-cash loans (financial "guarantee contracts) by type of collateral are as follows:

Cash loans	December 31, 2021	December 31, 2020
Secured loans:	**436,792,749**	**325,801,499**
Secured by mortgages	101,069,067	79,279,008
Secured by cash collateral	3,261,049	2,432,473
Guarantees issued by financial institutions	2,039,415	1,066,489
Secured by government institutions or government securities	43,639,424	63,686,242
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	286,783,794	179,337,287
Unsecured loans	**148,799,788**	**103,282,816**
Total performing loans and advances to customers	**585,592,537**	**429,084,315**

Non-cash loans (financial guarantee contracts)	December 31, 2021	December 31, 2020
Secured loans:	**100,710,338**	**59,292,993**
Secured by mortgages	10,517,180	7,639,220
Secured by cash collateral	1,479,603	1,042,003
Guarantees issued by financial institutions	515,712	526,935
Secured by government institutions or government securities	225,107	306,285
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	87,972,736	49,778,550
Unsecured loans	**92,692,061**	**43,153,316**
Total non-cash loans	**193,402,399**	**102,446,309**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

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

	December 31, 2021	December 31, 2020
Cash Collateral	-	-
Mortgages	8,187,737	8,593,313
Vehicles	470,708	527,809
Other(*)	10,481,483	8,809,049
Total(**)	**19,139,928**	**17,930,171**

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

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

Sectorial and geographical concentration of impaired loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans, finance lease and factoring receivables are shown below:

	December 31, 2021		December 31, 2020	
Sectorial concentration	**Amount**	**%**	**Amount**	**%**
Food	1,292,888	6.75%	1,104,743	6.16
Consumer loans	3,002,230	15.69%	1,739,547	9.70
Construction	3,753,175	19.61%	3,754,035	20.94
Service sector	1,477,676	7.72%	1,535,749	8.57
Metal and metal products	1,243,938	6.50%	1,393,071	7.77
Durable consumer goods	561,698	2.93%	576,311	3.21
Textile	448,024	2.34%	347,634	1.94
Financial institutions	218,530	1.14%	271,923	1.52
Agriculture and stockbreeding	158,707	0.83%	165,839	0.92
Other	6,983,062	36.49%	7,041,319	39.27
Total non-performing loans and advances to customers	**19,139,928**	**100.00%**	**17,930,171**	**100.00**

	December 31, 2021		December 31, 2020	
Geographical concentration	**Amount**	**%**	**Amount**	**%**
Turkey	18,588,219	97.12%	17,722,073	98.84
Germany	517,076	2.70%	150,331	0.84
Austria	33,262	0.17%	8,681	0.05
Other	1,371	0.01%	49,086	0.27
Total non-performing loans and advances to customers	**19,139,928**	**100.00%**	**17,930,171**	**100.00**

Offsetting financial assets and financial liabilities

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.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

The similar agreements include derivative clearing agreements. Financial instruments subject to such agreements include derivatives. Financial instruments such as loans and deposits 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 recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
December 31, 2021							
	Derivatives - trading assets	21,246,426	-	21,246,426	-	4,355,271	16,891,155
	Reverse repurchase agreements	-	-	-	-	-	-
December 31, 2020							
	Derivatives - trading assets	8,740,985	-	8,740,985	-	1,709,523	7,031,462
	Reverse repurchase agreements	13,000	-	13,000	13,000	-	-

					Related amounts not offset in the statement of financial position		
	Types of financial assets	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
December 31, 2021							
	Derivatives - trading liabilities	5,490,278	-	5,490,278	-	3,643	5,486,635
	Repurchase agreements	142,091,998	-	142,091,998	140,138,763	1,953,235	-
December 31, 2020							
	Derivatives - trading liabilities	6,083,301	-	6,083,301	-	10,673,501	(4,590,200)
	Repurchase agreements	101,312,205	-	101,312,205	101,308,756	3,449	-

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Transferred of Financial Assets Held or Pledged as Collaterals

	December 31, 2021		December 31, 2020	
Asset pledged	**Asset**	**Related Liability**	**Asset**	**Related Liability**
Balances with other banks	15,231,576	-	14,318,636	-
Trading securities	14,383,082	-	-	-
-Legal requirements	14,383,082	-	-	-
Investment securities	30,259,866	-	51,157,551	-
- Financial assets at fair value through other comprehensive income	16,484,740	-	39,214,021	-
-Legal requirements	16,484,740	-	*39,214,021*	-
- Financial assets at amortised cost	13,775,126	-	11,943,530	-
-Legal requirements	13,775,126	-	*11,943,530*	-
Total	**45,491,442**		**65,476,187**	-

	December 31, 2021		December 31, 2020	
Transferred asset that are not de-recognized	**Asset**	**Related Liability**	**Asset**	**Related Liability**
Investment securities				
- Financial assets at fair value through other comprehensive income portfolio	75,043,394	117,511,623	25,744,884	15,916,838
-Repurchase agreement	75,043,394	117,511,623	25,744,884	15,916,838
Investment securities				
- Financial assets at amortised cost portfolio	57,188,376	1,008,629	38,158,425	41,308,482
- Repurchase agreement	57,188,376	1,008,629	38,158,425	41,308,482
Total	**132,231,770**	**118,520,252**	**63,903,309**	**57,225,320**

(c) Liquidity risk

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

Management of liquidity risk

The Group'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 Group's reputation.

The Treasury Department of the Bank receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, short-term loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business departments and subsidiaries are met through short-term loans from the Treasury Department to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset-Liability Committee ("ALCO"). Daily reports cover the liquidity position of both the Bank and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

In line with the Covid-19 outbreak, which caused a serious slowdown in global and regional economic activities, liquidity adequacy is constantly monitored through stress tests and scenario analyzes. It is observed that the impact of the Covid-19 outbreak on the Parent Bank's liquidity adequacy is limited. In accordance with the "Regulation on the Calculation of the Liquidity Coverage Ratio of Banks" published in the Official Gazette dated 21 March 2014 and numbered 28948, consolidated and non-consolidated total and foreign currency minimum liquidity coverage ratios are determined as 100% and 80%, respectively. Pursuant to the BRSA's regulation numbered 3520 dated March 26, 2020, it has been decided that deposit and participation banks will be exempted from Article 32 of the LCR regulation until December 31, 2021.

The consolidated liquidity coverage ratio averages for current period. The highest value and the lowest value occurred in this period are given below:

Liquidity Coverage	TL+FC		FC	
Ratio	DATE	RATIO (%)	DATE	RATIO (%)
The lowest value	October 2021	132.23	November 2021	273.14
The highest value	December 2021	161.33	October 2021	368.89

Exposure to liquidity risk

The calculation method used to measure the Bank's compliance with the liquidity limit is set by BRSA. Currently, this calculation is performed on a bank-only basis (not including consolidated subsidiaries).

The Bank's banking subsidiary in the Austria is subject to a similar liquidity measurement, however the Austrian National Bank does not impose limits, but monitors the bank's overall liquidity position to ensure there is no significant deterioration in the liquidity of banks operating in Austria.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

Maturity analysis of monetary assets and liabilities according to their remaining maturities:

December 31, 2021	Demand	Less than one month	1-3 months	3-12 months	1-5 Years	Over 5 years	Carrying amount
Cash and balances with Banks and Central Banks	150,520,544	134,946	7,726,980	3,499	-	-	158,385,969
Financial assets at fair value through P/L	582,619	11,604,999	1,567,144	1,712,226	15,589,603	6,859,524	37,916,115
Loans and advances to banks	445,906	245,288	25,577	2,069,389	1,542,652	-	4,328,812
Loans and advances to customers(*)	18,024,567	56,232,672	28,843,240	110,629,071	223,805,047	140,604,023	578,138,620
Investment securities	1,822,922	819,943	1,746,363	30,253,088	129,668,956	50,297,085	214,608,357
Assets classified as held for sale	755,253	-	-	-	-	-	755,253
Other assets	22,797,764	3,144,210	1,361,817	-	198,137	203,022	27,704,950
Total assets	**194,949,575**	**72,182,058**	**41,271,121**	**144,667,273**	**370,804,395**	**197,963,654**	**1,021,838,076**
Derivative financial instruments	-	110,737	663,626	1,055,435	981,029	2,679,451	5,490,278
Deposits from banks	1,887,223	22,314,690	9,026,003	-	-	-	33,227,916
Deposits from customers	145,836,930	300,061,581	90,638,304	23,266,227	2,422,186	(8,409)	562,216,819
Obligations under repurchase agreements	-	121,357,837	5,638,915	9,665,385	11,813,392	241,833	148,717,362
Funds borrowed	-	2,731,118	5,471,146	30,909,524	39,841,323	19,486,565	98,439,676
Debt securities issued	-	1,451,509	3,615,315	9,912,091	45,990,646	1,568,066	62,537,627
Subordinated debts	-	-	-	3,024,656	16,448,448	9,495,323	28,968,427
Current tax liabilities	5,775	933,615	166,752	-	-	-	1,106,142
Liabilities classified as held for sale	-	-	-	-	-	-	-
Other liabilities and provisions	10,084,596	12,142,446	2,798,725	63,878	1,887,710	528,520	27,505,875
Total liabilities	**157,814,524**	**461,103,533**	**118,018,786**	**77,897,196**	**119,384,734**	**33,991,349**	**968,210,122**
Net	**37,135,051**	**(388,921,475)**	**76,747,665)**	**66,770,077**	**251,419,661**	**163,972,305**	**53,627,954**

(*) The amount of the difference between non-performing loans and stage 3 provisions are shown in demand column.

December 31, 2020	Demand	Less than one month	1-3 months	3-12 months	1-5 Years	Over 5 years	Carrying amount
Cash and balances with Banks and Central Banks	95,377,191	258,530	868,158	-	-	-	96,503,879
Financial assets at fair value through profit or loss	344,999	58,047	4,018,108	5,883,549	2,817,593	3,076,979	16,199,275
Loans and advances to banks	655,187	687	-	1,023,506	1,180,022	-	2,859,402
Loans and advances to customers(*)	16,716,335	38,021,186	16,710,619	51,337,278	216,454,399	85,630,064	424,869,881
Investment securities	1,097,366	1,445,152	1,772,423	15,027,961	85,312,922	39,091,964	143,747,788
Assets classified as held for sale	1,256,254	-	-	-	-	-	1,256,254
Other assets	12,997,641	3,199,266	769,790	308,824	298,764	215,836	17,790,121
Total assets	**128,444,973**	**42,982,868**	**24,139,098**	**73,581,118**	**306,063,700**	**128,014,843**	**703,226,600**
Derivative financial instruments	-	610,057	393,662	3,150,500	115,865	1,813,217	6,083,301
Deposits from banks	1,636,729	16,980,113	4,416,355	-	-	-	23,033,197
Deposits from customers	80,000,254	226,015,030	70,104,554	16,596,835	1,468,070	58,501	394,243,244
Obligations under repurchase agreements	-	84,629,165	884,084	6,033,879	9,352,737	412,340	101,312,205
Funds borrowed	-	1,719,144	4,277,662	23,308,613	13,276,839	9,109,790	51,692,048
Debt securities issued	-	2,137,454	4,224,438	10,134,605	22,508,680	7,149,346	46,154,523
Subordinated debts	-	-	-	-	11,339,072	8,119,726	19,458,798
Current tax liabilities	1,032	542,016	412,789	-	-	-	955,837
Liabilities classified as held for sale	-	-	-	-	-	-	-
Other liabilities and provisions	5,745,153	8,148,185	1,680,356	9,065	900,281	73	16,483,113
Total liabilities	**87,383,168**	**340,781,164**	**86,393,900**	**59,233,497**	**58,961,544**	**26,662,993**	**659,416,266**
Net	**41,061,805**	**(297,798,296)**	**62,254,80[illegible]**	**14,347,621**	**247,102,156**	**101,351,850**	**43,810,334**

(*) The amount of the difference between non-performing loans and stage 3 provisions are shown in demand column.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group'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 optimizing the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Exposure to market risk - trading portfolios

The market risk arising from the trading portfolio is monitored, measured and reported using Standardized Approach according to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared by using Standardized Approach are reported to BRSA.

Value at Risk ("VaR") is also used to measure and control market risk exposure within the Bank's trading portfolios. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used is based on historical simulation and Monte Carlo simulation.

Exposure to interest rate risk - non-trading portfolios

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 reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

December 31, 2021	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
Cash and balances with Banks and Central Banks	25,522,263	812,580	3,499	-	-	132,047,627	158,385,969
Financial assets at fair value through profit or loss	14,058,486	6,810,624	2,140,476	12,520,263	2,030,769	355,497	37,916,115
Loans and advances to banks	382,781	11,636	1,770,767	1,907,619	197,965	58,044	4,328,812
Loans and advances to customers	156,721,797	148,935,330	130,367,097	82,821,548	40,880,419	18,412,429	578,138,620
Investment securities	26,369,339	13,758,590	54,210,190	90,959,772	27,487,544	1,822,922	214,608,357
Assets classified as held for sale	-	-	-	-	-	755,253	755,253
Other assets	-	1,361,817	-	70,637	203,022	26,069,474	27,704,950
Total assets	**223,054,666**	**171,690,577**	**188,492,029**	**188,279,839**	**70,799,719**	**179,521,246**	**1,021,838,076**
Derivative financial instruments	112,309	663,547	1,055,435	979,536	2,679,451	-	5,490,278
Deposits from banks	22,314,690	9,026,003	-	-	-	1,887,223	33,227,916
Deposits from customers	301,719,548	90,928,457	23,174,798	2,413,722	91,591	143,888,703	562,216,819
Obligations under repurchase agreements	123,375,347	7,719,245	8,144,599	9,478,171	-	-	148,717,362
Funds borrowed	3,413,410	56,216,975	11,228,357	18,123,503	7,090,161	2,367,270	98,439,676
Debt securities issued	2,021,309	4,492,854	11,648,739	43,760,790	613,935	-	62,537,627
Subordinated debts	-	367,792	9,674,882	13,584,286	5,341,467	-	28,968,427
Current tax liabilities	939,390	10,325	-	-	-	156,427	1,106,142
Liabilities classified as held for sale	-	-	-	-	-	-	-
Other liabilities and provisions	690,048	3,052,706	526,894	1,555,569	532	21,680,126	27,505,875
Total liabilities	**454,586,051**	**172,477,904**	**65,453,704**	**89,895,577**	**15,817,137**	**169,979,749**	**968,210,122**
Net	**(231,531,385)**	**(787,327)**	**123,038,325**	**98,384,262**	**54,982,582**	**9,541,497**	**53,627,954**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

December 31, 2020	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
Cash and balances with Banks and Central Banks	12,384,265	868,158	-	-	-	83,251,456	96,503,879
Financial assets at fair value through profit or loss	1,122,858	5,382,738	5,259,416	2,353,437	1,735,827	344,999	16,199,275
Loans and advances to banks	687	-	1,023,506	1,013,893	166,129	655,187	2,859,402
Loans and advances to customers	144,391,802	74,156,428	91,833,674	71,288,250	26,483,392	16,716,335	424,869,881
Investment securities	29,216,847	9,636,544	32,321,763	57,502,162	13,973,106	1,097,366	143,747,788
Assets classified as held for sale	-	-	-	-	-	1,256,254	1,256,254
Other assets	814,363	769,790	56,324	297,514	215,836	15,636,294	17,790,121
Total assets	**187,930,822**	**90,813,658**	**130,494,683**	**132,455,256**	**42,574,290**	**118,957,891**	**703,226,600**
Derivative financial instruments	612,360	411,564	3,130,825	115,335	1,813,217	-	6,083,301
Deposits from banks	16,980,113	4,416,355	-	-	-	1,636,729	23,033,197
Deposits from customers	226,936,292	70,322,107	16,543,169	1,454,495	58,501	78,928,680	394,243,244
Obligations under repurchase agreements	84,629,165	3,262,412	6,310,789	7,109,839	-	-	101,312,205
Funds borrowed	2,369,839	30,856,762	10,897,563	5,419,521	510,424	1,637,939	51,692,048
Debt securities issued	2,297,746	4,662,262	11,790,457	22,923,293	4,480,765	-	46,154,523
Subordinated debts	-	354,530	1,126,376	13,457,920	4,519,972	-	19,458,798
Current tax liabilities	543,048	360,486	-	-	-	52,303	955,837
Liabilities classified as held for sale	-	-	-	-	-	-	-
Other liabilities and provisions	613,474	1,680,360	9,065	900,281	73	15,050,205	18,253,458
Total liabilities	**334,982,037**	**116,326,838**	**49,808,244**	**51,380,684**	**11,382,952**	**97,305,856**	**661,186,611**
Net	**(147,051,215)**	**(25,513,180)**	**80,686,439**	**81,074,572**	**31,191,338**	**21,652,035**	**42,039,989**

The following table indicates the effective interest rates applied to monetary financial instruments by major currencies for the years ended December 31, 2021 and 2020:

December 31, 2021	**US Dollar %**	**EUR %**	**TL%**
Cash and cash equivalents	0.06	0.66	17.60
Financial assets at fair value through profit or loss	-	-	19.29
Loans and advances to banks	-	-	1.40
Loans and advances to customers	7.24	4.77	16.02
Investment securities	4.15	4.11	14.67
Deposits from banks	0.72	0.46	17.69
Deposits from customers	1.07	0.43	16.13
Obligations under repurchase agreements	2.06	0.87	14.05
Debt securities issued	6.11	5.08	15.47
Subordinated debts	6.29	5.08	10.09
Funds borrowed	2.51	1.68	17.63

December 31, 2020	**US Dollar %**	**EUR %**	**TL%**
Cash and cash equivalents	0.11	0.11	18.22
Financial assets at fair value through profit or loss	-	-	10.95
Loans and advances to banks	-	0.01	1.26
Loans and advances to customers	6.16	5.02	13.07
Investment securities	-	-	-
Deposits from banks	1.89	1.08	19.64
Deposits from customers	2.75	1.58	14.76
Obligations under repurchase agreements	1.88	1.25	17.08
Debt securities issued	6.02	2.58	14.87
Subordinated debts	6.30	5.08	13.30
Funds borrowed	2.61	1.99	14.50

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

Management of currency risk

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

Risk policy of the Group is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Group has established a foreign currency risk management policy that enables the Group to take a position between lower and upper limits which are determined, taking total equity of the Group into account.

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

	EUR / TL	USD / TL
December 31, 2019	6.68	5.96
December 31, 2020	9.15	7.45
December 31, 2021	15.21	13.40

For the purposes of the evaluation of the table below, the figures represent the TL equivalent of the related foreign currencies.

Measurement Frequency of Interest Rate Risk

Interest rate risk arising from banking book accounts is calculated in accordance with “Regulation on Measurement and Assessment of Interest Rate Risk Arising from Banking Book Accounts according to Standard Shock Technique” published in the August 23, 2011 dated Official Gazette no. 28034. Legal limit is monthly monitored and reported accordingly.

The economic value changes arising from the interest rate fluctuations which are measured according to “Regulation on Measurement and Assessment of Interest Rate Risk Arising from Banking Book Accounts according to Standard Shock Technique” are presented in the below table:

Currency Unit-Current Period	Applied Shock (+/- x base point)	Gain/Loss	Gain/ Equity-Loss/Equity
1. TL	500/(400)	(5,486,562)/5,070,845	(%7.06) / %6.53
2. EURO	200/(200)	(4,431,583)/785,195	(%5.71) / %1.01
3. USD	200/(200)	(737,408)/786,504	(%0.95) / %1.01
Total (For Negative Shocks)	-	**6,642,544**	**(%13.72)**
Total (For Positive Shocks)	-	**(10,655,553)**	**%8.55**

Currency Unit-Prior Period	Applied Shock (+/- x base point)	Gain/Loss	Gain/Equity-Equity
1. TL	500 / (400)	(7,823,623) / 7,246,356	(11.97%) / 11.09%
2. EURO	200 / (200)	(1,342,194) / (206,353)	(1.50%) / 0.82%
3. USD	200 / (200)	(980,927) / 535,680	(2.05%) / (0.32%)
Total (For Negative Shocks)	-	**7,575,682**	**11.59%**
Total (For Positive Shocks)	-	**(10,146,744)**	**(15.53%)**

The above table is prepared based on unconsolidated financial figures as of 31 December 2021.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

December 31, 2021	**US Dollar**	**EUR**	**Other currencies**	**Total**
Cash and balances with Banks and Central Banks	80,841,161	50,603,257	10,817,199	142,261,617
Financial assets at fair value through profit or loss	286,473	1,634	15,939,741	16,227,848
Loans and advances to banks	133,060	1,732,625	-	1,865,685
Loans and advances to customers	105,529,404	117,041,042	125,048	222,695,494
Investment securities	77,399,526	36,030,040	-	113,429,566
Other assets	2,708,117	3,583,676	7,893	6,299,686
Total foreign currency denominated monetary assets	**266,897,741**	**208,992,274**	**26,889,881**	**502,779,896**
Deposits from banks	7,693,953	7,728,828	819,737	16,242,518
Deposits from customers	176,135,029	117,300,451	31,693,507	325,128,987
Obligations under repurchase agreements	12,276,786	12,449,193	-	24,725,979
Funds borrowed	46,811,894	41,364,283	6,753,167	94,929,344
Debt securities issued	39,544,111	11,018,134	642,574	51,204,819
Subordinated debts	22,563,676	-	-	22,563,676
Other liabilities	5,598,347	5,042,754	23,703	10,664,804
Total foreign currency denominated monetary liabilities	**310,623,796**	**194,903,643**	**39,932,688**	**545,460,127**
Net statement of financial position	**(43,726,055)**	**14,088,631**	**(13,042,807)**	**(42,680,231)**
Net off balance sheet position	**47,874,773**	**(9,608,944)**	**12,990,072**	**51,255,901**
Net long/(short) position	**4,148,718**	**4,479,687**	**(52,735)**	**8,575,670**

December 31, 2020	**US Dollar**	**EUR**	**Other currencies**	**Total**
Cash and balances with Banks and Central Banks	30,578,218	41,780,438	9,364,757	81,723,413
Financial assets at fair value through profit or loss	161,038	9,842	7,000,000	7,170,880
Loans and advances to banks	22,893	1,012,143	-	1,035,036
Loans and advances to customers	58,340,408	69,275,538	214,357	127,830,303
Investment securities	47,036,953	20,393,491	-	67,430,444
Other assets	6,822,446	6,245,838	155,039	13,223,323
Total foreign currency denominated monetary assets	**142,961,956**	**138,717,290**	**16,734,153**	**298,413,399**
Deposits from banks	6,395,505	7,630,195	184,045	14,209,745
Deposits from customers	102,509,016	66,471,357	20,090,259	189,070,632
Obligations under repurchase agreements	7,839,458	13,714,059	-	21,553,517
Funds borrowed	25,268,094	23,806,452	164,153	49,238,699
Debt securities issued	21,561,305	11,270,337	2,060,725	34,892,367
Subordinated debts	13,057,337	-	-	13,057,337
Other liabilities	3,484,952	2,185,846	4,837	5,675,635
Total foreign currency denominated monetary liabilities	**180,115,667**	**125,078,246**	**22,504,019**	**327,697,932**
Net statement of financial position	**(37,153,711)**	**13,639,044**	**(5,769,866)**	**(29,284,533)**
Net off balance sheet position	**38,046,541**	**(11,457,360)**	**5,788,929**	**32,378,110**
Net long/(short) position	**892,830**	**2,181,684**	**19,063**	**3,093,577**

The figures of the foreign subsidiary of the Group are presented in the table above with respect to its functional currency.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

Exposure to currency risk

10 percent devaluation of the TL against the following currencies as at and for the years ended December 31, 2021 and 2020 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	December 31, 2021		December 31, 2020	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
US Dollar	334,996	334,996	71,674	71,674
EUR	361,849	641,125	197,419	344,959
Other currencies	(5,302)	(5,302)	1,900	1,900
Total, net	**691,543**	**970,819**	**270,993**	**418,533**

10 percent revaluation of the TL against the following currencies as at and for years ended December 31, 2021 and 2020 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	December 31, 2021		December 31, 2020	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
US Dollar	(334,996)	(334,996)	(71,674)	(71,674)
EUR	(361,849)	(641,125)	(197,419)	(344,959)
Other currencies	5,302	5,302	(1,900)	(1,900)
Total, net	**(691,543)**	**(970,819)**	**(270,993)**	**(418,533)**

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

Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Group, and where it exists, appropriate valuation methodologies. However, judgment is necessary to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities recorded at amortized cost are not materially different than their recorded values except for those of loans and advances to customers, investment securities and deposit from customers. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, loans and advances from banks, funds borrowed and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Loans and Receivables

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

Investment Securities Held-to-Maturity

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Deposits from customers

The estimated fair value of deposits from other banks and customer deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

Set out below is a comparison by category of carrying amounts and fair values of the Group's major financial instruments that are carried in the financial statements at other than fair values;

	Carrying amount		Fair value	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Financial assets				
Loans and advances to customers	578,138,620	424,869,881	573,481,187	405,015,688
Financial assets at fair value through profit or loss	37,916,115	16,199,275	37,916,115	16,199,275
Investment securities	214,608,357	143,747,788	218,247,407	146,126,233
Financial assets at fair value through other comprehensive income	140,754,621	85,007,132	140,754,621	85,007,132
Financial assets measured at amortised cost	73,853,736	58,740,656	77,492,787	61,119,101
Financial liabilities				
Deposits from other banks	33,227,916	23,033,197	33,227,916	23,033,197
Deposits from customers	562,216,819	394,243,244	561,547,888	395,812,966
Funds borrowed	98,439,676	51,692,048	98,101,000	51,760,302

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique: Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities; Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on on observable market data.

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

December 31, 2021	Level 1	Level 2	Level 3(*)	Total
Asset carried at fair value				
Financial assets - FVPL	552,659	37,193,973	169,483	37,916,115
Debt securities	111,004	15,947,547	-	16,058,551
Equity securities	318,988	-	169,483	488,471
Derivative financial assets held for trading purposes	-	21,246,426	-	21,246,426
Other Financial Assets	122,667	-	-	122,667
Investment securities - FVOCI	138,658,109	273,589	1,822,923	140,754,621
Debt securities	136,458,252	-	-	136,458,252
Equity securities	-	-	1,822,923	1,822,923
Other Financial Assets	2,199,857	273,589	-	2,473,446
Investments accounted for using the equity method	596,572	-	19,685	616,257
Total financial assets	139,807,340	37,467,562	2,012,091	179,286,993
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(5,490,278)	-	(5,490,278)
Total financial liabilities	-	(5,490,278)	-	(5,490,278)

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (Continued)

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

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

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

	December 31, 2021	December 31, 2020
Balance at the beginning of the period - 1 January	1,136,757	902,558
Total gains or losses for the period	875,334	234,199
Balance at the end of the period	**2,012,091**	**1,136,757**

(e) 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 behavior. 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 a 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.

The data of operational losses may be exposed to during the Bank's activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Audit Committee and senior management.

The Group calculated the value at operational risk in accordance with the third section of "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" that is "Computation of Value of Operational Risk" published in June 28, 2012 dated Official Gazette no. 28337. The operational risk which the Group is exposed to is calculated according to the "Basic Indicator Method" hence by multiplying the average of the 15% of last three years' actual gross income with 12.5, in line with the effective legislation practices in the country. As at December 31, 2021, value of consolidated operational risk amounted to TL 32,231,733 (December 31, 2020: TL 25,510,114).

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

3. FINANCIAL RISK MANAGEMENT (Continued)

(f) Capital management - regulatory capital

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of the capital adequacy ratio based on the consolidated financial statements of the Bank and its financial subsidiaries.

The Bank and its financial subsidiaries' consolidated regulatory capital is analyzed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, restricted funds, fair value reserves of available-for-sale financial assets and equity investments, subordinated loans received and free reserves set aside for contingencies.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and commitment and contingencies exposures. Operational risk capital requirements and market risk capital requirements as at December 31, 2021 and 2020 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the year and the previous year.

The Bank's regulatory capital position on a consolidated basis at December 31, 2021 and 2020 is as follows:

	Consolidated		Parent Bank	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Capital Requirement for Credit Risk (CRCR)	41,187,470	30,663,082	39,885,018	29,696,363
Capital Requirement for Market Risk (CRMR)	781,598	274,216	597,524	208,992
Capital Requirement for Operational Risk (CROR)	2,578,539	2,040,809	2,368,119	1,910,307
Common Equity Tier 1 Capital	55,585,142	46,728,139	53,363,961	46,082,321
Tier 1 Capital	71,223,792	58,125,153	69,002,611	57,479,335
Tier 2 Capital	10,737,360	8,064,303	10,531,941	7,911,477
Deductions from Capital	(10,793)	(11,112)	(10,793)	(11,112)
Total Capital	81,950,359	66,178,344	79,523,759	65,379,700
Total Capital /((CRCR+CRMR+CROR)*12.5)*100	14.72	16.05	14.85	16.44
Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	12.79	14.10	12.88	14.45
Common Equity Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	9.98	11.34	9.96	11.59

4. INSURANCE RISK MANAGEMENT

The risk under any insurance contract is the possibility that the insured event occurs and the amount of the resulting claim is uncertain. By the very nature of an insurance contact, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of the probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claim and benefit payments exceed carrying amount of the insured liabilities. These could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is likely to be affected across the board by a change in any subset of portfolio.

The Group has developed its life and non-life insurance underwriting strategies to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Pricing policies

The pricing policies and principles of the Group are as follows:

i) While determining risk premiums, the amount of expected losses are considered and premium limits are determined accordingly.
ii) During the study of pricing activities as a part of developing a new product, working of relevant units together within the Group is maintained by considering the needs of the customers and competition in the market.
iii) It is aimed to achieve profitability in product basis and providing continuity.

Results of the pricing studies are compared with the prices of the competitors and international pricing cases.

Management of risks

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance.

The Group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. All non-life contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

4. INSURANCE RISK MANAGEMENT (Continued)

Concentrations of risk can arise in low frequency, high-severity events such as natural disasters; in situations where the Group is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behavior; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

Within non-life insurance, the management believes that the Group has no significant concentration of exposure to any group of policyholders measured by social, professional, age or similar criteria.

The greatest likelihood of significant losses to the Group arises from catastrophe events, such as flood, damage, storm or earthquake damage. The techniques and assumptions that the Group uses to calculate these risks are as follows:

- Measurement of geographical accumulations.
- Assessment of probable maximum losses.
- Excess of loss reinsurance.

Reinsurance

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources.

Reinsurance companies, providing reinsurance protection against life insurance and other additional risks are the most important service providers for the insurance subsidiaries of the Group. The decisive criteria for the relationship with reinsurers are as follows:

i) Financial strength,
ii) Long-term relationship approach,
iii) Competitive prices
iv) Capacity provided for facultative and un-proportional (catastrophic) reinsurance contracts.
v) Opportunities and information provided in risk assessment process, product development, trainings, information about new developments in the sector and etc.

Performance of the reinsurance companies in treaty agreements is evaluated for each year by considering the payment performance of the reinsurers for the claims paid and other due payables to the insurance subsidiaries of the Group. Performance of the reinsurance companies in facultative agreements is evaluated by considering capacity provided to the insurance subsidiaries of the Group, speed in operational reinsurance transactions, and technical and market information provided to the insurance subsidiaries of the Group. In cases where the performance of the reinsurer is not seen as adequate, the insurance subsidiaries of the Group will decide to contract with alternative reinsurance companies.

5. SEGMENT REPORTING

Geographical information

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

Operating segments

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

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

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

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

Leasing: Includes the Group's finance lease business.

Factoring: Includes the Group's factoring business.

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

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

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

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

5. SEGMENT REPORTING (Continued)

Information about operating segments

December 31, 2021	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Leasing	Factoring	Other	Combined	Eliminations	Total
.											
Interest income on loan and receivables	14,232,808	30,765,309	7,623,609	-	52,621,726	-	769,364	112,297	53,503,387	(345,476)	53,157,911
Interest expense on deposit	(12,657,286)	(17,217,738)	(1,295,755)	-	(31,170,779)	-	-	-	(31,170,779)	163,491	(31,007,288)
Operating profit	**2,033,573**	**12,266,142**	**1,066,657**	**355,853**	**15,722,225**	**246,251**	**197,771**	**1,058,580**	**17,224,827**	**71,697**	**17,296,524**
Profit before income tax	446,762	8,111,275	(1,097,478)	(2,060,634)	5,399,925	190,996	169,010	561,109	6,321,040	437,871	6,758,911
Income tax expense									(1,128,525)	-	(1,128,525)
Profit for the year									**5,192,515**	**437,871**	**5,630,386**
December 31, 2021											
Segment assets	128,067,785	342,045,232	511,554,178	39,640,847	1,021,308,042	6,205,097	7,147,612	6,194,392	1,040,855,143	(12,220,820)	1,028,634,323
Investments accounted for using the equity method	-	-	616,257	-	616,257	-	-	-	616,257	-	616,257
Total assets	**128,067,785**	**342,045,232**	**512,170,435**	**39,640,847**	**1,021,924,299**	**6,205,097**	**7,147,612**	**6,194,392**	**1,041,471,400**	**(12,220,820)**	**1,029,250,580**
Segment liabilities	247,651,905	316,506,290	369,443,731	32,639,629	966,241,555	5,542,455	6,588,780	3,473,031	981,845,821	(7,455,916)	974,389,905
Equity including non-controlling interest	-	-	-	55,066,487	55,066,487	662,642	558,832	2,721,361	59,009,322	(4,148,647)	54,860,675
Total liabilities and equity	**247,651,905**	**316,506,290**	**369,443,731**	**87,706,116**	**1,021,308,042**	**6,205,097**	**7,147,612**	**6,194,392**	**1,040,855,143**	**(11,604,563)**	**1,029,250,580**
Depreciation and Amortization	-	-	-	(546,886)	(546,886)	-	-	-	(546,886)	-	(546,886)

December 31, 2020	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Leasing	Factoring	Other	Combined	Eliminations	Total
Interest income on loan and receivables	10,028,411	21,446,385	5,334,966	-	36,809,762	-	352,762	43,171	37,205,695	(135,276)	37,070,419
Interest expense on deposit	(6,524,939)	(9,323,496)	(689,063)	-	(16,537,498)	-	-	-	(16,537,498)	91,243	(16,446,255)
Operating profit	**2,623,384**	**5,133,235**	**8,244,081**	**(184,114)**	**15,816,586**	**109,623**	**131,398**	**706,681**	**16,764,288**	**835,161**	**17,599,449**
Profit before income tax	1,144,772	896,332	6,562,892	(2,081,970)	6,522,026	80,216	113,008	282,310	6,997,560	1,007,538	8,005,098
Income tax expense									(1,512,514)	(23,603)	(1,536,117)
Profit for the year									**5,485,046**	**983,935**	**6,468,981**
December 31, 2020											
Segment assets	109,522,550	249,657,814	317,740,849	30,772,479	707,693,692	3,621,665	5,760,337	4,717,803	721,793,497	(10,018,867)	711,774,630
Investments accounted for using the equity method	-	-	538,516	-	538,516	-	-	-	538,516	-	538,516
Total assets	**109,522,550**	**249,657,814**	**318,279,365**	**30,772,479**	**708,232,208**	**3,621,665**	**5,760,337**	**4,717,803**	**722,332,013**	**(10,018,867)**	**712,313,146**
Segment liabilities	159,193,919	236,260,695	242,476,047	21,391,585	659,322,246	3,325,370	5,317,235	2,893,249	670,858,100	(6,107,439)	664,750,661
Equity including non-controlling interest	-	-	-	48,371,446	48,371,446	296,295	443,102	1,824,554	50,935,397	(3,372,912)	47,562,485
Total liabilities and equity	**159,193,919**	**236,260,695**	**242,476,047**	**69,763,031**	**707,693,692**	**3,621,665**	**5,760,337**	**4,717,803**	**721,793,497**	**(9,480,351)**	**712,313,146**
Depreciation and Amortization				(251,087)	(251,087)				(251,087)		(251,087)

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

6. CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

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

	December 31, 2021	**December 31, 2020**
Cash on hand	3,971,472	3,115,986
Due from Central Bank	57,255,114	26,517,182
Balances with the CBRT excluding reserve deposits	78,941,449	61,517,690
Money market placements and receivables from repurchase agreements	6,917,899	206,589
Loans and advances to banks with original maturity less than three months	7,294,758	3,089,504
Other	4,005,277	2,056,928
Total cash and cash equivalents in the consolidated statement of financial position	**158,385,969**	**96,503,879**
Accruals on cash and cash equivalents	(286,262)	(912)
Blocked bank deposits	(2,037,843)	(14,318,636)
Due from Central Bank	(57,255,114)	(26,517,182)
Advances to banks with original maturity less than three months classiffied assets held for sale	-	-
Expected Credit Loss	14,229	2,866
Total cash and cash equivalents in the consolidated statement of cash flows	**98,820,979**	**55,670,015**

As of December 31, 2021, TL 15,231,576 is blocked bank deposits (December 31, 2020: TL 14,318,636) consist of held against the “Diversified Payment Rights” securitizations.

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

In accordance with “Announcement on Reserve Deposits” of CBRT numbered 2013/15, all banks operating in Turkey shall provide a reserve rate ranging from 3.0% to 8.0% (December 31, 2020: ranging from 1.0% to 6.0%). For foreign currency liabilities, all banks shall provide a reserve rate ranging from 5.0% to 26.0% in US Dollar or Euro (December 31, 2020: ranging from 5.0% to 22.0%).

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	December 31, 2021		**December 31, 2020**	
	Face Value	***Carrying Value***	***Face Value***	***Carrying Value***
Debt instruments held at fair value:				
Government bonds in TL	116,545	196,754	108,045	110,576
Asset-backed securities	-	-	-	-
Eurobonds issued by the Turkish Government	15,772,603	15,939,741	6,942,486	7,000,000
Corporate bonds in TL	10,750	10,665	-	-
Bonds issued by banks	4,000	3,953	3,545	3,522
Total	**15,903,898**	**16,151,113**	**7,054,076**	**7,114,098**
Equity and other non-fixed income instruments:				
Investment funds		30,105	-	12,720
Equity shares		488,471	-	331,472
Derivative financial assets held for trading purposes		21,246,426	-	8,740,985
Total	**-**	**21,765,002**	**-**	**9,085,177**
Total financial assets at fair value through profit or loss	**15,903,898**	**37,916,115**	**7,054,076**	**16,199,275**

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Gains and losses arising on derivative financial instruments held for trading purposes and income from sale of debt instruments held at fair value are reflected in net trading income. As at and for the year ended December 31, 2021 net expense from trading of financial assets (including investment securities) amounting to TL 6,197,169 (December 31, 2020 net trading income: TL 58,345) is included in "trading income".

Securities that were deposited as collateral with respect to various banking and insurance transactions

None.

Derivative financial instruments held for trading purposes

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

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

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

	December 31, 2021	December 31, 2020
	Notional Amounts	**Notional Amounts**
Trading Derivatives		
Foreign Currency Related Derivative Transactions	**150,532,949**	**120,966,766**
Currency Forwards	14,493,825	3,073,644
Currency Swaps	128,757,449	116,344,721
Currency Futures	-	382,085
Currency Options	7,281,675	1,166,316
Interest Rate Derivative Transactions	**127,590,653**	**79,926,312**
Interest Rate Forwards	-	-
Interest Rate Swaps	127,590,653	79,926,312
Interest Rate Options	-	-
Interest Rate Futures	-	-
Other Trading Derivatives	**71,235,697**	**29,788,647**
Total Derivative Transactions	**349,359,299**	**230,681,725**

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

	December 31, 2021					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Currency swaps:						
Purchases	49,837,375	4,784,639	3,402,204	-	402,000	58,426,218
Sales	45,122,140	3,714,711	3,381,030	-	-	52,217,881
Currency forwards:						
Purchases	272,988	1,995,127	4,990,116	-	-	7,258,231
Sales	272,496	1,990,262	4,972,836	-	-	7,235,594
Cross currency interest rate swaps:						
Purchases	-	-	-	5,982,041	6,204,653	12,186,694
Sales	-	-	-	3,130,009	2,796,647	5,926,656
Interest rate swaps:						
Purchases	15,000	15,000	6,340,371	11,333,954	46,091,002	63,795,327
Sales	15,000	15,000	6,340,370	11,333,954	46,091,002	63,795,326
Currency options:						
Purchases	913,138	2,042,735	648,810	-	-	3,604,683
Sales	805,646	2,179,284	692,062	-	-	3,676,992
Futures:						
Purchase	-	-	-	-	-	-
Sale	-	-	-	-	-	-
Other:						
Purchases	8,605,326	695,218	2,467,019	10,944,387	15,354,929	38,066,879
Sales	5,360,710	695,218	2,134,018	10,076,069	14,902,803	33,168,818
Total of purchases	**59,643,827**	**9,532,719**	**17,848,520**	**28,260,382**	**68,052,584**	**183,338,032**
Total of sales	**51,575,992**	**8,594,475**	**17,520,316**	**24,540,032**	**63,790,452**	**166,021,267**
Total of derivatives	**111,219,819**	**18,127,194**	**35,368,836**	**52,800,414**	**131,843,036**	**349,359,299**

	December 31, 2020					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Currency swaps:						
Purchases	26,476,028	11,801,238	6,715,770	-	223,500	45,216,536
Sales	29,727,665	11,491,289	6,926,215	-	-	48,145,169
Currency forwards:						
Purchases	50,100	301,063	1,178,211	17,153	-	1,546,527
Sales	50,014	300,610	1,159,418	17,075	-	1,527,117
Cross currency interest rate swaps:						
Purchases	-	-	7,579,285	1,639,000	3,278,760	12,497,045
Sales	-	-	6,817,007	1,177,650	2,491,314	10,485,971
Interest rate swaps:						
Purchases	65,000	95,000	5,272,432	4,363,072	30,167,652	39,963,156
Sales	65,000	95,000	5,272,432	4,363,072	30,167,652	39,963,156
Currency options:						
Purchases	442,822	93,412	38,000	-	-	574,234
Sales	461,568	97,208	33,306	-	-	592,082
Futures:						
Purchase	-	-	186,250	-	-	186,250
Sale	-	-	195,835	-	-	195,835
Other:						
Purchases	2,614,950	563,977	2,045,191	4,085,486	7,884,604	17,194,208
Sales	4,386	563,977	1,789,764	3,139,412	7,096,900	12,594,439
Total of purchases	**29,648,900**	**12,854,690**	**23,015,139**	**10,104,711**	**41,554,516**	**117,177,956**
Total of sales	**30,308,633**	**12,548,084**	**22,193,977**	**8,697,209**	**39,755,866**	**113,503,769**
Total of derivatives	**59,957,533**	**25,402,774**	**45,209,116**	**18,801,920**	**81,310,382**	**230,681,725**

Set out below accruals of derivative assets:

	December 31, 2021	December 31, 2020
Forwards	1,191,928	60,626
Swaps	19,868,796	8,677,596
Options	185,702	2,763
Fair value of derivative assets	**21,246,426**	**8,740,985**

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

8. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The Group lends its extra fund as a result of daily operations to other financial institutions through reverse repurchase agreements. Assets purchased under reverse repurchase agreements are as follows:

	December 31, 2021		December 31, 2020	
	Fair value of underlying assets	**Carrying Value of corresponding assets**	**Fair value of underlying assets**	**Carrying Value of corresponding assets**
Reverse repurchase agreements	-	-	13,000	13,000

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. The counterparties cannot resell or re-pledged the assets. Assets sold under repurchase agreements comprise the following:

	December 31, 2021		December 31, 2020	
	Fair value of underlying assets	**Carrying value of corresponding liabilities**	**Fair value of underlying assets**	**Carrying value of corresponding liabilities**
Financial assets at fair value through OCI	76,759,396	98,726,277	25,744,884	15,916,838
Financial assets at amortised cost	57,188,376	43,365,721	38,158,425	41,308,482
Total	**133,947,772**	**142,091,998**	**63,903,309**	**57,225,320**

Accrued interest on obligations under repurchase agreements amounted to TL 168,995 (December 31, 2020: TL 52,459) and is included in the carrying amount of corresponding liabilities.

In general, the fair values of such assets are more than the corresponding liabilities due to the margins set between parties, since such funding is raised against assets collateralized.

9. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise balances with more than three months maturity from the date of acquisition and are as follows as at December 31, 2021 and 2020:

	December 31, 2021			December 31, 2020		
	TL	**FC**	**Total**	**TL**	**FC**	**Total**
Domestic banks	2,156,786	1,139,505	3,296,291	1,825,255	938,960	2,764,215
Foreign banks	-	1,033,437	1,033,437	-	96,079	96,079
Provisions	(916)	-	(916)	(892)	-	(892)
Total	**2,155,870**	**2,172,942**	**4,328,812**	**1,824,363**	**1,035,039**	**2,859,402**

As at December 31, 2021, the group has no loans and advances to banks with more than three months maturity from the date of acquisition include blocked accounts (December 31, 2020: None) held against the insurance liabilities of the Group in favor of the Turkish Treasury.

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

10. LOANS AND ADVANCES TO CUSTOMERS

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

December 31, 2021	Commercial	Consumer	Credit Cards	Factoring	Leasing	Total
Stage 1 loans to customers	382,901,929	105,744,802	23,002,578	-	-	511,649,309
Stage 2 loans to customers	59,528,751	2,040,095	597,891	7,006,938	4,769,553	73,943,228
Stage 3 loans to customers	14,873,779	3,035,923	951,568	66,879	211,779	19,139,928
Total gross loans to customers	**457,304,459**	**110,820,820**	**24,552,037**	**7,073,817**	**4,981,332**	**604,732,465**
Less: Stage 1 expected credit loss	2,225,608	255,234	359,619	-	-	2,840,461
Less: Stage 2 expected credit loss	8,618,306	297,538	77,184	39,058	102,890	9,134,976
Less: Stage 3 expected credit loss	11,851,994	1,796,220	738,653	65,463	166,078	14,618,408
Total expected credit loss	**22,695,908**	**2,348,992**	**1,175,456**	**104,521**	**268,968**	**26,593,845**
Total loans and advances to customers	**434,608,551**	**108,471,828**	**23,376,581**	**6,969,296**	**4,712,364**	**578,138,620**

December 31, 2020	Commercial	Consumer	Credit Cards	Factoring	Leasing	Total
Stage 1 loans to customers	276,933,204	94,967,658	14,393,403	-	-	386,294,265
Stage 2 loans to customers	32,549,755	1,251,391	243,970	5,689,415	3,055,519	42,790,050
Stage 3 loans to customers	15,029,808	1,758,795	863,752	62,325	215,491	17,930,171
Total gross loans to customers	**324,512,767**	**97,977,844**	**15,501,125**	**5,751,740**	**3,271,010**	**447,014,486**
Less: Stage 1 expected credit loss	2,334,328	513,241	330,780	-	-	3,178,349
Less: Stage 2 expected credit loss	4,835,446	248,036	28,919	32,304	103,651	5,248,356
Less: Stage 3 expected credit loss	11,313,280	1,436,572	754,630	60,540	152,878	13,717,900
Total expected credit loss	**18,483,054**	**2,197,849**	**1,114,329**	**92,844**	**256,529**	**22,144,605**
Total loans and advances to customers	**306,029,713**	**95,779,995**	**14,386,796**	**5,658,896**	**3,014,481**	**424,869,881**

The credit quality analysis of outstanding allowance loans and advances to customers:

Current Period	**Stage 1**	**Stage 2**	**Stage 3**
Balances at January 1, 2021	3,178,349	5,248,356	13,717,900
Transfer to Stage 1	178,827	(178,513)	(314)
Transfer to Stage 2	(261,240)	440,399	(179,159)
Transfer to Stage 3	(47,173)	(190,751)	237,924
Recoveries and reversals(*)	(564,426)	(1,531,419)	(1,655,701)
Provision for the period	356,124	5,346,904	2,497,758
Balances at the end of the period	**2,840,461**	**9,134,976**	**14,618,408**

(*) As of December 31, 2021, the Parent Bank has written-off loans and provisions for these loans, which were classified in the “Stage 3 Loans” (Loans Classified as Loss) amounting to TL 834,885 unsecured, do not have reasonable expectations for recovery and with %100 provision. Following the written-off loans, the Parent Bank's non-performing loan ratio decreased from 3.23% to 3.09%.

Prior Period	**Stage 1**	**Stage 2**	**Stage 3**
Balances at January 1, 2020	1,623,637	1,964,228	12,478,787
Transfer to Stage 1	126,682	(126,122)	(560)
Transfer to Stage 2	(48,999)	1,124,446	(1,075,447)
Transfer to Stage 3	(7,126)	(343,580)	350,706
Recoveries and reversals	(453,094)	(552,124)	(1,659,736)
Provision for the period	1,937,249	3,181,507	3,624,150
Balances at the end of the period	**3,178,349**	**5,248,355**	**13,717,900**

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

10. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Aging analysis for overdue receivables(*)

The aging analysis of the loans and advances past due but not impaired is as follows:

	Current Period December 31, 2021	Prior Period December 31, 2020
31-60 days	3,158,375	2,562,274
61-90 days	1,854,042	2,067,323

(*) Loan receivables with overdue loans are taken into consideration.

The fair value of collaterals, capped with the respective outstanding loan balance relating to loans individually impaired:

	December 31, 2021	December 31, 2020
Mortgage	4,708,810	7,886,563
Other (*)	4,294,971	2,815,934
Total	**9,003,781**	**10,702,497**

(*) Includes guarantees from Treasury and Credit Guarentee Fund amouting to TL 2,241,950 (December 31, 2020: TL 1,311,367).

The fair value of collaterals, capped with the respective outstanding loan balance relating to those that are past due but not impaired:

	December 31, 2021	December 31, 2020
Mortgage	10,615,895	9,622,212
Vehicle	1,062,667	867,841
Cash	307,446	218,006
Other(*)	14,947,537	12,172,352
Total	**26,933,545**	**22,880,411**

(*) Includes guarantees from Treasury and Credit Guarentee Fund amounting to TL 5,612,770 (December 31, 2020: TL 4,827,750).

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

11. INVESTMENT SECURITIES

Financial asset at fair value through OCI:

	December 31, 2021		December 31, 2020	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Debt and other instruments FVOCI:				
Government bonds in TL	44,015,181	50,957,221	27,996,982	31,011,998
Eurobonds issued by the Turkish Government	81,222,028	82,500,136	48,175,490	49,412,449
Government bonds in foreign currencies	3,107,610	3,274,485	1,554,729	1,671,449
Lease Certificates	-	-	-	-
Bonds issued by banks	1,227,225	1,221,448	719,929	696,870
Corporate bonds	959,577	978,409	1,088,127	1,117,000
Asset-backed securities	-	-	-	-
Equity shares	-	1,822,922	-	1,097,366
Total FVOCI financial assets	**130,531,621**	**140,754,621**	**79,535,257**	**85,007,132**

As at December 31, 2021 and 2020, investment securities comprise the following:

	December 31, 2021	December 31, 2020
Financial assets at fair value through OCI (“FVOCI”)	140,754,621	85,007,132
Financial assets at amortised cost (“AC”)	73,853,736	58,740,656
Total investment securities	**214,608,357**	**143,747,788**

As at December 31, 2021 and 2020, equity shares comprised the following:

	December 31, 2021	December 31, 2020
Unquoted investments:		
Roketsan Roket Sanayi ve Ticaret A.Ş.	1,573,007	840,181
Vakıf Pazarlama Sanayi ve Ticaret A.Ş.	98,893	98,679
Vakıf Gayrimenkul Değerleme A.Ş.	34,538	36,059
Takas ve Saklama Bankası A.Ş.	29,901	29,901
Borsa İstanbul	13,579	13,579
İzmir Enternasyonel A.Ş.	6,178	6,177
Vakıf İnşaat Restorasyon A.Ş.	4,921	4,921
Güney Ege Enerji Ltd. Şti.	653	653
Bayek Tedavi ve Sağlık Hizmetleri A.Ş.	106	106
Other	108,009	104,218
Impairment	(46,863)	(37,108)
Total	**1,822,922**	**1,097,366**

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

11. INVESTMENT SECURITIES (Continued)

The following table summarizes fair value through OCI financial assets that were deposited as collaterals with respect to various banking transactions:

	December 31, 2021		December 31, 2020	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at financial institutions for repurchase transactions	73,286,603	75,043,394	24,001,952	25,744,884
Other	-	-	-	-
Total	**73,286,603**	**75,043,394**	**24,001,952**	**25,744,884**

Amortized cost investment securities:

	December 31, 2021			December 31, 2020		
	Face Value	Carrying Value*	Fair Value	Face Value	Carrying Value*	Fair Value
Debt instruments:						
Government bonds in TL	32,663,274	48,417,140	52,354,456	34,099,760	44,218,604	45,829,858
Certificate of deposits	-	-	-	-	-	-
Eurobonds issued by the Turkish Government	25,714,380	25,444,843	25,138,331	15,019,247	14,528,648	15,295,839
Other Bonds	-	-	-	-	-	-
Total amortized cost investment securities	**58,377,654**	**73,861,983**	**77,492,787**	**49,119,007**	**58,747,252**	**61,125,697**

(*) ECL provision amount of amortized cost investment securities has not been included in carrying value.

Movements of investment securities are as follows:

	December 31, 2021			December 31, 2020		
	FVOCI Financial Assets	Amortized Cost Investments	Total	FVOCI Financial Assets	Amortized Cost Investments	Total
Balances at January 1, 2020	**85,007,132**	**58,747,252**	143,754,384	**26,584,063**	**47,009,579**	**73,593,642**
Additions (*)	34,575,940	9,987,748	44,563,688	76,735,038	10,980,105	87,715,143
Disposals (sale and redemption)	45,145,277	1,418,048	46,563,325	(22,320,198)	(5,718,504)	(28,038,702)
Changes in amortized cost and fair value	(33,910,625)	(2,975,048)	(36,885,673)	3,305,516	3,055,750	6,361,266
Change in Provision for Impairment	1,410,812	-	1,410,812	368,857	-	368,857
Exchange differences	8,526,085	6,683,983	15,210,068	333,856	3,415,268	3,749,124
Expected Credit Loss	-	(8,247)	(8,247)	-	(1,542)	(1,542)
Total	**140,754,621**	**73,853,736**	**214,608,357**	**85,007,132**	**58,740,656**	**143,747,788**

(*) The Parent Bank issued subordinated debts to a group accounted for under "Subordinated debts" in 2020, in exchange acquired government securities, as disclosed under "Financial assets at amortised cost" as debt securities, from the same group as part of a qualified sale and purchase transition differing from market.

The following table summarizes financial assets measured at amortized cost that were deposited as collaterals with respect to various banking transactions:

	December 31, 2021		December 31, 2020	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at financial and other institutions for repurchase transactions	43,187,392	57,188,376	33,660,771	38,158,425
Deposited at Central Bank of Turkey for repurchase transactions	-	-	-	-
Deposited at Central Bank of Turkey for interbank transactions	1,412,643	2,115,420	3,188,554	4,897,956
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	761,964	1,011,866	1,369,964	1,914,293
Other	10,887,333	10,915,902	5,340,293	5,131,281
Total	**56,249,332**	**71,231,564**	**43,559,582**	**50,101,955**

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

12. INVESTMENTS IN ASSOCIATES

As at December 31, 2021 and 2020 investments in equity participations accounted for using the equity method are as follows:

	December 31, 2021	December 31, 2020
Unquoted investments:		
T. Sınai Kalkınma Bankası A.Ş.	596,572	521,929
Kıbrıs Vakıflar Bankası Ltd.	19,685	16,587
Total	**616,257**	**538,516**

13. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Movements in property and equipment and intangible assets from January 1 to December 31, 2021 and January 1 to December 31, 2020 are as follows:

Property and equipment	January 1, 2021	Currency translation difference	Valuation	Transfers	Additions	Disposals	December 31, 2021
Cost:							
Land and buildings	3,475,409	(189,869)	197,372	169,064	164,344	(1,830,055)	1,986,265
Motor vehicles	231,152	509	-	-	8,076	(6,525)	233,212
Furniture, office equipment & leasehold improvements	1,925,492	(165,617)	173,381	-	185,377	(38,442)	2,080,191
Right of use assets	1,391,796	-	-	-	435,071	(225,263)	1,601,604
Other tangibles	44,288	28,046	-	799,990	4,839	(6,810)	870,353
Total	**7,068,137**	**(326,931)**	**370,753**	**969,054**	**797,707**	**(2,107,095)**	**6,771,625**
Accumulated depreciation:							
Land and buildings	(103,934)	177,507	(184,585)	7,993	61,113	(14,152)	(56,058)
Motor vehicles	(59,728)	-	-	-	(41,975)	3,289	(98,414)
Furniture, office equipment & leasehold improvements	(1,272,050)	33,161	(163,459)	-	(152,467)	(86,137)	(1,640,952)
Right of use assets	(472,930)	-	1,308	-	(276,159)	32,692	(715,089)
Other tangibles	(139,049)	-	-	-	(2,778)	104,129	(37,698)
Impaired	(13,075)	-	-	-	-	4,162	(8,913)
Total	**(2,060,766)**	**210,668**	**(346,736)**	**7,993**	**(412,266)**	**43,983**	**(2,557,124)**
Net book value	**5,007,371**	**(116,263)**	**24,017**	**977,047**	**385,441**	**(2,063,112)**	**4,214,501**

Intangible assets	January 1, 2021	Currency translation difference	Valuation	Transfers	Additions	Disposals	December 31, 2021
Cost:							
Software programs	555,377	-	-	-	63,890	-	619,267
Rights	60,614	(90,522)	94,132	-	137,050	(96,779)	104,495
Other intangible assets	14,596	-	-	-	-	-	14,596
Total	**630,587**	**(90,522)**	**94,132**	**-**	**200,940**	**(96,779)**	**738,358**
Accumulated amortization:							
Software programs	(219,010)	-	-	-	(42,932)	-	(261,942)
Rights	(52,113)	-	-	-	(553)	-	(52,666)
Other intangible assets	12,478	75,256	(78,740)	-	(2,230)	-	6,764
Total	**(258,645)**	**75,256**	**(78,740)**	**-**	**(45,715)**	**-**	**(307,844)**
Net book value	**371,942**	**(15,266)**	**15,392**	**-**	**155,225**	**(96,779)**	**430,514**

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

13. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

Property and equipment	January 1, 2020	Currency translation difference	Valuation	Transfers	Additions	Disposals	December 31, 2020
Cost:							
Land and buildings	1,665,142	(97,817)	100,873	1,435,074	720,653	(348,516)	3,475,409
Motor vehicles	140,829	146	-	-	92,482	(2,305)	231,152
Furniture, office equipment & leasehold improvements	1,831,507	(73,658)	76,797	-	119,222	(28,376)	1,925,492
Right of use assets	1,136,446	-	-	-	456,269	(200,919)	1,391,796
Other tangibles	35,481	6,561	-	-	2,246	-	44,288
Total	**4,809,405**	**(164,768)**	**177,670**	**1,435,074**	**1,390,872**	**(580,116)**	**7,068,137**
Accumulated depreciation:							
Land and buildings	(99,077)	91,533	(94,381)	12,139	(14,645)	497	(103,934)
Motor vehicles	(32,724)	-	-	-	(28,202)	1,198	(59,728)
Furniture, office equipment & leasehold improvements	(1,267,008)	62,397	(65,905)	-	(3,781)	2,247	(1,272,050)
Right of use assets	(243,225)	-	-	-	(262,168)	32,463	(472,930)
Other tangibles	(10,495)	-	-	-	(161,436)	32,882	(139,049)
Impaired	(20,509)	-	-	-	-	7,434	(13,075)
Total	**(1,673,038)**	**153,930**	**(160,286)**	**12,139**	**(470,232)**	**76,721**	**(2,060,766)**
Net book value	**3,136,367**	**(10,838)**	**17,384**	**1,447,213**	**920,640**	**(503,395)**	**5,007,371**

Intangible assets	January 1, 2020	Currency translation difference	Valuation	Transfers	Additions	Disposals	December 31, 2020
Cost:							
Software programs	484,812	-	-	-	73,128	(2,563)	555,377
Rights	55,178	(46,538)	48,007	-	4,043	(76)	60,614
Other intangible assets	14,596	-	-	-	-	-	14,596
Total	**554,586**	**(46,538)**	**48,007**	**-**	**77,171**	**(2,639)**	**630,587**
Accumulated amortization:							
Software programs	(182,605)	-	-	-	(36,405)	-	(219,010)
Rights	(44,905)	-	-	-	(7,208)	-	(52,113)
Other intangible assets	14,701	33,647	(35,072)	-	(838)	40	12,478
Total	**(212,809)**	**33,647**	**(35,072)**	**-**	**(44,451)**	**40**	**(258,645)**
Net book value	**341,777**	**(12,891)**	**12,935**	**-**	**32,720**	**(2,599)**	**371,942**

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

14. ASSETS CLASSIFIED AS HELD FOR SALE

As of December 31, 2021, the cost of property and equipment held for sale purpose and related to discontinued operations are TL 756,999 (December 31, 2020: TL 1,263,718) and the provision for impairment is TL 1,746 (December 31, 2020: TL 7,467). The amount of other assets held for sales and discontinued operations is none (December 31, 2020: TL 3.)

As at December 31, 2021, net book value of assets held for sale of the Group is amounting to TL 755,253 (December 31, 2020: TL 1,256,254).

	December 31, 2021	December 31, 2020
Real Estate	755,253	1,256,251
Fixed Assets	-	-
Subsidiaries and Affiliates	-	-
Other	-	3
Total	**755,253**	**1,256,254**

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

15. OTHER ASSETS

	December 31, 2021	December 31, 2020
Collaterals for derivative financial instruments	14,012,973	10,673,501
Receivables from credit card payments	3,140,487	2,377,152
Prepaid expenses	2,374,642	1,749,705
Investment properties	974,395	502,143
Receivables from term sales of fixed assets	401,159	539,262
Assets held for resale	31,002	33,243
Prepaid taxes other than income tax and funds	16,615	14,615
Guarantees given for repurchase agreements	1,953,235	3,449
Other	6,463,544	3,607,743
Total	**29,368,052**	**19,500,813**

As of December 31, 2021, there are investment properties with a net balance sheet value of TL 974,395 (31 December 2020: TL 502,143) and a fair value of TL 1,594,627 (31 December 2020: TL 867,782), belonging to the Parent Bank's subsidiary operating in the real estate investment trust.

As at December 31, 2021, TL 31,002 (December 31, 2020: TL 33,243) of the other assets is comprised of foreclosed real estate acquired by the Group against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from BRSA.

16. TRADING LIABILITIES

As at December 31, 2021 and 2020, trading liabilities comprise negative fair value differences of derivative financial instruments held for trading purpose and are as follows:

	December 31, 2021	December 31, 2020
Swaps	4,130,259	6,032,976
Forwards	1,170,666	47,867
Options	189,353	2,458
Total trading liabilities	**5,490,278**	**6,083,301**

17. DEPOSITS FROM BANKS

As at December 31, 2021 and 2020, deposits from banks comprise the following:

	December 31, 2021	December 31, 2020
Time deposits	31,340,693	21,396,468
Demand deposits	1,887,223	1,636,729
Total deposits from banks	**33,227,916**	**23,033,197**

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

18. DEPOSITS FROM CUSTOMERS

As at December 31, 2021 and 2020, deposits from customers comprise the following:

	December 31, 2021		December 31, 2020	
	Demand Deposit	**Time Deposit**	**Demand Deposit**	**Time Deposit**
Saving deposits	15,231,477	71,568,422	10,033,091	60,751,163
Foreign currency deposits	67,642,949	228,031,993	26,859,872	143,401,214
Residents in Turkey	*63,118,899*	*209,998,423*	*24,614,226*	*130,918,702*
Residents abroad	*4,524,050*	*18,033,570*	*2,245,646*	*12,482,512*
Commercial deposits	10,881,383	66,839,633	6,887,033	56,555,805
Public sector deposits	13,816,572	18,243,688	9,869,935	26,743,128
Precious metal deposit	26,593,579	2,863,276	17,226,185	1,565,891
Other	11,570,970	28,932,877	9,124,138	25,225,789
Total deposits from customers	**145,736,930**	**416,479,889**	**80,000,254**	**314,242,990**

19. FUNDS BORROWED

As at December 31, 2021 and 2020, funds borrowed comprise the followings in accordance with their original maturities:

	December 31, 2021		December 31, 2020	
	TL	**Foreign Currency**	**TL**	**Foreign Currency**
Short-term funds	2,956,955	4,334,217	1,764,288	3,453,141
Short-term portion of long term funds	348,555	31,463,647	357,516	23,605,253
Total short-term funds	**3,305,510**	**35,797,864**	2,121,804	27,058,394
Medium/long term funds	204,823	59,131,479	331,545	22,180,305
Total funds borrowed	**3,510,333**	**94,929,343**	**2,453,349**	**49,238,699**

Funds borrowed comprise syndication and securitization loans bearing various interest rates and maturities and account for 10.10% (December 31, 2020: 7.77%) of the Group's liabilities. There is no risk concentration on funding sources of the Group.

On December 21, 2021, the Bank signed a contract to obtain a 3-year loan worth CNY 3.5 Million from the Development Bank of China, to be used within the framework of general financing needs along with the financing of foreign trade.

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

19. FUNDS BORROWED (Continued)

Syndicated Loans Received

Beginning From	Maturity (Days)	Currency	Amount (Millions)	Interest rate	Coordinator Bank	Agent Bank
9 December 2021	367	USD	296	Libor+2.15%	The Commercial Bank (P.S.Q.C.) First Abu Dhabi Bank (P.J.S.C.) Emirates NBD Bank (P.J.S.C)	Emirates NBD Bank (P.J.S.C).
	367	EUR	313,5	Euribor+1.75%	The Commercial Bank (P.S.Q.C.) Emirates NBD Bank (P.J.S.C) The Commercial Bank (P.S.Q.C.)	Emirates NBD Bank (P.J.S.C)
10 May 2021	367	USD	237,5	Libor + 2.50%	Abu Dhabi Commercial Bank Emirates NBD Bank (P.J.S.C) MUFG Bank Standard Chartered Bank	Mizuho Bank
	367	EUR	691,3	Euribor + 2.25%	Abu Dhabi Commercial Bank Emirates NBD Bank (P.J.S.C) MUFG Bank Standard Chartered Bank	Mizuho Bank

Securitisation Loans Received

Beginning From	Due date	Currency	Amount (USDMillions)(*)	Loan Type
13 May 2011	15 June 2023	USD	346,5	Based on international remittance flows
4 May 2018	15 March 2023	USD/EUR	380(**)	Based on international remittance flows
5 October 2018	15 September 2028	USD	300	Based on international remittance flows / Based on treasury financing transactions
15 October 2019	15 December 2026	USD	417	Based on international remittance flows / Based on treasury financing transactions
22 March 2021	15 March 2027	USD	461,5	Based on international remittance flows / Based on treasury financing transactions
	15 March 2028	USD	200	Based on international remittance flows / Based on treasury financing transactions
	15 March 2026	USD	508	Based on international remittance flows / Based on treasury financing transactions
	15 March 2026	EUR	200	Based on international remittance flows
	15 September 2026	USD	154	Based on international remittance flows / Based on treasury financing transactions
	15 March 2026	EUR	50	Based on international remittance flows
	15 March 2026	USD	115,4	Based on international remittance flows / Based on treasury financing transactions

(*) In the table, the relevant loan amounts are stated over each foreign currency amount.
(**) In the table, the amounts in the relevant credit tranches are given in USD.

As of December 31, 2021, the total securitization balance is equivalent of USD 1,175 million and EUR 168 million. (December 31, 2020: USD 1,453 million and EUR 227 million).

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

20. DEBT SECURITIES ISSUED

	December 31, 2021		December 31, 2020	
	TL	**FC**	**TL**	**FC**
Nominal	11,305,052	50,336,698	11,175,240	34,507,623
Cost	11,102,974	50,142,676	11,017,983	34,353,772
Net Book Value	11,332,808	51,204,819	11,262,156	34,892,367

December 31, 2021	Currency	Maturity	Interest Rate	Original Amount	TL Amount
Bank Bonds	TL	July 2021-January 2027	12,00 % - 20,44 %	11,332,808	11,332,808
Bank Bonds	USD	September 2021-January 2026	1,20 % - 8,13 %	3,773,302	50,562,245
Bank Bonds	EUR	-	-	-	-
Bank Bonds	GBP	September 2021-October 2021	1,45 % - 1,65 %	53,548	642,574

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

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

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

The Bank completed its second Sustainable bond issuance on September 16, 2021, within its sustainable finance program. The transaction was made with an amount of USD 500 million, maturity of 5 years, coupon rate of 5.50 and final rate of return of 5.625 percent.

21. SUBORDINATED DEBTS

Stated bonds' total balance sheet value is TL 28,968,427 as of December 31, 2021 (December 31, 2020: TL 19,458,798)

	December 31, 2021		December 31, 2020	
	TL	**FC**	**TL**	**FC**
Debt instruments to be included in the additional Tier 1 capital calculation	5,145,230	11,018,134	5,144,984	6,627,849
Debt instruments to be included in the additional Tier 2 capital calculation	1,259,521	11,545,542	1,256,477	6,429,488
Total	**6,404,751**	**22,563,676**	**6,401,461**	**13,057,337**

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

22. OTHER LIABILITIES AND PROVISIONS

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

	December 31, 2021	December 31, 2020
Accounts against expenditures of credit card holders	11,595,041	7,531,662
Miscellaneous payables	3,789,358	3,340,103
Unearned income	2,292,406	1,971,787
Margin deposit for derivative financial instruments	4,355,271	1,709,523
Cheque clearing account	2,769,721	1,475,966
Other provisions	1,908,521	1,240,038
Lease Payables	980,016	999,315
Import letter of credit	1,305,128	992,031
Provision for employee termination benefits	1,003,553	795,844
Provision for non-cash loans	264,267	278,244
Blocked accounts	113,578	111,322
Provision for unused vacations	105,728	94,479
Payment orders	273,742	55,961
Investment contract liabilities	-	-
Cheques response	-	-
Reserve for short term employee benefits	679,643	673,541
Other liabilities	2,222,084	490,064
Total other liabilities and provisions	**33,658,057**	**21,759,880**

As of 31 December 2021, the free provision in the financial statements amounted to a total of TL 1,772,000 (December 31, 2020: TL 1,072,000), of which is constituted by TL 700,000 in the current period and TL 1,072,000 in the prior periods.

Obligations under finance leases

	December 31, 2021		December 31, 2020	
	Gross	Net	Gross	Net
Under 1 year	50,901	46,361	24,659	23,607
1-4 Years	368,250	300,703	344,322	297,430
Over 4 years	1,117,650	632,952	1,018,008	678,278
Total	**1,536,801**	**980,016**	**1,386,989**	**999,315**

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

Reserve for employee severance indemnity	December 31, 2021	December 31, 2020
At the beginning of the year	795,844	610,600
Currency translation difference	2,896	888
Interest cost	97,629	70,439
Service cost	78,218	60,867
Payment during the year	(38,862)	(40,771)
Actuarial remeasurement	67,828	93,821
At the end of the year	**1,003,553**	**795,844**

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

23. TAXATION

Components of income tax expense recognized in the consolidated statement of comprehensive income are as follows:

	December 31, 2021	December 31, 2020
Income tax recognized in profit or loss for the year		
Current income tax related to income from operations	(407,467)	(2,040,485)
Deferred income tax related to income from operations	(721,058)	504,368
	(1,128,525)	**(1,536,117)**
Income tax recognized in other comprehensive income		
Current income tax recognized in other comprehensive income	-	-
Deferred income tax recognized in other comprehensive income	(231,048)	(184,408)
	(231,048)	**(184,408)**
Income tax expense recognized in the consolidated profit or loss and other comprehensive income	**(1,359,573)**	**(1,720,525)**

Details of tax liability are as follows:

	December 31, 2021	December 31, 2020
Corporate tax payable	127,147	396,020
Taxation on securities	372,700	283,597
Banking and Insurance Transaction Tax (BITT)	359,635	201,314
Value added tax payable	31,105	11,758
Capital gains tax on property	5,763	1,561
Taxes on foreign exchange transactions	59,585	8,002
Income taxes withheld from employee wages	102,150	36,505
Other	48,057	17,080
Total tax liability	**1,106,142**	**955,837**

The movement of corporate tax payable is as follows:

	December 31, 2021	December 31, 2020
At the beginning of the year	396,020	586,727
Current income tax charge	407,467	2,040,485
Taxes paid during the year	(676,340)	(2,231,192)
Corporate tax payable	**127,147**	**396,020**

Deferred tax assets and liabilities at December 31, 2021 and 2020 are attributable to the items below:

	December 31, 2021	December 31, 2020
Expected credit loss	2,507,164	1,516,646
Valuation differences of financial assets and liabilities	985,902	289,956
Free provision	-	214,400
Provision for employee severance indemnity and unused vacations	223,019	176,791
Valuation difference of associates and subsidiaries	93,361	115,214
Other provisions	25,020	25,804
Investment incentive	1,171	302
Reporting standards-tax code depreciation differences	-	-
Tax losses carried forward	-	-
Valuation difference for property and equipment	-	42
Other temporary differences	914,867	233,064
Deferred tax assets	**4,750,504**	**2,572,219**
Net-off of the deferred tax assets and liabilities from the same entity	(4,266,337)	(1,117,284)
Deferred tax assets, (net)	**484,167**	**1,454,935**
Valuation differences of financial assets and liabilities	3,957,730	896,839
Valuation difference for property and equipment	130,976	96,345
Valuation difference of associates and subsidiaries	156,792	133,178
Other temporary differences	48,440	48,550
Deferred tax liability	**4,293,938**	**1,174,912**
Net-off of the deferred tax assets and liabilities from the same entity	(4,266,337)	(1,117,284)
Deferred tax liability, (net)	**27,601**	**57,628**

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

24. EARNINGS PER SHARE

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

There is no dilution of shares as at December 31, 2021 and 2020.
The following reflects the basic earnings per share computations:

	December 31, 2021	December 31, 2020
Net profit attributable for the year	5,630,386	6,468,981
Net profit attributable to owners of the Bank	5,422,694	6,392,954
Number of 100 ordinary shares for basic earnings per shares	3,905,622,490	3,905,622,490
Basic earnings per 100 share	1.3884	1.9134
Diluted earnings per 100 share	1.3884	1.9134

With the decision no. 95466 of the Board of Directors of the Bank , dated February 9, 2022 It has been decided to increase the issued capital of TL 3,905,622,489.96 (three billion nine hundred five million six hundred twenty-two thousand and four hundred eighty-nine Turkish Lira Ninety-six Kurus) consisting of shares with a nominal value of TL 0.01, in cash by the total nominal capital amount to be calculated according to the share sales price to be determined within the buying and purchasing framework of Borsa Istanbul A.Ş , by completely restricting the pre-emptive rights of the existing shareholders, in a way to obtain a total of TL13.400.000.000,00 (thirteen billion four hundred Turkish Liras) sales revenue paid and it has been decided that all of the shares to be issued due to the capital increase will be sold to the Turkey Wealth Fund with the allocated sales method.

25. EQUITY

Share capital

Paid-in capital of the Parent Bank amounted to TL 3,905,622 is divided into groups comprised of 27.52% Group (A), 10.00 % Group (B), 10.35% Group (C) and 52.13% Group (D).

Board of Directors' members; three members representing Group (A), one member representing Group (B), and two members representing Group (C); among the nominees shown by the majority of each group, and one member among the nominees offered by the shareholders at the General Assembly are selected. Preference of Group (D) is primarily taken into account in the selection of the last mentioned member.

Legal reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of the statutory profits of the Bank and its subsidiaries at the rate of 5%, until the total reserve reaches 20% of paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

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

25. EQUITY (Continued)

Non-controlling interest

As at December 31, 2021 and 2020, non-controlling interest is analyzed as follows:

	December 31, 2021	December 31, 2020
Capital and other reserves	1,112,744	730,075
Legal reserves	20,849	17,158
Share Premium	134,164	131,132
Revaluation surplus	8,492	8,247
Retained earnings	(43,425)	(26,754)
Profit for the year	207,692	76,027
Total non-controlling interest	**1,440,516**	**935,885**

Set out below is non-controlling profit and dividend payment for the year by subsidiaries:

	December 31, 2021		December 31, 2020	
	Profit or loss attributable to non-controlling interest	Dividends paid to non-controlling interest during the year	Profit or loss attributable to non-controlling interest	Dividends paid to non-controlling interest during the year
Taksim Otelcilik AŞ	24,518	-	4,827	-
Vakıf Faktoring AŞ	24,388	-	16,820	-
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ	78,222	-	27,636	-
Vakıfbank International AG	-	-	-	-
Vakıf Finansal Kiralama AŞ	63,576	-	24,243	-
Vakıf Enerji ve Madencilik AŞ	13,334	-	1,272	-
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş	2,537	-	279	-
Vakıf Yatırım Menkul Değerler A.Ş	1,117	(100,000)	950	-
Total	**207,692**	**(100,000)**	**76,027**	**-**

Summarised financial information on subsidiaries

Summarised financial information for each subsidiary that has non-controlling interests that are material to the group as follows:

	Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.		Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş.	
	December 2021	December 2020	December 2021	December 2020
Non-controlling interest ratio (%)	**51.05**	**54.29**	**82.63**	**82.63**
Total Asset	4,619,815	2,928,981	32,529	29,411
Current Asset	2,038,356	1,204,036	32,350	29,206
Non-current Asset	2,581,459	1,724,945	179	205
Total Liabilities	2,178,685	1,484,506	365	318
Total Equity	2,441,130	1,444,475	32,165	29,093
Interest Income	148,139	41,859	2,067	1,662
Income on securities portfolio	1,001	-	6	912
Profit/(loss)	474,688	118,592	3,067	350

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

26. RELATED PARTY TRANSACTIONS

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

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

	December 31, 2021			December 31, 2020		
Related party	**Cash loans**	**Non-cash loans**	**Deposits**	**Cash loans**	**Non-cash loans**	**Deposits**
Direct/Indirect shareholders	-	8,344	3,908,130	-	32,511	2,237,815
Associates	273,857	47,326	949,963	57,561	447,116	1,581,484
Key management personnel	5,410	-	15,151	5,762	-	8,063
Total	**279,267**	**55,670**	**4,873,244**	**63,323**	**479,627**	**3,827,362**

	December 31, 2021				December 31, 2020			
Related party	**Commission Income**	**Interest income**	**Interest expense**	**Other operating expense**	**Commission Income**	**Interest income**	**Interest expense**	**Other operating expense**
Direct/Indirect shareholders	-	-	548,536	-	-	-	99,294	-
Associates	181	9,645	13,264	2,520	205	19,596	36,197	2,860
Total	**181**	**9,645**	**561,800**	**2,520**	**205**	**19,596**	**135,491**	**2,860**

Key Management Remuneration

For the period ended December 31, 2021, the key management personnel received remuneration and fees amounted to TL 64,576 (December 31, 2020: TL 48,738).

27. FEE AND COMMISSION INCOME

	December 31, 2021	**December 31, 2020**
Fee and commission income		
Debit and credit card fee and commission	2,167,293	1,201,992
Collection and payment commissions	1,242,009	789,508
Non-cash loan commission	997,292	771,180
Reinsurance commission	459,313	446,557
Investigation charges	5,335	112,765
Money transfer charges	231,868	119,040
Mutual funds commission	36,788	34,397
Account maintenance fee	6,005	10,293
Other	604,967	357,651
Total fee and commission income	**5,750,870**	**3,843,383**
Fee and commission expense		
Debit and credit card fee and commission	1,011,147	496,424
Fee and commission for funds borrowed	132,242	93,312
Fee and commission for marketable securities issued	89,037	79,474
Money transfer charges	53,957	33,787
Other	208,669	156,306
Total fee and commission expense	**1,495,052**	**859,303**
Net fee and commission income	**4,255,818**	**2,984,080**

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

28. OTHER INCOME

As at and for years ended December 31, 2021 and 2020, other income comprised the followings:

	December 31, 2021	December 31, 2020
Gain on sale of fixed assets	953,569	739,410
Rent income	109,294	99,219
Reversal of miscellaneous provision	16,164	-
Dividend income from equity shares	23,394	17,633
Excess fee charged to customers for communication expenses	22,335	16,148
Individual pension business income	-	39,340
Earned premiums	-	268,629
Written premiums	-	*268,629*
Change in reserve for unearned premiums	-	-
Other(*)	665,929	1,469,728
Total	**1,790,685**	**2,650,107**

(*) Other items amounting to TL 665,929 (December 31, 2020: TL 1,469,728) is comprised of TL None (December 31, 2020: TL 804,835) Güneş Sigorta A.Ş. and Vakıf Emeklilik ve Hayat A.Ş.'s sales profit and other various income.

29. SALARIES AND EMPLOYEE BENEFITS

As at and for the years ended December 31, 2021 and 2020, salaries and employee benefits comprised the following:

	December 31, 2021	December 31, 2020
Wages and salaries	(1,810,389)	(1,436,172)
Employer's share of social security premiums	(749,184)	(1,399,656)
Other fringe benefits	(1,580,745)	(647,564)
Total	**(4,140,318)**	**(3,483,392)**

The average number of employees of the Group during the year is:

	December 31, 2021	December 31, 2020
The Bank	16,929	16,748
Subsidiaries	581	532
Total	**17,510**	**17,280**

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labor Law. It is computed and reflected in the financial statements on an accruals basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts applicable for each year of employment are TL (full TL) 8,285 and TL (full TL) 7,117 as at December 31, 2021 and December 31, 2020, respectively.

IFRS require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity. The main actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Discount Rate	18.45%	12.80%
Inflation Rate	15.00%	9.50%
Increase in Real Wage Rate	16.00%	10.50%

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

30. OTHER EXPENSES

As at and for the years ended December 31, 2021 and 2020, other expenses comprised the following:

	December 31, 2021	December 31, 2020
Banking services promotion expenses	(1,305,613)	(1,147,255)
Other provision expenses(*)	(712,297)	(293,224)
Provision for Severance pay and Employee Benefits	(523,603)	(474,312)
Saving Deposit Insurance Fund premiums	(301,094)	(286,352)
Advertising expenses	(291,929)	(175,359)
Communication expenses	(209,837)	(179,742)
BRSA participation fee	(139,779)	(83,885)
Maintenance expenses	(131,627)	(79,918)
Cleaning service expenses	(122,426)	(112,745)
Computer usage expenses	(105,087)	(83,840)
Credit card promotion expenses	(97,331)	(64,599)
Leasing expenses related to IFRS 16 exceptions	(92,072)	(81,040)
Energy expenses	(75,596)	(73,223)
Office supplies	(69,835)	(68,567)
Hosting expenses	(40,136)	(31,811)
Consultancy expenses	(29,289)	(23,568)
Transportation expenses	(28,232)	(23,289)
Loss on sale of assets	(4,267)	(30,778)
Incurred insurance claims	-	(222,175)
Insurance claims paid	-	*(188,972)*
Change in provision for outstanding claims	-	*(33,203)*
Other various administrative expenses(**)	(1,198,313)	(1,714,934)
Total	**(5,478,363)**	**(5,250,616)**

(*) Other provision expenses amounting to TL (712,297) (December 31, 2020: TL (293,224)) includes of TL (700,000) (December 31, 2020: TL 220,000) free provision.

(**) Other various administrative expenses amounting to TL (1,198,313) (December 31, 2020: TL (1,714,934)) is comprised of "Saving Deposits Insurance Fund" expenses amounting to TL (458,264) (December 31, 2020: TL (221,008)), Dividend provision expenses to be paid to staff amounted TL (375,840) (December 31, 2020 TL (349,663)) and other various administrative expenses.

31. COMMITMENTS AND CONTINGENCIES

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

	December 31, 2021	December 31, 2020
Letters of guarantee	134,026,508	75,425,407
Letters of credit	48,845,562	20,921,424
Acceptance credits	9,579,308	5,115,792
Other guarantees	951,021	983,686
Total non-cash loans (financial guarantee contracts)	**193,402,399**	**102,446,309**
Loan granting commitments	34,017,673	21,320,698
Credit card limit commitments	30,687,962	26,088,692
Commitments for cheque payments	7,029,711	5,723,932
Commitments for credit card and banking operations promotions	524,897	597,623
Other commitments	95,964,867	60,751,038
Total commitments	**168,225,110**	**114,481,983**
Total commitments and contingencies	**361,627,509**	**216,928,292**

Contingent assets and liabilities

There are various legal cases against the Group for which TL 44,229 (December 31, 2020: TL 44,200) has been provided, excluding routine insurance claims.

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

31. COMMITMENTS AND CONTINGENCIES (Continued)

Pending tax audits

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

32. SUBSEQUENT EVENTS

With the decision no. 95466 of the Board of Directors of the Bank , dated February 9, 2022 It has been decided to increase the issued capital of 3,905,622,489.96 TL (three billion nine hundred five million six hundred twenty-two thousand and four hundred eighty-nine Turkish Lira Ninety-six Kurus) consisting of shares with a nominal value of TL 0.01, in cash by the total nominal capital amount to be calculated according to the share sales price to be determined within the buying and purchasing framework of Borsa Istanbul A.Ş , by completely restricting the pre-emptive rights of the existing shareholders, in a way to obtain a total of 13.400.000.000,00 TL (thirteen billion four hundred Turkish Liras) sales revenue paid and it has been decided that all of the shares to be issued due to the capital increase will be sold to the Turkey Wealth Fund with the allocated sales method.

Between January 7, 2022 and March 25, 2022, the Parent Bank has issued financial bonds in various maturities.

As of December 31, 2021, the corporate tax rate in Turkey was 25%, while in 2022 the relevant rate would be 23%. Amendments to the Law no. 7394 on the Evaluation of Immovable Property belonging to the Treasury and amendments to the Value Added Tax Law and Some Laws and Decrees published in the Official Gazette dated April 15, 2022 and numbered 31810 Starting from the declarations that should be submitted as of July 1, 2022 with the sentence added to article 26 of the Law and provisional article 13 of the Corporate Tax Law No. 5520 and as of January 1, 2022 it has been decided to apply the Corporate Tax rate at 25% to apply to corporate earnings for the starting taxation period.