Türkiye Garanti Bankası Anonim Şirketi
And Its Subsidiaries

Consolidated Financial Statements

As of and For the Year Ended

31 December 2021

With Independent Auditors’ Report Thereon

Türkiye Garanti Bankası Anonim Şirketi
And Its Subsidiaries

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Independent Auditor's Report

To the General Assembly of Türkiye Garanti Bankası Anonim Şirketi,

Qualified Opinion

We have audited the consolidated financial statements of Türkiye Garanti Bankası Anonim Şirketi ("the Bank") and its subsidiaries (together will be referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2021 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Qualified Opinion

The accompanying consolidated financial statements as at 31 December 2021 include a general reserve of total of TL 7,500,000 thousands, of which TL 2,850,000 thousands was recognized as expense in the current period and TL 4,650,000 thousands had been recognized as expense in prior periods, which does not meet the recognition criteria of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". This general reserve is provided by the Bank management for the possible effects of the negative circumstances which may arise in economy or market conditions.

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

KPMG

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of loans and advances to customers measured at amortised cost

The details of accounting policies and significant estimates and assumptions for impairment of loans and advances to customers measured at amortised cost are presented in "Significant accounting policies" Section (u), Note 7 and Note 30 to the consolidated financial statements.

Key audit matter	*How the matter is addressed in our audit*
As of 31 December 2021, loans and advances to customers measured at amortised cost comprise 55% of the Group's total assets. The Group recognizes its loans and advances to customers in accordance with the IFRS 9 Financial Instruments standard ("Standard"). The Group applies the "expected credit loss model" in determining the impairment of financial assets in accordance with the Standard. The model which contains significant assumptions and estimates is reviewed by the Bank management annually. The significant assumptions and estimates of the Group's management are as follows: - significant increase in credit risk; - incorporating the forward looking macroeconomic information in calculation of credit risk; and - design and implementation of expected credit loss model. The determination of the impairment of loans and advances to customers measured at amortised cost depends on the (i) credit default status, (ii) the model based on the change in the credit risk at the first recognition date and (iii) the classification of the loans and advances to customers measured at amortised cost according to the model. Establishing an accurate classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets. The Group calculates expected credit losses on both an individual and a collective basis. Individual provisions consider the estimated future performance of the business and the fair value of the collateral provided for credit transactions.	Our procedures for testing the impairment of loans and advances to customers included below: • We tested the design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures are tested with the involvement of information risk management specialists. • We evaluated the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows and we tested the appropriateness of the loan agreements with the model by selecting samples. • We evaluated the adequacy of the subjective and objective criteria that is defined in the Group's impairment accounting policy compared with the Standard. • We evaluated the Group's business model and methodology and the evaluation of the calculations were carried out with the control testing and detailed analysis by the involvement of specialist. • We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information and testing their classification. In this context, the current status of the loan customer has been evaluated by including the impact of COVID 19 on prospective information and macroeconomic variables. • We evaluated the accuracy of the expected credit loss calculations by selecting sample for the loans which are

The collective basis expected credit loss calculation is based on complex processes which are modelled by using current and past data sets and expectations. The completeness and accuracy of data sets in the model are also considered and the forward looking expectations are reflected by macroeconomic models. Impairment on loans and advances measured at amortised cost was considered to be a key audit matter, due to the significance of the estimates, assumptions including the impact of COVID-19, the level of judgements and its complex structure as explained above.	assessed on individual basis including the impact of COVID-19 on the assumptions and estimates. • We tested the accuracy and completeness of the data in the calculation models for the loans which are assessed on collective basis. The expected credit loss calculation was tested through recalculation. The models used for the calculation of the risk parameters were examined and the risk parameters for the selected sample portfolios were recalculated. • We assessed the macroeconomic models that are used to reflect forward looking expectations and tested the effect of the risk parameters by recalculation method. • We evaluated the qualitative and quantitative assessments, which are used in determining the significant increase in credit risk. • We also evaluated the adequacy of the consolidated financial statements disclosures related to expected credit losses.

Measurement of financial instruments (the fair value hierarchy of financial instruments determined as Level 3)

The details of accounting policies and significant judgements of measurement (the fair value hierarchy of financial instruments determined as Level 3) of financial instruments are presented in "Significant accounting policies" Section (j) and Note 29 to the consolidated financial statements.

Key audit matter	*How the matter is addressed in our audit*
The classification of the financial assets is based on the Group's business model and characteristics of the contractual cash flows in accordance with Standard. The fair value of the loan classified as financial assets measured at fair value through profit or loss according to business model is determined as Level 3 considering the significant unobservable inputs, assumptions and estimates used. Management assesses the significant unobservable inputs and uncertainties due to assumptions and estimates with the involvement of an independent valuation firm. The Group has also financial liabilities (securitization loans) which are accounted by using the fair value option on the initial recognition in order to eliminate any accounting mismatch in accordance with Standard. The fair value of the securitization loans which are accounted as financial liabilities measured at fair value through profit or loss are determined as Level 3 considering the significant unobservable inputs, assumptions and estimates used. As mentioned above, the measurement of financial instruments (the fair value hierarchy of financial instruments determined as Level 3) is determined as key audit matter considering high degree of judgements and assumptions.	Our procedures for testing the fair value hierarchy of the financial instruments (the fair value hierarchy of financial instruments determined as Level 3) included below: • We evaluated the design and implementation of the controls that the Group sets for the measurement of fair value of the relevant financial instruments. • We assessed the policy of the measurement of financial instruments (the fair value hierarchy of financial instruments determined as Level 3) based on Standard and compared with the requirements of Standard. • We involved our own valuation specialists to evaluate the significant unobservable inputs and assumptions used by the Group for the fair value calculation of the related instruments. • We also evaluated the adequacy of the consolidated financial statements' disclosures related to the measurement of financial instruments (the fair value hierarchy of financial instruments determined as Level 3).

Pension Plan

The details of accounting policies and significant judgements of pension plan are presented in "Significant accounting policies" Section (p) and Note 24 to the consolidated financial statements relating to the pension plan.

Key audit matter	*How the matter was addressed in our audit*
The Bank's defined benefit pension plan (the "Plan") is managed by "Türkiye Garanti Bankası A.Ş. Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı" (the "Fund") established as per the provisional article 20 of the Social Security Law No. 506 and the Bank's employees are the members of this Fund. As disclosed in the *"Significant accounting policies" Section (p)* to the consolidated financial statements, the Plan is composed of benefits which are subject to transfer to Social Security Foundation ("SSF") as per the Social Security Law No. 5510 provisional article 20, and other social rights and pension benefits provided by the Bank that are not transferable to SSF. The Council of Ministers has been authorized to determine the transfer date. Following the transfer, the non-transferable social rights and pension benefits provided under the Plan will be covered by the funds and the institutions that employ the funds' members. As of 31 December 2021, the Bank's transferrable liabilities are calculated by an independent actuary using the actuarial assumptions regulated by Law, and in accordance with the Decision of the Council of Ministers announced in the Official Gazette dated 15 December 2006 and No.26377. As of 31 December 2021, the Bank's non-transferrable liabilities are also calculated by independent actuary in accordance with IAS 19 Employee Benefits. The valuation of the Pension Fund liabilities requires judgement in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, inflation levels, demographic assumptions, and the impact of changes in Pension Plan. Management uses independent actuaries to assist in assessing the uncertainty around these assumptions. Considering the subjectivity of key judgements and assumptions, plus the uncertainty around the transfer date and basis of the transfer calculation given the fact that the technical interest rate is prescribed under the law, we considered this to be a key audit matter.	Our procedures for auditing calculations of the management's pension plan liability included below: • We evaluated the design and implementation of the controls that the Bank has set for the liability calculations related to the pension plan. • We assessed whether there have been any significant changes in actuarial assumptions, methods and underlying regulations used in calculations. • We evaluated the significant changes during the period in pension plan benefits, plan assets or membership profiles which affect liabilities. • We involved our own actuarial specialist to assess the appropriateness of the actuarial assumptions and calculations. • We evaluated whether the plan assets are adequate to cover the Pension Plan liabilities, under the methods and assumptions. • We evaluated the adequacy of the consolidated financial statements' disclosures, including disclosures of key assumptions, judgements and sensitivities.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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, actions taken to eliminate threats or safeguards applied.

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.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi

Murat Alsan
Partner

12 May 2022
Istanbul, Turkey

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Consolidated Statement of Financial Position
At 31 December 2021

(Currency: Thousands of Turkish Lira (TL))

	Notes	31 December 2021	31 December 2020
Assets			
Cash and balances with central banks	3	136,894,317	62,412,116
Financial assets at fair value through profit or loss	4	7,803,552	8,262,547
Derivative financial assets	5	17,790,290	4,614,552
Loans and advances to banks	6	83,939,484	38,445,808
Loans and advances to customers	7,25	469,799,083	333,833,956
Investment securities	8,24	95,345,007	69,544,397
Equity investments	9	578,851	364,859
Assets held for sale	10	585,948	931,753
Investment properties	11	396,614	319,638
Tangible and intangible assets	12	10,567,026	9,194,654
Goodwill, net	13	32,948	32,948
Deferred tax asset	23	4,460,643	3,647,725
Other assets	14	23,375,087	10,369,375
Total Assets		**851,568,850**	**541,974,328**
Liabilities			
Deposits from banks	15	2,457,230	1,353,755
Deposits from customers	16	579,434,135	356,398,618
Loans and advances from banks and other institutions	17	44,844,746	27,566,919
Obligations under repurchase agreements and money market fundings	18	15,942,789	3,163,978
Debt securities issued	19	25,786,253	22,817,081
Financial liabilities at fair value through profit or loss	20	24,183,368	16,137,939
Derivative financial liabilities	21	13,428,735	8,535,993
Subordinated liabilities	22	10,911,505	6,598,969
Current tax liability	23	2,122,278	1,848,100
Deferred tax liability	23	404,425	174,213
Provisions	24	14,759,324	10,079,519
Other liabilities and accrued expenses	25	37,009,643	24,477,723
Total Liabilities		**771,284,431**	**479,152,807**
Equity attributable to owners of the bank			
Share capital	26	5,146,371	5,146,371
Share premium	26	11,880	11,880
Legal reserves	26	1,847,635	1,638,443
Other reserves	8,26	9,744,922	5,259,311
Retained earnings	26	63,214,084	50,517,826
		79,964,892	**62,573,831**
Non-controlling interests	26	**319,527**	**247,690**
Total Equity		**80,284,419**	**62,821,521**
Total Liabilities and Equity		**851,568,850**	**541,974,328**
Commitments and Contingencies	27	**134,458,774**	**80,795,394**

The notes on pages 5 to 127 are an integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For The Year Ended 31 December 2021

(Currency: Thousands of Turkish Lira (TL))

	Notes	2021	2020
Statement of Profit or Loss:			
Interest income:			
Interest on loans		45,165,370	30,709,542
Interest on securities		10,214,238	6,558,261
Interest on deposits at banks		2,332,524	964,489
Interest on reserve deposits		906,933	82,696
Interest on lease business		750,242	513,608
Interest on factoring business		626,005	301,606
Others		276,660	232,282
		60,271,972	39,362,484
Interest expense:			
Interest on saving, commercial and public deposits		(19,308,810)	(9,337,889)
Interest on borrowings, obligations under repurchase agreements,money market and swap fundings		(13,569,090)	(5,549,555)
Interest on debt securities issued		(2,503,966)	(1,227,483)
Interest on subordinated liabilities		(370,985)	(1,101,452)
Interest on lease business		(125,058)	(132,264)
Interest on bank deposits		(94,283)	(76,939)
Others		(67,152)	(414,884)
		(36,039,344)	(17,840,466)
Net interest income before provisions for loans and other credit risks		**24,232,628**	**21,522,018**
Provisions for loans and other credit risks, net	3,6,7,8,14,24	**(4,585,762)**	**(7,561,727)**
Net interest income after provisions for loans and other credit risks		**19,646,866**	**13,960,291**
Fees and commissions income		12,431,531	8,259,502
Fees and commissions expense		(3,249,904)	(1,702,077)
Net fees and commissions income		**9,181,627**	**6,557,425**
Net trading income/(expense)	33	**5,014,953**	**(3,005,712)**
Foreign exchange gains/(losses), net		**(1,002,793)**	**4,126,488**
Insurance business income		1,717,187	1,369,765
Insurance business expense		(886,257)	(516,230)
Net insurance business income		**830,930**	**853,535**
Gain on sale of assets		932,813	321,285
Other operating income	34	992,598	645,203
Other operating income		**1,925,411**	**966,488**
Total operating Income		**35,596,994**	**23,458,515**
Salaries and wages		(4,385,412)	(3,325,472)
Impairment losses, net	10,24	(2,863,461)	(2,723,594)
Credit card reward and promotion expenses		(2,569,654)	(1,930,493)
Employee benefits	24	(1,971,120)	(1,294,149)
Depreciation and amortisation		(962,712)	(925,672)
Taxes and duties other than income		(522,725)	(345,236)
Communication expenses		(327,754)	(288,640)
Other operating expenses	35	(3,397,020)	(2,978,851)
Total operating expenses		**(16,999,858)**	**(13,812,107)**
Profit/(loss) before tax		**18,597,136**	**9,646,408**
Taxation charge	23	(5,018,549)	(2,910,251)
Net profit/(loss) for the year		**13,578,587**	**6,736,157**
Other Comprehensive Income:			
(items to be recycled subsequently to profit or loss)			
Foreign currency translation, net of tax	26	5,648,656	2,075,212
Fair value change on debt instruments measured at fair value through other comprehensive income, net of tax:			
Net change in fair values	26	414,097	373,368
Net amount reclassified to profit/loss	26	(279,221)	(39,424)
Cash flow hedges, net of tax:			
Effective portion of changes in hedge reserve	26	807,293	153,003
Net amount reclassified to profit/loss	26	(73,685)	14,773
Net investment hedge for foreign operations, net of tax	26	(2,186,512)	(774,447)
		4,330,628	**1,802,485**
(items not to be recycled subsequently to profit or loss)			
Fair value change on equity investments measured at fair value through other comprehensive income, net of tax:			
Net change in fair values	26	192,594	52,023
Net amount recycled to profit/loss	26	-	-
Change on revaluation surplus on tangible and intangible assets, net of tax		78,757	362,570
Actuarial gain/(loss) related to employee benefits, net of tax	26	(118,211)	(131,626)
		153,140	**282,967**
Other comprehensive income for the period, net of tax		**4,483,768**	**2,085,452**
Total Comprehensive Income for the Year		**18,062,355**	**8,821,609**
Net profit/(loss) attributable to:			
Equity holders of the Bank		13,457,777	6,656,096
Non-controlling interests		120,810	80,061
		13,578,587	**6,736,157**
Total comprehensive income attributable to:			
Equity holders of the Bank		17,943,388	8,741,322
Non-controlling interests		118,967	80,287
		18,062,355	**8,821,609**
Weighted average number of shares with a face value of Kr 1 each	26	**420 billions**	**420 billions**
Basic and diluted earnings per share (full TL amount per TL 1 face value each)		**3.204**	**1.585**

The notes on pages 5 to 127 are an integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Subsidiaries

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

(Currency: Thousands of Turkish Lira (TL))

					Other Reserves								
					to be recycled to profit or loss			not to be recycled to profit or loss					
	Notes	Share Capital	Share Premium	Legal Reserves	Fair Value Change on Debt Instruments	Hedge Reserve	Foreign Currency Translation Reserve	Fair Value Change on Equity Investments	Actuarial Gain/(Loss)	Revaluation Surplus on Tangible Assets	Retained Earnings	Non-Controlling Interests	Total Equity
Balances at 31 December 2019		**5,146,371**	**11,880**	**1,603,555**	**(105,338)**	**(1,840,473)**	**3,531,944**	**218,950**	**(171,269)**	**1,748,756**	**43,667,933**	**273,921**	**54,086,230**
Net unrealized gains from debt instruments measured at fair value through other comprehensive income		-	-	-	372,703	-	-	-	-	-	-	665	373,368
Net unrealized gains from equity investments measured at fair value through other comprehensive income		-	-	-	-	-	-	(152,072)	-	-	204,095	-	52,023
Net realized losses on debt instruments measured at fair value through other comprehensive income recycled to statement of profit or loss at disposal		-	-	-	(39,424)	-	-	-	-	-	-	-	(39,424)
Foreign currency translation		-	-	-	10,123	(2,854)	2,067,943	-	-	-	-	-	2,075,212
Net change on revaluation surplus on tangible and intangible assets		-	-	-	-	-	-	-	(131,187)	-	-	(439)	(131,626)
Net gains on cash flow hedges		-	-	-	-	(774,447)	-	-	-	-	-	-	(774,447)
Net change on net investment hedge for foreign operations													
Net profit/loss for the year		-	-	-	-	-	-	-	-	-	6,656,096	80,061	6,736,157
Total comprehensive income for the year		**-**	**-**	**-**	**343,402**	**(609,525)**	**2,067,943**	**(152,072)**	**(131,187)**	**358,180**	**6,864,581**	**80,287**	**8,821,609**
Transfer to legal reserves		-	-	14,688	-	-	-	-	-	-	(14,688)	-	-
Foreign currency translation for legal reserves		-	-	20,200	-	-	-	-	-	-	-	-	20,200
Dividends distributed		-	-	-	-	-	-	-	-	-	-	(106,518)	(106,518)
Balances at 31 December 2020		**5,146,371**	**11,880**	**1,638,443**	**238,064**	**(2,449,998)**	**5,599,887**	**66,878**	**(302,456)**	**2,106,936**	**50,517,826**	**247,690**	**62,821,521**
Net unrealized losses from debt instruments measured at fair value through other comprehensive income		-	-	-	415,719	-	-	-	-	-	-	(1,622)	414,097
Net unrealized gains from equity investments measured at fair value through other comprehensive income		-	-	-	-	-	-	192,594	-	-	-	-	192,594
Net realized losses on debt instruments measured at fair value through other comprehensive income recycled to statement of profit or loss at disposal		-	-	-	(279,221)	-	-	-	-	-	-	-	(279,221)
Foreign currency translation		-	-	-	55,828	(1,933)	5,594,761	-	-	-	-	-	5,648,656
Net change on revaluation surplus on tangible and intangible assets		-	-	-	-	-	-	-	-	78,757	-	-	78,757
Net change on actuarial gain/(loss) related to employee benefits		-	-	-	-	-	-	-	(117,990)	-	-	(221)	(118,211)
Net gains on cash flow hedges		-	-	-	-	733,608	-	-	-	-	-	-	733,608
Net change on net investment hedge for foreign operations		-	-	-	-	(2,186,512)	-	-	-	-	-	-	(2,186,512)
Net profit/loss for the year		-	-	-	-	-	-	-	-	-	13,457,777	120,810	13,578,587
Total comprehensive income for the year		**-**	**-**	**-**	**192,326**	**(1,454,837)**	**5,594,761**	**192,594**	**(117,990)**	**78,757**	**13,457,777**	**118,967**	**18,062,355**
Transfer to legal reserves		-	-	137,719	-	-	-	-	-	-	(137,719)	-	-
Foreign currency translation for legal reserves		-	-	71,473	-	-	-	-	-	-	-	-	71,473
Dividends distributed		-	-	-	-	-	-	-	-	-	(623,800)	(47,130)	(670,930)
Balances at 31 December 2021	*26*	**5,146,371**	**11,880**	**1,847,635**	**430,390**	**(3,904,835)**	**11,194,648**	**259,472**	**(420,446)**	**2,185,693**	**63,214,084**	**319,527**	**80,284,419**

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Consolidated Statement of Cash Flows
For The Year Ended 31 December 2021

(Currency: Thousands of Turkish Lira (TL))

	Notes	2021	2020
Cash flows from operating activities:-			
Interests and commissions received		61,365,232	40,517,175
Interests and commissions paid		(37,778,552)	(19,118,293)
Other operating activities, net		(2,756,637)	8,690,054
Cash payments to employees and suppliers		(14,154,168)	(10,576,376)
		6,675,875	19,512,560
(Increase)/decrease in operating assets:-			
Loans and advances to banks		(17,987,454)	592,458
Balances with central banks		(37,243,368)	(6,247,837)
Financial assets at fair value through profit or loss		297,433	(3,097,361)
Loans and advances to customers		(151,336,473)	(81,138,693)
Other assets		(8,151,587)	(12,967,907)
Increase/(decrease) in operating liabilities:-			
Deposits from banks		1,102,108	(1,314,464)
Deposits from customers		221,800,949	82,090,938
Obligations under repurchase agreements and money market fundings		12,780,505	1,362,867
Other liabilities		5,283,322	7,503,012
Net cash inflows from operating activities before taxes and duties paid		**33,221,310**	**6,295,573**
Income taxes and other duties paid		**(5,033,919)**	**(3,380,769)**
Net cash inflows/(outflows) from operating activities		**28,187,391**	**2,914,804**
Cash flows from investing activities:-			
Net decrease/(increase) in investment securities		(11,787,635)	(11,043,926)
Interest received for investment securities		3,602,462	6,941,808
Increase in equity investments		-	(6,921)
Dividends received		27,996	22,178
Proceeds from sale of tangible and intangible assets		975,396	803,753
Purchase of tangible and intangible assets		(2,052,248)	(1,902,119)
Net cash inflows from investing activities		**(9,234,029)**	**(5,185,227)**
Cash flows from financing activities:-			
Increase in loans and advances from banks and other institutions, net		889,632	907,504
Cash obtained from debt securities issued		46,947,748	21,887,507
Cash used for repayment of debt securities issued		(16,664,528)	(16,985,291)
Payments for leases		(275,269)	(466,195)
Dividends paid		(623,800)	-
Net cash (outflows)/inflows from financing activities		**30,273,783**	**5,343,525**
Effect of exchange rate changes		**20,461,391**	**2,461,351**
Net increase in cash and cash equivalents		**69,688,536**	**5,534,453**
Cash and cash equivalents at the beginning of the period		52,780,473	47,246,020
Cash and cash equivalents at the end of the period	2	**122,469,009**	**52,780,473**

The notes on pages 5 to 127 are an integral part of these consolidated financial statements.

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank as of and for the year ended 31 December 2021 comprise the Bank and its subsidiaries (the Subsidiaries) (collectively referred as "the Group").

(a) Brief History

The foundation of the Bank was approved by the decree of the Council of Ministers numbered 3/4010 dated 11 April 1946 and its "Articles of Association" was published in the official gazette dated 25 April 1946. The Bank provides retail, commercial, corporate and small and medium size enterprises (SME) banking, leasing, insurance, asset management and factoring services through a network of 863 domestic branches, 8 foreign branches, 1 representative office abroad (31 December 2020: 884 domestic branches, 8 foreign branches, 2 representative offices abroad). In addition to its branches, the Bank has 100% ownership in two banks each of which is located in Amsterdam and Bucharest. The Bank and its subsidiaries in total have 21,517 employees (31 December 2020: 21,910). The Bank's head office is located at Levent Nispetiye Mahallesi Aytar Caddesi 2 Beşiktaş 34340 Istanbul, Turkey.

(b) Ownership

As of 31 December 2021, group of companies under Banco Bilbao Vizcaya Argentaria SA ("BBVA") that currently owns 49.85% shares of the Bank, is named the BBVA Group (the Group) and it is the main shareholder.

On 22 March 2011, BBVA had acquired; 78.120.000.000 shares of the Bank owned by GE Capital Corporation at a total nominal value of TL 781,200 thousands representing 18.60% ownership, and 26.418.840.000 shares of the Bank owned by Doğuş Holding AŞ at a total nominal value of TL 264,188 thousands representing 6.29% ownership. BBVA, purchasing 24.89% shares of the Bank, had joint control on the Bank's management together with group of companies under Doğuş Holding AŞ (the Doğuş Group).

Subsequently, on 7 April 2011, BBVA had acquired 503.160.000 shares at a nominal value of TL 5,032 thousands and increased its ownership in the Bank's share capital to 25.01%. Accordingly, BBVA and the Doğuş Group had mutual control on the Bank's management.

In accordance with the terms of the agreement between BBVA and the Doğuş Group which was previously disclosed on 19 November 2014, the sale of shares representing 14.89% of the share capital of the Bank with a face value of TL 625,380 thousands and 62.538.000.000 shares by the Doğuş Group to BBVA, has been completed on 27 July 2015. Following the acquisition, BBVA's stake in the Bank has reached to 39.90% and BBVA became the main shareholder. The Bank has moved to "Foreign Deposit Banks" category from "Private Deposit Bank" category by the Banking Regulation and Supervision Agency (the "BRSA").

On 21 February 2017, BBVA had agreed with the Doğuş Group to acquire 41.790.000.000 shares at a nominal value of TL 417,900 thousands representing 9.95% ownership and on 22 March 2017 in accordance with the terms of the agreement share transfer had been finalized. After the share transfer BBVA's interest in the share capital of the Bank is at 49.85%.

Significant accounting policies

(a) Statement of compliance

The Bank and its Turkish subsidiaries maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the Accounting Practice Regulations as promulgated by the BRSA; Turkish Accounting Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority; the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish GAAP); the Bank's foreign subsidiaries maintain their books of accounts and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS"). The accompanying consolidated financial statements are authorized for issue by the directors on 12 May 2022.

(b) Basis of preparation

The accompanying consolidated financial statements are presented in thousands of TL, which is the Bank's functional currency.

The accompanying consolidated financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except that the following assets and liabilities are stated at their fair value: financial instruments measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, real estates and investment properties.

(c) Standards issued but not yet effective and not early adopted

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

IFRS 17 Insurance Contracts

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

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

Summary of significant accounting policies (continued)

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

In December 2021, IASB issued Initial Application of IFRS 17 and IFRS 9—Comparative Information (Amendment to IFRS 17). The amendment is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements. IFRS 17 incorporating the amendment is effective for annual reporting periods beginning on or after 1 January 2023.

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

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRS 4 has been amended by IASB to reduce the impact of the differing effective dates of the new insurance contracts standard and IFRS 9. These amendments to IFRS 4 provide two optional solutions for insurers to reduce concerns about implementations: i) when applying IFRS 9 by insurers to its financial assets, an insurer will be permitted to reclassify the difference between profit or loss and other comprehensive income and the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39; or ii) an optional temporary exemption from applying IFRS 9 for companies whose activities are predominantly connected with insurance before 1 January 2023. These companies will be permitted to continue to apply existing requirements for financial instruments in IAS 39.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 4.

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

On 23 January 2020, IASB issued Classification of Liabilities as Current or Non-Current which amends IAS 1 Presentation of Financial Statements to clarify its requirements for the presentation of liabilities in the statement of financial position.

The amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current—that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

The amendments include:

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

The Group shall apply retrospectively these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted. However, according to the amendment published on 15 July 2020, IASB decided to defer the effective date of IAS 1 until 1 January 2023

The Group does not expect that application of these amendments to IAS 1 will have significant impact on its consolidated financial statements.

Summary of significant accounting policies (continued)

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

In May 2020, IASB issued COVID-19 related rent concession which amends IFRS 16 Leases.

The amendments allow lessees not to account for rent concessions as lease modifications if they arise as a direct consequence of COVID-19.

The practical expedient will only apply if:

a) the revised consideration is substantially the same or less than the original consideration;
b) the reduction in lease payments relates to payments due on or before 30 June 2022
c) no other substantive changes have been made to the terms of the lease.

No practical expedient is provided for lessors. Lessors are required to continue to assess if the rent concessions are lease modifications and account for them accordingly.

The Group does not apply these amendments for periods beginning on or after 1 April 2021 with earlier application permitted.

Reference to the Conceptual Framework (Amendments to IFRS 3)

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

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

The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

The Group does not expect that application of these amendments to IFRS 3 will have significant impact on its consolidated financial statements.

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

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

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

The Group does not expect that application of these amendments to IAS 16 will have significant impact on its consolidated financial statements.

Summary of significant accounting policies (continued)

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

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

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

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

The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

The Group does not expect that application of these amendments to IAS 37 will have significant impact on its consolidated financial statements.

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

In February 2021, IASB issued amendments to IAS 1 Presentation of Financial Statements and an update to IFRS Practice Statement Making Materiality Judgements.

The key amendments include:

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

IASB also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures.

The Group shall apply these amendments for annual periods beginning on or after 1 January 2023 with earlier application permitted.

The Group does not expect that application of these amendments to IAS 1 and IFRS Practice Statement 2 will have significant impact on its consolidated financial statements.

Definition of Accounting Estimates (Amendments to IAS 8)

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty which is issued by IASB on 12 February 2021.

The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

Developing an accounting estimate includes both:

—selecting a measurement technique (estimation or valuation technique) – e.g. an estimation technique used to measure a loss allowance for expected credit losses when applying IFRS 9 Financial Instruments; and

Summary of significant accounting policies (continued)

—choosing the inputs to be used when applying the chosen measurement technique – e.g. the expected cash outflows for determining a provision for warranty obligations when applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

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

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

In February 2021, IASB issued amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors introducing a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement of uncertainty.

The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy.

The Group shall apply these amendments prospectively for annual periods beginning on or after 1 January 2023 with earlier application permitted.

The Group does not expect that application of these amendments to IAS 8 will have significant impact on its consolidated financial statements.

Annual Improvements to IFRS Standards 2018–2020

Improvements to IFRSs

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

IFRS 1 First-time Adoption of International Financial Reporting Standards

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

IFRS 9 Financial Instruments

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

IFRS 16 Leases, Illustrative Example 13

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

Summary of significant accounting policies (continued)

IBOR Reform and its Effects on Financial Reporting—Phase 2

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

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

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

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

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

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

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

The effects of the changes on the Group's consolidated financial statements have been evaluated and it has been concluded that that there is no material impact. On the other hand, IBOR process is ongoing for certain indicators and the Group's studies continue within the scope of compliance with the changes.

Significant accounting policies (continued)

(d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised, prospectively.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are in Notes 2, 5, 6, 7, 8, 12, 13, 14, 19, 20, 21, 23, 24, 27, 28, 29 and 37.

(e) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its subsidiaries on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as of the date of the consolidated financial statements.

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

(f) Potential impacts of COVID-19 on the consolidated financial statements

A new type of coronavirus (COVID-19), first emerging in China, has been classified by the World Health Organization as an epidemic affecting countries globally. The COVID-19 outbreak not only affects economic conditions both regionally and globally, as it causes disruptions in operations, especially in countries that are exposed to the epidemic. The effects of COVID-19 on the Group's financial statements are regularly monitored by the risk units and the Group's Management.

While preparing the consolidated financial statements dated 31 December 2021, the Group reflected the possible effects of the COVID-19 outbreak on the estimates and judgments used in the preparation of the financial statements and disclosed in the related accounting policies.

Significant accounting policies (continued)

Subsidiaries

Subsidiaries are the entities controlled by the Bank. The control exists if and only if;

- when the Bank has the power over a subsidiary which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities.
- exposure, or rights, to variable returns from its involvement with the subsidiary.
- the ability to use its power over the subsidiary to affect the amount of its returns.

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. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which the Bank and its subsidiaries have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its subsidiaries' share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its subsidiaries' share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank and its subsidiaries have incurred obligations in respect of the associate.

Structured entities

Structured entities are entities that are created to accomplish a narrow and well defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. Structured entities are consolidated when the substance of the relationship between the Bank and the structured entity indicates that the structured entity is controlled by the Bank.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized gains and losses arising from intercompany transactions, are eliminated in the accompanying consolidated financial statements.

Unrealized gains arising from transactions with associates and jointly controlled entities 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.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Significant accounting policies (continued)

Loss of control

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

(g) Foreign currency

Foreign currency transactions

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

Financial statements of foreign operations

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

(h) Tangible and intangible assets and related depreciation

Owned assets

The costs of the tangible and intangible assets acquired before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29. Such assets acquired after this date are recorded at their historical costs. Accordingly, they are carried at costs, less accumulated depreciation and impairment losses (refer to accounting policy (u)). As of 1 November 2015, changing the existing accounting policy, it has been decided to apply revaluation model for properties recorded under tangible assets instead of cost model in accordance with IAS 16. Accordingly, for all real estates registered in the ledger, a valuation study was performed by independent expertise firms. As of the reporting period, the Group has made a fair valuation of all its real estates considering the current market conditions and the changes are recognised in consolidated financial statements.

Leased assets

Leases in terms of which the Bank and its subsidiaries assume substantially all the risks and rewards of ownership are classified as financial leases. Tangible assets acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses

Significant accounting policies (continued)

(refer to accounting policy (u)). Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to income.

Internally generated software

As per IAS 38, internally-generated software should be recognised as assets if they meet the below listed criterias:
- the technical feasibility of completing the asset so that it will be available for use,
- availability of the intention to complete and use the asset,
- the ability to use the asset,
- clarity in probable future economic benefits to be generated from the asset,
- the availability of adequate technical, financial and other resources to complete the development phase and to start using the asset,
- the availability to measure reliably the expenditure attributable to the asset during the development phase.

The directly attributable development costs of asset are included in the cost of such assets, however the research costs are recognised as expense as incurred.

Subsequent expenditure

Expenditures incurred to replace a component of a tangible and intangible asset that is accounted for separately, and major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of such assets. All other expenditures are reflected as expense in the statement of profit or loss and other comprehensive income as incurred.

Expenditures for major renewals and improvement of tangible and intangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

Depreciation

The estimated useful lives and depreciation rates of tangible and intangible assets are as follows. Depreciation method in use was not changed in the current period.

Tangible and intangible assets	***Estimated useful lives (years)***	***Depreciation Rates (%)***
Buildings	50	2
Vaults	50	2
Motor vehicles	5-7	15-20
Other tangible and intangible assets	4-20	5-25

The estimated useful lives, residual values and depreciation methods are reviewed at least once a year, with the effect of any changes in estimate accounted for on a prospective basis.

Investment property

Land and buildings that are held to earn rentals or for capital appreciation or both rather than for use in production, supply of goods or services, administrative purposes or sale in the ordinary course of business are classified as investment property. As of 1 November 2015, changing the existing accounting policy, it has been decided to apply fair value model for investment properties instead of cost model in accordance with the IAS 40. Accordingly, for all the investment properties registered in

Significant accounting policies (continued)

the ledger, a valuation study was performed by independent expertise firms. Fair value changes in investment properties are accounted in the corresponding statement of profit or loss and other comprehensive income.

As of the reporting period, the Group has made a fair valuation of all its investment properties considering the current market conditions and the changes are recognised in consolidated financial statements.

Investment properties are initially measured at cost and subsequently at fair value, with any change therein recognised in statement of profit or loss and other comprehensive income. Any gain or loss on disposal of investment properties (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the statement of profit or loss and other comprehensive income.

Investment properties under fair value model are not depreciated.

Right-of-use assets

As a result of internal evaluations, branches and service buildings subject to operational lease are accounted in accordance with IFRS 16; but ATMs, vehicles and other leasing transaction balances are not considered within the scope of IFRS 16 as they are below the materiality level and the corresponding rent payments are recognized under other operating expenses.

At the commencement date, the Group measures the right-of-use real estates considered as right-of-use asset at the cost of right-of-use asset in accordance with IFRS 16. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the right-of-use asset is measured applying a cost model. To apply the cost model, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability.

The depreciation requirements in IAS 16 Property, Plant and Equipment are applied in depreciating real assets considered as right-of-use asset.

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

(i) *Goodwill*

Goodwill arose from business combinations and represents the excess of the total acquisition costs over the share of the Bank and its subsidiaries in the fair value of the net assets of the acquired companies at the dates of acquisitions. When the excess is negative, it is recognised immediately in income. Goodwill is assessed for indication of impairment at least annually using external and internal sources such as market value, information on any adverse effect on the acquired companies, market interest rates or other market rates of return on investments and carrying value of net assets. If any such indication exists, the recoverable amount of the goodwill is estimated. If the recoverable amount is less than the carrying amount, the carrying amount is reduced to its recoverable amount, and impairment

Significant accounting policies (continued)

loss is recognised as an expense in income. The losses arising from the impairment of goodwill are not reversed in a subsequent period.

(j) Financial instruments

Initial recognition of financial instruments

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. Purchase and sale transactions of securities are accounted at the settlement date.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. 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 of financial instruments

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

Assessment of the business model

The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation.

During assessment of the business model for management of financial assets, it must be considered all relevant evidence that is available at the date of the assessment. Such relevant evidence includes below:
- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

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

If cash flows are realized in a way that is different from the expectations at the date that it is assessed the business model, that does not give rise to a prior period error in the financial statements nor does it change the classification of the remaining financial assets held in that business model as long as it is considered all relevant information that was available at the time that it made the business model

Significant accounting policies (continued)

assessment. However, when the business model for newly originated or newly purchased financial assets is assessed, it must be considered information about how cash flows were realized in the past, along with all other relevant information.

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

- A business model whose objective is to hold assets in order to collect contractual cash flows: a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realize cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortised cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: it may be held financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Other business models: financial assets are measured at FVPL if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding

A financial asset is classified on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

When the contractual conditions are exposed to the risks which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at FVPL.

Measurement categories of financial assets and liabilities

All financial assets are classified based on the business model for managing the financial assets. Accordingly, financial assets are classified in four main categories as listed below:

- Financial instruments measured at amortised cost,
- Financial instruments measured at FVOCI, with gains or losses recycled to profit or loss on derecognition,
- Equity instruments measured at FVOCI, with no recycling of gains or losses to profit or loss on derecognition, and
- Financial instruments measured at FVPL.

Significant accounting policies (continued)

Financial instruments measured at amortised cost

All financial assets are classified as measured at amortised cost if both of the following conditions are met.

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt securities measured at amortised cost: subsequent to the initial recognition, debt securities are measured at amortised cost by using the effective interest rate method.

Loans and advances measured at amortised cost: financial assets other than those held for trading in short term or generated through providing money, commodity and services to debtors. Loans are financial assets with fixed or determinable payments and not quoted in an active market.

These financial assets are recognised at cost and also measured at amortised cost by using the effective interest method.

All financial liabilities are classified as subsequently measured at amortised cost except for financial liabilities at FVPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, and contingent consideration recognised by an acquirer in a business combination.

Financial instruments measured at FVOCI

Financial investments are classified as measured at FVOCI if both of the following conditions are met.

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at FVOCI shall be recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. If the financial asset is reclassified, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Financial assets measured at FVOCI are measured at their fair values subsequently. However, assets for which fair values could not be determined reliably are valued at amortised cost by using the discounting method with internal rate of return for floating-rate securities; and by using valuation models or discounted cash flow techniques for fixed-rate securities. Unrecognised gain/losses derived from the difference between their fair value and the discounted values are recorded in accumulated other comprehensive income or expense to be reclassified to profit or loss under the shareholders' equity. In case of sales, the gain/losses arising from fair value measurement accumulated under shareholders' equity are recognised in statement of profit or loss and other comprehensive income.

Interests calculated and/or earned by using the effective interest method during holding of financial assets measured at FVOCI are recorded primarily in interest income. On derecognition of such financial assets, the difference between the carrying amount of the asset and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Significant accounting policies (continued)

The Bank owns consumer price indexed government bonds (CPI) portfolio. CPI's are valued and accounted according to the effective interest rate method which is calculated according to the real coupon rate and the reference inflation index on the issue date. As it is mentioned in the Undersecretariat of Treasury's Investor Guide of CPI, the reference index used during the calculation of the actual coupon payment amount is the previous two months CPI's. The Bank determines its expected inflation rates in compliance with this guide. The estimated inflation rate according to the Central Bank of Turkey and the Bank's expectations is updated during the year when it is considered necessary.

Equity instruments measured at FVOCI

At initial recognition, it can be made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such election is made on an instrument by instrument basis.

Amounts presented in other comprehensive income shall not be subsequently recycled to profit or loss. However, the cumulative gain or loss shall be recycled to prior period's profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. IFRS 9 impairment requirements are not applicable for equity instruments.

Financial assets and liabilities measured at FVPL

Financial assets at FVPL are valued at their fair values and gain/loss arising on those assets is recorded in the statement of profit or loss and other comprehensive income. Interest income earned on these assets and the difference between their acquisition costs and amortised costs are recorded as interest income in the statement of profit or loss and other comprehensive income excluding loans and advances measured at amortised cost. The differences between the amortised costs and the fair values of such assets are recorded under net trading income/(expense) in the statement of profit or loss and other comprehensive income. In cases where such assets are sold before their maturities, the gains/losses on such sales are recorded under net trading income/(expense).

It is designated irrevocably certain loans and securities issued at initial recognition, as financial assets/liabilities at FVPL as permitted by IFRS 9.

Besides, as detailed in the relevant accounting policy sections, the original contractual terms or a counterparty of a loan might change in certain circumstances and the existing financial asset is derecognised. The characteristics of new contractual terms of a loan are assessed and when they are exposed to the risks which are not consistent with the basic lending agreement leading to variability of cashflows, the relevant financial asset is measured at FVPL.

Significant accounting policies (continued)

The interest income/expense earned and the difference between the acquisition costs and the amortised costs of financial liabilities are recorded under interest income/(expense) in statement of profit or loss and other comprehensive income, the difference between the amortised costs and the fair values of financial liabilities are recorded under net trading income/(expense) in statement of profit or loss and other comprehensive income. The amount of change in the fair value of the financial liability at FVPL that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income unless it creates accounting mismatch or increase the accounting mismatch. Excluding the change in credit risk of the liability, the remaining amount of change in the fair value of the liability shall be presented in profit or loss.

Derecognition of financial instruments

Derecognition of financial assets due to change in the contractual terms

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset can lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a “new” financial asset.

When it is assessed the characteristics of the new contractual terms of the financial asset, it is also evaluated the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognised a modification gain or loss in profit or loss.

Derecognition of financial liabilities

Where all risks and rewards of ownership of the asset have not been transferred to another party and it is retained control of the asset, it is continued to be recognised the remaining portion of the asset and liabilities arising from such asset.

When it is retained substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognised in its entirety and the consideration received is recognised as a liability.

Derecognition of a financial asset without any change in the contractual terms

The asset is derecognised if the contractual rights to cash flows from the financial asset are expired or the related financial asset and all risks and rewards of ownership of the asset are transferred to another party.

Significant accounting policies (continued)

Except for equity instruments measured at FVOCI, the total amount consisting of the gain or loss arising from the difference between the book value and the amount obtained and any accumulated gain directly accounted in equity shall be recognised in profit or loss.

A financial liability (or a part of a financial liability) shall be removed from the statement of financial position when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Reclassification of financial instruments

It shall be reclassified all affected financial assets based on classification principles of IFRS 9 when, and only when, it is changed the business model for managing financial assets.

Restructuring and refinancing of financial instruments

It may be changed the original contractual terms of a loan (maturity, repayment structure, guarantees and sureties) which were previously signed, in case the loan cannot be repaid or if a potential payment difficulty is encountered based on the new financing power and structure of the borrower.

Restructuring is to change the financial terms of existing loans in order to facilitate the payment of debt. Refinancing is granting a new loan which will cover either the principal or the interest payment in whole or in part of one or a few existing loans due to the anticipated financial difficulty which the customer or group encounter currently or will encounter in the future.

Changes in the original terms of a credit risk can be made in the current contract or through a new contract.

(k) Derivatives

The derivative transactions mainly consist of foreign currency and interest rate swaps, foreign currency options, forward foreign currency purchase/sale contacts and credit derivatives.

Derivatives are initially recorded at their fair values. The related transaction costs are recognized in statement of profit or loss and other comprehensive income at the date they incur. The changes in their fair values are recorded on balance sheet under "derivative financial assets" or "derivative financial liabilities", respectively depending on the fair values being positive or negative. Fair value changes for derivatives are recorded in the account of "net gain/(losses) on derivative transactions" under the statement of profit or loss and other comprehensive income.

Credit derivatives; are capital market tools designed to transfer credit risk from one party to another. The credit derivatives portfolio included in the off-balance sheet accounts composes of total return swaps and credit default swaps resulted from protection buying or selling.

Credit default swap; is a contract, in which the protection seller commits to pay the protection value to the protection buyer in case of certain credit risk events in return for the premium paid by the buyer for the contract. Credit default swaps are valued daily at their fair values.

Total return swap; is a contract, in which the protection seller commits to make a certain payment and compensate the decreases in market values of the reference assets to the buyer under the condition that the protection buyer will transfer all the cash flows to be created by and the increases in market values of the reference asset. It is entered into total return swap contract for the purpose of generating long-term funding.

Significant accounting policies (continued)

Within the scope of IFRS 13 Fair Value Measurement standard; (i) if there is a significant decrease in the volume or level of activity for that asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities); (ii) when the transaction or quoted price does not represent fair value; and/or (iii) when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured, or (iv) when the price is stale, an adjustment to the transactions or quoted prices is made and this adjustment is reflected to the fair value measurement. In this context, the point is determined within the range that is most representative of fair value under current market conditions.

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

Derivatives held for risk management purposes are also measured at fair value. The treatment for the changes in their fair value depends on their classification into the following categories:

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction. When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect the income, the effective portion of changes in the fair value of the derivative are recognised directly in other comprehensive income and presented in hedge reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in income.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognised in other comprehensive income and presented in the hedge reserve in equity remains there until the forecast transaction affects the income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in other comprehensive income is recognised immediately in income.

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in income relating to the hedged item.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or a liability with corresponding gain or loss recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to income from that date.

Significant accounting policies (continued)

Net investment hedge

When a derivative or non-derivative financial liability is designated as a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised directly in the shareholders' equity, in the foreign currency translation reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in income. The amount recognised in the shareholders' equity is removed and included in the income on disposal of the foreign operation.

The foreign currency risk arising from net investments in foreign operations are hedged with long-term foreign currency borrowings and currency translation differences arising from conversion of foreign investments and foreign currency borrowings into TL are accounted for foreign currency translation reserve and hedge reserve, respectively, in equity.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host with the effect that some of the cash flows of the combined instrument vary in a way similar to stand alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to 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 in the case of a non-financial variable that the variable is not specific to contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative but a separate financial instrument. If a hybrid contract contains a host that is an asset within the scope of this standard, it is applied the standard's requirements about classification of financial assets to the entire hybrid contract. The Bank and its subsidiaries do not have either any hybrid contract contains a host that is not an asset within the scope of this standard or a financial instrument which shall be separated from the host and accounted for as derivative under this standard.

(l) Securities borrowing and lending business

Investments lent under securities lending arrangements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. Cash collateral received in respect of securities lent is recognised as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognised in the statement of financial position as the related risks and rewards of such securities are not retained.

Borrowed securities are recorded under commitments and contingencies. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers depending on the type of counterparty.

(m) Repurchase and resale agreements over investments

The Bank and its subsidiaries enter into purchases of investments under agreements to resell (reverse repo) 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 recognised. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements (repo) are recognised in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. The proceeds from the sale of the investments are reported as "obligations under repurchase agreements and money market fundings", a liability account.

(Currency: Thousands of Turkish Lira (TL))

Significant accounting policies (continued)

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

(n) Items held in trust

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

(o) Financial guarantees

Financial guarantees are contracts that require the Bank and its subsidiaries 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 liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount or the present value of any expected payment (when a payment under the guarantee has become probable).

(p) Employee benefits

(i) Defined benefit plan

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.

The Bank has a defined benefit plan ("the Plan") for its employees namely Türkiye Garanti Bankası Anonim Şirketi Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı ("the Fund"). The Fund is a separate legal entity and a foundation recognised by an official decree, providing pension and post-retirement medical benefits to all Bank employees entitled to receive such benefits. This benefit 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:

	31 December 2021		**31 December 2020**	
	Employer	**Employee**	**Employer**	**Employee**
Pension contributions	15.5%	10.0%	15.5%	10.0%
Medical benefit contributions	6.0%	5.0%	6.0%	5.0%

This benefit plan is composed of a) the contractual benefits of the employees, which are subject to transfer to Social Security Foundation ("SSF") ("pension and medical benefits transferable to SSF") (see Note 24) and b) 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").

Significant accounting policies (continued)

a) Pension and medical benefits transferable to SSF

As discussed in Note 24, the Bank expects to transfer a portion of the obligation of the Fund to SSF. This transfer will be a settlement of that portion of the Fund's obligation. Final legislation establishing the terms for this transfer was enacted on 8 May 2008. Although the settlement will not be recognised until the transfer is made, the Bank believes that it is more appropriate to measure the obligation as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the Temporary Article 20 of the Law No.5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law"). The pension disclosures set out in Note 24, therefore reflect the actuarial assumptions and mortality tables specified in the New Law, including a discount rate of 9.80%.

The pension benefits transferable to SSF are calculated annually by an independent actuary, who is registered with the Undersecretariat of the Treasury.

b) Excess benefits not transferable to SSF

The excess benefits, which are not subject to the transfer, are accounted for in accordance with IAS 19, "Employee Benefits". The obligation in respect of the retained portion of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value by using the projected unit credit method, and any unrecognised past service costs and the fair value of any plan assets are deducted.

All actuarial gains and losses stem from the remeasurement of defined benefit obligation and are recognised immediately in other comprehensive income.

(ii) 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 calculated in accordance with the Turkish Labor Law. In accordance with Turkish Labor Law, the Bank and its subsidiaries are required to make lump-sum payments to each employee whose employment is terminated due to retirement or before the retirement date for reasons other than resignation or misconduct and has completed at least one year of service.

All actuarial gains and losses are recognised immediately in other comprehensive income.

(iii) Short-term employee benefits

The Bank provided for undiscounted short-term employee benefits earned during the financial periods as per services rendered in compliance with IAS 19.

Significant accounting policies (continued)

(q) Leases

Based on IFRS 16, at the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the incremental borrowing interest rate.

After the commencement date, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made; and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

After the commencement date, the lease liability is remeasured to reflect changes to the lease payments. The amount of the remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset.

The lease liability is remeasured by discounting the revised lease payments using a revised discount rate, if either there is a change in the lease term or there is a change in the assessment of an option to purchase the underlying asset. However, if there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments or if there is a change in the amounts expected to be payable under a residual value guarantee, an unchanged discount rate is used.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the lease liability is remeasured by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the incremental borrowing interest rate at the effective date of the modification. The carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. Any gain or loss relating to the partial or full termination of the lease is recognised in profit or loss. A corresponding adjustment to the right-of-use asset is made for all other lease modifications.

(r) Taxes on income

Taxes on income for the period comprise current taxes and deferred taxes. Current taxes on income comprises tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and; any adjustment in taxes payable for previous years.

Deferred income tax is provided, using the statement of financial position method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax liabilities and assets are recognised when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank and its subsidiaries.

Significant accounting policies (continued)

Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Deferred tax balances are calculated using the tax rates that are expected to apply to the reporting period or periods when the temporary differences reverse based on the tax rates and tax laws enacted or substantively enacted at the end of the reporting period.

An individual consolidated subsidiary offsets deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority or where the legal right of offset exists.

Current and deferred taxes are recognised in profit or loss except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Accordingly, deferred taxes related to fair value measurement of financial assets measured at FVOCI, real estates (excluding investment properties), cash flow hedges, net investment hedges and actuarial measurements are recognised in other comprehensive income.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

(s) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the amounts and there is an intention 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 from a group of similar transactions.

(t) Earnings per share

Earnings per share disclosed in the accompanying consolidated statement of profit or loss and other comprehensive income are determined by dividing net income by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders from retained earnings. Additionally, considering the fact that the increase in the number of shares issued by way of bonus shares in fact does not require any cash injection by the shareholders; the number of issued shares outstanding before such bonus share issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

(u) Impairment

Financial and non-financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset’s recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

Significant accounting policies (continued)

Impairment of financial assets

As of 1 January 2018, it is recognised a loss allowance for expected credit losses on financial assets and loans measured at amortised cost, financial assets measured at FVOCI, loan commitments and financial guarantee contracts not measured at FVPL based on IFRS 9 which came into force starting from 1 January 2018. IFRS 9 impairment requirements are not applicable for equity instruments.

At each reporting date, it shall be assessed whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, it shall be used the change in the risk of a default occurring for the financial instrument.

As of the reporting date, if the credit risk on a financial instrument has not increased significantly since initial recognition, it shall be measured the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. However, if there is a significant increase in credit risk of a financial instrument since initial recognition, loss allowance regarding such instrument is measured at an amount equal to lifetime expected credit losses.

The expected credit loss is calculated on a collective basis by means of grouping the financial assets having common credit risk features or on an individual basis.

It is constituted a policy in order to make an assessment whether the credit risk on a financial instrument has increased significantly since initial recognition by taking into consideration change in the risk of a default occurring over the expected life of the financial instrument. The aforementioned policy is presented in this note.

The impairment model having three stages based on the change in credit quality since initial recognition based on IFRS 9 is explained below:

Calculation of expected credit losses

It is calculated expected credit losses based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

Probability of Default (PD): PD refers to the likelihood that a loan will default, which is usually set at 12 months, given certain characteristics. Based on IFRS 9, it is used two different PDs in order to calculate expected credit losses:
- 12-month PD: as the estimated probability of default occurring within the next 12 months.
- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

It is used internal rating systems for both retail and commercial portfolios. The internal rating models used for the commercial portfolio include customer financial information and qualitative survey responses. Whereas behavioral and application scorecards used in the retail portfolio include; (i) the behavioral data of the customer and the product in the Bank, (ii) the demographic information of the customer, and (iii) the behavioral data of the customer in the sector. Probability of default calculation has been carried out based on past information, current conditions and forward looking macroeconomic parameters.

Significant accounting policies (continued)

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

LGD calculations are performed using historical data which best reflects current conditions, by formation of segments based on certain risk factors that are deemed important for each portfolio and inclusion of forward-looking information and macroeconomic expectations. LGD summarizes all cash flows from customers subsequent to default. It covers all costs and collections that occur during the collection cycle, including collections from collaterals. It also includes the "time value of money" calculated by means of deducting costs and additional losses from the present value of collections.

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

When expected credit losses are estimated, it is considered three scenarios (base scenario, bad scenario, good scenario). Each of these three scenarios is associated with different probability of default, loss given default and exposure at default. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless there is the legal right to call it earlier.

Stage 1: 12-month expected credit loss represents the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date and calculated as the portion of lifetime expected credit losses. It is calculated 12-month expected credit loss based on a probability of default realized within 12 months after the reporting date. Such expected 12-month probability of default is applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate. Such calculation is performed for each of three scenarios explained above.

Stage 2: When a loan has shown a significant increase in credit risk since origination, it is calculated an allowance for the lifetime expected credit losses. Including multiple scenario usage, it is similar to descriptions above, but probability of default and loss given default rates are estimated through the life of the instrument. Estimated cash shortfalls are discounted by using the original effective interest rate.

Stage 3: For the loans considered as impaired, it is accounted lifetime expected credit losses. The methodology is similar to stage 2 and the probability of default is taken into account as 100%.

Loan commitments and non-cash loans

The expected credit losses on a loan commitment shall be discounted using the effective interest rate, or an approximation thereof, that will be applied when recognising the financial asset resulting from the loan commitment. This is because for the purpose of applying the impairment requirements, a financial asset that is recognised following a draw down on a loan commitment shall be treated as a continuation of that commitment instead of as a new financial instrument. The expected credit losses on the financial asset shall therefore be measured considering the initial credit risk of the loan commitment from the date when becoming a party to the irrevocable commitment.

Significant accounting policies (continued)

Expected credit losses on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined shall be discounted by applying a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Debt instruments measured at FVOCI

Starting from 1 January 2018, it shall be applied the impairment requirements for the recognition and measurement of an expected credit loss for financial assets that are measured at FVOCI. However, the expected credit loss shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position. The expected credit loss is reflected in other comprehensive income and accounted in profit or loss. The expected credit loss is reflected in other comprehensive income and the accumulated amount is recycled to statement of profit/loss following the derecognition of related financial asset.

(v) Income and expense recognition

Interest income and expense

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

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

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

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

If the financial asset is impaired and classified as a non-performing receivable, the effective interest rate is applied to the amortized cost of the asset for subsequent reporting periods. Such interest income calculation is performed on an individual contract basis for all financial assets subject to impairment calculation. The effective interest rate is used for the calculation of loss given default parameter in the expected credit loss models and therefore the calculated expected credit losses, includes this calculated interest amount. Accordingly a reclassification is performed between the accounts of “expected credit losses” expense and “interest income from loans” for such calculated interest amount.

Significant accounting policies (continued)

If the credit risk of the financial instrument improves to the extent that the financial asset is no longer considered as impaired and the improvement can be attributed to an incident that eventually takes place (such as an increase in the loan's credit rating), the system calculates interest income at subsequent reporting periods by applying the effective interest rate to the gross amount.

Fee and commission

Fee 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 commissions, placement fees and syndication fees, are recognised as the related services are performed in accordance with IFRS 15 Revenue from contracts with customers. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised 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.

Net trading income/(expense)

Net trading income/(expense) includes gains and losses arising from sale of financial assets measured at FVPL and financial assets measured at FVOCI in addition to changes in fair value of financial assets measured at FVPL and derivatives including effective portion of fair value hedges.

Dividend income

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

Insurance business

Premium income: For short-term insurance contracts, premiums are recognised as income (earned premiums), net of premium ceded to reinsurer firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at date of the statement of financial position is recognised as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions and deferred acquisition cost, and are gross of any taxes and duties levied on premiums. For long-term insurance contracts, premiums are recognised as income when the premiums are due from the policyholders. Premiums received for long-term insurance contracts with discretionary participation feature ("DPF"), are recognised directly as liabilities.

Unearned premium reserve: Unearned premiums are those proportions of the premiums written in a period that relate to the period of risk subsequent to the date of the statement of financial position for all short-term insurance policies. In accordance with the incumbent legislation on the computation of insurance contract liabilities, unearned premium reserve set aside for unexpired risks as at the dates of the statements of financial position, has been computed on a daily pro-rata basis. The change in the provision for unearned premium is recognised in income in the order that income is recognised over the period of risk.

Significant accounting policies (continued)

Claims and provision for "outstanding" claims: Claims are recognised in the period in which they occur, based on reported claims or on the basis of estimates when not reported. The claims provision is the total estimated ultimate cost of settling all claims arising from events, which have occurred up to the end of the accounting period. Full provision is accounted for outstanding claims, including claim settlements reported at the period-end.

Incurred but not reported claims ("IBNR") are also provided for under the provision for outstanding claims.

Liability adequacy test: At each statement of financial position date, asset-liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs. In performing these tests, current best estimates of future cash flows are used. Any deficiency is immediately charged to income.

Income generated from pension business: Income arising from asset management and other related services offered by the insurance subsidiary of the Bank is recognised in the accounting period in which the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the insurance company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

Mathematical provisions: Mathematical provisions are the provisions recorded against the liabilities of the insurance subsidiary of the Bank to the beneficiaries of long-term life, health and individual accident policies based on actuarial assumptions. Mathematical provisions consist of actuarial mathematical provisions for long term insurance contracts, saving portion of the saving life products classified as investment contracts and related profit sharing reserves.

Actuarial mathematical provisions are calculated as the difference between the net present values of premiums written in return of the risk covered by the insurance subsidiary 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 Prime Ministry Undersecretariat of Treasury, which are applicable for Turkish insurance companies.

Profit sharing reserves are the reserves provided against income obtained from asset backing saving life insurance 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 insurance subsidiary from the eligible surplus available to date.

Mathematical provisions are presented under "other liabilities, accrued expenses and provisions" in the accompanying consolidated financial statements.

(w) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition.

Significant accounting policies (continued)

Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

(x) Segment reporting

An operating segment is a component of the Bank and its subsidiaries that engage in business activities from which it may earn income and incur expenses, including income and expenses that relate to transactions with any of the Bank's other components. All operating segments' operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Index for the notes to the consolidated financial statements:

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting

The Bank has seven reportable segments from banking and other financial institutions, as described in the business segments part 1.2 below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the senior management reviews internal reports regularly. The following summary describes the operations in each of the Bank's reportable segments:

1.1 Geographical segments

The Bank and its subsidiaries operate principally in Turkey, but also have operations in the Netherlands, Romania, Turkish Republic of Northern Cyprus, Malta and Germany. Total geographic sector risk concentrations, both on and off balance sheet, are presented in the table below:
Financial risk management disclosures

	2021				
	Loans and Advances to Customers	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditures***
Turkey	410,373,941	715,395,181	639,271,543	115,375,844	2,755,046
Romania	26,057,876	31,778,564	26,924,034	1,989,609	92,987
England	2,762,410	23,850,068	9,883,951	989,216	-
Netherlands	6,588,293	22,406,004	20,406,542	1,158,777	20,794
USA	2,873,751	14,132,674	3,744,039	1,101,784	-
Switzerland	6,828,587	7,235,928	4,623,520	2,070,166	-
Germany	2,605,459	6,914,434	24,291,440	1,223,008	1,172
Malta	925,178	6,911,571	783,343	104,050	-
Cyprus	1,490,361	4,516,988	3,874,076	321,483	-
France	1,346,986	2,603,602	4,311,945	953,047	-
Singapore	2,075,070	2,085,006	751,808	320,858	-
Belgium	782,580	1,903,777	650,141	285,163	-
Austria	1,110,493	1,881,778	494,570	196,092	-
Spain	798,400	1,805,757	538,697	829,960	-
Canada	24,984	1,451,563	396,573	7,794	-
Italy	46,421	1,374,364	142,655	1,943,866	-
Luxembourg	640,239	751,485	4,330,960	7	-
Japan	455,887	694,551	34,710	4,487	-
United Arabian Emirates	113,140	680,271	5,529,469	303,565	-
Macedonia	225,246	225,248	2,312	-	-
Ireland	1,940	223,557	1,709,689	734,847	-
Sweden	16,559	215,499	457,967	77,723	-
Russia	76,402	200,781	323,366	11,153	-
China	261	172,048	4,043,207	1,516,542	-
Denmark	140,573	150,911	304,315	17,859	-
Egypt	120,975	120,982	469,476	-	
Marshall Islands	44,073	44,499	438,520	-	-
Saudi Arabia	3,810	22,814	200,038	-	-
Greece	20,686	20,688	651,812	6,211	-
Azerbaijan	4,542	4,572	522,593	271	-
Qatar	3,263	3,295	1,480,681	367	-
Ukraine	1,289	1,297	124,108	-	-
Others	1,239,408	1,789,093	9,572,331	2,915,025	-
	469,799,083	851,568,850	771,284,431	134,458,774	2,869,999

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

	2020				
	Loans and Advances to Customers	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditures***
Turkey	302,539,074	479,250,921	408,875,863	70,811,781	2,899,030
Romania	14,346,637	17,989,402	14,527,574	1,204,409	102,454
Netherlands	2,842,306	10,096,745	10,512,751	444,871	19,155
England	1,063,789	6,512,438	7,993,831	374,818	-
USA	1,146,459	6,387,701	2,097,664	549,056	-
Germany	1,661,357	3,621,532	15,192,078	660,078	2,031
Malta	738,307	3,007,655	620,010	89,391	-
Switzerland	2,701,036	2,959,710	2,101,124	1,018,040	-
Cyprus	1,113,340	2,942,195	2,277,877	140,088	-
Canada	19,192	1,136,480	223,558	900	-
Austria	816,710	1,026,777	395,843	95,721	-
Singapore	934,661	934,664	155,697	260,617	-
France	750,831	873,922	1,842,377	697,617	-
United Arabian Emirates	479,139	867,174	834,261	99,115	-
Luxembourg	578,579	683,571	2,517,916	7	-
Belgium	429,166	616,091	356,269	200,926	-
China	1,939	394,808	2,637,921	484,462	-
Spain	222,869	274,312	110,470	355,034	-
Qatar	1,497	266,097	583,407	1,533	-
Japan	202,919	245,328	23,509	225,269	-
Russia	9,101	103,099	172,138	5,858	-
Italy	30,666	89,645	210,885	1,041,934	-
Sweden	7,326	11,941	235,137	54,292	-
Saudi Arabia	5,051	8,998	130,877	-	-
Azerbaijan	2,518	2,544	386,272	152	-
Ukraine	1,685	1,702	57,263	-	-
Ireland	858	865	396,596	85	-
Others	1,186,944	1,668,011	3,683,639	1,979,340	-
	333,833,956	541,974,328	479,152,807	80,795,394	3,022,670

Total geographic sector risk concentrations of the net income are presented in the table below:

	2021	***2020***
Turkey	12,916,586	5,813,929
Romania	348,180	168,419
Netherlands	161,408	20,752
Malta	50,441	633,088
Others	101,972	99,969
	13,578,587	6,736,157

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

1.2 Business segments

The segments are identified on the basis used by the Group's top management to allocate resources and evaluate performance, in accordance with IFRS 8 "Operating Segments". The Board reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The main business segments are banking, leasing, insurance and factoring sectors. Banking segment information is detailed further to retail banking and commercial, corporate and SME banking as these are the major banking activities. Other operations heading under the banking segment include mainly treasury and investment banking activities as well as unallocated income and expense items. The analysis is as follows:

2021	Retail Banking	Commercial, Corporate & SME Banking	Investment Operations	Other	Total Operations
Net Interest Income	10,310,905	10,873,158	7,212,876	(4,164,311)	24,232,628
Net Fees and Commissions Income	6,130,540	2,208,514	(137,286)	979,859	9,181,627
Net Trading Income/Losses (1)	168,723	8,024,696	(7,769,583)	3,588,324	4,012,160
Other Operatıng Income (2)	439,738	113,621	27,955	3,061,284	3,642,598
Provisions for loans and other credit risks, net	(1,761,737)	(3,999,633)	722,961	452,647	(4,585,762)
Impairment losses, net	-	-	-	(2,863,461)	(2,863,461)
Other Operating Expenses (-) (3)	(6,786,580)	(2,941,358)	(382,584)	(4,912,132)	(15,022,654)
Income / loss from operations	**8,501,589**	**14,278,998**	**(325,661)**	**(3,857,790)**	**18,597,136**
Taxation charge	-	-	-	(5,018,549)	(5,018,549)
Net income for the year	**8,501,589**	**14,278,998**	**(325,661)**	**(8,876,339)**	**13,578,587**
Segment assets	128,579,825	338,318,866	288,710,948	95,380,360	850,989,999
Equity investments	-	-	-	578,851	578,851
Total assets	**128,579,825**	**338,318,866**	**288,710,948**	**95,959,211**	**851,568,850**
Segment liabilities	382,451,220	214,336,989	117,710,798	56,785,424	771,284,431
Total equity	-	-	-	80,284,419	80,284,419
Total liabilities and equity	**382,451,220**	**214,336,989**	**117,710,798**	**137,069,843**	**851,568,850**

(1) The foreign exchange losses amounting to TL 1,002,793 included under Net Trading Income/Losses.
(2) Includes insurance business income amounting to TL 1,717,187.
(3)Excludes impairment losses, net and includes insurance business expense amounting to TL 886,257.

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

2020	Retail Banking	Commercial, Corporate & SME Banking	Investment Operations	Other	Total Operations
Net Interest Income	7,630,531	6,908,143	7,638,210	(654,866)	21,522,018
Net Fees And Commissions Income	4,217,578	2,087,867	(118,327)	370,307	6,557,425
Net Trading Income/Losses (1)	156,771	1,867,401	(1,612,370)	708,974	1,120,776
Other Operating Income (2)	235,074	186,159	39,862	1,875,158	2,336,253
Provisions for loans and other credit risks, net	(2,189,642)	(7,767,168)	(546,695)	2,941,778	(7,561,727)
Impairment losses, net	-	-	-	(2,723,594)	(2,723,594)
Other Operating Expenses (-) (3)	(5,716,411)	(2,626,266)	(280,306)	(2,981,760)	(11,604,743)
Income / loss from operations	**4,333,901**	**656,136**	**5,120,374**	**(464,003)**	**9,646,408**
Taxation charge	-	-	-	(2,910,251)	(2,910,251)
Net income for the year	**4,333,901**	**656,136**	**5,120,374**	**(3,374,254)**	**6,736,157**
Segment assets	96,629,426	264,065,293	139,875,115	41,039,635	541,609,469
Equity investments	-	-	-	364,859	364,859
Total assets	**96,629,426**	**264,065,293**	**139,875,115**	**41,404,494**	**541,974,328**
Segment liabilities	252,455,303	146,169,281	75,594,444	4,933,779	479,152,807
Total equity	-	-	(308,649)	63,130,170	62,821,521
Total liabilities and equity	**252,455,303**	**146,169,281**	**75,285,795**	**68,063,949**	**541,974,328**

(1) The foreign exchange gains amounting to TL 4,126,488 included under Net Trading Income/Losses.
(2) Includes insurance business income amounting to TL 1,369,765.
(3) Excludes impairment losses, net and includes insurance business expense amounting to TL 516,230.

(Currency: Thousands of Turkish Lira (TL))

2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as of 31 December 2021 and 2020, included in the accompanying consolidated statement of cash flows are as follows:

	2021	***2020***
Cash at branches	16,734,401	9,678,213
Unrestricted balances with central banks	43,447,520	18,661,193
Placements at money markets	33,895,222	9,703,723
Loans and advances to banks with original maturity periods of less than three months	28,391,866	14,737,344
	122,469,009	52,780,473

3 Cash and balances with central banks

	2021	***2020***
Cash at branches	16,734,401	9,678,213
Reserve deposits at central banks	66,890,936	29,554,464
Balances with central banks excluding reserve deposits	53,268,980	23,179,439
	136,894,317	62,412,116

Reserve deposits at central banks

As per the Communiqué no. 2013/15 “Reserve Deposits” of the Central Bank of the Republic of Turkey (“CBRT”), banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. The Reserve deposits at the Central Bank of Turkey are kept as minimum reserve requirement. These funds are not available for the daily business of the Bank and its subsidiaries. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of liabilities in TL, foreign currencies and gold taken at the rates determined by CBRT. The Central Bank of Turkey pays interest to banks that provide credit growth in accordance with the communique principles dated 6 March 2020 and numbered 2020/6, for Turkish Lira required reserves.

The reserve deposits at the Central Bank of the Netherlands, as required by the Dutch Banking Law, are calculated as 1% on all customer deposits with an original maturity less than 2 years and 1% on bank deposits of non-EU banks with an original maturity less than 2 years.

The banks operating in Romania are obliged to keep minimum reserve requirements in accounts held with Romanian Central Bank (NBR). The reserve requirements are to be held in RON for RON liabilities and in EUR or USD for foreign currency liabilities.

Currently, in line with stipulations of related legislation in force, the rates for reserve requirements are 8% for RON denominated liabilities with a remaining maturity less than 2 years and 5% for foreign currency denominated liabilities with a remaining maturity less than 2 years excluding Romanian banks’ fundings. The interest rates paid by the NBR to banks for reserve requirements are subject of permanent update, currently the rates are 0.13% for RON reserves 0.00% for EUR reserves and 0.01% for USD reserves.

(Currency: Thousands of Turkish Lira (TL))

3 Cash and balances with central banks (continued)

The credit quality analysis of cash and balances with central banks as of 31 December 2021 and 2020 is as follows:

	2021			2020		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	137,020,450	-	-	62,646,258	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	(126,133)	-	-	(234,142)	-	-
Total carrying amount	136,894,317	-	-	62,412,116	-	-

The movements of expected credit losses per asset class for cash and balances with central banks as of 31 December 2021 and 2020 are as follows:

	2021			2020		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	234,142	-	-	66,420	-	- -
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Debt sales and write-offs	-	-	-	-	-	-
Recoveries and reversals	(108,363)	-	-	(100,499)	-	-
Provision for the period	-	-	-	268,131	-	-
Effects of movements in exchange rates	354	-	-	90	-	-
Balances at the end of the period	126,133	-	-	234,142	-	-

(Currency: Thousands of Turkish Lira (TL))

4 Financial assets at fair value through profit or loss

	2021				2020
	Face value	*Carrying value*	*Interest rate range %*	*Latest maturity*	*Carrying value*
Debt and other instruments measured at FVPL:					
Eurobonds	698,031	683,491	3-12	2047	437,505
Government bonds-floating *(a)*	474,017	475,894	15-18	2027	454
Government bonds in TL	326,102	382,368	3-20	2030	331,262
Investment funds	-	145,818	-	-	78,133
Government bonds indexed to CPI	65,432	119,728	1-4	2031	424,974
Discounted government bonds in TL	64,848	63,271	9	2022	2,836
Bonds issued by financial institutions	42,614	42,209	6-17	2026	101,519
Government bonds in FC	23,764	23,798	3-4	2023	1,716,440
Government bonds-WPI	501	1,350	3-3	2026	-
Bonds issued by corporations	-	-	3-12	2047	15,924
		1,937,927			3,109,047
Loans measured at FVPL *(b)*		4,488,158			4,503,410
Equity and other non-fixed income instruments:					
Listed shares		1,377,467			650,090
Total financial assets at fair value through profit or loss		7,803,552			8,262,547

(a) *The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.*

(b) *It includes the loan provided to a special purpose entity. This loan is accounted under loans measured at FVPL based on IFRS 9.*

Income from debt and other instruments held at fair value is reflected in the consolidated statement of profit or loss and other comprehensive income as interest on securities. Gains and losses arising from trading of financial assets at FVPL are recorded in net trading income/(expense).

As of 31 December 2021, financial assets at FVPL amounting to TL 553,922 are blocked against asset management operations and securitizations (31 December 2020: TL 170,374) (refer to Note 8).

As of 31 December 2021, there is no securities pledged under repurchase agreements with customers (31 December 2020: TL 7,444).

5 Derivative financial assets

Derivative financial assets mainly consist of foreign currency and interest rate swaps, foreign currency options and forward foreign currency contracts.

	2021		2020	
	Trading	*Hedging*(*)	*Trading*	*Hedging*(*)
Swap derivative financial assets	15,858,244	781,799	3,673,292	450,176
Option derivative financial assets	176,607	11,082	80,382	6,977
Forward derivative financial assets	844,682	117,291	397,739	-
Future derivative financial assets	-	-	5,315	-
Other derivative financial assets	585	-	671	-
	16,880,118	910,172	4,157,399	457,153

(*) *Includes derivative transactions subject to cash flow hedge accounting amounted to TL 885,473 (31 December 2020: TL 457,153). As of 31 December 2021, TL 24,699 derivative transaction subject to fair value hedge accounting accounted as derivative financial assets (31 December 2020: nil).*

(Currency: Thousands of Turkish Lira (TL))

5 Derivative financial assets (continued)

As of 31 December 2021 and 2020, fair value changes of hedged items and related gains/losses accounted under equity and statement of profit or loss, for cash flow hedges are as follows:

2021

Hedging item	Hedged item	Type of risk	Fair value change of hedged item		Gains/losses accounted under equity	Gains/losses accounted under statement of profit or loss	Ineffective portion (net) accounted under statement of profit or loss
			Asset	**Liability**			
Interest Rate Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates	-	(70,129)	26,004	(43,043)	(4,338)
Interest Rate Swaps	Floating-rate deposit	Cash flow risk resulted from change in market interest rates	317,743	(204,336)	562,576	129,670	54,829
Cross Currency Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	398,750	-	(16,483)	(12,909)	28
Cross Currency Swaps	Fixed-rate borrowings	Cash flow risk resulted from foreign currency exchange rates	40,607	(62,957)	2,419	(2,809)	-
Currency Forwards	Mile payments	Cash flow risk resulted from foreign currency exchange rates	113,476	-	113,476	-	-
Currency Forwards	Fixed-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	3,815	(3,984)	(571)	795	-
Interest Rate Options	Fixed-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	11,082	-	8,726	-	-
Interest Rate Swaps	Floating-rate securities	Cash flow risk resulted from foreign currency exchange rates	-	(39,010)	9,924	22,764	(905)
Foreign currency borrowings	Operational lease receivables	Cash flow risk resulted from foreign currency exchange rates	-	-	126,461	140,406	-
			885,473	(380,416)	832,532	234,874	49,614

(Currency: Thousands of Turkish Lira (TL))

5 Derivative financial assets (continued)

2020

			Fair value change of hedged item				
Hedging item	**Hedged item**	**Type of risk**	**Asset**	**Liability**	**Gains/losses accounted under equity**	**Gains/losses accounted under statement of profit or loss**	**Ineffective portion (net) accounted under statement of profit or loss**
Interest Rate Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates	-	(123,688)	(112,416)	(14,968)	(6,424)
Interest Rate Swaps	Floating-rate deposit	Cash flow risk resulted from change in market interest rates	26,295	(208,282)	(36,543)	(61,559)	(19,436)
Cross Currency Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	420,866	(46,409)	(41,184)	(19,599)	-
Cross Currency Swaps	Fixed-rate borrowings	Cash flow risk resulted from foreign currency exchange rates	3,015	(26,136)	9,503	(9,766)	-
Currency Forwards	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	-	(846)	136	473	-
Interest Rate Options	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	6,977	-	902	-	-
Spot Position (*)	Mile payments	Cash flow risk resulted from foreign currency exchange rates	-	-	(3,338)	-	-
Spot Position (*)	Expected investment expenditures	Cash flow risk resulted from foreign currency exchange rates	-	-	(24,655)	-	-
Spot Position (**)	Expected Eurobond coupon revenues	Cash flow risk resulted from foreign currency exchange rates	-	-	24,655	-	-
Foreign currency borrowings	Operational lease receivables	Cash flow risk resulted from foreign currency exchange rates	-	-	3,915	86,480	-
			457,153	(405,361)	(179,025)	(18,939)	(25,860)

(*) Includes foreign currency items on asset side of the balance sheet.
(**) Includes foreign currency items on liability side of the balance sheet.

(Currency: Thousands of Turkish Lira (TL))

5 Derivative financial assets (continued)

As of 31 December 2021 and 2020, fair value changes of hedged items and related gains/losses accounted under equity and statement of profit or loss, for fair value hedges are as follows:

2021

Hedging item	Hedged item	Type of risk	Fair value change of hedged item	Net fair value change of hedging instrument		Statement of profit or loss effect
				Asset	Liability	
Interest Rate Swaps	Fixed-rate commercial loans	Interest rate risk	(22,791)	24,699	(2,023)	14,396
Interest Rate Swaps	Fixed-rate securities	Interest rate risk	-	-	-	-
Cross Currency Swaps	Fixed-rate securities	Interest rate and foreign currency exchange rate risk	335,070	-	(389,725)	(2,802)
Other (*)(**)			1,736	-	(1,736)	64,211
			314,015	24,699	(393,484)	75,805

(*) *Hedged item consists of firm commitments as explained in Hedging section under Financial Risk Management Disclosures.*
(**) *Hedging instrument consists of on-balance sheet items.*

2020

Hedging item	Hedged item	Type of risk	Fair value change of hedged item	Net fair value change of hedging instrument		Statement of profit or loss effect
				Asset	Liability	
Interest Rate Swaps	Fixed-rate commercial loans	Interest rate risk	12,559	-	(27,070)	(14,511)
Interest Rate Swaps	Fixed-rate securities	Interest rate risk	348,896	-	(400,750)	(51,854)
Cross Currency Swaps	Fixed-rate securities	Interest rate and foreign currency exchange rate risk	3,228	-	(67,438)	(64,210)
Other (*)(**)			30,080	-	(30,080)	-
			394,763	-	(525,338)	(130,575)

(*) *Hedged item consists of firm commitments as explained in Hedging section under Financial Risk Management Disclosures.*
(**) *Hedging instrument consists of on-balance sheet items.*

In the current period, the amount reclassified from the shareholders' equity to the statement of profit or loss due to the ceased hedging transactions is TL (203,754) (31 December 2020: TL (241,091)) and the amount recognised in equity is 73,422 (31 December 2020: TL 131,477).

The notional amounts of derivative financial assets are explained in detail in Note 28.

(Currency: Thousands of Turkish Lira (TL))

6 Loans and advances to banks

	2021			2020		
	TL	***Foreign Currency***	***Total***	***TL***	***Foreign Currency***	***Total***
Loans and advances-demand						
Domestic banks	15,202	557,387	572,589	7,829	144,497	152,326
Foreign banks	83	33,574,224	33,574,307	16,149	22,076,963	22,093,112
	15,285	34,131,611	34,146,896	23,978	22,221,460	22,245,438
Loans and advances-time						
Domestic banks	669,950	6,852,559	7,522,509	524,804	2,852,479	3,377,283
Foreign banks	-	8,492,047	8,492,047	241,262	3,034,476	3,275,738
	669,950	15,344,606	16,014,556	766,066	5,886,955	6,653,021
Placements at money markets	30,548,000	3,347,222	33,895,222	8,040,000	1,663,723	9,703,723
Income accrual on loans and advances to banks	25,012	1,734	26,746	8,010	31,094	39,104
Total loans and advances to banks	31,258,247	52,825,173	84,083,420	8,838,054	29,803,232	38,641,286
Less:						
Expected credit losses	(97,827)	(46,109)	(143,936)	(164,231)	(31,247)	(195,478)
	31,160,420	52,779,064	83,939,484	8,673,823	29,771,985	38,445,808

(Currency: Thousands of Turkish Lira (TL))

6 Loans and advances to banks (continued)

As of 31 December 2021, majority of loans and advances-time are short-term with interest rates ranging between (0.75)%-5% per annum for foreign currency time placements and 5%-26% per annum for TL time placements (31 December 2020: (0.63)%-4% and 12%-19% respectively).

As of 31 December 2021, loans and advances at domestic and foreign banks include blocked accounts of TL 21,053,091 (31 December 2020: TL 2,885,207) held against securitizations, fundings and insurance business.

The credit quality analysis of loans and advances to banks is as follows as of 31 December 2021 and 2020:

	2021			*2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	84,083,420	-	-	38,641,286	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	(143,936)	-	-	(195,478)	-	-
Total carrying amount	83,939,484	-	-	38,445,808	-	-

The movements of expected credit losses per asset class for loans and advances to banks as of 31 December 2021 and 2020 are as follows:

	2021			*2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	195,478	-	-	49,504	-	-
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Debt sales and write-offs	-	-	-	-	-	-
Recoveries and reversals	(148,421)	-	-	(168,025)	-	-
Provision for the period	79,391	-	-	320,856	-	-
Effects of movements in exchange rates	17,488	-	-	(6,857)	-	-
Balances at the end of the period	143,936	-	-	195,478	-	-

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers

Outstanding loans and advances to customers are divided between economic sectors and loan types as follows:

	2021	***2020***
Consumer loans	135,136,667	97,787,518
Mortgage loans	*31,827,270*	*24,862,067*
Credit card receivables	*38,024,716*	*26,371,680*
Auto loans	*2,389,390*	*2,075,258*
General purpose and other consumer loans	*62,895,291*	*44,478,513*
Energy	65,429,895	46,279,152
Transportation vehicles and sub-industry	26,104,744	19,047,741
Metal and metal products	22,909,626	13,132,945
Construction	22,040,383	15,347,547
Textile	18,728,495	14,120,588
Transportation and logistics	18,566,433	11,637,595
Food	17,523,533	14,843,776
Service sector	16,163,978	10,807,599
Data processing	15,203,731	4,332,145
Tourism	12,320,176	9,571,513
Financial institutions	12,018,126	9,404,325
Chemistry and chemical products	10,555,781	6,495,960
Agriculture and stockbreeding	10,550,326	5,901,888
Mining	7,807,492	3,922,591
Machinery and equipment	7,387,023	4,220,680
Durable consumption	7,042,980	4,797,408
Stone, rock and related products	5,688,392	4,298,794
Paper and paper products	4,573,801	2,826,684
Electronic, optical and medical equipment	2,725,536	2,038,366
Plastic products	1,399,910	1,303,541
Others	19,499,233	22,602,831
Total performing loans	459,376,261	324,721,187
Financial lease receivables, net of unearned income	11,542,780	6,665,314
Factoring receivables	4,112,040	2,763,323
Income accrual on loans, factoring and financial lease receivables	5,843,916	4,508,106
Non-performing loans, factoring and financial lease receivables (*)	18,344,496	16,118,312
Expected credit losses on loans, factoring and financial lease receivables	(29,420,410)	(20,942,286)
Loans and advances to customers	469,799,083	333,833,956

(*) *Includes related income accruals.*

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

As of 31 December 2021, interest rates on loans granted to customers range between 1%-30% (31 December 2020: 1%-31%) per annum for the foreign currency loans and 1%-30% (31 December 2020: 1%-21%) per annum for the TL loans.

The credit quality analysis of cash loans and advances to customers excluding factoring and financial lease receivables, including related income accruals, is as follows as of 31 December 2021 and 2020:

		2021			***2020***	
	Stage 1	**Stage 2**	**Stage3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	377,062,499	-	-	267,863,289	-	-
Stage 2: Watch list	-	82,313,762	-	-	56,857,898	-
Stage 3.1: Substandard	-	-	1,303,286	-	-	233,784
Stage 3.2: Doubtful	-	-	1,376,573	-	-	435,369
Stage 3.3: Loss	-	-	13,415,449	-	-	13,880,228
Total loans	377,062,499	82,313,762	16,095,308	267,863,289	56,857,898	14,549,381
Income accrual on loans	4,268,244	1,462,684	1,209,190	3,085,532	1,350,610	679,454
Expected credit losses	(2,803,206)	(14,035,482)	(11,497,053)	(2,098,484)	(8,398,737)	(9,667,066)
Total carrying amount	378,527,537	69,740,964	5,807,445	268,850,337	49,809,771	5,561,769

The movements of expected credit losses per asset class for cash loans and advances to customers as of 31 December 2021 and 2020 are as follows:

		2021			***2020***	
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	2,098,484	8,398,737	9,667,066	1,197,959	3,933,519	11,428,531
Transfer to Stage 1	1,832,709	(1,826,042)	(6,667)	1,189,541	(1,185,803)	(3,738)
Transfer to Stage 2	(696,951)	875,090	(178,139)	(471,384)	483,062	(11,678)
Transfer to Stage 3	(18,385)	(1,466,110)	1,484,495	(3,766)	(548,371)	552,137
Debt sales and write-offs/downs	-	(8,191)	(4,038,353)	-	-	(4,401,319)
Recoveries and reversals	(5,270,492)	(5,035,097)	(1,549,077)	(3,362,949)	(3,232,497)	(1,426,964)
Provision for the period	4,569,257	8,921,127	2,958,837	3,421,420	8,141,728	2,295,705
Effects of movements in exchange rates	288,584	4,175,968	3,158,891	127,663	807,099	1,234,392
Balances at the end of the period	2,803,206	14,035,482	11,497,053	2,098,484	8,398,737	9,667,066

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

As of 31 December 2021 and 2020, movements of non-performing cash loans (Stage 3) are as follows:

	2021		2020	
	Principal	Accrual	Principal	Accrual
Balances at 1 January	14,549,381	679,454	17,722,841	576,736
Addition	3,877,990	530,742	2,237,281	116,359
Collection	(3,389,182)	(28,949)	(3,066,143)	(26,965)
Debt sales and write-offs/downs (*)	(4,020,527)	(29,809)	(4,462,251)	(19,067)
Effects of movements in exchange rates	5,077,646	57,752	2,117,653	32,391
Balances at the end of the period	16,095,308	1,209,190	14,549,381	679,454

(*) *Details regarding write-offs/downs are disclosed in Financial Risk Management "Write-off/down policy" section.*

The credit quality analysis of factoring receivables, including related income accruals, is as follows as of 31 December 2021 and 2020:

	2021			2020		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	4,107,601	-	-	2,741,043	-	-
Stage 2: Watch list	-	4,439	-	-	22,280	-
Stage 3.1: Substandard	-	-	12,415	-	-	3,821
Stage 3.2: Doubtful	-	-	6,872	-	-	4,069
Stage 3.3: Loss	-	-	49,416	-	-	124,349
Total factoring receivables	4,107,601	4,439	68,703	2,741,043	22,280	132,239
Income accrual on factoring receivables	35,857	-	-	31,007	-	-
Expected credit losses	(11,426)	(35)	(58,951)	(10,517)	(7,642)	(119,562)
Total carrying amount	4,132,032	4,404	9,752	2,761,533	14,638	12,677

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

The movements of expected credit losses per asset class for factoring receivables as of 31 December 2021 and 2020 are as follows:

	2021			2020		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	10,517	7,642	119,562	4,824	7,015	313,568
Transfer to Stage 1	-	-	-	98	(1)	(97)
Transfer to Stage 2	(3)	3	-	(24)	24	-
Transfer to Stage 3	-	-	-	(31)	-	31
Debt sales and write-offs/downs	-	-	-	-	-	(273,507)
Recoveries and reversals	(7,374)	(7,642)	(92,827)	(2,277)	(670)	(4,508)
Provision for the period	8,286	32	22,312	7,931	1,274	20,019
Effects of movements in exchange rates	-	-	9,904	(4)	-	64,056
Balances at the end of the period	11,426	35	58,951	10,517	7,642	119,562

As of 31 December 2021 and 2020, movements of non-performing factoring receivables (Stage 3) are as follows:

	2021	2020
Balances at 1 January	132,239	339,758
Addition	32,877	10,352
Collection	(19,884)	(9,457)
Debt sales and write-offs/downs *(*)*	(86,433)	(273,507)
Effects of movements in exchange rates	9,904	65,093
Balances at the end of the period	68,703	132,239

(*) *Details regarding write-offs/downs are disclosed in Financial Risk Management "Write-off/down policy" section.*

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

The financial leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease. The receivables are secured by way of the underlying assets. Loans and advances to customers include the following financial lease receivables:

	2021	***2020***
Financial lease receivables, net of unearned income	11,542,780	6,665,314
Add: non-performing financial lease receivables(*)	971,295	757,238
Less: expected credit losses on financial lease receivables	(1,014,257)	(640,278)
	11,499,818	6,782,274
Income accrual on financial lease receivables	77,131	40,957
Analysis of net financial lease receivables		
Due within 1 year	5,239,910	3,086,210
Due between 1 and 5 years	7,372,761	4,310,601
Due after 5 years	270,385	183,089
Financial lease receivables, gross	12,883,056	7,579,900
Unearned income	(1,383,238)	(797,626)
Financial lease receivables, net	11,499,818	6,782,274
Analysis of net financial lease receivables		
Due within 1 year	4,542,833	2,690,223
Due between 1 and 5 years	6,697,940	3,917,511
Due after 5 years	259,045	174,540
Financial lease receivables, net	11,499,818	6,782,274

(*) *Includes related income accruals.*

The credit quality analysis of financial lease receivables including related income accruals is as follows as of 31 December 2021 and 2020:

		2021			***2020***	
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	9,982,305	-	-	5,655,946	-	-
Stage 2: Watch list	-	1,560,475	-	-	1,009,368	-
Stage 3.1: Substandard	-	-	753,220	-	-	482,004
Stage 3.2: Doubtful	-	-	15,305	-	-	26,777
Stage 3.3: Loss	-	-	199,935	-	-	245,417
Total financial lease receivables	9,982,305	1,560,475	968,460	5,655,946	1,009,368	754,198
Income accrual on financial lease receivables	70,777	6,354	2,835	2,689	38,268	3,040
Expected credit losses	(91,544)	(293,683)	(629,030)	(53,733)	(158,089)	(428,456)
Total carrying amount	9,961,538	1,273,146	342,265	5,604,902	889,547	328,782

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to customers (continued)

The movements of expected credit losses per asset class for financial lease receivables as of 31 December 2021 and 2020 are as follows:

	2021			2020		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balances at 1 January	53,733	158,089	428,456	34,985	93,045	440,835
Transfer to Stage 1	37,105	(35,330)	(1,775)	25,946	(25,163)	(783)
Transfer to Stage 2	(8,157)	10,061	(1,904)	(7,710)	9,602	(1,892)
Transfer to Stage 3	(11)	(26,438)	26,449	(8)	(12,676)	12,684
Debt sales and write-offs/downs	-	-	(29,630)	-	-	(117,814)
Recoveries and reversals	(110,606)	(96,060)	(79,965)	(71,190)	(59,102)	(80,147)
Provision for the period	95,028	189,511	93,524	62,577	125,722	106,866
Effects of movements in exchange rates	24,452	93,850	193,875	9,133	26,661	68,707
Balances at the end of the period	91,544	293,683	629,030	53,733	158,089	428,456

As of 31 December 2021 and 2020, movements of non-performing financial lease receivables (Stage 3) are as follows:

	2021		2020	
	Principal	Accrual	Principal	Accrual
Balances at 1 January	754,198	3,040	854,270	16,781
Addition	87,704	75	89,132	651
Collection	(172,187)	(1,487)	(223,531)	(1,580)
Debt sales and write-offs/downs	(29,630)	-	(119,703)	(13,404)
Effects of movements in exchange rates	328,375	1,207	154,030	592
Balances at the end of the period	968,460	2,835	754,198	3,040

(Currency: Thousands of Turkish Lira (TL))

8 Investment securities

	2021				2020
	Face value	***Carrying value***	***Interest rate range %***	***Latest maturity***	***Carrying value***
Debt and other instruments at FVOCI:					
Government bonds indexed to CPI ***(a)***	9,880,078	21,638,204	1-4	2031	13,251,216
Bonds issued by foreign governments	8,771,907	9,152,893	1-4	2028	4,364,947
Eurobonds	9,434,914	9,125,808	1-12	2034	8,091,930
Government bonds in TL	9,147,555	7,615,851	15-20	2030	6,708,545
Government bonds at floating rates ***(b)***	5,496,582	5,454,145	15-18	2028	1,172,822
Bonds issued by corporations	746,515	765,949	1-2	2022	253,932
Government bonds-discounted	784,688	748,952	9	2022	1,278,603
Bonds issued by financial institutions	895,944	656,328	1-3	2022	214,576
Government bonds in FC	66,816	67,013	3-3	2024	1,136,198
Total debt and other instruments at FVOCI		55,225,143			36,472,769
Debt and other instruments at amortised cost					
Eurobonds	15,539,689	16,996,335	5-12	2030	9,990,940
Government bonds indexed to CPI ***(a)***	6,908,400	8,830,728	1-3	2027	9,070,950
Government bonds at floating rates ***(b)***	3,155,599	3,050,213	16-18	2027	4,676,500
Government bonds in TL	2,497,200	2,404,328	7-16	2027	2,555,465
Bonds issued by foreign governments	135,930	135,681	1	2022	95,090
Government bonds-discounted	112,800	116,267	18-18	2023	500,943
Bonds issued by financial institutions	2,043,365	87,578	1-17	2023	65,545
Government bonds in FC	-	-	5-12	2030	362,120
		31,621,130			27,317,553
Income accrual on amortised cost portfolio		8,545,917			5,921,358
Total debt and other instruments at amortised		40,167,047			33,238,911
Expected credit losses on amortised cost portfolio		(47,183)			(167,283)
Total investment securities		95,345,007			69,544,397

(a) *The Bank values CPI-indexed government bonds in its securities portfolio according to the reference index on the issue date and the index that is calculated according to the expected inflation rate. The inflation rate used during the valuation is being updated during the year when it is considered necessary. As of 31 December 2021, the valuation of such securities was made according to annual inflation as of balance sheet date.*

(b) *The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.*

Interest income from debt and other fixed or floating instruments is reflected in interest on securities, whereas, gains and losses arising from changes in the fair values of debt and other instruments measured at FVOCI are accounted as a separate component of equity.

(Currency: Thousands of Turkish Lira (TL))

8 Investment securities (continued)

The credit quality analysis of investment securities measured at FVOCI is as follows as of 31 December 2021 and 2020:

	2021			*2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	55,225,143	-	-	36,472,769	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-		-	-	
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	-	-	-	-	-	-
Total carrying amount	55,225,143	-	-	36,472,769	-	-

As of 31 December 2021, expected credit losses amounting to TL 52,353 (31 December 2020: TL 164,180) are recognised under other comprehensive income for debt and other instruments measured at FVOCI.

The credit quality analysis of investment securities measured at amortised cost is as follows as of 31 December 2021 and 2020:

	2021			*2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	40,167,047	-	-	33,238,911	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	(47,183)	-	-	(167,283)	-	-
Total carrying amount	40,119,864	-	-	33,071,628	-	-

The movements of expected credit losses per asset class for investment securities measured at amortised cost as of 31 December 2021 and 2020 are as follows:

	2021			*2020*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January	167,283	-	-	119,889	-	-
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Recoveries and reversals	(157,338)	-	-	(219,538)	-	-
Provision for the period	21,557	-	-	247,825	-	-
Effects of movements in exchange rates	15,681	-	-	19,107	-	-
Balances at the end of the period	47,183	-	-	167,283	-	-

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 10,288,526 (31 December 2020: TL 294,199).

(Currency: Thousands of Turkish Lira (TL))

8 Investment securities (continued)

The following table summarizes securities that were deposited as collateral with respect to various banking, insurance and asset management transactions:

	2021		2020	
	Face value	*Carrying value*	*Face value*	*Carrying value*
Collateralized to foreign banks	20,054,078	21,760,313	5,952,281	7,341,955
Deposited at central banks for repurchase Transactions	6,501,442	10,227,601	266,508	301,643
Deposited at central banks for interbank transactions	11,044,326	18,812,777	14,530,771	21,553,800
Deposited at Clearing Bank (Takasbank)	2,668,338	3,719,504	1,488,571	2,225,849
Deposited at Borsa Istanbul	21,503	60,925	-	-
Others		632,551		201,227
		55,213,671		31,624,474

9 Equity investments

	2021		2020	
	Carrying value	*Ownership %*	*Carrying value*	*Ownership %*
Equity investments measured at FVOCI:				
Visa Inc.	433,583	0.00	246,647	0.00
İstanbul Takas ve Saklama Bankası AŞ	26,096	5.25	26,096	5.25
Others	119,172		92,116	
	578,851		364,859	

10 Assets held for sale

An asset (or a disposal group) classified as asset held for sale is measured at lower of carrying value or fair value less costs to sell. An asset (or a disposal group) is regarded as asset held for sale only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. For a highly probable sale, there must be a valid plan prepared by the management for the sale of asset including identification of possible buyers and completion of sale process. Furthermore, the asset should be actively marketed at a price consistent with its fair value.

Assets held for sale consist of tangible assets and investments in associates to be disposed that were acquired against non-performing receivables.

As of 31 December 2021 and 2020, movements in tangible assets held for sale are as follows:

	2021	2020
Balance at the beginning of the period	931,753	1,159,058
Additions	226,380	175,246
Disposals	(604,722)	(433,880)
Fair value changes	25,089	23,890
Effects of movement in exchange rates	7,448	7,439
Balance at the end of the period	585,948	931,753

(Currency: Thousands of Turkish Lira (TL))

10 Assets held for sale (continued)

As of 31 December 2021 and 2020, movements in investments in associates to be disposed are as follows:

	2021	2020
Balance at the beginning of the period	-	293,200
Additions (*)	-	-
Disposals	-	-
Fair value changes	-	(293,200)
Effects of movement in exchange rates	-	-
Balance at the end of the period	-	-

(*)Within the context of the existing loan agreements, all creditors including the Bank have reached an agreement on restructuring the loans granted to Ojer Telekomünikasyon A.Ş. (OTAŞ) who is the main shareholder of Türk Telekomünikasyon A.Ş. (Türk Telekom) and it is foreseen that Türk Telekom's number of 192.500.000.000 A group shares owned by OTAŞ, representing 55% of its issued share capital corresponding to A group shares have been pledged as a guarantee for the existing facilities would be taken over by a special purpose entity which is incorporated or will be incorporated in the Turkish Republic, and owned by directly or indirectly by all creditors. As per the agreed structure, it is agreed on the corresponding agreements, completed all required corporate and administrative permissions and the transaction is concluded by a transfer of the aforementioned shares to the special purpose entity incorporated in the Turkish Republic, and owned by directly or indirectly by all creditors. In this context, the Bank owned 22.1265% of the founded special purpose entity and the related investment is considered within the scope of IFRS 5 "Assets Held for Sale and Discontinued Operations".

As per the decision made at the 2018 annual general assembly of related special purpose entity, it was decided to increase the capital of the special purpose entity by TL 3,982,230, all of which will be covered by common receivables. The Entity's paid-in capital after the general assembly had been TL 3,982,280. The Bank's shareholding ratios in the Entity's capital did not change as a result of the increase, and the nominal value of the direct shares increased from TL 11 to TL 881,140 and the number of shares increased from 1,106,325 to 88,114,036,863. The fair valuation differences over the financial asset are presented as impairment on the assets held for sale after the capital increase. In the current year, all of the asset considered under IFRS 5 was impaired.

The main purpose is to transfer the shares of Türk Telekom to an expert investor after the necessary conditions are met. For this purpose, on 19 September 2019, an international investment bank was authorized as a sales consultant, and in this context necessary actions related to sales will be taken and negotiations with potential investors started within the framework of an active sales plan.

In accordance with the Bank's announcement on Public Disclosure Platform dated 17 December 2021, LYY Telekomunikasyon A.Ş. and the Türkiye Wealth Fund have started to negotiate for the sale of 192.500.000.000 Group A registered shares representing 55% of the share capital of Türk Telekomünikasyon A.Ş. owned by LYY Telekomünikasyon A.Ş.

11 Investment properties

As of 31 December 2021 and 2020, movements in investment properties are as follows:

	2021	2020
Balance at the beginning of the period	319,638	335,539
Additions	-	441
Transfers from tangible assets	68,660	24,225
Disposals	(23,930)	(81,929)
Fair value changes	32,246	41,362
Effects of movement in exchange rates	-	-
Balance at the end of the period	396,614	319,638

The investment properties are held for rental purposes.

(Currency: Thousands of Turkish Lira (TL))

12 Tangible and intangible assets

Movement in tangible and intangible assets from 1 January to 31 December 2021 is as follows:

2021	***1 January***	***Additions***	***Effects of movement in exchange rates***	***Revaluation Surplus***	***Disposals And Transfer***	***31 December***
Costs						
Land and buildings	4,333,622	9,281	192,166	27,356	(68,511)	4,493,914
Furniture, fixture, equipments and motor vehicles	5,647,851	1,965,365	292,677	-	(891,009)	7,014,884
Right of use assets	1,632,307	381,843	141,912	-	(326,417)	1,829,645
Leasehold improvements	835,145	35,622	86,149	-	(38,896)	918,020
Software and other intangible assets	1,570,300	476,701	146,687	-	(11,229)	2,182,459
	14,019,225	2,868,812	859,591	27,356	(1,336,062)	16,438,922
Less: Accumulated depreciation						
Buildings	164,354	59,042	7,393	-	-	230,789
Furniture, fixture, equipments and motor vehicles	2,243,228	400,828	209,366	-	(304,786)	2,548,636
Right of use assets	633,540	330,003	72,824	-	(101,517)	934,850
Leasehold improvements	711,177	59,419	86,287	-	(36,678)	820,205
Software and other intangible assets	952,274	194,199	101,933	-	(31,591)	1,216,815
	4,704,573	1,043,491	477,803	-	(474,572)	5,751,295
Construction in progress	1,672	1,187	655	-	(1,740)	1,774
	9,316,324	1,826,508	382,443	27,356	(863,230)	10,689,401
Impairment in value of tangible and intangible assets	(121,670)					(122,375)
	9,194,654					10,567,026

Movement in tangible and intangible assets from 1 January to 31 December 2020 is as follows:

2020	***1 January***	***Additions***	***Effects of movement in exchange rates***	***Revaluation Surplus***	***Disposals And Transfer***	***31 December***
Costs						
Land and buildings	3,880,977	32,672	81,362	372,883	(34,272)	4,333,622
Furniture, fixture, equipments and motor vehicles	4,496,084	2,063,018	131,066	-	(1,042,317)	5,647,851
Right of use assets	1,391,244	575,406	46,851	-	(381,194)	1,632,307
Leasehold improvements	783,615	29,513	36,431	-	(14,414)	835,145
Software and other intangible assets	1,216,538	319,258	53,963	-	(19,459)	1,570,300
	11,768,458	3,019,867	349,673	372,883	(1,491,656)	14,019,225
Less: Accumulated depreciation						
Buildings	169,767	52,368	2,684	(55,769)	(4,696)	164,354
Furniture, fixture, equipments and motor vehicles	2,187,717	354,594	82,372	-	(381,455)	2,243,228
Right of use assets	324,794	346,095	15,611	-	(52,960)	633,540
Leasehold improvements	614,286	71,636	36,081	-	(10,826)	711,177
Software and other intangible assets	751,718	171,574	32,534	-	(3,552)	952,274
	4,048,282	996,267	169,282	(55,769)	(453,489)	4,704,573
Construction in progress	2,078	2,803	288	-	(3,497)	1,672
	7,722,254					9,316,324
Impairment in value of tangible and intangible assets	(41,388)					(121,670)
	7,680,866					9,194,654

(Currency: Thousands of Turkish Lira (TL))

12 Tangible and intangible assets (continued)

Depreciation expenses of tangible assets for the year ended 31 December 2021 amounted to TL 986,352 (31 December 2020: TL 925,672) excluding the depreciation expenses of operational lease business.

As of 31 December 2021, TL 45,482 (31 December 2020: TL 70,595) of depreciation expenses of subsidiaries in operational lease business is netted-off with the net sales of the companies.

For the year ended 31 December 2021, the revaluation model effect, net of deferred tax, for real estates under tangible and intangible assets amounting to TL 2,185,693 was accounted under shareholders' equity (31 December 2020: TL 2,106,936).

As of 31 December 2021, if the real estates were accounted based on cost model instead of revaluation model, the net carrying value would be TL 2,679,070 (31 December 2020: TL 2,892,458).

As of 31 December 2021, cumulative impairment for land and buildings are TL 122,375 (31 December 2020: TL 121,670) and TL 705 was provisioned (31 December 2020: TL 80,282) as per the valuation study performed in accordance with IAS 36.

13 Goodwill

Goodwill arises from the direct acquisitions of Garanti Yatırım Menkul Kıymetler AŞ, Garanti Finansal Kiralama AŞ, Garanti Emeklilik ve Hayat AŞ and Garanti Faktoring AŞ consisting of the excesses of the total acquisition costs over the fair values of the net assets of these consolidated entities at the dates of their acquisition as follows:

	2021	***2020***
Garanti Yatırım Menkul Kıymetler AŞ	20,984	20,984
Garanti Faktoring AŞ	6,697	6,697
Garanti Finansal Kiralama AŞ	5,233	5,233
Garanti Emeklilik ve Hayat AŞ	34	34
	32,948	32,948
Impairment of goodwill	-	-
	32,948	32,948

Impairment losses when necessary are provided for decrease in the net asset value of the consolidated entities by assessing their internal and external resources.

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. The recoverable amount of goodwill has been determined based on value in use calculations, using cash flow projections based on IFRS financial budgets approved by management and on strategic plans covering a five year period.

Based on the analysis performed, management believes that there is no indication for an impairment for goodwill at 31 December 2021 (31 December 2020: nil).

(Currency: Thousands of Turkish Lira (TL))

14 Other assets

	2021	2020
Balances with clearing house	7,550,499	4,847,996
Miscellaneous receivables	6,456,689	1,176,355
Gold	4,488,227	1,320,586
Prepaid expenses, insurance claims and similar items	3,218,852	2,109,131
Receivables from securities lending market	106,592	173,248
Receivables from sale of assets	105,137	148,382
Prepaid taxes and taxes/funds to be refunded	101,438	211,757
Insurance premium receivables	88,625	62,565
Option premium receivables	5,365	681
Purchased cheques	1,708	881
Others	1,363,307	411,313
	23,486,439	10,462,895
Expected credit losses for other assets	(111,352)	(93,520)
	23,375,087	10,369,375

The credit quality analysis of other assets excluding gold, prepaid taxes and option premium receivables is as follows as of 31 December 2021 and 2020:

	2021			2020		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	18,748,730	-	-	8,824,669	-	-
Stage 2: Watch list	-	27,287	-	-	23,374	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	4,935	-	-	6,661
Stage 3.3: Loss	-	-	110,457	-	-	75,167
Expected credit losses	(11,323)	(7,102)	(92,927)	(18,218)	(5,892)	(69,410)
Total carrying amount	18,737,407	20,185	22,465	8,806,451	17,482	12,418

The movements of expected credit losses per asset class for other assets excluding gold, prepaid taxes and option premium receivables as of 31 December 2021 and 2020 are as follows:

	2021			2020		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balances at 1 January	18,218	5,892	69,410	56,191	4,155	60,985
Transfer to Stage 1	371	(366)	(5)	300	(268)	(32)
Transfer to Stage 2	(182)	182	-	(337)	408	(71)
Transfer to Stage 3	(4)	(3)	7	(58)	(164)	222
Transfer from prior year provision	-	-	-	-	-	-
Debt sales and write-offs	-	-	(890)	-	-	(869)
Recoveries and reversals	(26,927)	(6,013)	(12,076)	(148,326)	(3,517)	(12,731)
Provision for the period	18,040	5,355	8,640	109,509	4,595	10,226
Effects of movements in exchange rates	1,807	2,055	27,841	939	683	11,680
Balances at the end of the period	11,323	7,102	92,927	18,218	5,892	69,410

(Currency: Thousands of Turkish Lira (TL))

15 Deposits from banks

Deposits from banks comprise the following:

	2021	2020
Payable on demand	1,770,159	733,952
Term deposits	686,312	619,561
	2,456,471	1,353,513
Expense accrual on deposits from banks	759	242
	2,457,230	1,353,755

Deposits from banks include both TL accounts amounting to TL 774,137 (31 December 2020: TL 714,343) and foreign currency accounts amounting to TL 1,682,334 (31 December 2020: TL 639,170) in total. As of 31 December 2021, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 7%-19% and 1%-2% (31 December 2020: 7%-16% and (0.30)%-1%), respectively.

16 Deposits from customers

Deposits from customers comprise the following:

	2021			2020
	Demand	Time	Total	Total
Foreign currency	210,953,740	158,444,771	369,398,511	192,927,331
Saving	30,816,929	75,059,073	105,876,002	83,473,888
Commercial	17,703,709	40,456,484	58,160,193	51,291,274
Public and other	2,375,244	8,768,216	11,143,460	6,082,954
Gold and other precious metals	31,632,551	1,289,607	32,922,158	21,923,926
	293,482,173	284,018,151	577,500,324	355,699,373
Expense accrual on deposits from customers	6,558	1,927,253	1,933,811	699,245
	293,488,731	285,945,404	579,434,135	356,398,618

As of 31 December 2021, interest rates applicable to TL deposits and foreign currency deposits vary within the ranges of 3%-26% and (0.59)%-5% (31 December 2020: 1%-23% and (0.16)%-7%), respectively.

(Currency: Thousands of Turkish Lira (TL))

17 Loans and advances from banks and other institutions

Loans and advances from banks and other institutions comprise the following:

	2021	2020
Short-term borrowings		
Domestic banks	3,484,380	3,643,156
Foreign banks	11,976,683	6,563,131
	15,461,063	10,206,287
Long-term debts		
Short-term portion	19,031,744	7,485,686
Medium and long-term portion	10,011,076	9,763,314
	29,042,820	17,249,000
Expense accrual on loans and advances from banks and other institutions	340,863	111,632
	44,844,746	27,566,919

As of 31 December 2021, there are no promissory notes with short-term maturities (31 December 2020: nil).

As of 31 December 2021, short-term borrowings included two one-year-syndicated-loan facilities to be utilised for general trade finance purposes including export and import contracts in two tranches of (i) USD 279,000,000 and EUR 294,000,000 with rates of Libor + 2.13% and Euribor +1.89% per annum (equivalent of TL 8,018,259), (ii) USD 365,000,000 and EUR 247,000,000 with rates of Libor + 1.8% and Euribor + 1.4% per annum (equivalent of TL 8,446,401).

As of 31 December 2020, short-term borrowings included two one-year-syndicated-loan facilities to be utilised for general trade finance purposes including export and import contracts in two tranches of (i) USD 245,500,000 and EUR 317,000,000 with rates of Libor + 1.9% and Euribor +1.65% per annum (equivalent of TL 4,681,591), (ii) USD 267,500,000 and EUR 332,000,000 with rates of Libor + 2.1% and Euribor + 1.85% per annum (equivalent of TL 4,979,746).

(Currency: Thousands of Turkish Lira (TL))

17 Loans and advances from banks and other institutions (continued)

Long-term debts comprise the following:

	2021					2020
	Interest rate%	*Interest maturity*	*Amount in original currency*	*Short term portion*	*Medium and long term portion*	*Medium and long term debts*
EIB	3-4	2024	USD 169 millions	41,381	2,173,012	1,248,165
Proparco	2-3	2028	EUR 87 millions	234,442	1,054,988	786,180
ISBANK AG	2-3	2023	EUR 46 millions	579,039	103,936	279,245
IFC	2	2024	EUR 44 millions	329,317	329,199	401,660
EIB	1-2	2023	EUR 22 millions	165,530	165,530	201,930
AKBANK AG	3	2022	EUR 21 millions	311,808	-	189,166
EFSE	2-3	2024	EUR 20 millions	218,407	80,591	182,102
EBRD	2	2024	EUR 18 millions	-	262,783	-
EBRD	1-4	2025	USD 10 millions	18,484	111,676	36,466
EBRD	20	2023	TL 116 millions	-	115,929	193,214
IFC	4-5	2023	RON 17 millions	20,402	20,402	25,291
Others				17,112,934	5,593,030	6,219,895
				19,031,744	10,011,076	9,763,314

18 Obligations under repurchase agreements and money market fundings

The Bank and its subsidiaries raise 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-bearing assets, depending on the prevailing interest rates.

Obligations under repurchase agreements and money market fundings comprise the following:

	2021	2020
Money market fundings	1,688,547	979,748
Obligations under repurchase agreements	14,254,242	2,184,230
	15,942,789	3,163,978

(Currency: Thousands of Turkish Lira (TL))

18 Obligations under repurchase agreements and money market fundings (continued)

Assets sold under repurchase agreements are further detailed as follows:

	Carrying value	*Fair value of underlying assets*	*Carrying amount of corresponding liabilities*	*Range of repurchase dates*	*Repurchase price*
2021					
Financial assets at fair value through profit or loss	-	-	-	-	-
Investment securities	14,904,988	15,143,280	14,254,242	Jan'22-Feb'25	14,291,758
	14,904,988	15,143,280	14,254,242		14,291,758
2020					
Financial assets at fair value through profit or loss	7,444	7,444	6,739	-	6,732
Investment securities	2,273,480	2,270,940	2,177,491	Jan'21-Feb'25	2,151,192
	2,280,924	2,278,384	2,184,230		2,157,924

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As of 31 December 2021, the maturities of the obligations varied from one day to 38 months and interest rates varied between (0.50)%-3% per annum for foreign currency obligations and 1%-23% per annum for TL obligations (31 December 2020: (0.50)%-3% and 1%-19%, respectively). In general the carrying values of such assets are more than the corresponding liabilities due to the margins set between the parties, since such funding is raised against assets collateralized.

19 Debt securities issued

	2021			***2020***
	Latest maturity	*Interest rate %*	*Amount*	*Amount*
Bonds payable of USD 1,375 millions	2024	2.4-5.9	15,550,779	12,237,714
Bonds payable of TL 7,144 millions	2023	11.8-18.5	5,767,202	6,015,120
Bonds payable of EUR 45 millions	2027	5.2	665,531	405,255
Total bonds payable			21,983,512	18,658,089
DPR future flow transactions of USD 246 millions	2027	2.8-3.3	3,222,155	2,946,000
DPR future flow transactions of EUR 19 millions	2022	0.3-0.9	282,502	918,831
Total DPR future flow transactions			3,504,657	3,864,831
Expense accrual on bonds payable			278,993	274,432
Expense accrual on DPR future flow transactions			19,091	19,729
			25,786,253	22,817,081

In April 2013, the Bank established a Global Medium Term Notes (GMTN) program in order to issue bonds and other borrowing instruments in any currency with different series and maturities. In this regard, since May 2013 the Bank issues bills in USD, EUR, CHF, RON, CZK, JPY and AUD with latest maturity in April 2027.

(Currency: Thousands of Turkish Lira (TL))

19 Debt securities issued (continued)

The Bank's consolidated subsidiaries repurchased the Bank's own TL securities with a total face value of TL 1,366,573 and foreign currency securities with a total face value of USD 186,897,575 (31 December 2020: TL 1,581,953 and USD 215,966,090) and netted off such securities in the accompanying consolidated financial statements as of 31 December 2021.

20 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise the following:

	2021	**2020**
Securities issued	24,183,368	16,137,939
	24,183,368	16,137,939

In accordance with IFRS 9, the Bank classified a part of securities issued amounting to USD 2,112,303,572 (31 December 2020: USD 2,323,462,798) as financial liabilities at fair value through profit or loss at the initial recognition in order to eliminate the accounting mismatch.

As of 31 December 2021, the accumulated fair value change of the related financial liability amounted to TL 3,769,054 (31 December 2020: TL 1,265,467) and the corresponding gain/loss recognised in the statement of profit or loss and other comprehensive income amounted to TL 2,503,587 (31 December 2020: TL 540,161). The carrying value of the related financial liability amounted to TL 24,183,368 (31 December 2020: TL 16,137,939).

21 Derivative financial liabilities

Derivative financial liabilities mainly consist of foreign currency and interest rate swaps, foreign currency options and forward foreign currency contracts.

	2021		**2020**	
	Trading	***Hedging***(*)	***Trading***	***Hedging***(*)
Swap derivative financial liabilities	10,590,998	768,180	7,396,233	899,773
Forward derivative financial liabilities	1,907,328	3,984	160,436	846
Option derivative financial liabilities	156,831	-	77,563	-
Future derivative financial liabilities	933	-	28	-
Other derivative financial liabilities	481	-	1,114	-
	12,656,571	772,164	7,635,374	900,619

(*) *Includes derivative transactions subject to cash flow and fair value hedge accounting amounted to TL 380,416 (31 December 2020: TL 405,361) and TL 391,748 (31 December 2020: TL 495,258), respectively.*

The notional amounts of derivative financial liabilities are explained in detail in Note 28.

(Currency: Thousands of Turkish Lira (TL))

22 Subordinated liabilities

Subordinated liabilities comprise the following:

	2021			2020
	Latest maturity	*Interest rate %*	*Amount*	*Amount*
Subordinated debt of USD 750 million	2027	6.125	9,819,750	5,535,000
Subordinated debt of TL 253 million	2029	TL REF+ 130 bps	252,880	252,880
Subordinated debt of TL 750 million	2030	TL REF+ 250 bps	750,000	750,000
Expense accrual on subordinated liabilities			88,875	61,089
			10,911,505	6,598,969

On 23 May 2017, the Bank had obtained a 10-year subordinated loan of USD 750 million due in May 2027 with its first Basel III compliant Tier 2 issuance from international capital markets, with a coupon rate of 6.125%.

On 9 October 2019, the Bank issued a subordinated loan with quarterly variable coupon payments based on BIST TLREF, a total face value of TL 252,880 and a maturity of 10 years.

On 14 February 2020, the Bank issued a subordinated loan with quarterly variable coupon payments based on BIST TLREF, a total face value of TL 750,000 and a maturity of 10 years.

23 Taxation

While corporate earnings are subject to corporate tax at the rate of 20% in Turkey; in accordance with the regulation introduced by the Law No. 7316 on the “Procedure for Collection of Public Receivables and the Law Amending Some Laws”, this rate has been determined to be applied as 25% for the corporate earnings for the taxation periods of 2021.

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

Under the Turkish taxation system, 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 prior years. There is no procedure for a final and definite agreement on tax assessments.

75% of earnings generated through sale of equity shares, founders’ shares, redeemed shares and pre-emption rights and 50% of earnings generated through sale of real estates held at least for two years by the institutions are exempt from the corporate tax with the conditions that such earnings shall be held in a special reserve account under equity until the end of five years following the year of sale and shall be collected as cash until the end of the following two fiscal years.

23 Taxation (continued)

All earnings generated through transfer of equity shares, founders' shares, redeemed shares and pre-emption rights by the companies being under legal proceedings or guarantor and mortgage provider of such companies, to banks, financial leasing companies and finance companies or the Savings Deposit Insurance Fund in connection with liquidation of their liabilities and earnings of banks, financial leasing companies and finance companies through sale of immovable part of such assets or other items are exempt from corporate tax at the rate of 50% and 75%, respectively.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, the taxation charge, as reflected in the accompanying consolidated financial statements, represents the total amount of the taxation charge of each subsidiary.

As of 31 December 2021, the conditions sought for inflation adjustment in the calculation of corporate tax have been fulfilled, within the framework of the repeated provision of Article 298/A of the Tax Procedure Law. These conditions are both the exceed in the increase of Producer Price Index in the last 3 accounting period including current period by 100% and the exceed in the increase in the current period by 10%. However, temporary article 33 has been added on the Tax Procedure Law No. 213 with the regulation made with the Tax Procedure Law and the Law on Change in Corporate Tax Law No. 7352 published in the Official Gazette No.31734 dated 29 January 2022, the application of inflation adjustment in the calculation of corporate tax was postponed to 2023. According to this, the financial statements for the 2021 and 2022 accounting periods, including the provisional tax periods, will not be subject to inflation adjustment, and for the 2023 accounting period; will not be subject to inflation adjustment as of the provisional tax periods, and the financial statements dated 31 December 2023 will be subject to inflation adjustment regardless of whether the inflation adjustment conditions are met or not. Profit/loss difference arising from inflation adjustment in the financial statements will be shown in previous years' profit/loss accounts and will not affect the corporate tax base.

Tax applications for foreign branches

NORTHERN CYPRUS

According to the Corporate Tax Law of the Turkish Republic of Northern Cyprus no.41/1976 as amended, the corporate earnings (including foreign corporations) are subject to a 10% corporate tax and 15% income tax. This tax is calculated based on the income that the taxpayers earn in an accounting period. Tax base is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The corporations cannot benefit from the rights of offsetting losses, investment incentives and amortisation unless they prepare and have certified their balance sheets, income statements and accounting records used for tax calculations by an auditor authorized by the Ministry of Finance. In cases where it is revealed that the earnings of a corporation were not subject to taxation in prior years or the tax paid on such earnings are understated, additional taxes can be charged in the next seven years following that the related taxation period. The corporate tax returns are filed in the tax administration office in April after following the end of the accounting year to which they relate. The corporate taxes are paid in two equal installments in May and October. According to the Decision of the TRNC Council of Ministers dated 25 March 2020, the prepaid taxes are calculated and paid at the rate of 15% tax on quarterly commercial earnings of the related year. The prepayments can be deducted from the annual corporate tax calculated for the whole year earnings.

MALTA

The corporate earnings are subject to a 35% corporate tax. This rate is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The earnings of the foreign corporations' branches in Malta are also subject to the same tax rate that the resident corporations in Malta are subject to. The earnings of such branches that are transferred to their head offices are not

23 **Taxation** (continued)

subject to an additional tax. The taxes payable is calculated by the obligating firm and the calculation is presented in the tax declaration form that is due till the following year's month of November.

Tax applications for foreign subsidiaries

THE NETHERLANDS

In the Netherlands, corporate income tax is levied at the rate of 16.5% for tax profits up to EUR 200,000 and 25% for the excess part over this amount on the worldwide income of resident companies which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the related year. These rates will be applied as 16.5% and 25% in 2020, as 15% and 21.7% in 2021. Based on the unilateral decree for the avoidance of double taxation between Turkey and The Netherlands, the dividend taxation is nil as of 1 January 2018 under certain conditions. Under the Dutch taxation system, tax losses can be carried forward to offset against future taxable income for six years. Tax losses can be carried back to the prior year. Companies must file their tax returns within five months following the end of the tax year to which they relate, unless the company applies for an extension (normally an additional eleven months). Tax returns are open for five years from the date of final assessment of the tax return 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 re-assessments based on their findings. The corporate income tax for the Germany branch is 30%.

ROMANIA

The applicable corporate tax rate in Romania is 16%. The taxation system in Romania is continuously developing and is subject to varying interpretations and constant changes, which may become rarely retroactive. In Romania, tax periods remain open for tax audits for maximum seven years, depending on the reporting year. Tax losses can be carried forward to offset against future taxable income for seven years.

Starting form 1 January 2019, based on the Government Emergency Ordinance no. 114/2018 ("GEO"), as modified by the GEO no. 19/2019, banking institutions defined as credit institutions, Romanian legal entities and Romanian branches of nonresident credit institutions became subject to the tax on certain financial asset groups. The tax on financial assets is computed by applying a tax rate on the total value of the taxpayer's certain financial asset groups, existing at the end of the computation semester, recorded as per the applicable accounting regulations. The tax rate applied shall be 0.4% or 0.2% per annum, depending on the bank's market share greater than or equal, or lower than 1%, respectively. At the same time, the value of the tax may not exceed the accounting profit realized by the bank before calculating the tax on assets. In addition, no tax shall be due by the bank incurring accounting loss before calculating the tax on assets. The first computation and payment of the tax was realised on 25 August 2019. The Ordinance provides the possibility of reducing the tax due by up to 100%, depending on certain indicators aimed at increasing financial intermediation and /or diminishing the net interest margin for RON denominated loans and deposits.

Starting from 1 January 2020, based on the GEO no. 1/2020, the tax on financial assets ceased to be effective. According to Romanian legislation, a GEO should be approved by the Parliament through a Law within 2 years since the GEO issuing.

(Currency: Thousands of Turkish Lira (TL))

23 Taxation (continued)

The total provision for taxes on income is different than the amount computed by applying the Turkish statutory tax rate to income before provision for taxes as shown in the following reconciliation:

	2021	%	2020	%
Taxes on income per statutory tax rate	4,649,284	25.0	2,122,210	22.00
Disallowable expenses	59,816	0.32	62,573	0.65
Income items exempt from tax or subject to different tax rates	(219,609)	(1.18)	(126,894)	(1.32)
General reserve	712,500	3.83	473,000	4.90
Others	(183,442)	(0.98)	379,362	3.94
Taxation charge	5,018,549	26.99	2,910,251	30.17

The taxation charge is comprised of the following:

	2021	2020
Current taxes	5,337,766	4,554,500
Deferred taxes	(319,217)	(1,644,249)
Taxation charge	5,018,549	2,910,251

The movement of current tax liability is as follows:

	2021	2020
Balance at the beginning of the period	1,848,100	685,143
Current period taxation charge	5,337,766	4,554,500
Less: Advance taxes paid during the period	(5,063,588)	(3,391,543)
Current tax liability	2,122,278	1,848,100

In accordance with the related regulation for prepaid taxes on income, such advance payments during the year are being deducted from the final tax liability for the period. Accordingly, the taxation charge on income is not equal to the final tax liability appearing on the statement of financial position.

According to the IAS 12 Income Taxes (IAS 12); deferred tax assets and liabilities are recognized, using the balance sheet method, 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 which affect neither accounting nor taxable profit.

As of 31 December 2021, the corporate tax has been determined as 25% for the corporate earnings for the taxation periods of 2021 and as 23% for the corporate earnings for the taxation periods of 2022. As the deferred tax assets or liabilities within the scope of IAS 12 are calculated based on the tax rates (and tax laws) that are effective or close to be effective as of the end of the reporting period (balance sheet date), using the tax rates expected to be applied in the periods when assets are converted into income or liabilities are paid, as of 31 December 2021, the Bank and its consolidated subsidiaries evaluated their assets and liabilities according to their maturities and calculated deferred tax at the rate of 23% or 20% corresponding to the relevant maturities.

(Currency: Thousands of Turkish Lira (TL))

23 **Taxation** (continued)

Deferred tax assets and liabilities are as follows:

	2021	2020
Total deferred tax assets	4,540,530	3,925,165
Off-setted amount	(79,887)	(277,440)
Deferred tax assets per financial statements	4,460,643	3,647,725
Total deferred tax liabilities	484,312	451,653
Off-setted amount	(79,887)	(277,440)
Deferred tax liabilities per financial statements	404,425	174,213
Net deferred tax assets	4,056,218	3,473,512

Movements in deferred tax assets and liabilities are detailed in the table below:

	Opening balance	*Recognised in statement of profit or loss*	*Effects of movement in exchange rates*	*Recognised in equity*	*Closing balance*
2021					
Expected credit losses	2,828,077	2,390,414	9,868	20,100	5,248,459
Discount on loans and advances to customers	98,797	76,475	-	-	175,272
Reserve for employee severance indemnity	151,186	21,266	(73)	15,949	188,328
Short-term employee benefits	135,227	101,309	2,134	-	238,670
Tax losses carried forward	11,651	(12,522)	871	-	-
Valuation difference on financial assets and liabilities	539,078	(2,212,774)	13,114	222,399	(1,438,183)
Revaluation surplus on real estates	(331,751)	(5,599)	(22,776)	3,090	(357,036)
Impairment of equity investments, tangible and intangible assets	29,718	(3,718)	-	-	26,000
Accruals on credit card rewards	43,859	18,338	-	-	62,197
Pro-rata basis depreciation expenses	(156,680)	(139,144)	(2,198)	-	(298,022)
Others, net	124,350	85,172	1,011	-	210,533
Net deferred tax assets	3,473,512	319,217	1,951	261,538	4,056,218

	Opening balance	*Recognised in statement of profit or loss*	*Effects of movement in exchange rates*	*Recognised in equity*	*Closing balance*
2020					
Expected credit losses	1,425,681	1,409,537	1,772	(8,913)	2,828,077
Discount on loans and advances to customers	98,786	11	-	-	98,797
Reserve for employee severance indemnity	108,946	18,121	(49)	24,168	151,186
Short-term employee benefits	148,613	(14,502)	1,116	-	135,227
Tax losses carried forward	99,012	(87,361)	-	-	11,651
Valuation difference on financial assets and liabilities	105,524	333,453	(1,739)	101,840	539,078
Revaluation surplus on real estates	(209,572)	(21,125)	(8,123)	(92,931)	(331,751)
Impairment of equity investments, tangible and intangible assets	13,382	16,336	-	-	29,718
Accruals on credit card rewards	35,792	8,067	-	-	43,859
Pro-rata basis depreciation expenses	(139,196)	(17,484)	-	-	(156,680)
Others, net	134,369	(804)	(9,215)	-	124,350
Net deferred tax assets	1,821,337	1,644,249	(16,238)	24,164	3,473,512

(Currency: Thousands of Turkish Lira (TL))

As of 31 December 2021 and 2020, the maturity of expiration analysis of tax losses subject to deferred tax coming from subsidiaries is as follows:

	2021	2020
which will expire in 2022	-	-
which will expire in 2023	-	11,651
which will expire in 2024	-	-
	-	11,651

24 Provisions

The principal components of provisions are as follows:

	2021	2020
General reserve (*)	7,500,000	4,650,000
Expected credit losses from non-cash loans	2,930,483	2,151,889
Insurance business related provisions	1,363,615	830,536
Short term employee benefits	1,088,431	700,290
Reserve for employee severance indemnity	966,386	782,794
Provisions for litigations	441,419	319,630
Other provisions (**)	468,990	644,380
	14,759,324	10,079,519

(*) *As of 31 December 2021, general reserves amounting to TL 7,500,000 (31 December 2020: TL 4,650,000) are provided by the Bank in line with conservatism principle considering the circumstances which may arise from any changes in economy or market conditions.*

(**) *As of 31 December 2021, it includes provisions for credit card rewards and promotions amounting to TL 292,804 (31 December 2020: TL 233,515).*

Recognised liability for defined benefit obligations

(i) Defined benefit plan

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, was originally set to be within three years from the enactment of the New Law in May 2008, however, has been postponed for two years as per the decision of the Council of Ministers published on 9 April 2011 as further explained below. The actual date of the transfer has not been specified yet. However, in the financial statements for the year ended 31 December 2007, the Bank has modified the accounting required by IAS 19 Employee Benefits as the Bank believes that it is more appropriate to measure the obligation, in respect of the benefits that will be transferred to SSF, at the expected transfer amount prior to the date on which the transfer and settlement will occur. The expected transfer amount is calculated based on the methodology and actuarial assumptions (discount rate and mortality tables) prescribed in the New Law. As such, this calculation measures the liability to be transferred at the expected settlement amount i.e., the expected value of the payment to be made to SSF to assume that obligation.

The obligation with respect to excess benefits is accounted for as a defined benefit plan under IAS 19.

a) Pension and medical benefits transferable to SSF

The first paragraph of the provisional article 23 of Banking Law no. 5411, published in the Official Gazette on 1 November 2005, no. 25983, which requires the transfer of the members of the funds subject to the provisional article 20 of the Social Security Law no.506, and the persons who are paid under insurance coverage for disablement, old-age and mortality and their right-holders to the SSF within three years following the effective date of the related article was cancelled with the decision of

24 Provisions (continued)

the Constitutional Court dated 22 March 2007, no. 2007/33. The reasoned ruling regarding the cancellation of the Constitutional Court was published in the Official Gazette no. 26731, dated 15 December 2007. The Constitutional Court stated that the reason behind this cancellation was the possible loss of antecedent rights of the fund members. Following the publication of the verdict, the Turkish Grand National Assembly ("Turkish Parliament") started to work on the new legal arrangements by taking the cancellation reasoning into account and the articles of the Law no.5754 regulating the principles related with such transfers were accepted and approved by Turkish Parliament on 17 April 2008, and enacted on 8 May 2008 after being published in the Official Gazette no.26870.

As per the Law, the present value of post-employment benefits as at the transfer date for the fund members to be transferred, are to be calculated by a commission composing from the representatives of the SSF, the Ministry of Finance, the Undersecretariat of Treasury, the Undersecretariat of State Planning Organisation, the BRSA, the Savings Deposit Insurance Fund ("SDIF"), the banks and the funds, by using a technical discount rate of 9.80% taking into account the funds' income and expenses as per insurance classes and the transferable contributions and payments of the funds including any salary and income differences paid by the funds above the limits of SSF for such payments. The transfers are to take place within the three-year period starting from 1 January 2008.

Subsequently, the transfer of the contributors and the persons receiving monthly or regular income and their right-holders from such funds established for employees of the banks, insurance and reinsurance companies, trade chambers, stock markets and unions that are part of these organizations subject to the provisional Article no. 20 of the Social Security Law no.506 to the SSF, has been postponed for two years. The decision was made by the Council of Ministers on 14 March 2011 and published in the Official Gazette no. 27900 dated 9 April 2011 as per the decision of the Council of Ministers, numbered 2011/1559, and as per the letter no. 150 of the Ministry of Labor and Social Security dated 24 February 2011 and according to the provisional Article no. 20 of the Social Security and Public Health Insurance Law no.5510.

On 19 June 2008, the main opposition party Cumhuriyet Halk Partisi ("CHP") applied to the Constitutional Court for the cancellation of various articles of the Law including the first paragraph of the provisional Article no. 20. At the meeting of the Constitutional Court on 30 March 2011, it was decided that the Article no. 73 and the first paragraph of the provisional Article no. 20 added to the law no. 5510 are not contradictory to the Constitutional Law, and accordingly the dismissal of the cancellation request was denied with the majority of votes.

Before the completion of two-years period set by the Council of Ministers on 14 March 2011 as explained above, as per the Article no. 51 of the law no. 6645, published in the Official Gazette no. 29335 dated 23 April 2015, the Article no. 20 of the law no. 5510 was amended giving the Council of Ministers the authority to determine the date of transfer without defining any timeline.

The Bank obtained an actuarial report dated 28 December 2020 from an independent actuary reflecting the principles and procedures on determining the application of transfer transactions in accordance with the New Law. The actuarial statement of financial position of the Fund has been prepared using a discount rate of 9.80% and the CSO 1980 mortality table, and the assets of the plan exceed the amount that would be required to be paid to transfer the obligation at 31 December 2021.

The Bank's obligation in respect of the pension and medical benefits transferable to SSF has been determined as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the related article of the New Law.

(Currency: Thousands of Turkish Lira (TL))

24 Provisions (continued)

The pension disclosures set out below therefore reflect the methodology and actuarial assumptions specified in the New Law. This calculation measures the benefit obligation at the expected transfer amount i.e., the estimated amount the Bank will pay to SSF to assume this portion of the obligation.

The pension benefits are calculated annually. As per the calculation as of 31 December 2021, the present value of funded obligations amounted to TL 2,854,635 (31 December 2020: TL 1,350,373) and the fair value of the planned assets amounted to TL 9,393,052 (31 December 2020: TL 7,469,328).

	2021	2020
Present value of funded obligations		
- Pension benefits transferable to SSF (obligation measured at the expected transfer amount)	(3,605,978)	(2,200,812)
- Medical benefits transferable to SSF (obligation measured at the expected transfer amount)	849,322	925,296
- General administrative expenses	(97,979)	(74,857)
	(2,854,635)	(1,350,373)
Fair value of plan assets	9,393,052	7,469,328
Asset surplus in the plan (*)	6,538,417	6,118,955

(*) Asset surplus in this plan will be used to cover the excess benefits not transferable to SSF.

Plan assets consisted of the following:

	2021	2020
Cash and due from banks	6,951,453	3,142,677
Securities	2,157,515	3,981,368
Land and buildings	274,752	229,003
Other	9,332	116,280
	9,393,052	7,469,328

b) Excess benefits 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. Therefore these excess benefits are accounted for as an ongoing defined benefit plan.

Asset surplus/(shortage) on present value of defined benefit obligation is as follows:

	2021	2020
Present value of defined benefit obligations		
- Pension	(1,680,862)	(1,396,390)
- Health	(1,496,672)	(1,175,852)
Fair value of plan assets (*)	6,538,417	6,118,955
Asset surplus over present value of defined benefit obligation	3,360,883	3,546,713

(*) Plan assets are composed of asset surplus in the plan explained in paragraph a).

As per the actuarial calculation performed as of 31 December 2021 detailed above, the asset surplus over the fair value of the plan assets to be used for the payment of the obligations also fully cover the benefits not transferable and still a surplus of TL 3,360,883 (31 December 2020: TL 3,546,713) remains.

(Currency: Thousands of Turkish Lira (TL))

24 Provisions (continued)

Expenses recognised regarding this benefit plan in the accompanying consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2021 and 2020 are as follows:

	2021	2020
Total contribution payment	666,708	511,165
Provision for unfunded liability	-	-
	666,708	511,165

Principal actuarial assumptions used were as follows:

	2021	2020
Discount rates (*)	19.1	13.0
Inflation rates (*)	15.1	9.7
Future real salary increase rates	1.5	1.5
Medical cost trend rates	19.3	13.9
Future pension increase rates (*)	15.1	9.7

(*) The above mentioned rates are effective rates, whereas the rates applied for the calculation differ according to the employees' years in service.

The sensitivity analysis of defined benefit obligation of excess liabilities is as follows as of 31 December 2021:

	2021 % change in defined benefit obligation		
Assumption change	Pension Benefits %	Medical Benefits %	Overall %
Discount rate +0.5%	(6.4)	(8.8)	(7.5)
Discount rate -0.5%	7.1	10.1	8.5
Medical inflation +0.5%	-	10.0	4.7
Medical inflation -0.5%	-	(8.8)	(4.1)

Short-term employee benefits

Movement in the provision for short-term employee benefits is as follows:

	2021	2020
Balance, beginning of the period	700,290	701,665
Payments	(289,025)	(281,168)
Provision for the period, net	677,166	279,793
Balance, end of the period	1,088,431	700,290

Insurance business related provisions

Insurance business related provisions are detailed in the table below:

	2021	2020
Reserve for unearned premiums, net	200,700	121,989
Gross	*265,328*	*164,802*
Reinsurers' share	*(64,628)*	*(42,813)*
Provision for claims, net	122,809	72,649
Gross	*159,182*	*97,914*
Reinsurers' share	*(36,373)*	*(25,265)*
Life mathematical reserves	1,040,106	635,898
	1,363,615	830,536

(Currency: Thousands of Turkish Lira (TL))

24 Provisions (continued)

Reserve for employee severance indemnity

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

	2021	2020
Balance, beginning of the period	782,794	571,542
Service cost	71,037	52,399
Interest cost	97,699	68,890
Benefits paid	(95,305)	(56,784)
Settlement/curtailment/termination gain/loss	30,108	24,327
Past service cost arising over last period	594	388
Actuarial gain/loss	79,459	122,032
Balance, end of the period	966,386	782,794

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 full TL 8,284.51 and full TL 7,117.17 as of 31 December 2021 and 2020, respectively.

The principal actuarial assumptions for the Bank and its consolidated subsidiaries are as follows:

	2021 %(*)	2020 %(*)
Net effective discount rates	3.48	3.01
Discount rates	19.10	13.00
Expected rates of salary increases	16.60	11.20
Inflation rates	15.10	9.70

(*) *In the above table, the effective rates are presented for the Bank and its consolidated subsidiaries subject to the labour law, whereas the rates applied for the calculations differ according to the employee's years-in-service.*

The sensitivity analysis of reserve for employee severance indemnity for the Bank is as follows as of 31 December 2021:

	2021 % change in employee severance indemnity	
Assumption change	Sensitivity of Past Service Liability %	Sensitivity of Normal Cost %
Discount rate +0.5%	(5.30)	(7.00)
Discount rate -0.5%	5.80	7.80
Inflation rate +0.5%	5.20	(3.60)
Inflation rate -0.5%	(5.00)	3.80

(Currency: Thousands of Turkish Lira (TL))

24 Provisions (continued)

Expected credit losses from non-cash loans

Movement in expected credit losses from non-cash loans as of 31 December 2021 and 2020 are as follows:

	2021			2020		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balances at 1 January	503,992	834,748	813,149	238,451	351,457	624,572
Transfer to Stage 1	207,942	(205,972)	(1,970)	150,407	(149,035)	(1,372)
Transfer to Stage 2	(55,988)	57,284	(1,296)	(44,197)	59,376	(15,179)
Transfer to Stage 3	(294)	(32,016)	32,310	(294)	(18,431)	18,725
Debt sales and write-offs	-	-	-	-	-	-
Recoveries and reversals	(1,038,926)	(600,974)	(182,169)	(513,980)	(241,228)	(261,762)
Provision for the period	847,844	740,010	209,430	642,453	771,378	351,509
Effects of movements in exchange rates	74,133	265,893	463,353	31,152	61,231	96,656
Balances at the end of the period	538,703	1,058,973	1,332,807	503,992	834,748	813,149

25 Other liabilities and accrued expenses

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

	2021	2020
Blocked accounts against expenditures of card holders	21,414,441	13,433,133
Cheques at clearing house	5,383,466	3,557,191
Miscellaneous payables	2,983,896	1,853,103
Expense accruals	1,678,084	353,216
Transfer orders	1,307,403	2,223,120
Operational lease payables	1,059,184	1,021,458
Withholding taxes	859,811	453,394
Advances received	448,004	275,304
Payables to suppliers relating to financial lease activities	340,466	100,433
Unearned income	317,515	190,806
Payables to insurance and reinsurance companies relating to insurance business	92,968	62,082
Blocked accounts	67,602	75,685
Cash guarantees obtained	24,169	19,321
Option premium payables	14,656	3
Others	1,017,978	859,474
	37,009,643	24,477,723

(Currency: Thousands of Turkish Lira (TL))

25 Other liabilities and accrued expenses (continued)

Operational lease payables

The maturity analysis of operational lease payables as of 31 December 2021 and 2020 is as follows:

	2021		2020	
	Gross	**Net**	**Gross**	**Net**
Due within 1 year	386,546	284,543	269,146	201,980
Due between 1 and 5 years	770,694	559,263	716,471	527,568
Due after 5 years	318,581	215,379	419,578	291,910
	1,475,821	1,059,184	1,405,195	1,021,458

As of 31 December 2021, the weighted average of the incremental borrowing interest rates applied to TL, EUR, USD and RON operational lease payables presented in the consolidated statement of financial position are 18.8%, 1.9%, 6.9% and 4.4% (31 December 2020: 13.9%, 1.7%, 7.0% and 5.5%); respectively.

26 Equity

Share capital

The authorized nominal share capital of the Bank amounted to TL 4,200,000 as of 31 December 2021 (31 December 2020: TL 4,200,000).

Legal reserves

As per the decisions made at the annual general assemblies of the Bank and its subsidiaries, 5% of the prior year’s net income is allocated to legal reserves. The reserves include legal reserves amounting to TL 1,847,635 (31 December 2020: TL 1,638,443) in total.

For the Bank and its Turkish subsidiaries, the legal reserves are generated by annual appropriations amounting to 5% of the statutory income until such reserves reach 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in share capital appropriated to generate the legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital.

The Bank’s subsidiaries in Romania also allocate legal reserves in accordance with the requirements of statutory laws and regulations applicable for each entity. According to the relevant legislation, legal reserves include annual allocations of 5% of the statutory income before tax. According to the relevant legislation, the legal reserve cannot exceed 20% of the share capital.

The Bank’s subsidiary in the Netherlands also allocate legal reserves for capitalised internal developed software in accordance with Dutch Civil Code Book 2, Art 365.2.

(Currency: Thousands of Turkish Lira (TL))

26 **Equity** (continued)

Unrealized gains/(losses) from fair value changes on debt instruments and equity investments measured at FVOCI

	2021	2020
Balance at the beginning of the period	304,942	113,612
Net unrealized (losses)/gains from changes in fair value	645,035	280,521
Related deferred and current income taxes	(36,722)	(59,890)
Net (losses)/gains recycled to the statement of comprehensive income on disposal	(223,374)	(35,900)
Related deferred and current income taxes	(55,847)	(3,524)
Effect of movements in foreign exchange rates	55,828	10,123
Balance at the end of the period	689,862	304,942

Hedge reserve

The hedge reserve comprises the effective portions of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (as explained in Hedging section under Financial Risk Management Disclosures) and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

In the current period, net investment hedge amounting to EUR 486,508,197 (31 December 2020: EUR 419,127,526) is applied in total among investments in Garanti Bank International NV and Garanti Holding BV having capitals denominated in foreign currencies and long term foreign currency borrowings. Foreign exchange losses in the amount of TL 5,633,892 (31 December 2020: TL 2,548,634), arising from conversion of both foreign currency investments and long term foreign currency borrowings are accounted under share capital and hedge reserves, respectively under equity as of 31 December 2021. There is no ineffective portion arising from net investment hedge accounting.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into the functional currency of the Bank which is TL and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

Non-controlling interests

As of 31 December 2021, net non-controlling interests amount to TL 319,527 (31 December 2020: TL 247,690). Non-controlling interests are detailed as follows:

	2021	2020
Capital	55,219	55,219
Retained earnings and other reserves	143,498	112,410
Net income for the year	120,810	80,061
	319,527	247,690

(Currency: Thousands of Turkish Lira (TL))

27 Commitments and contingencies

In the ordinary course of business, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit. Commitments and contingent liabilities comprise the following:

	2021	**2020**
Letters of guarantee	104,364,646	65,332,869
Letters of credit	25,954,648	13,163,222
Acceptance credits	2,751,737	2,173,451
Other guarantees and endorsements	1,387,743	125,852
	134,458,774	80,795,394

As of 31 December 2021;

- Commitment for unpaid capital of subsidiaries companies amounts to TL 4,560 (31 December 2020: TL 2,780).
- Commitments for unused credit limits and promotions of credit cards, cheques and loans to customers, commitments for loan granting and other revocable and irrevocable commitments amount to TL 119,818,582 (31 December 2020: TL 76,747,751) in total.
- Commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 1,702,321 (31 December 2020: TL 1,805,480) in total.

As of 31 December 2021, the securities acquired under security borrowing transactions include shares with total market and carrying values of TL 1,192 (31 December 2020: TL 7,522).

28 Derivative financial instruments

As of 31 December 2021, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to TL 744,433,628 (31 December 2020: TL 501,776,267), approximately 64% of which are due within a year (31 December 2020: 65%).

The following tables summarize the notional amounts of the forward, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the date of the statement of financial position. Monetary items denominated in foreign currencies are economically hedged using foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognised in the statement of profit or loss and other comprehensive income, except for contracts of cash flow hedges as stated above.

(Currency: Thousands of Turkish Lira (TL))

28 Derivative financial instruments (continued)

	Notional amount with remaining life of					
2021	***Up to 1 month***	***1 to 3 month***	***3 to 6 month***	***6 to 12 month***	***Over 1 year***	***Total***
Interest Rate Derivatives						
Interest rate swaps (*)	3,517,752	29,483,794	16,865,802	20,630,530	196,919,475	267,417,353
Purchases	*1,758,876*	*14,741,897*	*8,432,901*	*10,315,265*	*98,411,237*	*133,660,176*
Sales	*1,758,876*	*14,741,897*	*8,432,901*	*10,315,265*	*98,508,238*	*133,757,177*
Interest rate options	-	1,309,300	-	313,228	6,301,069	7,923,597
Purchases	-	*654,650*	-	-	*4,328,191*	*4,982,841*
Sales	-	*654,650*	-	*313,228*	*1,972,878*	*2,940,756*
Interest rate futures	-	157,116	-	-	-	157,116
Purchases	-	-	-	-	-	-
Sales	-	*157,116*	-	-	-	*157,116*
Other Derivatives						
Securities, shares and index options	298,674	1,783,046	-	-	-	2,081,720
Purchases	*59,637*	*1,207,442*	-	-	-	*1,267,079*
Sales	*239,037*	*575,604*	-	-	-	*814,641*
Other forward contracts	7,630	30,519	99,187	-	-	137,336
Purchases	*7,630*	*22,889*	*99,187*	-	-	*129,706*
Sales	-	*7,630*	-	-	-	*7,630*
Other future contracts	1,030,678	211,446	-	-	-	1,242,124
Purchases	*838*	*20,183*	-	-	-	*21,021*
Sales	*1,029,840*	*191,263*	-	-	-	*1,221,103*
Other swap contracts	11,392,462	839,322	1,233,538	4,364,228	53,164,442	70,993,992
Purchases	*11,265,941*	*419,661*	*616,769*	*2,182,114*	*148,389*	*14,632,874*
Sales	*126,521*	*419,661*	*616,769*	*2,182,114*	*53,016,053*	*56,361,118*
Currency Derivatives						
Spot exchange contracts	19,347,100	-	-	-	-	19,347,100
Purchases	*9,609,202*	-	-	-	-	*9,609,202*
Sales	*9,737,898*	-	-	-	-	*9,737,898*
Forward exchange contracts	13,024,230	9,530,286	7,016,743	4,385,951	256,877	34,214,087
Purchases	*6,505,377*	*4,695,453*	*3,258,328*	*2,198,000*	*127,829*	*16,784,987*
Sales	*6,518,853*	*4,834,833*	*3,758,415*	*2,187,951*	*129,048*	*17,429,100*
Currency/cross currency swaps	234,612,827	60,373,796	3,162,887	4,755,757	9,797,417	312,702,684
Purchases	*115,024,790*	*30,937,985*	*1,646,056*	*2,533,256*	*4,569,098*	*154,711,185*
Sales	*119,588,037*	*29,435,811*	*1,516,831*	*2,222,501*	*5,228,319*	*157,991,499*
Options	23,684,326	1,106,589	292,462	548,509	-	25,631,886
Purchases	*10,345,556*	*553,431*	*144,893*	*273,032*	-	*11,316,912*
Sales	*13,338,770*	*553,158*	*147,569*	*275,477*	-	*14,314,974*
Foreign currency futures	244,762	1,077,743	530,516	731,612	-	2,584,633
Purchases	*117,104*	*542,933*	*271,929*	*361,221*	-	*1,293,187*
Sales	*127,658*	*534,810*	*258,587*	*370,391*	-	*1,291,446*
Subtotal Purchases	154,694,951	53,796,524	14,470,063	17,862,888	107,584,744	348,409,170
Subtotal Sales	152,465,490	52,106,433	14,731,072	17,866,927	158,854,536	396,024,458
Total of Transactions	307,160,441	105,902,957	29,201,135	35,729,815	266,439,280	744,433,628

(*) *In case of interest rate swaps, the amounts presented in the table above are the marked-to-market values of such transactions.*

(Currency: Thousands of Turkish Lira (TL))

28 Derivative financial instruments (continued)

	Notional amount with remaining life of					
2020	***Up to 1 month***	***1 to 3 month***	***3 to 6 month***	***6 to 12 month***	***Over 1 year***	***Total***
Interest Rate Derivatives						
Interest rate swaps (*)	14,114,694	14,207,998	9,442,996	11,273,491	132,501,962	181,541,141
Purchases	*7,057,347*	*7,103,999*	*4,721,498*	*5,636,951*	*66,250,981*	*90,770,776*
Sales	*7,057,347*	*7,103,999*	*4,721,498*	*5,636,540*	*66,250,981*	*90,770,365*
Interest rate options	-	-	-	-	2,631,120	2,631,120
Purchases	-	-	-	-	*1,846,602*	*1,846,602*
Sales	-	-	-	-	*784,518*	*784,518*
Interest rate futures	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Other Derivatives						
Securities, shares and index options	14,928	118,427	45,760	152,406	-	331,521
Purchases	*4,725*	*31,935*	*22,880*	*76,203*	-	*135,743*
Sales	*10,203*	*86,492*	*22,880*	*76,203*	-	*195,778*
Other forward contracts	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Other future contracts	59,919	367,506	-	-	-	427,425
Purchases	*43*	*132,666*	-	-	-	*132,709*
Sales	*59,876*	*234,840*	-	-	-	*294,716*
Other swap contracts	8,294,431	16,244	8,128	-	34,294,311	42,613,114
Purchases	*8,279,515*	*8,122*	*4,064*	-	-	*8,291,701*
Sales	*14,916*	*8,122*	*4,064*	-	*34,294,311*	*34,321,413*
Currency Derivatives						
Spot exchange contracts	27,085,731	-	-	-	-	27,085,731
Purchases	*13,523,368*	-	-	-	-	*13,523,368*
Sales	*13,562,363*	-	-	-	-	*13,562,363*
Forward exchange contracts	7,121,147	6,571,858	4,831,138	1,633,218	266,718	20,424,079
Purchases	*3,586,348*	*3,351,289*	*2,476,796*	*858,609*	*133,771*	*10,406,813*
Sales	*3,534,799*	*3,220,569*	*2,354,342*	*774,609*	*132,947*	*10,017,266*
Currency/cross currency swaps	119,326,064	74,427,731	14,129,228	5,251,758	4,743,116	217,877,897
Purchases	*55,167,074*	*36,010,167*	*6,620,879*	*2,735,722*	*2,559,734*	*103,093,576*
Sales	*64,158,990*	*38,417,564*	*7,508,349*	*2,516,036*	*2,183,382*	*114,784,321*
Options	3,780,286	855,931	453,981	1,235,684	11,602	6,337,484
Purchases	*1,809,357*	*421,555*	*226,862*	*626,045*	*5,784*	*3,089,603*
Sales	*1,970,929*	*434,376*	*227,119*	*609,639*	*5,818*	*3,247,881*
Foreign currency futures	980,971	593,492	932,292	-	-	2,506,755
Purchases	*501,272*	*302,326*	*442,800*	-	-	*1,246,398*
Sales	*479,699*	*291,166*	*489,492*	-	-	*1,260,357*
Subtotal Purchases	89,929,049	47,362,059	14,515,779	9,933,530	70,796,872	232,537,289
Subtotal Sales	90,849,122	49,797,128	15,327,744	9,613,027	103,651,957	269,238,978
Total of Transactions	180,778,171	97,159,187	29,843,523	19,546,557	174,448,829	501,776,267

(*) *In case of interest rate swaps, the amounts presented in the table above are the marked-to-market values of such transactions.*

29 Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgement is necessary required to interpret market data to determine the estimated fair value. While management uses 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 are not materially different than their recorded values except for those of loans and advances to customers and investment securities. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements and money market fundings, loans and advances from banks and other institutions, and other short-term assets and liabilities that are of a contractual nature, obligations under repurchase agreements and money market fundings, loans and advances from banks and other institutions, 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 value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Beginning on June 2020, the Bank considers the OIS (“Overnight Indexed Swap”) curve which is based on TLREF in order to present more accurate fair value measurement of CBRT swaps and makes the necessary fair value adjustments in the valuations.

Fair value of loans and advances to customers is TL 461,507,178 (31 December 2020: TL 336,937,235), whereas the carrying amount is TL 469,799,083 (31 December 2020: TL 333,833,956) in the accompanying consolidated statement of financial position as of 31 December 2021.

Fair value of investment securities measured at amortised cost is TL 42,509,353 (31 December 2020: TL 34,518,927), whereas the carrying amount is TL 40,119,864 (31 December 2020: TL 33,071,628) in the accompanying consolidated statement of financial position as of 31 December 2021.

(Currency: Thousands of Turkish Lira (TL))

29 Fair value information (continued)

The table below analyzes financial instruments carried at fair value, by valuation method:

2021	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value through profit or loss (*)	2,700,047	519,026	4,584,479	7,803,552
Derivative financial assets	3,662	17,639,096	147,532	17,790,290
Debt and other instruments measured at FVOCI	46,967,543	8,257,600	-	55,225,143
Financial Assets at Fair Value	49,671,252	26,415,722	4,732,011	80,818,985
Financial liabilities at fair value through profit or loss	-	-	24,183,368	24,183,368
Derivative financial liabilities	23,363	9,816,690	3,588,682	13,428,735
Financial Liabilities at Fair Value	23,363	9,816,690	27,772,050	37,612,103

2020	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value through profit or loss (*)	1,691,509	2,016,293	4,554,745	8,262,547
Derivative financial assets	7,581	4,385,082	221,889	4,614,552
Debt and other instruments measured at FVOCI	33,813,363	2,548,331	111,075	36,472,769
Financial Assets at Fair Value	35,512,453	8,949,706	4,887,709	49,349,868
Financial liabilities at fair value through profit or loss	-	-	16,137,939	16,137,939
Derivative financial liabilities	5,351	7,293,537	1,237,105	8,535,993
Financial Liabilities at Fair Value	5,351	7,293,537	17,375,044	24,673,932

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

(*)Financial assets measured at fair value through profit or loss include loan amounting to 769,872,381 (31 December 2020: USD 756,288,034) provided to a special purpose entity. As detailed in Note 10, according to the decision made at the 2018 annual general assembly of related special purpose entity, it was decided to increase the capital of the special purpose entity by TL 3,982,230, all of which will be covered by shareholder receivables. After the capital increase, USD 154,885,708 of the related loan, which corresponds to the share of receivables in the Bank, has been paid off.

This loan is classified under financial assets measured at fair value through profit/loss as per IFRS 9. The fair value of this loan is determined by the independent valuation company based on the weighted average of different methods (discounted cash flows, trading multipliers and market value). Upon the result of the independent valuation, the Bank management also evaluated the methods and reflected its internal evaluation on fair value. The corresponding loan is considered as Level 3 based on IFRS 13 "Fair Value Measurement" standard.

Valuation techniques considered in the valuation work and any possible changes in the basic assumptions may affect the carrying value of the related asset. For discounted cash flows method, significant unobservable inputs are EBITDA, growth rate and weighted average cost of capital. The estimated fair value of the asset would increase if growth rate and EBITDA are higher and decrease if the weighted average cost of capital is higher. Trading multiples for the companies operating in the same sector are the other valuation techniques for pricing the assets. Similar trading multipliers are obtained by dividing the market values of the companies to EBITDA amount. The estimated fair value of the asset would increase if the multiplier increase; and decrease if the multiplier decrease.

In the case that the growth rate in the assumptions used in the discounted cash flow method in the valuation report is increased by 0.25% / (decreased by 0.25%) and the risk-free return on investment rate is decreased by 0.25% / (increased by 0.25%), assuming that all other variables remain constant, the assets recognized in the financial statements and the profit for the period will increase by approximately TL 89 million (will decrease TL 89 million).

(Currency: Thousands of Turkish Lira (TL))

29 Fair value information (continued)

Regarding valuation of the related securities issued, it is determined a reference level which indicates the correlation among the transaction spread at inception date with either of the followings: TC CDS, TC eurobonds, and Z-spreads of the Bank and TC and considered the impact of daily changes in relevant parameters with variation in reference level. Therefore, the fair value of both the securities issued and the corresponding Total Return Swap (TRS) transactions are determined as Level 3.

As of 31 December 2021 and 2020, the movements of Level 3 financial instruments are as follows:

	2021		2020	
	Asset	Liability	Asset	Liability
Balance at the beginning of the period	4,887,709	17,375,044	4,571,212	15,094,539
Additions*(*)*	260,585	-	452,994	-
Disposals	(123,187)	(1,590,507)	(192,317)	(1,388,505)
Transfers, net	-	-	(2,870)	-
Effects of valuation differences *(**)*	(293,096)	11,987,513	58,690	3,669,010
Balance at the end of the period	4,732,011	27,772,050	4,887,709	17,375,044

(*) Based on IFRS 9, in order to eliminate the accounting mismatch, the securitized bonds issued are measured at fair value and it is used the valuation of the Turkish Republic's credit default swap (CDS) and Eurobonds together with the Z-spread of the Turkish Republic (TC) and the Bank. The credit default swap (CDS) level is determined based on the remaining maturity.

(**) As of 31 December 2021 and 2020, effect of movements in exchange rates regarding Level 3 financial liabilities is TL 11,527,346 and TL 3,767,143; respectively.

Owned assets and investment properties are considered at fair value are classified at Level 3. These valuation studies are being performed by licensed independent expertise firms accepted by CMB and BRSA.

30 Financial risk management disclosures

This section provides details of the Bank and its subsidiaries' exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank and its subsidiaries are exposed, are credit risk, liquidity risk, market risk and operational risk.

The nature of the risks and the approach to managing risk differs fundamentally between the trading and non-trading portfolios; section 30.2 contains risk management information related to the trading portfolio and section 30.3 deals with the non-trading portfolio.

Risk management framework

Risk Management ensures that; risk management policies and principles are applied and adopted throughout the Bank and its consolidated subsidiaries and that risk management system is maintained and improved which pursues risk-return relationship, and measures all risks together and which is in compliance with applicable regulation, bank strategies and policies and where limits determined in connection with the risk appetite approved by the Board of Directors are not breached. Risk Management defines, measures, reports, monitors the risks and ensures the activities executed in order to control these risks thoroughly and timely; also monitors the results.

Policies and procedures regarding risk management are established for consolidated subsidiaries. Policies and procedures are prepared in compliance with applicable legislations that the subsidiaries are subject to and the Bank's risk management strategy. They are reviewed regularly and revised if necessary. The Bank ensures that risk management system is applied in subsidiaries where risks are defined, measured, monitored and controlled.

Risk management activities are structured under the responsibility of the Board of Directors. Besides oversight of corporate risk management policies and practices, capital adequacy and planning with liquidity adequacy, is the responsibility of the Risk Committee, which consists of members of the Board of Directors. Accordingly, the Risk Management, which performs risk management functions, reports to the Board of Directors via the Risk Committee, whereas the Internal Audit Department, performing internal audit functions, the Internal Control Unit, performing internal control functions, and the Compliance Department, which implements compliance controls and performs activities to prevent laundering proceeds of crime, and financing of terrorism, report directly to the Board of Directors.

Senior managements responsibility is to report to Board of Directors about the significant risk the Bank encounters, ensure the compliance with the risk management about own duties, eliminate the risks, deficiencies and errors occurring in the units responsible or take the necessary measures, participate in design and implementation of internal capital adequacy assessment process (ICAAP); participate in process of assessing the adequacy and appropriateness of the underlying assumptions, data sources and principles used to measure the assumptions and risks associated with the models.

The Bank's main approach for the implementation of risk management model is establishing risk culture throughout the Bank, and aims that the importance of risk management for maintaining business operations is understood and risk awareness and sensitivity is ensured for decision making and implementation mechanisms process by all employees.

The Bank manages all exposed crisis situations within the framework of business continuity policy and business continuity program formed by strategic goals which designate the Bank's business continuity vision and principles; takes necessary actions.

30 Financial risk management disclosures (continued)

Compliant with legislation, the Bank measures and monitors risks that exposed to, considering methods suitable with international standards. Risk measuring and reporting are performed via advanced methods and risk management softwares. Risk based detailed reports are prepared for management of significant risks, in order to determine strategies and take decisions, in this scope, reports are prepared for Board of Directors, relevant committees and senior management.

The Bank's risk appetite framework determines the risk level that the Board of Directors is prepared to accept in order to accomplish the goals and strategies with the consideration of the capacity of the institution to safely absorb those risks and the Bank monitors regularly risk appetite metrics regarding capital, liquidity, income recurrence and risk based limits. Risks that the Bank is exposed to are managed by providing effective control environment and following closely within limits.

Unmitigated risks are either accepted with current risk levels or decreasing/terminating the activity that causes the risk.

The Risk Management Department conducts the ICAAP report, to be sent to the BRSA by coordinating relevant parties. Stress test report is also reported to the BRSA, which evaluates how adverse effects on macroeconomic parameters, in the scope of determined scenarios, affect the Bank's three year budget plan and results, and certain ratios, including capital adequacy.

Training programs for employees, risk reports to the Board of Directors, senior management and committees, risk appetite framework established by the Bank and ICAAP generate significant inputs to ensure that risk management culture is widely embraced.

The effects of developments in COVID-19 on Bank's risk profile and risk appetite framework are closely monitored within risk measurement, reporting and management processes.

Risk Committee

The Risk Committee is responsible for:

- Monitor and oversee the strategy and general risk policies of the Bank and to review the risk appetite declaration and core metrics, risk tolerance levels, limit structure, and metrics, taking into consideration the strength of the Bank's capital and the overall quality of risk management, measurement and reporting,
- Review and approve, as appropriate, the corporate risk policies for each risk type, and the yearly limits for each risk type and business area with the level of detail that may be deemed appropriate at the time,
- Review and approve, as appropriate, measures to mitigate the impact of identified risk, should these materialize,
- Monitor the evolution of the global risk profile and the Bank's risk exposure, by type of risk, business line, product, or customer segment, and how these compare to the risk strategy and policies and the risk appetite,
- Assess the adequacy of the risk information and risk internal control systems in the Bank to guarantee the appropriate functioning of risk management as well as the suitability of the structure and working of risk management in the Bank,
- Monitor that pricing of investment and deposit products offered to clients fully take into consideration the business model and risk strategy of the Bank, including a remediation plan should it be necessary,
- Verify that the Bank takes the necessary steps to guarantee the availability of systems, staffing and general resources adequate for the management of risks,

30 Financial risk management disclosures (continued)

- Analyse and assess the appropriate working of asset valuation, asset classification and risk estimation of the company,
- Promote the continuous development and improvement of advanced risk management model and practices, whilst closely monitoring requirements and recommendations of regulators and supervisors,
- Receive and review reports on capital planning, capital adequacy and provide effective challenge of the enterprise risk management and capital planning processes.

Audit Committee

The audit committee consists of three members of the Board of Directors who do not have any executive functions. The audit committee, which was established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- Monitoring the effectiveness and adequacy of the Bank's internal control, risk management and internal audit systems, operation of these systems and accounting and reporting systems in accordance with applicable regulations and the integrity of resulting information;
- Performing the preliminary studies required for the election of independent audit firms and regularly monitoring their activities;
- Ensuring that the internal audit functions of consolidated organizations are performed in a consolidated and coordinated manner.

Other Committees

There is a number of risk management committees established in order to conduct risk management activities, including: Risk Committee, Risk Management Committee, New Business and Product Committee, Risk Technology and Analytics Committee, IT Risk Committee, Retail Credit Risk Committee and Wholesale Credit Risk Committee.

30.1 Derivative financial instruments

The Bank and its subsidiaries enter into a variety of derivative financial instruments for hedging and risk management purposes. This note describes the derivatives used. Further details of the objectives and strategies in the use of derivatives are set out in the sections of this note on non-trading activities. Details of the nature and terms of derivative instruments outstanding at the dates of the statements of financial position are set out in Note 28. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below:

Swaps
Swaps are over-the-counter agreements to exchange future cash flows based upon agreed notional amounts. Most commonly used swaps are currency swaps. The Bank and its subsidiaries are subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in market rates relative to the contractual rates of the contract.

Futures and forwards
Futures and forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be

30 Financial risk management disclosures (continued)

settled in cash or another financial asset. Futures are standardized exchange-traded contracts whereas forwards are individually traded over-the-counter contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Therefore credit risk is limited to the net positive change in the market value for a single day. Futures contracts have little credit risk because the counterparties are clearing houses. Forward contracts result in credit exposure to the counterparty. Futures and forward contracts both result in exposure to market risk based on changes in market prices relative to contracted amounts.

Options
Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell (put option) to the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign exchange, bond, equity index, interest rate options, not only vanilla options but also exotic options.
Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

30.2 Trading activities

The Bank and its subsidiaries maintain active trading positions in non-derivative financial instruments. Most of the trading activities are customer driven. In anticipation of customer demand, an inventory of capital market instruments is carried and access to market liquidity is maintained by quoting bid and offer prices to and trading with other market makers. Positions are also taken in the interest rate, foreign exchange, debt and equity markets based on expectations of future market conditions. These activities constitute the proprietary trading business and enable the Bank and its subsidiaries to provide customers with capital market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximize net trading income/(expense). Trading activities are managed by type of risk involved and on the basis of the categories of trading instruments held.

Counterparty credit risk

Counterparty credit risk management policies include evaluating and monitoring risk developments, taking necessary measures, setting risk limits, ensuring that the risks remain within the limits, and establishing required reporting, control and audit mechanisms by using the methods aligned with both international standards and local regulations. The policies regarding counterparty credit risk measurement, monitoring, and limit settings are defined by the Board of Directors.
Counterparty credit risk arising from derivative transactions is periodically being monitored and reported by the Market and Structural Risk unit on product, country, counterparty and counterparty type basis. CCR model has been validated yearly in the periodic validation framework.

International framework agreements (ISDA, CSA, GMRA, etc.) are used through collateral and margin call mechanisms in order to mitigate the counterparty credit risk.

Market risk

Market risk is defined as the losses that the trading portfolio of the Bank may incur due to the risks caused by market price changes (interest rate, equities, foreign exchange and commodity prices), the correlations between market prices and the uncertainty in the volatility levels.

30 Financial risk management disclosures (continued)

All trading instruments are subject to market risk. The instruments are recognised at fair value, and all changes in market conditions directly affect net trading income/(expense).

The Bank and its subsidiaries manage its use of trading instruments in response to changing market conditions.

The Board of Directors monitors the effectiveness of risk management systems through audit committee, related other committees and top management, and in the light of various risk reports and the assessments made by the audit committee.

The risk policies and application procedures have been approved by the Board of Directors and regularly revisited. The market risk is also managed by risk mitigations through hedging transactions beside measuring the risks in compliance with the international standards, limiting such risk and allocating capital accordingly.

Market risks arising from trading portfolios are measured by the Bank as per "standard" and "value at risk (VaR)" methods. The measurements as per the standard method are performed on a monthly basis, and taken into consideration in the calculation of capital adequacy. Whereas, the measurements as per VaR method are performed on a daily basis. The Bank takes the historical VaR results as the basis for the internal management of market risk and limit setting. In the VaR calculation, two years historical market data set is used, and 99% confidence interval and one-day holding period (10 days for regulatory capital calculation) are taken into account. In order to test the reliability of the VaR model, back tests are performed. Stress tests and scenario analysis are also applied in order to reflect the effects of prospective severe market fluctuations in the VaR calculations. VaR model has been validated yearly in the periodic validation framework.

Beside the VaR limit, sensitivity limits on risk factors, economic capital and stop-loss limits approved by the Board of Directors for trading portfolio are also applied in order to limit the market risks.

The capital requirement for general market risk and specific risks is calculated using the standard method defined by the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" as set out by the BRSA and reported monthly.

30.3 Non-trading activities

Below is a discussion of the various risks the Bank and its subsidiaries are exposed to as a result of its non-trading activities and the approach taken to manage those risks.

Liquidity risk

Liquidity risk is defined as the risk that the Bank may not be able to fulfill its payment obligations in a timely manner due to the lack of available cash or cash inflows in quality and in quantity to cover the cash outflows in a complete and timely manner due to imbalances in the cash flows of the Bank and its subsidiaries.

Liquidity risk is managed by Asset and Liability Management department (ALMD), Weekly Review Committee and Asset and Liability Committee (ALCO) in line with liquidity and funding policies and risk appetite approved by the Board of Directors in order to take the necessary measures in a timely and correct manner against possible liquidity shortages that may result from market conditions and

30 Financial risk management disclosures (continued)

balance sheet structure. Under stressed conditions, liquidity risk is managed within the contingency funding plan framework.

The Board of Directors reviews the liquidity risk management policy and approves the liquidity and funding policies, ensures the effective of practice of policies and integrations with the Bank's risk management system. The Board of Directors determines the basic metrics in liquidity risk measurement and monitoring. The Board of Directors establishes risk appetite of the Bank in liquidity risk management and identifies the risk limits in accordance with the risk appetite and reviews it regularly.

ALCO takes necessary decisions which will be executed by related departments by assessing the liquidity risk that the Bank is exposed to and considering the Bank's strategy and conditions of competition and pursues the implementations.

ALMD, performs daily liquidity management by ensuring compliance with regulatory and internal liquidity limits and monitoring related early warning indicators in case of probable liquidity squeezes. The medium and long term liquidity and funding management is performed by ALMD in accordance with ALCO decisions.

Head of Risk Management defines the Bank's liquidity risk, measures and monitors the risks with liquidity risk measurement methods that are in compliance with international standards, presents measurement results periodically to related departments, committees and senior management. Head of Risk Management coordinates related parties in order to ensure compliance of risk management process in accordance with the Bank's risk profile, operation environment and strategic plan with regulations. Head of Risk Management analyses, develops and revises relevant liquidity risk measurement in accordance with changing market conditions and the Bank's structure. Risk Management Department reviews assumptions and parameters used in liquidity risk analysis.

The liquidity risk analysis and the important liquidity indicators are reported monthly to related senior management. Additionally, analysis and monitored internal ratios related to liquidity risk are presented in ALCO report. Internal liquidity metrics are monitored with limit and alert levels approved by the Board of Directors and reported regularly to related parties.

Decentralized management approach is adopted in liquidity management. Each subsidiary controlled by the Bank performs daily, medium and long term liquidity management independently from the Bank by the authorities in each subsidiary responsible for managing liquidity risk.

In addition, within the scope of consolidated risk management, liquidity and funding risk of each subsidiary in control are monitored via the liquidity risk management methods identified by the Bank by considering the operations, risk profile and regulations of the related subsidiary.

The Bank's funding management is carried out in compliance with the ALCO decisions. Funding and placement strategies are developed by assessing liquidity.

In liquidity risk management, actions that will be taken and procedures are determined by considering normal economic conditions and stress conditions.

Diversification of assets and liabilities is assured so as to be able to continuously meet the obligations, also taking into account the relevant currencies. Funding sources are monitored actively during identification of concentration risk related to funding. The Bank's funding base of customer deposits,

30 Financial risk management disclosures (continued)

interbank and other borrowing transactions are diversified in order to prevent the concentration of a particular funding source. Factors that could trigger the sudden and significant run off in funds or impair the accessibility of the funding sources are analyzed. Additionally, securities which are eligible as collateral at CBRT issued by Republic of Turkey Treasury and have active secondary market are comprised in the Bank's assets.

In the context of TL and foreign currencies liquidity management, the cash flows regarding assets and liabilities are monitored and the required liquidity in future periods is forecasted. In cash flow analysis, stress is applied to items that affect the liquidity by volume and rate of change from a liquidity management point of view.

Liquidity risk exposed by the Bank is managed by establishing risk appetite, risk mitigation according to the liquidity and funding policies (diversification of funding sources, holding high quality liquid assets reserve) and effective control environment and closely monitoring by limits. For those risks that cannot be reduced, the adoption of the current level of risk, reduction or termination of the activities that cause the risk is considered.

In liquidity risk stress testing framework, the level of the Bank's ability to cover cash outflows in liquidity crisis scenario based on the Bank's current cash flow structure, by high quality liquid assets is calculated. Scenario analysis are performed by assessing changing balance sheet structure, liquidity requirements and market conditions.

The results of liquidity risk stress testing are taken into consideration in the assessment of liquidity adequacy and identification of policy regarding liquidity risk and contingency funding plan is prepared within this framework.

There exists "Liquidity Contingency Plan" in the Bank approved by the Board of Directors including mechanisms to prevent increase in liquidity risk scenarios for different conditions and levels. Available liquidity sources are determined by considering the liquidity squeezes. Within the framework of this plan, the Bank monitors liquidity risk in terms of early warning indicators, and probable scenarios where liquidity risk crisis and possible actions that can be taken.

In the scope of contingency plan within the framework of intraday liquidity risk management procedure, situations requiring the activation of contingency plan and indicating an intraday liquidity stress, and intraday liquidity metrics are monitored and intraday liquidity risk stress testing is performed.

The Bank's liabilities consist of TL and foreign currency funding, of which a large portion is USD/EUR. Deposits and capital constitute most of TL funding. For the reasons like real person customers cannot use foreign currency credit but are able to deposit foreign currency funds, TL and foreign currency deposit and credit amount may differ. Long term funding obtained from foreign banks and creditors are mainly in foreign currency. For these reasons overall foreign currency liabilities are usually more than foreign currency assets and unused portion of USD, Euro and gold are used in TL funding via currency swap transactions. Swap transactions which is made for TL funding are made with CBRT, however swap transactions with foreign banks are also started to grow again due to increases in swap limits in the recent period. On the other hand, repo lines by open market operations and Borsa Istanbul ("OMO / BİST") aren't used to full extent, unused limits and high quality liquid asset stock is held is kept to use in the case of a liquidity scarcity in market.

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

Also T.C. Eurobonds are not used to secure funding and kept as reserve to use in the case of a foreign currency liquidity scarcity in market. In TL and foreign currency liquidity management, regulatory ratios, internally set warnings, limits and other liquidity and funding metrics are monitored.

The Bank keeps liquidity buffer in high level by taking liquidity risk increased periods into consideration. With this approach, the effect of volatility in the markets due to the adverse effects of COVID-19 outbreak on the Bank's liquidity need is in minimum level.

Also there is an increase in loan demands within the effects of COVID-19 outbreak and customers prefer to extend their existing loans maturities. On the other hand, the Banks is well-prepared for similar scenarios that matured loans are not presented as cash out flow in the Bank's internal liquidity metrics and therefore this not creates a significant effect from the point of the Bank. On the contrary, metrics such as Bank's Liquidity Coverage Ratio are in extremely healthy level and this liquidity is used for the increase in loan demands.

The table below presents the last three months' consolidated liquidity ratios in accordance with the BRSA regulations:

Period	**TL+FC**	**FC**
31 October 2021	184.33%	405.98%
30 November 2021	188.17%	393.65%
31 December 2021	176.92%	419.98%

Exposure to liquidity risk

Liquidity Coverage Ratio (LCR), aims for the banks having the ability to cover 30 days of liquidity needs with their own cash and high quality liquid assets that are easy to convert to cash during liquidity shortages in the markets. With that perspective and according to "Regulation for Banks' Liquidity Coverage Ratio Calculations" terms LCR ratio is calculated by having high quality liquid assets divided by net cash outflows. In both bank-only and consolidated basis, LCR ratio should be at least 80% for foreign currency and 100% for total.

The Bank's banking subsidiary in the Netherlands is subject to liquidity requirements as per the rules of Capital Requirement Regulation of the European Union, which encompasses liquidity coverage ratio and net stable funding ratio.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

	31 December 2021							
	Demand Accounts	***Up to 1 month***	***1 to 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 year***	***Undistributed(*)***	***Total***
MONETARY ASSETS								
Turkish Lira								
Cash and balances with central banks	13,502,632	-	-	-	-	-	(14,216)	13,488,416
Financial assets at fair value through profit or loss	82,242	918,405	199,076	243,757	534,487	37,621	-	2,015,588
Derivative financial assets	-	8,749,056	3,849,047	1,046,748	1,547,077	226,912	-	15,418,840
Loans and advances to banks	279,532	30,450,513	468,191	59,996	-	-	(97,812)	31,160,420
Loans and advances to customers	221,318	51,590,661	41,683,943	82,944,345	78,719,110	10,029,914	1,874,224	267,063,515
Investment securities	-	416,468	3,720,185	6,489,562	35,721,651	11,867,235	(21,657)	58,193,444
Other assets	6,736,798	2,710,080	42,305	16,379	83,875	-	7,774,550	17,363,987
Total Turkish Lira monetary assets	20,822,522	94,835,183	49,962,747	90,800,787	116,606,200	22,161,682	9,515,089	404,704,210
Foreign Currency								
Cash and balances with central banks	56,974,702	66,470,507	-	-	-	-	(39,308)	123,405,901
Financial assets at fair value through profit or loss	514,990	-	2,620	4,619,677	200,151	429,776	20,750	5,787,964
Derivative financial assets	-	196,050	217,350	217,603	318,610	1,421,837	-	2,371,450
Loans and advances to banks	33,882,795	8,503,471	1,776,998	7,940,194	598,667	75,602	1,337	52,779,064
Loans and advances to customers	850,758	27,212,226	17,272,747	49,653,492	77,459,379	37,697,029	(7,410,063)	202,735,568
Investment securities	15	147,076	1,639,670	2,637,252	20,371,881	12,381,166	(25,497)	37,151,563
Other assets	9,365,385	913,851	31,282	38,247	87,589	-	35,389	10,471,743
Total foreign currency monetary assets	101,588,645	103,443,181	20,940,667	65,106,465	99,036,277	52,005,410	(7,417,392)	434,703,253
Total Monetary Assets	122,411,167	198,278,364	70,903,414	155,907,252	215,642,477	74,167,092	2,097,697	839,407,463
MONETARY LIABILITIES								
Turkish Lira								
Deposits	51,195,961	97,070,483	23,937,732	5,119,752	164,343	-	-	177,488,271
Loans and advances from banks and other institutions	-	434,689	440,235	2,131,842	1,096,981	-	-	4,103,747
Obligations under repurchase agreements and money market fundings	-	8,561,641	383,610	174,600	-	-	-	9,119,851
Debt securities issued	-	1,066,088	2,632,536	1,978,601	135,768	-	296	5,813,289
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	1,690,260	1,896,541	1,172,360	1,024,039	1,569,368	-	7,352,568
Subordinated liabilities	-	-	-	-	-	1,030,662	-	1,030,662
Other liabilities	7,413,063	23,432,455	2,318,294	178,327	470,686	121,249	5,585,481	39,519,555
Total Turkish Lira monetary liabilities	58,609,024	132,255,616	31,608,948	10,755,482	2,891,817	2,721,279	5,585,777	244,427,943
Foreign Currency								
Deposits	244,063,762	115,828,283	22,426,242	17,659,987	4,402,753	22,067	-	404,403,094
Loans and advances from banks and other institutions	-	4,771,923	1,949,184	23,776,649	4,742,074	5,501,169	-	40,740,999
Obligations under repurchase agreements and money market fundings	321	2,226,674	1,923	-	4,594,020	-	-	6,822,938
Debt securities issued	-	-	-	7,749,698	11,186,197	1,037,069	-	19,972,964
Financial liabilities at fair value through profit or loss	-	-	-	1,216,901	6,699,404	16,267,063	-	24,183,368
Derivative financial liabilities	-	282,348	-	371,420	1,020,900	4,401,499	-	6,076,167
Subordinated liabilities	-	-	-	-	-	9,880,843	-	9,880,843
Other liabilities	1,940,334	1,199,319	1,186,118	206,209	126,690	2,781	10,114,664	14,776,115
Total foreign currency monetary liabilities	246,004,417	124,308,547	25,563,467	50,980,864	32,772,038	37,112,491	10,114,664	526,856,488
Total Monetary Liabilities	304,613,441	256,564,163	57,172,415	61,736,346	35,663,855	39,833,770	15,700,441	771,284,431

(*) Includes expected credit losses.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

	31 December 2020							
	Demand Accounts	*Up to 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Undistributed(*)*	*Total*
MONETARY ASSETS								
Turkish Lira								
Cash and balances with central banks	6,948,969	-	-	-	-	-	(22,406)	6,926,563
Financial assets at fair value through profit or loss	420,161	25,552	63,305	195,307	523,264	8,449	-	1,236,038
Derivative financial assets	-	970,995	638,145	352,359	622,616	-	-	2,584,115
Loans and advances to banks	29,406	8,416,530	166,509	225,585	-	-	(164,207)	8,673,823
Loans and advances to customers	382,031	39,374,151	25,755,177	64,199,274	65,523,398	8,162,659	552,196	203,948,886
Investment securities	-	780,106	254,942	5,480,612	29,481,223	9,189,343	(101,376)	45,084,850
Other assets	4,513,970	1,310,329	33,705	6,870	83,192	-	5,852,528	11,800,594
Total Turkish Lira monetary assets	12,294,537	50,877,663	26,911,783	70,460,007	96,233,693	17,360,451	6,116,735	280,254,869
Foreign Currency								
Cash and balances with central banks	26,006,941	29,554,420	-	-	-	-	(75,808)	55,485,553
Financial assets at fair value through profit or loss	288,708	18,049	28,392	6,221,959	429,249	28,321	11,831	7,026,509
Derivative financial assets	-	113,099	155,272	97,972	107,834	1,556,260	-	2,030,437
Loans and advances to banks	22,221,450	2,572,857	1,806,021	3,004,708	128,986	33,728	4,235	29,771,985
Loans and advances to customers	424,164	11,341,097	8,673,563	36,354,284	52,711,580	21,019,115	(638,733)	129,885,070
Investment securities	-	648,583	905,450	1,606,362	12,185,834	9,179,205	(65,887)	24,459,547
Other assets	675,358	1,522,758	96,392	38,783	39,667	-	(156,452)	2,216,506
Total foreign currency monetary assets	49,616,621	45,770,863	11,665,090	47,324,068	65,603,150	31,816,629	(920,814)	250,875,607
Total Monetary Assets	61,911,158	96,648,526	38,576,873	117,784,075	161,836,843	49,177,080	5,195,921	531,130,476
MONETARY LIABILITIES								
Turkish Lira								
Deposits	36,388,050	82,170,732	18,303,146	3,023,327	2,010,333	-	-	141,895,588
Loans and advances from banks and other institutions	-	303,175	82,014	1,753,397	960,679	-	-	3,099,265
Obligations under repurchase agreements and money market fundings	-	700,838	297,144	100,134	-	-	-	1,098,116
Debt securities issued	-	1,562,878	3,320,965	202,580	1,008,009	-	-	6,094,432
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	1,322,174	2,176,324	165,548	251,035	867,225	-	4,782,306
Subordinated liabilities	-	-	-	-	-	1,029,532	-	1,029,532
Other liabilities	4,272,563	14,690,310	2,379,529	181,957	500,696	181,598	6,950,718	29,157,371
Total Turkish Lira monetary liabilities	40,660,613	100,750,107	26,559,122	5,426,943	4,730,752	2,078,355	6,950,718	187,156,610
Foreign Currency								
Deposits	119,724,989	65,563,023	17,904,453	10,725,861	1,769,567	168,892	-	215,856,785
Loans and advances from banks and other institutions	-	3,021,692	1,212,534	11,428,820	6,737,681	2,066,927	-	24,467,654
Obligations under repurchase agreements and money market fundings	199	-	702,942	88,052	1,274,669	-	-	2,065,862
Debt securities issued	-	-	-	4,895,250	9,448,138	2,379,261	-	16,722,649
Financial liabilities at fair value through profit or loss	-	-	-	-	6,149,743	9,988,196	-	16,137,939
Derivative financial liabilities	-	171,916	-	255,581	720,997	2,605,193	-	3,753,687
Subordinated liabilities	-	-	-	-	-	5,569,437	-	5,569,437
Other liabilities	690,575	962,993	2,163,715	109,273	101,875	2,287	3,391,466	7,422,184
Total foreign currency monetary liabilities	120,415,763	69,719,624	21,983,644	27,502,837	26,202,670	22,780,193	3,391,466	291,996,197
Total Monetary Liabilities	161,076,376	170,469,731	48,542,766	32,929,780	30,933,422	24,858,548	10,342,184	479,152,807

(*) Includes expected credit losses.

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

The Bank's banking subsidiary in Romania calculates two different liquidity ratios as follows:

- In accordance with national regulation, as a ratio of effective liquidity in local currency equivalent to necessary liquidity in local currency equivalent for several individual time buckets (<1 month, 1-3 months, 3-6 months, 6-12 months, >1 year) and each ratio for each bucket should be >1.
- In accordance with Basel II requirements, the liquidity coverage ratio (LCR) as a ratio of highly quality liquid assets necessary to meet total net cash outflows over 30 days, which should be above 100% starting from 1 January 2018.

Contractual maturity analysis of liabilities according to remaining maturities

The remaining maturities table of the contractual liabilities includes the undiscounted future cash outflows for the principal amounts of the Bank and its subsidiaries' financial liabilities as per their earliest likely contractual maturities.

	2021							
	Carrying Value	***Nominal Principal Outflows***	***Demand***	***Up to 1 Month***	***1 to 3 Months***	***3 to 12 Months***	***1 to 5 Years***	***Over 5 Years***
Deposits	581,891,365	585,306,811	295,250,785	62,407,136	175,251,834	30,290,857	20,554,879	1,551,320
Obligations under repurchase agreements and money market fundings	15,942,789	16,018,518	-	11,062,912	323,754	-	4,631,852	-
Loans and advances from banks and other institutions	44,844,746	56,422,071	-	8,316,983	1,137,787	29,361,588	6,833,981	10,771,732
Debt securities issued	25,786,253	27,090,411	-	1,080,070	3,083,797	10,292,097	11,594,709	1,039,738
Subordinated liabilities	10,911,505	15,609,892	-	11,233	33,932	736,957	3,128,490	11,699,280
Financial liabilities at fair value through profit or loss	24,183,368	24,035,836	-	-	-	1,216,902	6,699,404	16,119,530
Total Monetary Liabilities	703,560,026	724,483,539	295,250,785	82,878,334	179,831,104	71,898,401	53,443,315	41,181,600

	2020							
	Carrying Value	***Nominal Principal Outflows***	***Demand***	***Up to 1 Month***	***1 to 3 Months***	***3 to 12 Months***	***1 to 5 Years***	***Over 5 Years***
Deposits	357,752,373	359,361,143	155,813,271	46,314,094	134,534,488	12,229,472	10,297,463	172,355
Obligations under repurchase agreements and money market fundings	3,163,978	3,168,875	199	470,982	1,241,166	189,577	1,266,951	-
Loans and advances from banks and other institutions	27,566,919	30,892,494	-	3,102,594	1,869,275	13,519,703	6,912,460	5,488,462
Debt securities issued	22,817,081	24,321,286	-	1,073,679	4,132,335	5,581,880	11,141,535	2,391,857
Subordinated liabilities	6,598,969	10,340,873	-	10,360	33,146	469,538	2,052,175	7,775,654
Financial liabilities at fair value through profit or loss	16,137,939	15,980,865	-	-	-	-	6,149,743	9,831,122
Total Monetary Liabilities	434,037,259	444,065,536	155,813,470	50,971,709	141,810,410	31,990,170	37,820,327	25,659,450

30 Financial risk management disclosures (continued)

Interest rate risk

The interest rate risk resulting from the banking book is assessed in terms of repricing risk, yield-curve risk, base risk and option risk, measured as per international standards and managed through limitations and mitigations through hedging transactions.

The interest sensitivity of assets, liabilities and off balance-sheet items are evaluated at the Weekly Review Committee and Monthly Asset-Liability Committee meetings considering also the market developments.

The measurement process of interest rate risk resulting from the banking book, is designed and managed by the Bank on a bank-only basis to include the interest rate positions defined as banking book by the Bank and to consider the relevant repricing and maturity data.

Within the scope of monitoring the re-pricing risk arising from maturity mismatch, the sensitivity of the durations/gap, economic value, economic capital, net interest income, earnings at risk, market price of securities portfolio are measured and the internal early warning and limit levels in this context are monitored and reported regularly. Calculated risk metrics and generated reports are used in the management of the balance sheet interest risk under the supervision of the Asset and Liability Committee. In the said analyses, the present value and the net interest income are calculated over the cash flows of the sensitive assets and liability items by using the yield curves constructed by using the market interest rates. For non-matured products, maturity is determined based on interest rate determination frequency and customer behaviour. These results are supported by periodic sensitivities and scenario analyses against fluctuations that may be experienced in the markets.

Early loan payments under the option risk are considered as unusual payments affecting the repayment of the principal above the regular payment plan, which changes the number and amount of the current payment plan. Within the scope of the early payment model studies, early payment data is based on total early payment and partial early payment distinction. Within the framework of internal net interest income and economic value calculations, early payment option is reflected in monthly reports considering the early payment assumption.

The interest rate risk resulting from the banking book is measured legally as per the "Regulation on Measurement and Evaluation of Interest Rate Risk Resulting from the Banking Book as per Standard Shock Method" published in the Official Gazette no.28034 dated 23 August 2011, and the legal limit as per this measurement is monitored and reported monthly. The capital level is maintained considering the interest rate risk resulting from the banking book.

The interest rate risk on the interest-rate-sensitive financial instruments of trading portfolio is evaluated as a part of market risk.

Branches and lines of business are eliminated from interest rate risk through the transfer pricing system and these risks are transferred to the Asset and Liability Management Department (ALM) and managed by ALM in a central structure.

The following tables indicate the economic value differences resulted from interest rate instabilities calculated on a bank-only basis according to Regulation on Measurement and Evaluation of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method as of 31 December 2021 and 2020:

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

2021 **Type of Currency**		**Shocks Applied (+/- basis points)**	**Gains/Losses**	**Gains/Equity-Losses/Equity**
1	TL	(+) 500 bps	(4,918,711)	(5.22)%
2	TL	(-) 400 bps	4,462,149	4.74%
3	USD	(+) 200 bps	975,143	1.04%
4	USD	(-) 200 bps	(934,898)	(0.99)%
5	EUR	(+) 200 bps	2,310,778	2.45%
6	EUR	(-) 200 bps	(2,516,691)	(2.67)%
	Total (of negative shocks)		**1,010,560**	**1.07%**
	Total (of positive shocks)		**(1,632,790)**	**(1.73)%**

2020 **Type of Currency**		**Shocks Applied (+/- basis points)**	**Gains/Losses**	**Gains/Equity-Losses/Equity**
1	TL	(+) 500 bps	(6,209,372)	(8.56)%
2	TL	(-) 400 bps	5,872,483	8.09%
3	USD	(+) 200 bps	401,784	0.55%
4	USD	(-) 200 bps	(629,807)	(0.87)%
5	EUR	(+) 200 bps	1,446,619	1.99%
6	EUR	(-) 200 bps	(1,707,593)	(2.35)%
	Total (of negative shocks)		**3,535,083**	**4.87%**
	Total (of positive shocks)		**(4,360,969)**	**(6.02)%**

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of interest rate sensivity of monetary assets and liabilities of the consolidated entities into relevant maturity groupings:

	31 December 2021						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Non-Interest Bearing(*)*	*Total*
MONETARY ASSETS							
Cash and balances with central banks	62,403,621	-	-	-	-	74,490,696	136,894,317
Financial assets at fair value through profit or loss	1,046,264	416,458	4,940,840	302,606	468,898	628,486	7,803,552
Loans and advances to banks	39,516,154	2,255,582	8,174,156	511,307	435,640	33,046,645	83,939,484
Loans and advances to customers	139,118,260	54,063,832	146,232,496	115,571,196	30,275,669	(15,462,370)	469,799,083
Other assets	11,681,044	34,356	40,429	11,359	-	33,858,832	45,626,020
Investment securities	7,175,249	9,887,787	21,286,261	24,863,564	14,130,165	18,001,981	95,345,007
Total Monetary Assets	260,940,592	66,658,015	180,674,182	141,260,032	45,310,372	144,564,270	839,407,463
MONETARY LIABILITIES							
Deposits	234,501,479	44,960,335	25,378,055	5,505,870	-	271,545,626	581,891,365
Obligations under repurchase agreements and money market fundings	10,756,007	373,160	4,627,358	167,016	-	19,248	15,942,789
Loans and advances from banks and other institutions	7,849,656	15,430,501	17,983,673	3,262,826	89,428	228,662	44,844,746
Debt securities issued	4,718,531	2,467,190	10,285,048	7,720,972	296,426	298,086	25,786,253
Subordinated liabilities	252,880	750,000	-	-	9,819,750	88,875	10,911,505
Financial liabilities at fair value through profit or loss	0	-	1,216,902	6,699,404	16,119,530	147,532	24,183,368
Other liabilities	-	-	-	-	-	67,724,405	67,724,405
Total Monetary Liabilities	258,078,553	63,981,186	59,491,036	23,356,088	26,325,134	340,052,434	771,284,431

	31 December 2020						
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Non-Interest Bearing*	*Total*
MONETARY ASSETS							
Cash and balances with central banks	16,526,589	-	-	-	-	45,885,527	62,412,116
Financial assets at fair value through profit or loss	82,336	196,180	6,621,314	567,060	34,836	760,821	8,262,547
Loans and advances to banks	10,571,746	1,971,610	3,296,714	102,798	412,661	22,090,279	38,445,808
Loans and advances to customers	84,531,501	42,773,290	112,832,315	86,551,891	16,667,242	(9,522,283)	333,833,956
Other assets	11,225,059	-	-	-	-	7,406,593	18,631,652
Investment securities	6,040,946	8,216,095	15,717,590	17,585,684	10,925,992	11,058,090	69,544,397
Total Monetary Assets	128,978,177	53,157,175	138,467,933	104,807,433	28,040,731	77,679,027	531,130,476
MONETARY LIABILITIES							
Deposits	148,418,921	36,110,804	15,990,312	4,353,490	163,083	152,715,763	357,752,373
Obligations under repurchase agreements and money market fundings	750,442	945,271	181,195	1,266,256	-	20,814	3,163,978
Loans and advances from banks and other institutions	4,398,612	7,329,228	12,965,379	2,522,368	74,643	276,689	27,566,919
Debt securities issued	6,583,937	2,104,920	4,205,539	9,447,694	180,883	294,108	22,817,081
Subordinated liabilities	252,880	750,000	-	-	5,535,000	61,089	6,598,969
Financial liabilities at fair value through profit or loss	3,518,695	-	-	2,631,048	9,831,122	157,074	16,137,939
Other liabilities	-	-	-	-	-	45,115,548	45,115,548
Total Monetary Liabilities	163,923,487	47,240,223	33,342,425	20,220,856	15,784,731	198,641,085	479,152,807

(*) Includes expected credit losses.

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

The following table indicates the effective interest rates by major currencies for the major components of the consolidated statement of financial position for the year ended of 2021 and 2020:

	2021			
	USD %	EUR %	TL %	Other Currencies%
Assets				
Loans and advances to banks	1-5	(0.75)-4	5-26	2-3
Debt and other fixed or floating income	4-12	1-5	15-19	3-5
Loans and advances to customers	1-10	1-10	1-30	1-30
Liabilities				
Deposits:				
- Foreign currency deposits-	1-5	(0.75)-2	-	1-5
- Bank deposits-	1-2	1	7-19	2
- Saving deposits	1-2	(0.59)-2	13-18	1-2
- Commercial deposits	1-5	(0.75)-1	6-19	1-4
- Public and other deposits	-	-	17	-
Obligations under repurchase agreements and money market fundings	1-3	(0.50)-3	1-23	-
Loans and advances from banks and other institutions	1-6	1-5	7-32	1-6
Debt securities issued	2-6	5	12-22	-

	2020			
	USD %	EUR %	TL %	Other Currencies%
Assets				
Loans and advances to banks	1-4	(0.63)-4	12-19	1-19
Debt and other fixed or floating income	3-12	1-4	11-15	3-6
Loans and advances to customers	1-10	1-11	1-21	1-31
Liabilities				
Deposits:				
- Foreign currency deposits-	1-4	(0.75)-7	-	(0.16)-5
- Bank deposits-	1	(0.30)	7-16	-
- Saving deposits	1-4	(0.60)-7	10-15	1-2
- Commercial deposits	1-3	(0.75)-2	6-23	(0.16)-1
- Public and other deposits	-	-	15	-
Obligations under repurchase agreements and money market fundings	1-3	(0.50)-1	1-19	-
Loans and advances from banks and other institutions	1-5	1-6	5-21	1-6
Debt securities issued	2-6	5	9-17	-

30 Financial risk management disclosures (continued)

Currency risk

Currency risk arises from the potential impact of adverse exchange rate fluctuations on the capital ratio and net profit, when the Bank has a significant activity in currencies other than the local currency of the balance sheet or when it holds exposure to protect its equity.

The Bank and its subsidiaries are exposed to currency risk through transactions in foreign currencies and through investments in foreign operations. The Bank and its subsidiaries' main foreign operations are in the Netherlands and Romania. The measurement currencies of its operations are Euro and Romanian Leu. As the currency in which the Bank presents its consolidated financial statements is TL, the consolidated financial statements are affected by currency exchange rate fluctuations against TL. The Bank finances a significant proportion of its net investment in foreign operations with borrowings in the same currencies as the relevant measurement currencies to mitigate its currency risk. FX swaps are also used to match the currency of some of its other borrowings to the measurement currencies involved. The Bank and its subsidiaries' transactional exposures give rise to foreign currency gains and losses that are recognised in the consolidated statement of profit or loss and other comprehensive income. These exposures comprise of monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved.

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

These exposures are as follows:

	2021			
	USD	**EUR**	**Other Currencies**	**Total**
Assets				
Cash and balances with central banks	60,687,011	47,899,868	14,819,022	123,405,901
Financial assets at fair value through profit or loss	5,671,892	116,072	-	5,787,964
Loans and advances to banks	38,017,158	8,553,132	6,208,774	52,779,064
Loans and advances to customers	89,239,873	95,442,701	18,052,994	202,735,568
Other assets	6,158,113	1,912,343	4,772,737	12,843,193
Investment securities	25,715,866	8,062,796	3,372,901	37,151,563
Equity investments	433,583	25,669	4	459,256
Tangible and intangible assets	346	541,440	446,830	988,616
Deferred tax asset	-	19,404	18,378	37,782
Total Assets	*225,923,842*	*162,573,425*	*47,691,640*	*436,188,907*
Liabilities				
Deposits	211,305,631	133,654,222	59,443,241	404,403,094
Obligations under repurchase agreements and money market fundings	2,406,050	4,416,567	321	6,822,938
Loans and advances from banks and other institutions	22,333,927	17,600,101	806,971	40,740,999
Debt securities issued	19,020,283	952,681	-	19,972,964
Financial liabilities at fair value through profit or loss	24,183,368	-	-	24,183,368
Subordinated liabilities	9,880,843	-	-	9,880,843
Current and deferred tax liability	-	124,301	32,989	157,290
Other liabilities, accrued expenses and provisions	15,838,444	3,947,905	908,643	20,694,992
Total Liabilities	*304,968,546*	*160,695,777*	*61,192,165*	*526,856,488*
Net Statement of Financial Position	*(79,044,704)*	*1,877,648*	*(13,500,525)*	*(90,667,581)*
Net Off Balance Sheet Position	*69,118,011*	*(6,187,459)*	*19,181,923*	*82,112,475*
Net Long/(Short) Position	*(9,926,693)*	*(4,309,811)*	*5,681,398*	*(8,555,106)*

	2020			
	USD	**EUR**	**Other Currencies**	**Total**
Total Assets	*113,918,563*	101,430,938	36,468,373	251,817,874
Total Liabilities	*163,716,692*	*90,491,298*	*37,788,207*	*291,996,197*
Net Statement of Financial Position	*(49,798,129)*	*10,939,640*	*(1,319,834)*	*(40,178,323)*
Net Off Balance Sheet Position	*50,734,557*	*(11,979,196)*	*9,689,867*	*48,445,228*
Net Long/(Short) Position	*936,428*	*(1,039,556)*	*8,370,033*	*8,266,905*

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related hard currencies. The effective exchange rates at the balance sheet date announced by the Bank in TL are 13.0930 for USD and 14.8480 for EUR.

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

The short positions in the consolidated statement of financial position shown in the table above are hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its subsidiaries ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The potential impact of adverse exchange rate fluctuations on the capital adequacy ratio and foreign currency risk weighted assets are regularly monitored according to internal limits and reported.

Credit risk

The Bank and its subsidiaries are subject to credit risk through the trading, lending, hedging and investing activities and the guarantees issued for their customers as well as in cases where they act as intermediaries on behalf of customers or other third parties.

The Bank developed a statistical-based internal default rate model for its credit portfolio of corporate/commercial/medium-size companies. This internal default rate model is used for expected credit loss of the Bank. Risk rating system which has been used for both to determine branch managers' credit authorization limits and in credit assessment process, is also used in default rate model calculations.

The concentration tables of the cash and non-cash loans as of 31 December 2021 and 2020 for the Bank according to this risk rating model for the customers defines as corporate, commercial and medium-size enterprises are presented below:

	2021	***2020***
	%	*%*
Above Average	7.73	5.12
Average	32.32	33.28
Below Average	59.95	61.60
	100.00	**100.00**

Concentrations based on industries and groups are also monitored. Application scorecards are used during loan granting process for retail and credit card portfolios. Behavioral scorecards are also used for these portfolios.

The Bank and its subsidiaries are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the statement of financial position. In addition, the Bank and its subsidiaries are exposed to off balance sheet credit risk through guarantees issued (Note 27).

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank and its subsidiaries deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

In accordance with IFRS 7 "Financial Instruments: Disclosures", the Group's maximum credit risk exposure (see definition below) by headings in the statement of financial position as of 31 December 2021 and 2020 are provided below. It does not consider the availability of collateral or other credit enhancements to guarantee compliance with payment obligations. The maximum credit exposures broken down by financial instruments are as follows:

	Notes	2021	Stage 1	Stage 2	Stage 3
Financial assets at fair value through profit or loss		*1,937,927*			
Debt and other instruments	*4*	1,937,927			
Equity and other non-fixed income instruments	*4*	-			
Loans and advances	*4*	-			
Non-trading financial assets mandatorily at fair value through profit or loss		*4,488,158*			
Loans and advances	*4*	4,488,158			
Debt and other instruments	*4*	-			
Equity and other non-fixed income instruments	*4*	-			
Equity investments measured at FVOCI	*9*	-			
Derivative financial assets	*5*	*17,790,290*			
Financial assets at fair value through other comprehensive income		*55,225,143*	*55,225,143*	-	-
Debt and other instruments	*8*	55,225,143	55,225,143	-	-
Equity and other non-fixed income instruments	*8*	-	-	-	-
Financial assets at amortised cost		*676,738,940*	*573,046,730*	*85,347,714*	*18,344,496*
Balances with central banks excluding reserve deposits	*3*	53,268,980	53,268,980	-	-
Loans and advances to banks	*6*	84,083,420	84,083,420	-	-
Loans and advances to customers	*7*	499,219,493	395,527,283	85,347,714	18,344,496
Debt and other instruments	*8*	40,167,047	40,167,047	-	-
Total financial assets risk		**756,180,458**			
Total loan commitments and financial guarantees	*27*	*254,276,716*			
Total maximum credit exposure		**1,010,457,174**			

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

	Notes	2020	Stage 1	Stage 2	Stage 3
Financial assets at fair value through profit or loss		*3,759,137*			
Debt and other instruments	*4*	3,109,047			
Equity and other non-fixed income instruments	*4*	650,090			
Loans and advances	*4*	-			
Non-trading financial assets mandatorily at fair value through profit or loss		*4,503,410*			
Loans and advances	*4*	4,503,410			
Debt and other instruments	*4*	-			
Equity and other non-fixed income instruments	*4*	-			
Equity investments measured at FVOCI	*9*	*364,859*			
Derivative financial assets	*5*	*4,614,552*			
Financial assets at fair value through other comprehensive income		*36,472,769*	*36,472,769*	-	-
Debt and other instruments	*8*	36,472,769	36,472,769	-	-
Equity and other non-fixed income instruments	*8*	-	-	-	-
Financial assets at amortised cost		*449,835,878*	*374,439,142*	*59,278,424*	*16,118,312*
Balances with central banks excluding reserve deposits	*3*	23,179,439	23,179,439	-	-
Loans and advances to banks	*6*	38,641,286	38,641,286	-	-
Loans and advances to customers	*7*	354,776,242	279,379,506	59,278,424	16,118,312
Debt and other instruments	*8*	33,238,911	33,238,911	-	-
Total financial assets risk		**499,550,605**			
Total loan commitments and financial guarantees	*27*	*157,544,253*			
Total maximum credit exposure		**657,094,858**			

The maximum credit exposure presented in the table above is determined by type of financial asset as explained below:

- In the case of financial assets recognised in the statement of financial position, exposure to credit risk is considered equal to its carrying amount (not including impairment losses) with the sole exception of derivatives. For derivatives, credit risk exposure is measured as the fair value of the corresponding instrument.

- The maximum credit risk exposure on financial guarantees granted is the maximum amount that the Group would be liable for if these guarantees were called in.

30 Financial risk management disclosures (continued)

Impairment assessment based on IFRS 9

Definition of default, cure and reverse transfer logic

According to the default definition, an asset is considered as default, on objective default (more than 90 days past due) and subjective default (unlikely to pay) conditions. Therefore, the Group considers a financial instrument defaulted and therefore stage 3 (credit-impaired) on these two below conditions:

1. Objective Default Definition: It means debt having past due more than 90 days. Current definition of default in the Bank and its financial subsidiaries subject to consolidation is based on a more than 90 days past due definition. If a loan is exactly 90 days past due, it will not be considered as default. Default status starts on the 91st day.
2. Subjective Default Definition: It means it is considered that a debt is unlikely to be paid. Whenever it is considered that an obligor is unlikely to pay its credit obligations, it should be considered as defaulted regardless of the existence of any past-due amount or of the number of days past due.

In order for the restructured non-performing corporate and commercial loans to be classified to the watchlist category, the following conditions must be met:
- Recovery in debt service,
- At least one year should pass over the date of restructuring,
- Payment of all accrued and overdue amounts by debtor (interest and principal) since the date of restructuring/refinancing or the date when the debtor is classified as non-performing (earlier date to be considered) and fulfillment of the payment condition of all overdue amounts as of the date of restructuring/refinancing,
- Collection of all overdue amounts, disappearance of the reasons for classification as non-performing receivable (based on the conditions mentioned above) and having no overdue more than 30 days as of the date of reclassification.

During the follow-up period of at least two years following the date of restructuring/refinancing, if there is a new restructuring/refinancing or a delay of more than 30 days, the transactions which were non-performing at the beginning of the follow-up period are classified as non-performing loans again. The performing or non-performing retail loans being subject to restructuring shall be removed from the watchlist only if the debt is paid in full.

Corporate and commercial companies which have been restructured and refinanced can be removed from the watchlist when the following conditions are met:
- Subsequent to the thorough review of company's financial data and its owners' equity position, at circumstances when it is not anticipated that the owner of the company will face financial difficulties; and it is assessed that the restructured debt will be paid on time (starting from the date when the debt is restructured all due principal and interest payments are made on time)
- At least two years should pass over the date of restructuring (or if it is later), the date of removal from non-performing loan category, at least 10% (or the ratio specified in the legislation) of the total principal amount at the time restructuring/refinancing shall be paid and no overdue amount (principal and interest) shall remain at the date of restructuring/refinancing

30 Financial risk management disclosures (continued)

Besides, when the condition that triggers a transfer to Stage 2 is no longer met, the exposure shall be transferred to Stage 1. If the credit risk on financial instruments, for which lifetime expected credit losses have been recognised, subsequently improves so that the requirement for recognising lifetime expected credit losses is no longer met, the loss allowance shall be measured at an amount equal to 12-month expected credit losses with a resulting gain recognised in profit or loss.

Assessment of the significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month expected credit losses or lifetime expected losses, the Group assesses both qualitatively and quantitatively whether there has been a significant increase in credit risk since initial recognition.

Qualitative assessment:

A financial asset is classified as Stage 2 (Significant Increase in Credit Risk) where any of the following conditions are satisfied as a result of a qualitative assessment:

- Loans overdue more than 30 days as of the reporting date,
- Loans classified as watchlist,
- When there is a change in the payment plan due to refinancing, restructuring or concession, the loan is not considered as default or written off and the change is not due to any commercial reason.

Quantitative assessment:

The quantitative reason explaining the significant increase in the credit risk is based on a comparison of the probability of default calculated at the origination of the loan and the probability of default assigned for the same loan as of the reporting date.

It is classified the related financial asset as Stage 2 (Significant Increase in Credit Risk) where both of the following criteria are satisfied as a result of quantitative assessment. The absolute and relative thresholds used for the probability of default are differentiated on the basis of segment/loan group.

- Relative change in the PD: If the "relative difference" between the probability of defaults as of the reporting date and the date when the loan is initially recognised in the financial statements is above the specified threshold
- Absolute change in the PD: If the "absolute difference" between the probability of defaults as of the reporting date and the date when the loan is initially recognised in the financial statements is above the specified threshold (different from the threshold for the relative change)

Besides, for the purpose of determining significant increases in credit risk and recognising a loss allowance on a collective basis, it is grouped financial instruments on the basis of shared credit risk characteristics. In this context, the methodology developed for the estimation of expected credit losses should include the risk features which meet the criteria for carrying the same credit risk characteristics. Examples of the common credit risk characteristics include, but are not limited to, the following:

- Customer type (retail or corporate/commercial)
- Product type
- Credit risk rating notes/scores
- Sector/market segmentation

30 Financial risk management disclosures (continued)

- Collateral type
- Loan to value ratio
- Duration since origination of a loan
- Remaining time to maturity
- Exposure at default

When measuring expected credit losses, it shall be considered the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low. Such assessment is made by reflecting the estimate of expected credit loss which is unbiased and probability-weighted determined by evaluating a range of possible outcomes.

As of 31 December 2021, the Bank has revised the cash flow expectations and scenario weights for its commercial and corporate loans, due to the negative effects of the COVID-19 outbreak and reflected the related effects in its expected credit losses with the best estimation approach.

Expected credit losses assessment is performed either on a collective basis or an individual basis. Collective assessment is applied for segments defined on the basis of similar risk characteristics. On the other hand, individual assessment is performed for loans that are individually significant and exhibit specific characteristics. Accordingly, certain portion of commercial and corporate loans is individually assessed. Calculations are performed by discounting the expected cash flows for the individual financial instrument to its present value using the effective interest rate. Future cash flows are determined based on two scenarios: going concern and gone concern scenarios. The choice of these scenarios depends on whether the customer is still operating and has operating cash flows that may be used to repay the debt, or whether the customer is not operating anymore and has collateral that may be used to pay the debt. In the estimation of credit losses individual assessment, on-balance/off-balance positions and collateral valuations are taken into consideration in the calculations of the cash flows using expert opinion. For the prediction of forthcoming drawing from off-balance positions, the credit conversion factor is conservatively applied as 100%.

In accordance with the Bank's internal policies, IFRS 9 models are validated once a year. The related model was updated in the fourth quarter and the corresponding impact is included in the year-end expected loss calculations.

In line with the guidance of IASB dated 27 March 2020, IFRS 9 requires the application of judgements and both requires and allows entities to adjust their approach to determining ECLs in different circumstances.

With the aim of mitigating the impact of COVID-19, various international bodies, local regulators have made pronouncements aimed at allowing flexibility in the implementation of the accounting and prudential frameworks. Financial and regulatory measures, such as tax payment deferrals, wage support and extension of the payments of the consumer and car loans, have been taken by the Turkish government and other local regulators to minimize the economic impact of COVID-19.

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

The Bank's approach

The Bank previously adopted an approach that past due more than 30 and 90 days were a qualitative indicator that automatically required an exposure to be transferred to Stage 2 and Stage 3. For the current period the Bank has not applied the existing methodology mechanically and tried to avoid the application of strong procyclical assumptions for IFRS 9.

The Bank develops estimates based on the best available information about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions, the Bank considers both effects of COVID-19 and the significant government support measures being undertaken.

As of 31 December 2021 and 2020, the breakdowns of individually and collectively assessed expected credit losses for loans, factoring and financial lease receivables and non-cash loans are as follows:

	2021					
	Stage 1		***Stage 2***		***Stage 3***	
	Individual	***Collective***	***Individual***	***Collective***	***Individual***	***Collective***
Cash loans	21	2,803,185	12,212,802	1,822,680	6,519,456	4,977,597
Factoring receivables	-	11,426	-	35	20,512	38,439
Financial lease receivables	2,085	89,459	253,032	40,651	554,133	74,897
Non-cash loans	402	538,301	828,811	230,162	1,102,831	229,976
	2,508	3,442,371	13,294,645	2,093,528	8,196,932	5,320,909

	2020					
	Stage 1		***Stage 2***		***Stage 3***	
	Individual	***Collective***	***Individual***	***Collective***	***Individual***	***Collective***
Cash loans	52	2,098,432	5,956,916	2,441,821	4,798,516	4,868,550
Factoring receivables	-	10,517	7,569	73	69,066	50,496
Financial lease receivables	446	53,287	116,272	41,817	366,716	61,740
Non-cash loans	9,910	494,082	607,411	227,337	596,537	216,612
	10,408	2,656,318	6,688,168	2,711,048	5,830,835	5,197,398

The Bank's internal rating and model inputs

The Bank's Credit Risk Department classifies exposures based on internal rating models and scoring models. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behavior. Where practical, they also build on information from rating agencies. These information sources together with the empirical default data are used to determine the PDs, which are later adjusted for IFRS 9 expected credit loss calculations to incorporate forward looking information. Additionally, these information sources are also utilised for the IFRS 9 stage allocation.

In LGD calculations, the direct costs of the recovery process are included as a cash flow reducing the final recovery. Workout LGD approach is preferred as methodological approach and client level cycle is used in accordance to the default definition. Effective interest rate is used in discounting process.

30 Financial risk management disclosures (continued)

The Bank and its subsidiaries offer credit card and overdraft products which gives ability to corporate and commercial customers demand repayment and cancel the undrawn commitment. Such products do not limit the period that entities are exposed to credit losses with the contractual notice. For this reason, it is calculated the expected credit losses for these products over a period of time reflecting the anticipation of customer behavior, the likelihood of default, and future risk mitigation procedures such as the reduction or removal of undrawn limits.

When determining the period over which it is expected to be exposed to credit risk, but for which expected credit losses would not be mitigated by normal credit risk management actions, it is considered factors such as historical information and experience about the below items:

- the period over which the entity was exposed to credit risk on similar financial instruments;
- the length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and
- the credit risk management actions that it is expected to be taken once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

Expected credit losses on the revolving products are calculated for retail and corporate customers by considering 3 to 5 years of expected lifetime.

The assessment of significant increase in credit risk for revolving loans is performed by considering qualitative and quantitative criteria as performed for other credit products which is explained in disclosure “Significant increase in credit risk”.

Forward-looking macroeconomic information

IFRS 9 indicates that forecasts of future economic conditions should be incorporated to expected credit losses estimates by considering a range of possible outcomes.

Accordingly, forward-looking macroeconomic information is incorporated into credit risk parameters during assessment of significant increase in credit risk and expected credit loss calculation. In order to include forward-looking information into the estimation of the risk parameters, econometric models are built. The incorporation of forward-looking information into the credit risk parameters consists of the following steps:

Step 1: It is made specifications and estimates of econometric models that reveal past relationships between credit risk parameters and macroeconomic variable in order to be able to generate estimates based on macroeconomic information. Macroeconomic variable prevailing during these estimates is the Gross Domestic Product (GDP).

Step 2: Where macroeconomic scenarios do not include longer maturity, a process called “convergence to the mean” is applied.

Step 3: In order to estimate the ultimate parameters to be used in the calculation of the expected credit losses, the methods of credit risk parameters reflection and forward-looking impact inclusion into the parameters are applied.

The Bank updates its macroeconomic parameters incorporated into significant increase in credit risk and expected credit loss assessments quarterly. The Bank has assessed the relevant updates for the last quarter in its models..

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

The Bank takes into account different scenarios in the calculation of expected credit loss by evaluating the current economic conditions and expert opinions. Accordingly, the macroeconomic value estimates taken into account in the expected loss provision calculation are presented below.

Date	GDP
31.12.2021	9.5%
31.12.2022	2.0%
31.12.2023	5.0%
31.12.2024	3.5%
31.12.2025	3.5%
31.12.2026	3.5%

Low credit risk assumption

The credit risk on a financial instrument is considered as low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. It is not considered financial instruments to have low credit risk when they are regarded as having a low risk of loss simply because of the value of collateral and the financial instrument without that collateral would not be considered low credit risk. Financial instruments are also not considered to have low credit risk simply because they have a lower risk of default than the other financial instruments or relative to the credit risk of the jurisdiction within which it is operated.

If it is determined that a financial instrument has a low credit risk as of the reporting date, it is assumed that the credit risk on the financial instrument has not increased significantly following its first recognition in the financial statements.

It is defined the definition of low credit risk based on the definition of High Quality Liquid Asset given in the Regulation on the Liquidity Coverage Ratio Calculation and the principles of the risk weight calculation based on the external rating note of the receivables from the Central Banks and the Central Governments in accordance with the Regulation on the Measurement and Assessment of Banks' Capital Adequacy.

The financial instruments that are defined as having low credit risk based on IFRS 9 are as follows:
- Receivables from the Central Bank of the Republic of Turkey (required reserves, free reserves, placement, etc.)
- Loans with counterparty of Treasury of the Republic of Turkey,
- Receivables (reserves, free reserves, placements, etc.) from the central banks of the branches of the Bank or its subsidiaries, securities issued or guaranteed by these central banks and securities issued/guaranteed by the treasury of these countries,
- Loans granted to the treasury of countries having rating note of AA- and above and the securities issued or guaranteed by the treasury of these countries,
- Local currency loans granted to the treasury of countries having rating below AA-, and securities in local currency issued or guaranteed by the treasury of these countries,

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

Securities exported or guaranteed by multilateral development banks or international organizations having rating of AA- and above.

As of 31 December 2021 and 2020, details of loans under follow-up (Stage 2) including restructured contracts are as follows:

	Loans and Other Receivables under Follow-Up (Stage 2)		
		Restructured	
2021	**Non-restructured**	**Revised Contract Terms**	**Other Changes**
Cash Loans			
Loans	**41,128,085**	**24,025,963**	**18,622,398**
Commercial, Corporate and SME Loans	26,457,443	20,404,094	18,548,547
Consumer Loans	9,607,263	2,861,705	73,851
Credit Cards	5,063,379	760,164	-
Other Receivables	895,197	651,673	24,398
Total	**42,023,282**	**24,677,636**	**18,646,796**

	Loans and Other Receivables under Follow-Up (Stage 2)		
		Restructured	
2020	**Non-restructured**	**Revised Contract Terms**	**Other Changes**
Cash Loans			
Loans	**38,490,249**	**14,616,905**	**5,101,354**
Commercial, Corporate and SME Loans	18,824,632	11,308,416	5,041,905
Consumer Loans	15,948,115	2,886,099	59,449
Credit Cards	3,717,502	422,390	-
Other Receivables	804,313	243,682	21,921
Total	**39,294,562**	**14,860,587**	**5,123,275**

Below table indicates the delinquency periods of loans under follow-up (Stage 2) as of 31 December 2021 and 2020:

2021	**Corporate/ Commercial Loans**	**Consumer Loans**	**Credit Cards**	**Total**
31-60 days	288,545	1,021,012	205,503	1,515,060
61-90 days	328,962	405,865	103,266	838,093
Loans not delinquent more than 30 days	66,363,845	11,115,942	5,514,774	82,994,561
Total	**66,981,352**	**12,542,819**	**5,823,543**	**85,347,714**

2020	**Corporate/ Commercial Loans**	**Consumer Loans**	**Credit Cards**	**Total**
31-60 days	273,322	670,489	110,504	1,054,315
61-90 days	280,450	263,561	48,629	592,640
Loans not delinquent more than 30 days	35,691,097	17,959,613	3,980,759	57,631,469
Total	**36,244,869**	**18,893,663**	**4,139,892**	**59,278,424**

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

Sectoral and geographical concentration of impaired (Stage 3) loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location.

An analysis of concentrations of non-performing (Stage 3) loans, factoring and financial lease receivables including accruals is presented below:

	2021	2020
Energy	3,758,183	3,499,796
Construction	2,303,114	2,338,979
Transportation and logistics	2,249,686	1,438,042
Consumer loans	1,466,308	862,489
Service sector	1,208,269	1,417,703
Textile	649,890	473,482
Food	618,702	579,345
Tourism	516,773	326,816
Agriculture and stockbreeding	410,989	332,252
Durable consumption	362,462	238,798
Transportation vehicles and sub-industries	355,646	429,804
Metal and metal products	283,867	216,344
Data processing	100,844	252,167
Chemistry and chemical products	88,233	110,894
Paper and paper products	83,711	78,045
Others	3,887,819	3,523,356
Total non-performing loans, factoring and financial lease receivables	18,344,496	16,118,312

	2021	2020
Turkey	13,060,468	15,064,315
Cyprus	3,441,124	20,129
Romania	981,061	724,426
Malta	493,340	166,446
Germany	149,561	3,691
Switzerland	86,118	48,486
Netherlands	66,623	2,155
England	35,599	63,635
Others	30,602	25,029
Total non-performing loans, factoring and financial lease receivables	18,344,496	16,118,312

Collateral policy

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The Bank and its subsidiaries currently hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. 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 31 December 2021 and 2020.

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

The Bank's credit risk exposure and mitigation techniques used in order to reduce the exposure level are taken into account according to the principles stated in the related regulation. The Bank applies credit risk mitigation according to the comprehensive method that includes risk mitigation calculations considering the volatility-adjusted values of financial collaterals. The standardized risk weights are applied to the rest of the loans and receivables that remained unprotected after credit risk mitigation techniques. Financial collaterals that are composed of cash or cash equivalents, real estate mortgages, high quality securities and Credit Guarantee Fund suretyship having Treasury guarantee have been used in credit risk mitigation.

The collaterals held against loans under follow-up (Stage 2) including accruals, are presented below, as per the collateral type, up to the outstanding total amount of exposures:

2021	Corporate/ Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	29,775,928	2,947,747	-	32,723,675
Pledge assets	11,317,960	198,775	-	11,516,735
Promissory notes	249,494	6,122	-	255,616
Cash collateral	2,428,351	50,950	-	2,479,301
Other collaterals	19,359,068	8,448,715	-	27,807,783
Unsecured	3,850,551	890,510	5,823,543	10,564,604
Total	**66,981,352**	**12,542,819**	**5,823,543**	**85,347,714**

2020	Corporate/ Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	16,706,864	4,420,193	-	21,127,057
Pledge assets	3,780,513	283,672	-	4,064,185
Promissory notes	85,723	8,413	-	94,136
Cash collateral	801,533	85,105	-	886,638
Other collaterals	10,924,606	13,326,871	-	24,251,477
Unsecured	3,945,630	769,409	4,139,892	8,854,931
Total	**36,244,869**	**18,893,663**	**4,139,892**	**59,278,424**

The collaterals held against non-performing (Stage 3) loans and receivables including accruals, are presented below, as per the collateral type, up to the outstanding total amount of exposures:

2021	Corporate/ Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	8,517,506	258,724	-	8,776,230
Pledge assets	1,681,535	34,602	-	1,716,137
Promissory notes	138,005	1,879	-	139,884
Cash collateral	18,912	607	-	19,519
Other collaterals	2,030,588	1,934,551	-	3,965,139
Unsecured	2,569,707	367,333	790,547	3,727,587
Total	**14,956,253**	**2,597,696**	**790,547**	**18,344,496**

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

2020	**Corporate/ Commercial Loans**	**Consumer Loans**	**Credit Cards**	**Total**
Mortgages	7,970,929	227,765	-	8,198,694
Pledge assets	1,731,647	37,793	-	1,769,440
Promissory notes	150,337	2,975	-	153,312
Cash collateral	15,438	373	-	15,811
Other collaterals	1,594,683	1,505,915	-	3,100,598
Unsecured	1,835,825	250,151	794,481	2,880,457
Total	**13,298,859**	**2,024,972**	**794,481**	**16,118,312**

The amounts reflected in the tables above represent the maximum accounting loss that would be recognised at the date of the statement of financial position if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value.

Write-off/down policy

Disclosures on write down 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 27 November 2019. Pursuant to the regulation, the banks are enabled to write down and move the portion of a loan which is classified as “Stage 3.3: Loss” off the balance sheet if it cannot reasonably be expected to be recovered. The Bank performs objective and subjective assessments whether there is any reasonable expectation.

In accordance with IFRS 9, a provision is provided for the portions of the loans that are not expected to be recovered as explained in the significant accounting policies. Accordingly, the loans which cannot be reasonably expected to be recovered regarding the opinions of the related department responsible from the collection and the portion up to the provision amount of the loans that are classified as “Stage 3.3: Loss” can be subject to write-down operation.

In addition, all of the loans that meet the conditions below are assessed by the Bank as having completely lost their collectability and can be written down based on the positive opinion of the related departments.

i. Being monitored as a non-performing loan at least for 2 years,
ii. Not having any collection in the last 6 months,
iii. Not having any tangible collateral other than a pledge over movable assets.

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

As of 31 December 2021, in accordance with the relevant accounting policy the Bank has written down "Stage 3.3: Loss" amounting to TL 9,447,212 (31 December 2020: TL 5,008,760). During the period, the non-performing loan ratio of the Bank calculated as 5.88% (31 December 2020: 6.06%) by taking into account the written-off loans in accordance with the amendment on the relevant Provisions Regulation instead of 3.78% to (31 December 2020: 4.56%).

	Current Period		*Prior Period*	
Write down	**TL**	**FC**	**TL**	**FC**
Credit Card	491,568	-	502,949	-
Other Loans	2,406,870	6,284,304	2,356,747	2,056,930
Interest Receivables	20,831	243,639	20,164	71,970

As of 31 December 2021, Bank's consolidated subsidiaries, has also written down "Stage 3.3: Loss" amounting to TL 1,122,610 (31 December 2020: TL 582,689). During the period, the non-performing loan ratio of the Group calculated as 5.56% (31 December 2020: 5.93%) by taking into account the written-off loans in accordance with the amendment on the relevant Provisions Regulation instead of 3.60% (31 December 2020: 4.47%).

	Current Period		*Prior Period*	
Write down	**TL**	**FC**	**TL**	**FC**
Credit Card	-	11,124	-	4,288
Other Loans	217,317	894,169	107,793	470,608
Interest Receivables	-	-	-	-

Disclosures on write-off policy

The general policy of the Bank regarding write-off process for loans under follow-up is to write-off the loans which are documented as uncollectible during the legal follow-up process. As of 31 December 2021, total loans written-off from assets are TL 63,380 (31 December 2020: TL 11,150).

Operational risks

The Bank accepts the definition of operational risk proposed by the Bank for International Settlements (BIS) and defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition excludes strategic or business risk and reputational risk.

The definition of operational risk (OR) includes the risk types: processes, external and internal fraud, technology, human resources, business practices, disasters, suppliers.

Operational risk is managed on the basis of the three lines of defense approach within the frame of risk management policies approved by the Board of Directors.

Currently, the value at consolidated operational risk is calculated according to the basic indicator approach as per the Article 6 of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks".

The annual gross income is composed of net interest income and net non-interest income after deducting realized gains/losses from the sale of securities classified under financial assets measured at

(Currency: Thousands of Turkish Lira (TL))

30 Financial risk management disclosures (continued)

fair value through other comprehensive income and financial assets measured at amortised cost, extraordinary income and income derived from insurance claims.

Capital management – regulatory capital

BRSA, being the main regulatory and supervisory body in Turkey, sets and monitors minimum capital requirements at consolidated and Bank-only level. Individual banking operations are directly supervised by their local regulators and subject to requirements set by these authorities.

In order to build up adequate buffers above these minimum requirements, BRSA requires the Bank to hold 2.5% Capital Conservation Buffer (31 December 2020: 2.5%), 1.5% Domestic Systemically Important Bank Buffer (31 December 2020: 1.5%) and 0.14% Bank-specific Countercyclical Buffer (31 December 2020: 0.13%) as CET1 capital.

Banks that do not meet these buffer requirements subject to restrictions on discretionary payments as described in the Regulation on Capital Conservation and Countercyclical Capital Buffers. No restriction as of reporting date applies to Bank that has excess capital above all these requirements.

The Bank's and its subsidiaries' consolidated regulatory capital is composed mainly of the following items:

-Common Equity Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, other comprehensive income, foreign currency translation reserve and non-controlling interests after deductions for goodwill and certain cost items

-Additional Tier 1 capital, which the Bank has no qualifying liability needs to be classified in this category

-Tier 2 capital, which includes qualifying subordinated liabilities and Stage 1 and 2 provisions capped with 1.25% of Credit RWA.

The Bank's and its subsidiaries' regulatory capital positions on consolidated basis are as follows:

	2021	2020
Tier 1 capital	79,610,109	61,854,002
Tier 2 capital	17,001,183	11,161,116
Deductions from capital	(2,984)	(1,884)
Total regulatory capital	96,608,308	73,013,234
Value at credit, market and operational risks	584,065,437	432,914,519
Capital ratios (%)		
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks	16.54	16.87
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	13.63	14.29

30 Financial risk management disclosures (continued)

Hedging

Due to the Bank and its subsidiaries' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its subsidiaries from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank and its subsidiaries enter into transactions to ensure that it is economically hedged in accordance with risk management policies. In the accompanying consolidated financial statements, hedge accounting is applied for the cases where hedge accounting relationship is evidenced.

From time to time, the Bank enters into various interest rate swap transactions in order to hedge its certain cash flow or fair value exposures on floating/fixed rate assets and liabilities, through converting its floating/fixed rate income/payments into fixed/floating rate income/payments.

The Bank enters into interest rate and cross currency swap agreements in order to hedge the change in fair value of fixed-rate financial instruments due to fluctuations in market interest rates. In this respect, the Bank applied fair value hedge accounting for its fixed-rate loans with a total principal of TL 200,000 and EUR 7,411,765 for its fixed-rate bonds with a total face value of USD 387,500,000 by designating interest rate swaps and cross currency swaps with the same face values and terms. Accordingly, the accumulated fair value loss for the hedged loans and bonds is TL 22,791 (31 December 2020: gain of TL 12,559) and gain of TL 349,358 (31 December 2020: TL 371,381) respectively. The part of the related amount that belongs to the current period is accounted for under net trading income/(expense) in the consolidated statement of profit or loss and other comprehensive income, respectively.

The Bank enters forward foreign currency transactions in order to hedge its payment commitments made within the context of a special mile program that the Bank is subject to from the exchange rate risk that will occur due to fluctuations in the market exchange rates. Cash flow hedge accounting is applied for the payment commitments amounting to USD 28,007,200 in total (31 December 2020: nil) by designating foreign currency forwards with the same nominal values and terms. As of 31 December 2021, TL 113,476 (31 December 2020: nil) arising from cash flow accounting is accounted under shareholders' equity. There is no ineffective portion arising from cash flow hedge accounting.

The Bank also enters into interest rate and cross currency swap agreements in order to hedge the change in cash flows of floating rate financial instruments due to fluctuations in market interest rates. In this respect, the Bank applied cash flow hedge accounting for its borrowings amounting to 13,157,908 and securities issued amounting to EUR 19,026,306 by designating cross currency swaps with the same face values and terms and securities issued amounting to USD 246,097,568 and deposits amounting to TL 4,130,000, USD 980,000,000 and forward EUR 480,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, gain of TL 15,449 and loss of TL 236,152 (31 December 2020: gain of TL 16,656 and loss of TL 247,380) resulting from cross currency swaps, interest rate swaps agreements were recognised under shareholders' equity, respectively.

30 Financial risk management disclosures (continued)

One of the Bank's consolidated subsidiaries associated its contractual operational lease receivables (contractual future cash flows) denominated in EUR with its EUR denominated borrowings and other foreign currency borrowings converted to EUR currency through swap transactions and applied cash flow hedge accounting until 1 October 2017. The foreign currency exposures in operational lease receivables were hedged and accordingly the effective portion of foreign currency gains/losses of non-derivative hedging instruments designated for hedges of future cash flows were recognised directly in equity and any ineffective portion is recognised immediately in income until 1 October 2017. Effective from 1 October 2017, the subsidiary ceased the cash flow hedge regarding foreign currency exposure of its EUR denominated operational lease contracts and considered a fair value hedge relationship between such EUR denominated operational lease receivables and corresponding foreign currency borrowings. The contract has matured on 5 July 2021.

In the consolidated financial statements, the Bank applies cash flow hedge accounting by designating interest rate swap agreements for floating rate borrowings used by one of the Bank's consolidated subsidiaries, in order to hedge the cash flow risk arising from fluctuations in market interest rates of these borrowings on a consolidated level, starting from 30 September 2019. In this respect, cash flow hedge accounting is applied for borrowings amounting to EUR 77,459,900 by designating interest rate swaps with the same nominal value and terms. In this respect, a gain of TL 5,449 (31 December 2020: a loss of TL 840) accounted under shareholders' equity in the current period for interest rate swap transactions.

One of the Bank's consolidated subsidiaries enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial instruments due to fluctuations in market interest rates. In this respect, the subsidiary applied fair value hedge accounting for fixed rate eurobonds with a total face value of EUR 20,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, the accumulated fair value loss for the hedged loans and bonds is TL 14,288 (31 December 2020: TL 19,257). The part of the related amount that belongs to the current period is accounted for under net trading income/(expense) in the consolidated statement of profit or loss and other comprehensive income.

One of the Bank's consolidated subsidiaries enters into interest rate swap agreements in order to hedge the change in cash flows of floating rate financial instruments due to fluctuations in market interest rates. In this respect, the subsidiary applied cash flow hedge accounting for its borrowings amounting to EUR 35,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, a net loss of TL 2,726 (31 December 2020: TL 10,489) resulting from interest rate swap agreements were recognised under shareholders' equity.

One of the Bank's consolidated subsidiaries enters into foreign currency derivative contracts to hedge the foreign currency risk of its expected future cash flows. In this respect, the subsidiary applied cash flow hedge accounting for its loans granted in Turkish Lira by designating swaps with the same face values and similar terms; TL 162,582,333 sell and EUR 12,706,573 buy, HUF 1,582,233 sell and EUR 4,398,007 buy, USD 115,754,333 sell and EUR 97,072,943 buy. Accordingly, in the current period, a loss of TL 474 (31 December 2020: TL 2,378) resulting from currency derivative contracts were recognised under shareholder's equity.

(Currency: Thousands of Turkish Lira (TL))

31 Subsidiaries, associates and structured entities

The table below sets out the consolidated subsidiaries, associates and structured entities of the Bank and its shareholding interests in these entities:

Consolidated entities	***2021***	***2020***
Garanti Bank International NV	100.00	100.00
Garanti Holding BV	100.00	100.00
Garanti Portföy Yönetimi AŞ	100.00	100.00
Garanti Yatırım Menkul Kıymetler AŞ	100.00	100.00
Garanti Bilişim Teknolojisi ve Tic. AŞ***(a)***	100.00	100.00
Garanti Filo Yönetimi Hizmetleri AŞ	100.00	100.00
G Netherlands BV	100.00	100.00
Garanti Bank SA	100.00	100.00
Motoractive IFN SA	100.00	100.00
Ralfi IFN SA	100.00	100.00
Motoractive Multiservices SRL	100.00	100.00
Garanti Kültür AŞ	100.00	100.00
Garanti Konut Finansmanı Danışmanlık Hiz. AŞ	100.00	100.00
Garanti Ödeme Sistemleri AŞ	99.98	99.96
Garanti Emeklilik ve Hayat AŞ	84.91	84.91
Garanti Faktoring AŞ	81.84	81.84
Garanti Yatırım Ortaklığı AŞ	3.61	3.61
Garanti Diversified Payment Rights Finance Company ***(b)***	-	-
RPV Company ***(b)***	-	-

(a) *As of 31 December 2021, the liquidation process of Garanti Bilişim Teknolojisi ve Tic. AŞ has been approved.*
(b) *Garanti Diversified Payment Rights Finance Company and RPV Company, are structured entities established for the Bank's securitization transactions, and consolidated in the accompanying consolidated financial statements. The Bank or any of its subsidiaries do not have any shareholding interests in these companies.*

(Currency: Thousands of Turkish Lira (TL))

32 Net fees and commissions income

	2021	***2020***
Fees and commissions income		
Credit cards fees	6,861,185	3,987,198
Commercial banking	1,102,187	788,239
SME banking	1,006,516	710,665
Retail banking	902,748	616,739
Brokerage activities related fees	882,492	807,099
Corporate banking	551,715	383,125
Insurance business fees	222,134	170,697
Others	902,554	795,740
Total fees and commissions income	12,431,531	8,259,502
Fees and commissions expense:		
Credit cards fees	2,886,644	1,439,505
Retail banking	35,849	20,872
Insurance business fees	7,309	10,429
Commercial banking	6,936	6,455
SME banking	271	163
Corporate banking	123	50
Others	312,772	224,603
Total fees and commissions expense	3,249,904	1,702,077
Net fees and commissions income	9,181,627	6,557,425

33 Net trading income/(expense)

Gains and losses from derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading income/(expense) including the effective portion of fair value hedges, whereas, gains and losses arising from changes in the effective portion of the fair value of cash flow hedges are reflected as a separate component of equity. Net gains/(losses) from trading of financial assets is detailed in the table below:

	2021	***2020***
Fixed/floating securities	2,970,676	522,259
Financial assets designated as FVPL	(4,517,374)	(1,083,586)
Derivative transactions	6,561,651	(2,444,385)
Net trading income/expense	5,014,953	(3,005,712)

34 Other operating income

	2021	***2020***
Other operating income:		
Net sales from operationallease business(*)	493,437	279,265
Net sales from other non-financial subsidiaries	135,066	80,718
Dividend income	27,996	22,178
Rent income from real estate (including investment property)	1,797	2,912
Others	334,302	260,130
Total operating income	992,598	645,203

(*) Depreciation expenses of the operational lease portfolio are netted-off with the net sales of this business.

(Currency: Thousands of Turkish Lira (TL))

35 Other operating expenses

	2021	***2020***
Computer usage expenses	779,393	576,390
Saving deposits insurance fund	681,990	581,617
Advertising expenses	279,471	184,660
Utility expenses	218,437	200,530
Rent expenses	143,306	117,501
Repair and maintenance expenses	109,950	92,160
Research and development expenses	61,502	55,212
Stationary expense	34,785	46,797
Others	1,088,186	1,123,984
	3,397,020	2,978,851

(Currency: Thousands of Turkish Lira (TL))

36 Related party disclosures

For the purpose of this report, the shareholders either controlling or having executive key management personnel in common with the Bank and BBVA and all their subsidiaries, and their ultimate owners, directors and executive officers and the Bank's unconsolidated subsidiaries and associates are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank had the following balances outstanding from and transactions with related parties:

	2021	**2020**
Statement of financial position		
Loans and advances to banks	783,755	16,796
Loans and advances to customers	428,019	466,019
Loans measured at FVPL (*)	4,483,939	4,500,540
Miscellaneous receivables	-	646,070
Deposits from banks	31,849	70,153
Deposits from customers	7,124,864	460,777
Miscellaneous payables	65	39
Commitments and contingencies		
Non-cash loans	2,037,846	1,238,486
Derivatives	39,457,836	30,860,067

(*) *The loans measured at FVPL amounting to TL 4,483,939 (31 December 2020: TL 4,500,540) granted to a special purpose entity owned by the Group with 22.1265% and its investment in Türk Telekomünikasyon A.Ş. considered as associate are disclosed as related party balances as of the year end.*

	2021	**2020**
Statement of profit or loss and other comprehensive income		
Interest, fees and commissions income	77,213	64,547
Interest, fees and commissions expenses	208,939	9,213
Net trading income/(expense) and foreign exchange gains/(losses), net(*)	6,472,133	(1,360,366)
Impairment losses, net	-	(293,200)
Other operating income	22,189	27,181
Other operating expenses	36,934	29,279

(*) *Net trading income/(expense) includes fair value increase regarding loans measured at FVPL amounting to TL 6,482,100.*

In 2021, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 3%-28% and 4%-6% (31 December 2020: 3%-28% and 4%-6%), respectively. The interest rates applied to TL receivables from and payables to related parties vary within the ranges of nil and 11%-32%, respectively (31 December 2020: nil and 8%-19%).

Various commission rates are applied to transactions involving guarantees and commitments. The pricing in transactions with the related parties is set on an arms-length basis.

36 Related party disclosures (continued)

As per IFRS 9, expected credit losses amounted to TL 737 is reversed (31 December 2020: expected credit losses provision amounted to TL 922 are recognised) against balances outstanding during the period with related parties for the year ended 31 December 2021

Key management personnel compensation for the year ended 31 December 2021 amounted to TL 139,849 (31 December 2020: TL 127,737) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted to TL 84,704 (31 December 2020: TL 76,902) and of its subsidiaries amounted to TL 55,145 (31 December 2020: TL 50,835).

37 Use of estimates and judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates. These disclosures supplement the commentary on financial risk management (see Note 30).

Key sources of estimation uncertainty

<u>Expected credit losses</u>

The measurement of expected credit losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining expected credit losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

The following are the critical judgements that have the most significant effect on the amounts recognised in the accompanying consolidated financial statements:

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or FVOCI that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase in credit risk: As explained in "significant accounting policies" in detail, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to "financial risk management disclosures" for more details.

37 Use of estimates and judgements (continued)

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to "financial risk management disclosures" for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets.

Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL.

Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See both "significant accounting policies" and "financial risk management disclosures" for more details on ECL and Note 29 for more details on fair value measurement.

Establishing the number and relative weightings of forward-looking scenarios and determining the forward looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See Note 30 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments. Refer to Note 29 for more details on fair value measurement. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in significant accounting policies section and Note 29. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

37 Use of estimates and judgements (continued)

Critical accounting judgements in applying the Bank's accounting policies

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

Financial asset and liability classification

The Bank and its subsidiaries' accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:
- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy *(j) Financial instruments*.
- In designating financial assets or liabilities at FVPL, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy *(j) Financial instruments*.
- In classifying financial assets as at amortised cost, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy *(j) Financial instruments*.

Securitizations

In applying its policies on securitized financial assets, the Bank has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Bank over the other entity:

- When the Bank, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Bank's consolidated statement of financial position.

- When the Bank has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognised in the Bank's consolidated statement of financial position.

- When the Bank transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets have been derecognised from the Bank's consolidated statement of financial position.

Control over investments

As a bank, regardless of the nature of its involvement with an entity, is required to determine whether it is a parent by assessing whether it controls the entity, the Bank also reassesses whether or not it controls an investment when facts and circumstances indicate that there are changes to one or more of the following three elements of control:

- power over the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of its returns.

(Currency: Thousands of Turkish Lira (TL))

38 Profit reserves and profit appropriation

Retained earnings as per the statutory financial statements other than legal reserves, are available for distribution, subject to the legal reserve requirement explained to below.

Under the Turkish Commercial Code, legal reserves consist of first legal reserve and second legal reserve. First legal reserve, appropriated at the rate of 5%, until the total reserve is equal to 20% of issued and fully paid-in share capital. Second legal reserve, appropriated at the rate of at least 10% of distributions in excess of 5% of issued and fully paid-in share capital, but holding companies are not subject to such transaction. According to the Turkish Commercial Code, legal reserves can only be used to compensate accumulated losses and cannot be used for other purposes unless they exceed 50% of paid-in capital.

In the ordinary General Assembly Meeting dated 31 March 2021, a decision is made regarding distribution of the unconsolidated net profit of the Bank amounting to TL 6,238,003 (based on BRSA bank-only financial statements), and considering the distribution made based on the decision is presented below.

2020 PROFIT DISTRIBUTION TABLE	
2020 Net Profit	**6,238,003**
A – I. Legal reserve (Turkish Commercial Code 519/1) at 5%	-
Undistributable funds	(35,205)
B – First dividend at 5% of the paid-in capital	(210,000)
C – Extraordinary reserves at 5% after above deductions	(301,400)
D – Second dividend to the shareholders	(413,800)
E – Extraordinary reserves	(5,236,218)
F – II. Legal reserve (Turkish Commercial Code 519/2)	(41,380)

39 Subsequent events

According to the announcement made by Public Oversight Accounting and Auditing Standards Authority on 20 January 2022, due to the fact that cumulative change in the general purchasing power of the last 3 years was 74.41%; it has been stated that businesses applying IFRS do not need to make any adjustments in their financial statements for 2021 within the scope of IAS 29 Financial Reporting in High Inflation Economies.

As claimed in the statement made by the Bank on 31 March 2022, the voluntary takeover bid process made by BBVA for the shares that it does not currently own started on 4 April 2022 and ended on 29 April, 2022. Regarding the voluntary takeover offer to be made by BBVA for Bank shares that BBVA does not currently own, BBVA has obtained all necessary permits, both in Turkey and in other countries, to acquire more than 50% of the shares.

The Board of Directors of BBVA decided to increase the Voluntary Takeover Bid price offered in cash for each Garanti BBVA share with a nominal value of TRY 1.00 from the initially announced price (12.20 Turkish Lira) to 15.00 Turkish Lira.

As a result of the increase in the Voluntary Takeover Bid price and in accordance with the Communiqué, the acceptance period of the Voluntary Takeover Bid is extended for a period of 2 weeks (the last day of the acceptance period of the Voluntary Takeover Bid will be May 18, 2022). This date takes into consideration the national holidays in Turkey from May 2, 2022 to May 4, 2022 and will need to be adjusted in case of additional national holidays. As per Article 22/4 of the Communiqué, during this 2 week additional period, no new modifications can be made to the tender offer.

39 **Subsequent events** (continued)

As of 31 March 2022, 192.500.000.000 Group A registered shares representing 55% of the share capital of Türk Telekomünikasyon A.Ş. owned by LYY Telekomünikasyon A.Ş. were sold to the Turkey Wealth Fund, and as a result of the collection made from the sale amount, the portion of the related loan amounting to USD 324,997,068, corresponding to the Bank's share, was closed.

As per the Article 26 of the Law No. 7394 on the “Law on Evaluation of Immovable Property Owned by the Treasury and Amendment to the Value Added Tax Law” and as per added first sentence to the temporary Article 13 of the Law No. 5520 on the “Corporate Tax Law” published in the Official Gazette No. 31810 dated 15 April 2022, the corporate tax rate will be applied as 25% for the corporate earnings for the taxation period of 2022. Since the tax rate change is effective as of 15 April 2022, 23% was used as the tax rate in the deferred tax calculations in the financial statements.

Within the scope of the Communiqué No. 2021/14 on Supporting the Conversion of TL Deposit and Participation Accounts, the conversion rate from foreign currency deposit accounts in USD, EUR, GBP and participation fund accounts in foreign currency to time deposits and participation funds in TL as of the obligation date of April 15, 2022, it has been decided not to apply an annual commission of 1,5% to the banks that have reached the 10% level and the 20% level as of the September 2, 2022 obligation date, up to the amount to be kept for their required reserve liabilities until the end of 2022. The banks that could not meet the conversion rate of 10% separately for both individuals and corporations as of September 2, 2022, would be requested a commission of 3% starting from aforementioned date.

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