**ICBC TURKEY BANK A.Ş.**
**AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 AND INDEPENDENT AUDITOR'S REPORT

## INDEPENDENT AUDITOR'S REPORT

To the General Assembly of ICBC Turkey Bank A.Ş.

### Opinion

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

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

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants* (the “IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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.

| Key Audit Matters | How the matter was addressed in the audit |
|---|---|
| ***Impairment of loans in accordance with IFRS 9***<br><br>Impairment of loans is a key area of judgement for the management. The Group has the total loans and advances to customers amounting to TL 21,729,503 thousands, which comprise 55% of the Group’s total assets in its consolidated financial statement and the total provision for impairment amounting to TL 770,278 as at 31 December 2021.<br><br>The expected credit loss estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions, and forecasts of future economic conditions. | As part of our audit work, the following procedures were performed:<br><br>We assessed and tested the design, implementation and operating effectiveness of key controls applied by the Group with respect to classification of loans and determination and calculation of impairments. Our information system experts have also participated to perform these procedures.<br><br>We have assessed and analysed the relevant contract terms to assess management’s accounting policy and classification of the instrument for selected samples.<br><br>We have performed loan review procedures on selected samples of loans and receivables considering effects of |

| Key Audit Matters | How the matter was addressed in the audit |
|---|---|
| The Group exercises significant decisions using judgement, interpretation and assumptions over calculating loan impairments. These judgments, interpretations and assumptions are key in the development of the financial models. In addition, impairment of loans and receivables consist of significant judgments and assumptions regarding with Covid 19 effects.<br><br>Not fullfilling the requirements of the IFRS 9 is a potential risk for the Bank. Failure in determining the loans and receivables that are impaired and not recording the adequate provision for these impaired loans is the aforementioned risk. Accordingly, impairment of loans and receivables is considered as a key audit matter.<br><br>Related explanations relating to the impairment are presented in Note 7 and 8. | Covid 19 with the objective of identifying whether the loss event had occurred and whether the provision for impairment has been recognized in a timely manner within the framework of the provisions of the relevant legislation.<br><br>We have tested relevant inputs and assumption used by the management in each stage of the expected credit loss calculation by considering whether the inputs and assumptions appear reasonable regarding with Covid 19 effects, the relationship between the assumptions and whether the assumptions are interdependent and internally consistent, whether the assumptions appropriately reflect current market information and collections, and whether the assumptions appear reasonable when considered collectively with other assumptions, including those for the same accounting estimates and those for other accounting estimates.<br><br>We have tested historical loss data to validate the completeness and accuracy of key parameters.<br><br>We have tested whether the model is applied to appropriate segments of assets which share credit risk characteristics and whether the historical loss rates were incurred under economic conditions representative of those that may exist during the assets' exposure periods.<br><br>We tested the application of the model to the relevant inputs and the mathematical integrity of each stage of the expected credit loss calculation.<br><br>Based on our discussions with the Group management, we evaluated whether the key assumptions and other judgements considering Covid 19 effects underlying the estimations of impairments were reasonable.<br><br>We assessed expected credit losses determined based on individual assessment per Group's policy by means of supporting data and evaluated appropriateness via communications with management considering Covid 19 effects.<br><br>Our specialists are involved in all procedures related to models and assumptions.<br><br>We have reviewed disclosures made within the IFRS 9 framework in the financial statements and respective notes of the Group with respect to loans and receivables and related impairment provisions. |
| ***Information Technologies Audit***<br><br>The Bank and its finance functions are dependent on the IT-infrastructure for the continuity of its operations, and the demand for technology-enabled business services is rapidly growing in the Bank and its subsidiaries. Controls over reliability and continuity of the electronic data processing are within the scope of the information systems internal controls audit. The reliance on information systems | Procedures within the context of our information technology audit work:<br><br>• We identified and tested the Group's controls over information systems as part of our audit procedures.<br><br>• Information generation comprise all layers of information systems (including applications, networks, transmission systems and database). |

| Key Audit Matters | How the matter was addressed in the audit |
|---|---|
| within the Bank means that the controls over access rights, continuity of systems, privacy and integrity of the electronic data are critical and found to be key area of focus as part of our risk based scoping. | The information systems controls tested are categorized in the following areas:<br><br>• Security management<br>• Changes management<br>• Operations management<br><br>• We selected high-risk areas as, database logging and change management control activities, to prevent and detect whether accesses to financial data had been identified in a timely manner.<br><br>• We tested the accesses and logging controls underlying all applications that have direct or indirect impacts on financial data generation.<br><br>• Automated controls and integration controls are tested to underly and detect changes and accesses in the process of financial data generation.<br><br>• We also tested the appropriateness and accuracy of the information produced by the entity and information used in controls reports as inputs to our controls and outputs generated by the IT components.<br><br>• Finally, we understood and tested the controls over database, network, application and operating system layers of applications. |

**Other Matters**

The consolidated financial statements of the Group as at and for the year ended 31 December 2020 were audited by another auditor who expressed an unqualified opinion on 21 June 2021.

**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 IFRSs, 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Müjde Aslan.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Müjde Aslan
Partner

İstanbul, 30 March 2022

# INDEX

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2021

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

| | *Notes* | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with the central banks | *6* | 4,254,127 | 1,640,988 |
| Due from banks and financial institutions | *6* | 454,153 | 1,600,920 |
| Reserve deposits at central banks | *6* | 3,350,631 | 1,519,925 |
| Interbank and other money market placements | *6* | 20,955 | 504,390 |
| Financial assets at fair value through profit and loss | | 258,353 | 37,709 |
| *Trading securities* | *7* | *67,224* | *36,205* |
| *Derivative financial assets* | *18* | *191,129* | *1,504* |
| Loans and advances to customers | *9* | 21,004,968 | 13,946,607 |
| *Measured at amortised cost* | | *17,959,065* | *9,760,850* |
| *Fair value through other comprehensive income* | | *3,045,903* | *4,185,757* |
| Investment securities | *8* | 9,453,673 | 5,527,907 |
| *Measured at amortised cost* | | *7,979,955* | *4,360,898* |
| *Fair value through other comprehensive income* | | *1,473,718* | *1,167,009* |
| Property, plant and equipment | *10* | 123,237 | 113,423 |
| Intangible assets | *11* | 11,437 | 7,839 |
| Deferred tax assets | *17* | 300,614 | 116,269 |
| Other assets | *12* | 140,738 | 165,206 |
| **Total assets** | | **39,372,886** | **25,181,183** |
| **LIABILITIES** | | | |
| Deposits from banks | *13* | 748,362 | 179,548 |
| Deposits from customer | *13* | 15,558,191 | 11,459,149 |
| Obligation under repurchase agreement and other money market funding | *13* | 3,024,482 | 697,700 |
| Derivative financial liabilities | *18* | 15,619 | 89,858 |
| Funds borrowed | *14* | 12,974,644 | 8,091,838 |
| Subordinated loans | *15* | 3,999,625 | 2,202,640 |
| Income tax payable | *17* | 162,366 | 69,246 |
| Provisions | *16* | 434,876 | 203,931 |
| Other liabilities | *16* | 829,507 | 769,457 |
| **Total liabilities** | | **37,747,672** | **23,763,367** |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | *19* | 860,000 | 860,000 |
| Adjustment to share capital | | 4,108 | 4,108 |
| Share capital premium | | 411 | 411 |
| Fair value reserves | | 4,013 | (4,543) |
| Revaluation surplus on buildings | | 29,086 | 17,326 |
| Actuarial gain/(loss) | | (2,721) | 922 |
| Legal reserves and retained earnings | *20* | 730,317 | 539,592 |
| **Total equity** | | **1,625,214** | **1,417,816** |
| **Total liabilities and equity** | | **39,372,886** | **25,181,183** |

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

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2021

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

| | *Notes* | **1 January– 31 December 2021** | **1 January– 31 December 2020** |
|---|---|---|---|
| **Interest income** | | | |
| Interest on loans and advances | | 893,013 | 645,962 |
| Interest on securities | | 572,654 | 406,105 |
| Interest on deposits with other banks and financial institutions | | 9,340 | 34,615 |
| Interest on other money market placements | | 83,027 | 50,543 |
| Other interest income | | 31,115 | 4,024 |
| **Total interest income** | | **1,589,149** | **1,141,249** |
| **Interest expense** | | | |
| Interest on deposits | | (504,777) | (363,983) |
| Interest on funds borrowed | | (207,658) | (261,647) |
| Interest on other money market deposits | | (32,661) | (17,012) |
| Other interest expense | | (13,665) | (45,780) |
| **Total interest expense** | | **(758,761)** | **(688,422)** |
| **Net interest income** | | **830,388** | **452,827** |
| Net impairment of loans and advances and credit related commitments | *9* | (468,432) | (148,665) |
| **Net interest income after provision for impairment of loans and advances** | | **361,956** | **304,162** |
| Foreign exchange gain/(loss), net | | 352,868 | 99,654 |
| **Net interest income after foreign exchange gain and provision for impairment of loans and advances** | | **714,824** | **403,816** |
| **Other operating income** | | | |
| Fee and commission income | *24,25* | 183,453 | 176,594 |
| Net trading income | *26* | 30,273 | 2,392 |
| Divided income | | 201 | 90 |
| Other income | *27* | 95,277 | 74,251 |
| | | **309,204** | **253,327** |
| **Other operating expenses** | | | |
| Fees and commission expense | *24* | (22,205) | (15,470) |
| Salaries and employee benefits | *28* | (374,141) | (269,701) |
| Depreciation and amortization | *10,11* | (37,255) | (34,603) |
| Taxes other than on income | | (21,146) | (26,223) |
| General and administrative expenses | *29* | (79,417) | (65,747) |
| Other expenses | *30* | (249,216) | (115,258) |
| | | **(783,380)** | **(527,002)** |
| **Profit from operating activities before income tax** | | **240,648** | **130,141** |
| Current tax expense | *17* | (239,888) | (123,681) |
| Deferred tax income/(expense) | *17* | 186,429 | 84,470 |
| **Profit for the year** | | **187,189** | **90,930** |
| **Profit attributable to:** | | | |
| Owners of the Bank | | 187,189 | 90,930 |
| **Earnings per share** | | | |
| Basic and diluted per share (expressed in full TL) | 22 | 0,0218 | 0,0106 |

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

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

| | 1 January– 31 December 2021 | 1 January– 31 December 2020 |
|---|---|---|
| **Profit for the year** | **187,189** | **90,931** |
| **Other comprehensive income items that are or may be reclassified subsequently to profit or loss** | | |
| Net change in fair value of financial assets measured at fair value through other comprehensive income (FVOCI) | 11,076 | (10,006) |
| Net change in fair value of available for sale financial assets | - | - |
| Tax related to gain/(loss) recognized under equity | (2,520) | 881 |
| **Net change in fair value** | **8,556** | **(9,125)** |
| **Other comprehensive income items that will not be reclassified subsequently to profit or loss** | | |
| Revaluation surplus on buildings | 12,379 | 2,306 |
| Tax related to gain/(loss) recognized under equity | (619) | (74) |
| **Net change in revaluation on buildings** | **11,760** | **2,232** |
| Actuarial gain/(loss) | (4,697) | (368) |
| Tax related to gain/loss recognized under equity | 1,054 | 73 |
| **Net change in actuarial gain/(loss)** | **(3,643)** | **(295)** |
| **Other comprehensive income, net of tax** | **16,673** | **(7,188)** |
| **Total comprehensive income for the year** | **203,862** | **83,742** |
| **Attributable to:** | | |
| Owners of the Bank | 203,862 | 83,744 |
| Non-controlling interest | - | - |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2021

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

| | *Notes* | Share capital | Adjustment to share capital | Share capital premium | Fair value reserves | Revaluation surplus on buildings | Actuarial gain/(loss) | Legal reserves and retained earnings | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balances at 1 January 2020** | | **860,000** | **4,108** | **411** | **4,582** | **15,094** | **1,216** | **443,901** | **-** | **1,329,312** |
| **Comprehensive income for the year** | | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | - | 90,931 | - | 90,931 |
| **Other comprehensive income** | | | | | | | | | | |
| Net change in FVOCI | | - | - | - | (9,125) | - | - | - | - | (9,125) |
| Revaluation surplus on buildings | 10,20 | - | - | - | - | 2,232 | - | - | - | 2,232 |
| Actuarial gain/(loss) | 16,20 | - | - | - | - | - | (294) | - | - | (294) |
| **Total comprehensive income for the year** | | **-** | **-** | **-** | **(9,125)** | **2,232** | **(294)** | **90,931** | **-** | **83,744** |
| **Other Changes in Equity** | | **-** | **-** | **-** | **-** | **-** | **-** | **4,760** | **-** | **4,760** |
| **Balances at 31 December 2020** | | **860,000** | **4,108** | **411** | **(4,543)** | **17,326** | **922** | **539,592** | **-** | **1,417,816** |
| **Balances at 1 January 2021** | | **860,000** | **4,108** | **411** | **(4,543)** | **17,326** | **922** | **539,592** | **-** | **1,417,816** |
| **Comprehensive income for the year** | | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | - | 187,189 | - | 187,189 |
| **Other comprehensive income** | | | | | | | | | | |
| Net change in FVOCI | | - | - | - | 8,556 | - | - | - | - | 8,556 |
| Revaluation surplus on buildings | 10,20 | - | - | - | - | 11,760 | - | - | - | 11,760 |
| Actuarial gain/(loss) | 16,20 | - | - | - | - | - | (3,643) | - | - | (3,643) |
| **Total comprehensive income for the year** | | | | | **8,556** | **11,760** | **(3,643)** | **187,189** | **-** | **203,862** |
| **Other Changes in Equity** | | **-** | **-** | **-** | **-** | **-** | **-** | **3,536** | **-** | **3,536** |
| **Balances at 31 December 2021** | | **860,000** | **4,108** | **411** | **4,013** | **29,086** | **(2,721)** | **730,317** | **-** | **1,625,214** |

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

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

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

| | *Notes* | **1 January– 31 December 2021** | **1 January– 31 December 2020** |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 1,167,788 | 1,047,116 |
| Interest paid | | (614,813) | (600,078) |
| Fees and commissions received | | 138,051 | 226,515 |
| Income from banking services | | 5,512 | 123,385 |
| Trading income | | 280,679 | 57 |
| Fees and commissions paid | | (22,205) | (15,470) |
| Cash payments related to employee benefits and similar items | | (352,558) | (259,533) |
| Net cash paid for other operating activities | | 166,166 | 315,129 |
| Income taxes paid | | (21,149) | (149,911) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **747,471** | **687,210** |
| **Changes in operating assets and liabilities** | | | |
| Trading securities | | (17,246) | (5,253) |
| Reserve deposits at Central Bank | | (1,830,706) | (818,382) |
| Loans and advances | | (6,937,264) | (5,087,471) |
| Other assets | | (2,614,667) | (560,839) |
| Due to banks | | 564,986 | 3,091 |
| Deposits from customers | | 4,106,093 | 1,668,612 |
| Other money market deposits | | 2,326,782 | 678,859 |
| Other liabilities | | (121,849) | (224,911) |
| **Net cash provided by / (used in) operating activities** | | **(4,523,871)** | **(4,346,294)** |
| **Cash flows from investing activities** | | | |
| Purchases of investment securities at FVOCI | | (324,176) | (43,029) |
| Proceeds from sale and redemption of investment securities at FVOCI | | 26,613 | 622,028 |
| Purchases of assets to be disposed of | | - | - |
| Proceeds from sale of assets to be disposed of | | - | - |
| Purchases of tangible assets | *10* | (8,296) | (12,107) |
| Proceeds from the sale of tangible assets | | - | - |
| Purchase of intangible assets | *11* | (10,480) | (5,307) |
| Purchases of investment securities measured at amortized cost | | (2,135,581) | (1,240,930) |
| Proceeds from the sale of investment securities measured at amortized cost | | 1,114,930 | 343,919 |
| Other | | 680 | (8,814) |
| **Net cash provided by / (used in) investing activities** | | **(1,336,310)** | **(343,620)** |
| **Cash flows from financing activities** | | | |
| Proceeds from funds borrowed | | 22,467,519 | 12,942,678 |
| Repayments of funds borrowed | | (17,731,884) | (9,176,960) |
| **Net cash provided by financing activities** | | **4,735,635** | **(3,765,718)** |
| Effect of exchange rates on cash and cash equivalents | | 1,354,684 | 121,508 |
| **Net increase / (decrease) in cash and cash equivalents** | | **977,609** | **(115,478)** |
| Cash and cash equivalents at the beginning of year | *6* | 3,750,867 | 3,866,345 |
| **Cash and cash equivalents at the end of year** | | **4,728,476** | **3,750,867** |

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

## 1. CORPORATE INFORMATION

### General

"The Bank" was established with trade name as Tekstil Bankası A.Ş. on 29 April 1986, to carry out all types of banking activities according to the Banking Law and later changes in the laws and regulations, with the permission of the Council of Ministers in accordance with the resolution numbered 85/9890 and dated 24 September 1985 and started it operations on 13 October 1986. "Articles of Association" of the Bank was published in Turkish Trade Registry Gazette no, 1511, dated 9 May 1986, the statute of the Bank was not changed since its establishment. Trade name of the Bank has been changed and registered as ICBC Turkey Bank A.Ş., on 13 November 2015.

The capital of the Bank is TL 860,000 as at 31 December 2021 and is fully paid (31 December 2020: 860,000 TL). The Bank was incorporated by GSD Group until 21 May 2015. As at 29 April 2014, GSD Holding A.Ş., the major shareholder of the Bank, has come to conclusion to sell 75,50% shares of The Bank to Industrial and Commercial Bank of China (ICBC) and with respect to the sale transaction, it was declared to be approved by China Banking Regulatory Commission (CBRC) on 20 March 2015, and in Turkey, it was approved by Competition Authority in accordance with decision dated 20 August 2014 and numbered 14-29/593-259 and Banking Regulation and Supervision Agency (BRSA), in accordance with decision dated 2 April 2015 and numbered 6262.

Following the completion of relevant permissions with respect to the sale transaction, the Bank appealed Extraordinary General Assembly on 22 May 2015 for approving the resignation of members of Board of Directors and selecting new members on 28 April 2015 in the Public Disclosure Platform (KAP). Within the context of share purchase agreement. 22 May 2015 date was defined as share transfer date and the share transfer was carried out on this date and processed to the Bank's share ledger.

As a result of acquisition of shares representing 75.50% of Tekstil Bankası A.Ş., which was owned by GSD Holding A.Ş., an obligation occurs to propose take-over bids in order to purchase the shares of other shareholders in accordance with the provision of Article 11 of Take-Over Bids Communique numbered II-26,1 of Capital Markets Board of Turkey related to mandatory bid, In this context, share ownership of ICBC in the Bank has risen to 92.82% from 75.50% as a result of mandatory bid call transactions ending as at 14 August 2015 realized in accordance with the Take-Over Bids Communique numbered Serial II. 26.1 by ICBC, which is controlling shareholder of the Bank.

In accordance with the decision of the general extraordinary meeting of the Bank dated 9 February 2017, the Bank's capital was decided to increase and the decision was registered by İstanbul Trade Registry Office on 29 June 2017. At this content, the Bank's capital has increased in cash amounting to TL 440,000 from TL 420,000 to TL 860,000 and the whole increase was made in cash. With this increase, ICBC's shareholding ratio at the Bank has increased from 92.82% to 92.84%.

The shares, except for the shares owned by ICBC, are traded at Istanbul Stock Exchange (BIST).

In the context of the decision taken at the Extraordinary General Meeting on 5 November 2015, the Bank's trade title has been changed and registered as ICBC Turkey Bank AŞ, at the Trade Registry Gazette on 13 November 2015.

The registered office address of the Bank is located at Maslak Mahallesi Dereboyu/2 Caddesi, No. 13, Sarıyer 34398 Istanbul/Turkey.

### Nature of Activities of the Bank / Group

For the purposes of the consolidated financial statements, the Bank and its subsidiaries are together referred to as "the Group". The operations of the Group consist of corporate, commercial, SME, fund management, retail banking services, international transactions and securities trading in capital markets.

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

## 1. CORPORATE INFORMATION (continued)

The information related to the subsidiaries included in consolidation and effective shareholding percentages of the Group at 31 December 2021 is as follows:

| | Place of Incorporation | Principal Activities | Effective Shareholding And Voting Rights (%) |
|---|---|---|---|
| ICBC Turkey Yatırım Menkul Değerler A.Ş. (“ICBC Yatırım”) | Istanbul/Turkey | Brokerage | 99.998 |
| ICBC Turkey Portföy Yönetimi A.Ş. (“ICBC Portföy”) (*) | Istanbul/Turkey | Portfolio Management | 99.998 |

(*) ICBC Yatırım participated in ICBC Turkey Portföy Yönetimi A.Ş. (ICBC Portföy) with 100% share in April 2015.

As at 31 December 2021, the Bank has 59 branches located in Turkey (31 December 2020: 59 branches). As at 31 December 2021 and 2020, the number of employees are:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| The Bank | 729 | 726 |
| Subsidiaries | 102 | 100 |
| **Total** | **831** | **826** |

The consolidated financial statements as at and for the year ended 31 December 2021 have been approved on 30 March 2022 by the Group’s management. Authorized boards of the Bank and other regulatory bodies have the power to amend the statutory financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board (“IASB”). They have been prepared from statutory financial statements of the Bank and its subsidiaries in Turkish Lira (“TL”) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except for the following material items in the statement of financial position which are measured at fair value:

- derivative financial instruments
- financial assets measured at fair value through profit or loss
- financial assets measured at fair value through other comprehensive income
- buildings recorded under tangible assets

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 Basis of Preparation (continued)

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

A new type of coronavirus (COVID-19), which first appeared in China, was classified by the World Health Organization as an epidemic that affects countries globally on 11 March 2020. The COVID-19 pandemic and the precautions taken against it have impacts on economic conditions, sectors, businesses, consumers, as well as asset and commodity prices, liquidity, exchange rates, interest rates, money and capital markets and many other issues and the future of it remains uncertain. The effects of these effects on the Bank's equity management and capital adequacy, asset quality, credit risk, operational risk, currency risk, interest rate risk, liquidity risk, stock position risk arising from banking accounts, leverage ratio and other risks and indicators and is regularly monitored by the Bank Management. Although the effects of the situation are not known exactly, it is expected to affect the financial status and operating results of the Bank in the foreseeable future. The Bank takes the necessary precautions to keep the negative effects that may arise under control and at a minimum level.

While preparing its 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.

Due to COVID-19, the Parent Bank has enabled its individual and legal entity customers postpone their principal, interest and installment payments in case they requested and has applied delays within this scope.

***Functional and Presentation Currency of the Bank and Its Subsidiary:***

The Bank’s, ICBC Yatırım’s, and ICBC Portföy’s functional and presentation currency is in thousands of TL and consolidated financial statements including comparative figures for the prior periods are presented in thousands of TL.

### 2.2 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, 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 judgments are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant estimates and assumptions for impairment on loans and advances to customers are presented Note 2.9.

Information about other significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements are as follows;

*(a) Income Taxes:*

The Bank and its subsidiaries, ICBC Yatırım and ICBC Portföy, are subject to income taxes in Turkey. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax provisions and deferred tax in the period in which such determination is made.

In Turkey, the general corporate tax rate is 20%. However, within the scope of the Law No. 7316 on the "Law on the Collection of Public Claims and Amendments to Certain Laws" published in the Official Gazette dated 22 April 2021, this rate will be applied as 25% for the corporate earnings of the institutions for the 2021 taxation period, and 23% for the corporate earnings for the 2022 taxation period, starting from the declarations that must be submitted as of 1 July 2021.

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly.

*(b) Employee Termination Benefits:*

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these benefits, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc.

The indemnity payable is one month's salary for each year of service and as of 31 December 2021, this amount is restricted with full TL 10,848.59 (31 December 2020: full TL 7,117.17). The liability is not funded, since there is no funding requirement.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Changes in Accounting Policy and Disclosures

The accounting policies adopted in the preparation of the financial statements as at 31 December 2021 are consistent with those followed in the preparation of the financial statements of the prior year, except for the new standards and amendments to standards, including any consequential amendments to other standards summarized in related notes.

**New and Revised International Financial Reporting Standards**

**a) New and revised IFRSs that are effective for the current year**

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

The amendments in Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 are all effective for annual periods beginning on or after 1 January 2021, early application is permitted.

The Group assessed that the adoption of this amendment does not have any effect on the Group's consolidated financial statements.

**b) New and revised IFRSs in issue but not yet effective**

The Group has not yet adopted the following standards and amendments and interpretations to the existing standards:

| | |
|---|---|
| IFRS 17 | *Insurance Contracts* |
| Amendments to IAS 1 | *Classification of Liabilities as Current or Non-Current* |
| Amendments to IFRS 3 | *Reference to the Conceptual Framework* |
| Amendments to IAS 16 | *Property, Plant and Equipment – Proceeds before Intended Use* |
| Amendments to IAS 37 | *Onerous Contracts – Cost of Fulfilling a Contract* |
| Annual Improvements to IFRS Standards 2018-2020 | *Amendments to IFRS 1, IFRS 9* |
| Amendments to IFRS 4 | *Extension of the Temporary Exemption from Applying IFRS 9* |
| Amendments to IFRS 16 | *COVID-19 Related Rent Concessions beyond 30 June 2021* |
| Amendments to IAS 1 | *Disclosure of Accounting Policies* |
| Amendments to IAS 8 | *Definition of Accounting Estimates* |
| Amendments to IAS 12 | *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* |
| Amendments to IFRS 17 | *Initial Application of IFRS 17 and IFRS 9 — Comparative Information* |

**IFRS 17 *Insurance Contracts***

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts, IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023.

**Amendments to IAS 1 *Classification of Liabilities as Current or Non-Current***

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

Amendment defers the effective date by one year, Amendments to IAS 1 are effective for annual reporting periods beginning on or after 1 January 2023 and earlier application is permitted.

**Amendments to IFRS 3 *Reference to the Conceptual Framework***

The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated *Conceptual Framework*) at the same time or earlier).

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

**b) New and revised IFRSs in issue but not yet effective (cont'd)**

**Amendments to IAS 16 *Proceeds before Intended Use***

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

**Amendments to IAS 37 *Cost of Fulfilling a Contract***

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract', Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour materials) or an allocation of other costs that relate directly to fulfilling contracts.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

**Annual Improvements to IFRS Standards 2018-2020**

Amendments to IFRS 1 *First time adoption of International Financial Reporting Standards*

The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.

Amendments to IFRS 9 *Financial Instruments*

The amendment clarifies which fees an entity includes in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

Amendments to IFRS 4 Extension of the Temporary Exemption from Applying IFRS 9

The amendment defers the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.

**Amendments to IFRS 16 *COVID-19 Related Rent Concessions beyond 30 June 2021***

The International Auditing and Assurance Standards Board ("IAASB") has published *COVID-19 Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)* that extends, by one year, the June 2020 amendment that provides lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification.

On issuance, the practical expedient was limited to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021. Since lessors continue to grant COVID-19 related rent concessions to lessees and since the effects of the COVID-19 pandemic are ongoing and significant, the IASB decided to extend the time period over which the practical expedient is available for use.

The new amendment is effective for lessees for annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Changes in Accounting Policy and Disclosures (continued)

**New and Revised International Financial Reporting Standards (cont'd)**

**b) New and revised IFRSs in issue but not yet effective (cont'd)**

The Group has applied the practical expedient to all rent concessions that have met the related criteria included in the amendment.

**Amendments to IAS 1 *Disclosure of Accounting Policies***

The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies.

Amendments to IAS 1 are effective for annual reporting periods beginning on or after 1 January 2023 and earlier application is permitted.

**Amendments to IAS 8 *Definition of Accounting Estimates***

With this amendment, the definition of "a change in accounting estimates" has been replaced with the definition of "an accounting estimate", sample and explanatory paragraphs regarding estimates have been added, and the differences between application of an estimate prospectively and correction of errors retrospectively have been clarified.

Amendments to IAS 8 are effective for annual reporting periods beginning on or after 1 January 2023 and earlier application is permitted.

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

The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

Amendments to IAS 12 are effective for annual reporting periods beginning on or after 1 January 2023 and earlier application is permitted.

**Amendments to IFRS 17 *Initial Application of IFRS 17 and IFRS 9 — Comparative Information***

The amendment permits entities that first apply IFRS 17 and IFRS 9 at the same time to present comparative information about a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset before.

The amendments are applied when IFRS 17 is first applied.

The Group evaluates the effects of these standards, amendments and improvements on the consolidated financial statements.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, as at 31 December 2021 and 31 December 2020.

Subsidiaries are controlled directly or indirectly by the Bank. Control is defined as the power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Bank's returns.

Financial statements of related subsidiaries are consolidated from the date when the control is transferred to the Bank.

In the full consolidation method, 100% of subsidiary' assets, liabilities, income, expense and off-balance sheet items are combined with the Bank's assets, liabilities, income, expense and off-balance sheet items.

The carrying amount of the Group's investment in the subsidiary and the Group's portion of the cost value of the capital of the subsidiary are eliminated. Intragroup balances and intragroup transactions and resulting unrealized profits and losses are eliminated. Non-controlling interests in the net income of consolidated subsidiary shall be identified and adjusted against the income of the Group in order to arrive at the net income attributable to the shareholders of the parent of the Group and presented separately in the Group's income statement. The Group has non-controlling interests due its subsidiary ICBC Yatırım's minority shareholders (0.002% share) whose interests are immaterial to be presented in the consolidated financial statements.

Accounting policies of subsidiary has been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.5 Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the date of financial position. All differences are subjected in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency translation rates for major currencies used by the Group as at respective year-ends are as follows:

| | **Euro / TL (full)** | **US Dollar / TL (full)** |
|---|---|---|
| 31 December 2020 | 9,0079 | 7,3405 |
| 31 December 2021 | 15,0867 | 13,3290 |

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

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.6 Property, Plant and Equipment**

Property, plant and equipment are initially recognized at their cost that includes expenditures that are directly attributable to the acquisition of the asset. Property, plant and equipment, except buildings as stated below, are reflected in the consolidated financial statements at cost less accumulated depreciation and any accumulated impairment.

Property, plant and equipment are depreciated on a straight-line basis based on the in estimated useful lives. The estimated useful lives are as follows:

| | |
|---|---|
| Buildings | 50 years |
| Furniture, office machinery and vehicles | 3 – 15 years |
| Leasehold improvements | Shorter of the economic life or lease term |

The depreciation of an asset held for a period less than a full financial year is calculated as a proportion of the full year depreciation charge from the date of acquisition to the financial year end.

In case of the cost value of tangible assets are less than their “net realizable value”, the book values of such assets are reduced to their “net realizable values” and impairment losses are recorded as expense.

Gain and losses sourcing from disposal of plant, property and equipment are determined through deduction of net book value from the sales revenue of the related plant, property and equipment.

The regular maintenance and repair expenditures are accounted as expense. The investment expenditures, made to increase the future benefits of the asset by improving the capacity of the asset, are added to the cost of the asset. Investment expenditures comprised of the costs, which increase the useful life of the asset, improve the capacity of the asset, increase the quality or decrease the cost of production.

The Group applies revaluation model for the buildings as permitted by IAS 16 “Property, Plant and Equipment”. For this purpose, fair values of the buildings are determined by a third-party appraiser, which is commissioned by BRSA and Capital Markets Board. The fair value surplus is recognized in “Revaluation surplus on buildings” within the equity items. As at 31 December 2021, revaluation surplus on buildings amounts to TL 29,086 (31 December 2020: TL 16,740).

**2.7 Intangible Assets**

Intangible assets are measured at cost on initial recognition. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful life of 3 – 15 years. There are no intangible assets with indefinite useful lives.

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

**2.8 Investments and Financial Assets and Liabilities**

The Group recognizes its financial assets as “Fair Value through Profit or Loss”, “Fair Value through Other Comprehensive Income” or “Measured at Amortized Cost”. Such financial assets are recognized or derecognized according to IFRS 9 Financial Instruments. The Group recognizes a financial asset or financial liability on its balance sheet only when it is party to the contractual provisions of the financial lease. The Group derecognizes a financial asset only when the contractual rights to cash flows from the financial asset have expired or the financial assets have been transferred and the conditions for derecognition have been met. A financial liability (or part of a financial liability) is only recognized when the liability has expired; in other words, it is removed from the statement of financial position when the obligation specified in the contract is fulfilled, canceled or time out.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 Investments and Financial Assets and Liabilities (continued)

Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets at Fair Value through Profit or Loss", transaction costs are added to fair value or deducted from fair value.

The Group categorizes its financial assets as “Financial Assets at Fair Value Through Profit/Loss”, “Financial Assets at Fair Value Through Other Comprehensive Income” or “Measured at Amortized Cost” based on the matters below:

- The business model used by the entity for the management of financial assets,

- Characteristics of contractual cash flows of the financial assets.

When the business model determined by the Group management is changed, all financial assets affected by this change are reclassified. Reclassification of financial assets is applied prospectively from the date of reclassification. In such cases, no adjustment is made to earnings, losses (including impairment gain or loss) or interest received previously in the financial statements.

**a. Financial Assets at Fair Value through Profit or Loss:**

Financial assets at fair value through profit or loss consist of financial assets other than the business model that aims to hold contractual cash flows to collect and the business model that aims to collect and sell contractual cash flows. Financial assets valued at fair value through profit or loss are valued at their fair values. Gain/loss arising on those assets is recorded in the statement of profit or loss.

**b. Financial Assets at Fair Value through Other Comprehensive Income:**

A financial asset is measured at fair value through other comprehensive income when both of the following conditions are met:

- Financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell,

- Financial assets with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates.

Financial assets measured at fair value through other comprehensive income are measured at their fair values subsequently. Unrealized gains or losses arising from changes in the fair value of securities carried at fair value through profit and loss at fair value through profit or loss are expressed in equity as “Other Comprehensive Income That Will Be Reclassified to Profit or Loss”. In case of disposal of marketable securities at fair value through other comprehensive income as a result of fair value application, the value in the shareholders’ equity accounts is reflected to the statement of profit or loss. However, the Group may prefer the method of reflecting changes in fair value to other comprehensive income is irrevocable for the first time in the financial statements for certain investments in equity instruments measured at fair value through profit or loss under normal circumstances.

**c. Financial Assets Measured at Amortized Cost:**

A financial asset is measured at amortized cost when both of the following conditions are met:

- Financial assets within a business model that aims to hold to collect contractual cash flows,

- Financial assets with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates.

Subsequent to the initial recognition, financial assets measured at amortized cost are accounted at amortized cost calculated by using the effective interest rate method. Interest income on financial assets measured at amortized cost is recorded as interest income in the statement of profit or loss.

**d. Loans and Advances to Customers:**

Loans are financial assets created by providing money, goods or services to the debtor. Such loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the “Effective Interest Rate (internal rate of return) Method”. Charges paid for assets acquired as collateral and other similar expenses are not considered as part of the transaction cost and are reflected in the expense items. Loans of the Group are recorded under the financial assets “Measured at Amortized Cost” and “Fair Value through Other Comprehensive Income” accounts.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9 Impairment of Financial Assets (continued)

**Recognition of Expected Credit Losses**

The Bank makes provisions for financial assets measured at fair value through other comprehensive income, assets measured at amortized cost, and expected losses related to non-cash loans and credit commitments. As of 1 January 2018, the Bank recognizes provisions for impairment in accordance with IFRS 9 requirements.

The Groups measured the expected credit losses for a financial asset based on the probabilities that are weighted and unbiased by probable outcomes, the time value of money and the estimates of past events, current and future economic conditions that are reasonable, in a way that reflects supportable information.

Within the scope of IFRS 9, calculation of expected credit losses consists of three main parameters: Probability of Default (PD), Loss Given Default (LGD), and Exposure of Default (EAD). In addition, the PD and LGD parameters used in the expected credit loss calculation are calculated as instant PD (point in time, PIT) including both current and expected cycle changes. For the determination of macroeconomic expectations, “reasonable and supportable information available without undue cost or effort in estimating past events, current conditions and future economic conditions” can be used and accordingly “estimate of expected losses including their expected effects” can be realized. “Regulatory Factor Values”, which are calculated using the actual and scenario-based expected NPL rates by the Bank, are used to include in the calculation. The effect of macroeconomic expectations is reflected on the PD values obtained as a result of the calibration studies performed on the internal rating model using historical data. The cumulative PD values adjusted as a result of the transactions are used is being done.

**Probability of Default (PD)**

The probability of default represents the probability that the debtor will default in a given time period. Two types of PD values are calculated in accordance with IFRS 9 requests:

12-month PD: The probability of default within 12 months refer to the portion of the expected credit loss that could result from the possible default of the loan.

Lifetime PD: Lifetime losses result from all possible default events over the expected life of the financial instrument after the reporting date.

The Group uses the credit ratings, which are the result of the internal rating systems used by the Bank in the loan allocation processes, to calculate the 12-month or lifetime default probabilities of its corporate and commercial customers. The internal rating models used for the Corporate and Commercial portfolio include the customer's financial information as well as answers to qualitative questions.

Using historical default data for individual customers, a transition matrix based on the number of days of delay is generated and 12-month or lifetime default probabilities are estimated.

For receivables from Banks, the default probability is calculated by using rating transition studies published by S&P.

In the final stage, macroeconomic expectations are taken into account and reflected in the probability of default values.

**Loss Given Default (LGD)**

If a loan default occurs, it refers to the economic loss that might be encountered by taking into consideration the collection period. In LGD calculations, if the loans are not collateralized, the rates in the IRB App-1 Risk Weighted Amount and Expected Loss Amount Calculation are used. Calculations within the scope of BRSA Credit Risk Mitigation Techniques are also applied for secured loans.

**2.9 Impairment of Financial Assets (continued)**

**Recognition of Expected Credit Losses**

**Exposure of Default (EAD)**

The exposure at default amount is the expected economic receivable at the time of default. For cash loans, it refers 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.

**Definition of Default**

Default means, when the borrower's payment obligations which against to the Group, delays more than 90 days from the day of payment in part or in full, or not pay.

The obligor may be considered as Phase 3 in cases where the Group does not find it possible to pay its obligations regardless of the number of days of delay and without resorting to collateral.

This may include;

- Deterioration in the financial position of the counterparty (memzuc records, bounced check recording, application for condordato, bankruptcy/suspension bankruptcy, etc.) and economic conditions
- Default records in other financial institutions
- The obligor is past due 90 days or more on any material credit obligation to the Bank
- The obligor is past due 30 days or more and restructured after transition from Stage 3 to Stage 2

As of the date of initial recognition, there will be no significant changes in portfolios, financial assets at are subject to expected loss provision calculation have been followed in accordance with the following three-stage model below:

Stage 1: From initial recognition of a financial asset to the date on which an asset has not experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognized equal to the credit losses expected to result from its default occurring over the earlier of the next 12 months.

Stage 2: An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument and measures the provision for impairment on this financial instrument at an amount equal to the lifetime expected credit losses. The purpose of impairment provisions is to recognize the risk of default occurring over the remaining life of the financial instrument that credit risk has increased significantly since initial recognition.

Stage 3: When one or more events that negatively affect future estimated cash flows of a financial asset occur, the related financial asset becomes credit-impaired. For these assets, expected lifetime loss of credit is recorded. Lifetime expected credit losses are recorded for impaired assets. The probability of default is taken into account as 100%.

The Bank regularly follows the developments regarding macroeconomic expectations, which it uses to calculate expected credit losses within the general approach method and applies them to its models by updating. In 2021, the Bank evaluated the negative effects of the COVID-19 outbreak in its models by updating the macroeconomic information for the future. As the macroeconomic deterioration expectations due to the COVID-19 outbreak were reflected in the expected credit loss calculation, the provisions were updated at a reasonable and predictable level against possible adverse effects.

The loan portfolio of the Bank mainly consists of a small number of loans with high amounts. Those loans with high amount and risk level are subject to individual assessment. The Bank reflected the possible effects of COVID-19 by taking into account the reasonable and supportable information it has in the estimation of the probability weights and cash flows of the scenarios it uses, in the calculation of the expected credit loss for the loans it is subject to individual assessment.

**The Bank's Business Model**

The Bank classifies its financial assets based on the business model used for the management of financial assets. Based on the determined business model, the Bank evaluates whether the financial assets meet the classification requirements set out in IFRS 9. This assessment requires consideration of all evidence available at the time the assessment was made, including, but not limited to, the following:

- 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 the additional payments to the Bank management are determined. (for example, whether the additional payments are determined by the fair value of the assets that managed or by the contractual cash flows collected).

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9 Impairment of Financial Assets (Continued)

**Assessment on Contractual Cash Flows Whether Include Only Principal and Interest on Principal Payments are Related to Capital:**

The 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. For this purpose, the Bank determines whether contractual cash flows are solely payments of principal and interest. In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider the consistency of loan agreement. In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest. In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- Contingent events that would change the amount and timing of cash flows
- Leverage features
- Prepayment and extension terms
- Terms that limit the Bank’s claim to cash flows from specified assets
- Features that modify consideration for the time value of money

### 2.10 Offsetting Financial Instruments

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

Provisions for foreign exchange gain/loss on foreign currency indexed loans are netted with loans on asset side of consolidated balance sheet. Otherwise, the financial assets and liabilities are netted off only when there is a legal right to do so.

### 2.11 Sale and Repurchase Agreements and Transactions Related to the Lending of Securities

Securities sold under repurchase agreements (“repo”) are classified as “Financial assets at fair value through profit or loss”, “Financial assets at fair value through other comprehensive income” or “financial assets measured at amortized cost” based on the Bank management’s intention and measured with the same valuation principles of the portfolio above. Funds received through repurchase agreements are booked in liability account under “Obligation under repurchase agreement and other money market funding” and the related interest expenses are accounted on an accrual basis based on the difference between selling and repurchase prices using effective interest rate (internal rate of return) method. Securities purchased under resale agreements (“reverse repo”) are classified under “Interbank and other money market placements”. An income accrual using the effective interest rate method is accounted for the positive difference between the purchase and resale prices earned during the period. The Bank does not have any securities related to the lending.

### 2.12 Assets Held for Sale and Discontinued Operations and Liabilities Related with These Assets

Assets held for sale consist of assets that have high sales probability, have been planned to be sold, and an active program has been started to complete the plan and determine the buyers. Asset should be marketed the price compatible with fair value. Furthermore, the sales, starting from the day of classifications as held for sale, should be expected to be completed at within a year and the necessary activities should demonstrate that the possibility of having significant change in the plan or the cancellation of the plan is low.

The Group does not have any assets held for sale as of 31 December 2021 (31 December 2020: None).

The Group does not have any discontinued operations as of 31 December 2021 (31 December 2020: None).

### 2.13 Cash and Cash Equivalents

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.14 Interest Bearing Deposits and Borrowings

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the consolidated statement of profit or loss when the liabilities are derecognized as well as through the amortization process.

### 2.15 Employee Benefits

*(a) Reserve for employee termination benefits*

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognized in the accompanying consolidated financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Group that may arise from the retirement of the employees.

In addition, in accordance with existing social legislation in Turkey, the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

*(b) Short term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognized for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Short term employee benefits include vacation pay liability. In Turkey, according to the legislation, the employer has to make payments for unused vacation days when the personnel leave the company. Vacation pay liability is the undiscounted amount calculated over the unused vacation days of the employee.

*(c) Defined contribution plans*

The Group has to pay contributions to the Social Security Institution on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. These contributions are recognized as an employee benefit expense when they are accrued.

### 2.16 Leasing Activities

The Group has started to apply IFRS 16 “Leases Standard” starting from 1 January 2019.

The Group undertakes leases in the building, vehicle and software asset groups.

As a lessee, the Group has previously included the right to lease assets and leasing liabilities for most of its leases in accordance with IFRS 16, even though the Group has previously been classified as operating or financial leasing based on the assessment of whether all the risks and rewards of ownership of the asset have been transferred or not. In other words, these leases are presented in the statement of financial position. The Group classifies the right of use assets in classes of property, plant and equipment and intangible assets that are of the same nature as their assets.

At the date of the effective date of the lease, the lease liability is measured at the present value of the lease payments not paid at that date. If the interest rate on the lease is easily determined, this rate is discounted using the Group's alternative borrowing interest rate. In general, the Group used the alternative borrowing interest rate as the discount rate.

The Group records its fixed assets acquired through financial leasing based on their fair value and on the lease payments that are lower than their present value. Fixed assets acquired through financial leasing are classified under tangible fixed assets and these fixed assets are subject to depreciation based on their useful lives. When a decrease in the value of fixed assets acquired through financial leasing is detected, a "provision for impairment" is made. Liabilities arising from financial leasing agreements are shown in the “Financial lease debts” account in the liabilities. Interest and exchange difference expenses related to financial leasing are reflected in the statement of profit or loss. The Group does not perform financial leasing transactions in the capacity of being the “lessor”.

Transactions related to operational leases are accounted for on an accrual basis in accordance with the provisions of the relevant contract.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.17 Provisions

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

### 2.18 Income and Expense Recognition

Interest income and expense are recognized in the consolidated statement of profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and commissions are recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction.

Fee for bank transfers and other banking transaction services are recorded as income when collected.

Net trading income comprises gains less loss related to trading assets and liabilities and includes all realized and unrealized fair value changes and dividends.

Dividends are recognized when the shareholders' right to receive the payments is established.

### 2.19 Income Tax

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

***Current Tax***

In Turkey, the general corporate tax rate is 20%. However, within the scope of the Law No. 7316 on the "Law on the Collection of Public Claims and Amendments to Certain Laws" published in the Official Gazette dated 22 April 2021, this rate will be applied as 25% for the corporate earnings of the institutions for the 2021 taxation period, and 23% for the corporate earnings for the 2022 taxation period, starting from the declarations that must be submitted as of 1 July 2021.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the date of financial position.

***Deferred Tax***

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

For the items subject to deferred tax calculation as of 31 December 2021, enacted tax rates that are valid in accordance with the current tax legislation are used. Within the scope of the law numbered 7316 published in the Official Gazette dated 22 April 2021, this rate will be applied as 25% for the corporate earnings of the institutions for the 2021 taxation period, and as 23% for the corporate earnings of the 2022 taxation period, starting from the declarations that must be submitted as of 1 July 2021. As of 31 December 2020, deferred tax is calculated over 20%.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 Income Tax (continued)

***Deferred Tax (continued)***

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

Income tax relating to items recognized directly in equity is recognized in equity.

### 2.20 Derivative Financial Instruments

Derivative instruments are classified as “Derivative Financial Assets at Fair Value through Profit or Loss” in accordance with IFRS 9. The Bank does not have any embedded derivatives.

The liabilities and receivables arising from the derivative transactions are recorded as off-balance sheet items at their contract values.

The derivative transactions are initially recognized at fair value and measured at fair value subsequent to initial recognition and are presented in the “Derivative Financial Assets at Fair Value through Profit or Loss” under the “Derivative Financial Assets” or “Derivative Financial Liabilities at Fair Value through Profit or Loss” under the “Derivative Financial Liabilities” items of the balance sheet depending on the resulting positive or negative amounts of the fair value. Gains and losses arising from a change in the fair value of trading purpose derivatives are recognized in the consolidated income statement. Fair values of derivatives are determined using quoted market prices in active markets or using discounted cash flow techniques within current market interest rates.

Fair values of option agreements are calculated using Black - Scholes option pricing models and unrealized profit and loss amounts are presented in the income statement for the current period.

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.

### 2.21 Fiduciary Assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the consolidated statement of financial position, since such items are not treated as assets of the Group.

### 2.22 Segment Reporting

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

### 2.23 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

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

## 3. SEGMENT INFORMATION

***Operating Segments***

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services and are managed separately based on the Group's management and internal reporting structure. The following summary describes the operations in each of the Group's reportable segments:

- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers.
- *Corporate & SME Banking* — Includes loans, deposits and other transactions and balances with corporate and SME customers.
- *Other Operations* — Includes funds management and treasury activities.

Segment information at and for the year ended 31 December 2021 is as follows:

| | Retail Banking | Corporate, Banking Commercial & SME Banking | Treasury, Investment Banking and Others | Total |
|---|---|---|---|---|
| Operating income | 110,222 | 481,336 | 908,601 | **1,500,159** |
| Operating expenses | (65,631) | (30,900) | (1,162,980) | **(1,259,511)** |
| **Income/loss from operations** | **44,591** | **450,436** | **(254,379)** | **240,648** |
| Taxation charge | - | - | (53,459) | **(53,459)** |
| **Net income for the period** | **44,591** | **450,436** | **(307,838)** | **187,189** |
| **Assets and Liabilities** | | | | |
| Segment assets(1) | 404,982 | 21,220,588 | 17,747,316 | **39,372,886** |
| **Total assets** | **404,982** | **21,220,588** | **17,747,316** | **39,372,886** |
| Segment liabilities(1) | 8,637 | 16,167,599 | 21,571,436 | **37,747,672** |
| Shareholders' equity | - | - | 1,625,214 | **1,625,214** |
| **Total liabilities and shareholders' equity** | **8,637** | **16,167,599** | **23,196,650** | **39,372,886** |

(1) Assets in others column contain tangible assets, intangible assets, assets held for sale, deferred tax assets and assets not distributed. Liabilities in others column contain general provisions, reserve for employee benefits, current tax liabilities and liabilities not distributed.

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

## 3. SEGMENT INFORMATION (continued)

Segment information at and for the year ended 31 December 2020 is as follows:

| | Retail Banking | Corporate, Banking Commercial & SME Banking | Treasury, Investment Banking and Others | Total |
|---|---|---|---|---|
| Operating income | 99,993 | 447,559 | 317,885 | **865,437** |
| Operating expenses | (58,882) | (57,314) | (619,099) | **(735,295)** |
| **Income/loss from operations** | **41,111** | **390,245** | **(301,214)** | **130,142** |
| Taxation charge | - | - | (39,211) | **(39,211)** |
| **Net income for the period** | **41,111** | **390,245** | **(340,425)** | **90,931** |
| **Assets and Liabilities** | | | | |
| Segment assets(1) | 545,506 | 13,680,789 | 10,954,888 | **25,181,183** |
| **Total assets** | **545,506** | **13,680,789** | **10,954,888** | **25,181,183** |
| Segment liabilities(1) | 6,521,744 | 5,555,603 | 11,686,020 | **23,763,367** |
| Shareholders' equity | - | - | 1,417,816 | **1,417,816** |
| **Total liabilities and shareholders' equity** | **6,521,744** | **5,555,603** | **13,103,836** | **25,181,183** |

(1) Assets in others column contain tangible assets, intangible assets, assets held for sale, deferred tax assets and assets not distributed. Liabilities in others column contain general provisions, reserve for employee benefits, current tax liabilities and liabilities not distributed.

## 4. FINANCIAL RISK MANAGEMENT

### General

A dedicated member of the Board of Directors is assigned as Risk Supervisor who heads the Risk Management Department. The Risk Management Department reports to the Board of Directors and establishes the policies, procedures, parameters and rules for risk management of the Bank and develops risk management strategies. The Risk Management Department also sets critical risk limits and parameters for liquidity risk, credit risk, foreign exchange risk and interest rate risk and; through close monitoring of the markets and overall economy, such limits are changed as necessary. These limits and implementation policies are distributed to various levels of authorities in order to enhance control effectiveness. The Bank's risk positions are reported to the Board of Directors on a daily and weekly basis. Additionally, the Risk Management Department reviews the latest figures and projections for the Bank's profit and loss accounts and statement of financial position, liquidity position, interest and foreign exchange exposures, as well as yield analysis and macroeconomic environment.

The Asset and Liability Management Committee ("ALCO") sets the strategies concerning interest rate risk, foreign exchange risk and liquidity. ALCO meets weekly to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy and the macroeconomic environment.

The objective of the Bank's Asset and Liability Management and use of financial instruments are to limit the Bank's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy and is using its capital to maximize net interest income.

## 4. FINANCIAL RISK MANAGEMENT (continued)

**Audit Committee**

The Audit Committee consists of two members of the Board of Directors. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

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

**Risk Management Committee of Board of Directors**

Risk Management Committee of the Board of Directors perform the following responsibilities:

- In accordance with the Bank's overall strategy, reviewing and revising the Bank's risk strategy, risk management policy, risk appetite, enterprise-wide risk management framework and internal control process, supervising and evaluating the execution status and effect, and putting forward suggestions to the Board of Directors;
- Constantly supervising the Bank's risk management system, supervising and evaluating the setting and organizing methods, working procedure and effectiveness of Risk Management Department, and putting forward improvement opinions;
- Regularly assessing the execution status of the Bank's risk policies, risk appetite and enterprise-wide risk management, and putting forward suggestions to the Board of Directors,

**Credit Risk**

Financial instruments contain an element of risk that the counterparties may be unable to meet the terms of the agreements. The Bank's exposure to credit risk is concentrated in Turkey, where the majority of the activities are carried out. This risk is monitored by strictly adhering to credit risk ratings and managed by limiting the aggregate risk to any individual counterparty, group of companies and industry. The Bank has in place effective credit evaluation, disbursement and monitoring procedures, and senior management supports these control procedures. The credit risk is well diversified in general and does not concentrate in any one industry/sector nor does it single out companies of one specific size.

Exposure to credit risk is managed through regular analysis of the ability of immediate and potential borrowers to meet principal and interest repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral as well as corporate and personal guarantees.

The credibility of the debtors of the Bank is assessed periodically concerning several criteria such as financial power of customers, business capacity, industry, geographical segment and equity structure and with taking notice of the financial statements of the debtors obtained thoroughly to be audited in accordance with the relevant legislation.

The risks and limits derived from treasury and client based commercial transactions are followed up daily. Additionally, the control of the limits of the correspondent banks is determined by their ratings and the control of the accepted risk level in relation to the Bank's equity is performed daily. The risk concentration of the off-balance sheet transactions is followed up using the Information Technology System.

The Board of Directors determines transaction limits for the forward and other similar agreement positions held by the Bank and transactions are handled within these limits.

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

## 4. FINANCIAL RISK MANAGEMENT (continued)

### Credit Risk (continued)

Exposure to credit risk:

| | 31 December 2021 | | | |
|---|---|---|---|---|
| | **Loans to customers** | **Balances with Central Bank** | **Due from banks(**)** | **Investment securities** |
| **Assets amortized at cost** | | | | |
| Individually impaired | | | | |
| Loans and receivables with limited collectability | 172 | - | - | - |
| Loans and receivables with doubtful collectability | 61 | - | - | - |
| Uncollectible loans and receivables | 43,727 | - | - | - |
| Gross Amount | 43,960 | - | - | - |
| Allowance for impairment | (37,946) | - | - | - |
| *Lifetime ECL impaired credits (stage 3)* | *(37,946)* | - | - | - |
| **Carrying amount** | **6,014** | **-** | **-** | **-** |
| Neither past due not impaired | | | | |
| High and standard grade | 17,627,776 | 7,437,318 | 459,181 | - |
| Closely monitored | 1,057,607 | - | - | - |
| **Carrying amount** | **18,685,383** | **7,437,318** | **459,181** | **-** |
| Allowance for impairment | | | | |
| *12-month ECL (stage 1)* | *(171,448)* | - | *(5,028)* | *(17,489)* |
| *Lifetime ECL significant increase in credit risk (stage 2)* | *(560,884)* | - | - | - |
| **Carrying amount** | **(732,332)** | **-** | **(5,028)** | **(17,489)** |
| **Financial assets at fair value through other comprehensive income** | | | | |
| High and standard grade | *3,045,903* | - | - | - |
| Closely monitored | - | - | - | - |
| **Carrying amount** | **3,045,903** | **-** | - | **-** |
| Neither past due nor impaired (*) | - | - | - | 9,471,162 |
| **Carrying amount** | **-** | **-** | **-** | **9,471,162** |
| **Total carrying amount** | **21,004,968** | **7,437,318** | **454,153** | **9,453,673** |

(*) Including equity securities.

(**) Including due from banks, cash collateral on reverse purchase agreements and money market placements.

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

## 4. FINANCIAL RISK MANAGEMENT (continued)

**Credit Risk (continued)**

Exposure to credit risk (continued):

| | 31 December 2020 | | | |
|---|---|---|---|---|
| | **Loans to customers** | **Balances with Central Bank** | **Due from banks(**)** | **Investment securities** |
| **Assets amortized at cost** | | | | |
| Individually impaired | | | | |
| Loans and receivables with limited collectability | - | - | - | - |
| Loans and receivables with doubtful collectability | 3,017 | - | - | - |
| Uncollectible loans and receivables | 42,726 | - | - | - |
| Gross Amount | 45,743 | - | - | - |
| Allowance for impairment | (35,920) | - | - | - |
| *Lifetime ECL impaired credits (stage 3)* | *(35,920)* | - | - | - |
| **Carrying amount** | **9,823** | **-** | **-** | **-** |
| Neither past due not impaired | | | | |
| High and standard grade | 5,213,517 | 3,076,065 | 2,111,358 | - |
| Closely monitored | 610,294 | - | - | - |
| **Carrying amount** | **10,009,568** | **3,076,065** | **2,111,358** | **-** |
| Allowance for impairment | | | | |
| *12-month ECL (stage 1)* | *(54,822)* | - | *(6,048)* | *(29,571)* |
| *Lifetime ECL significant increase in credit risk (stage 2)* | *(203,719)* | - | - | - |
| **Carrying amount** | **(258,541)** | **-** | **(6,048)** | **(29,571)** |
| **Financial assets at fair value through other comprehensive income** | | | | |
| High and standard grade | *4,185,757* | - | - | - |
| Closely monitored | - | - | - | - |
| **Carrying amount** | **4,185,757** | **-** | **-** | **-** |
| Neither past due nor impaired (*) | 4,185,757 | - | - | 5,557,478 |
| **Carrying amount** | **4,185,757** | **-** | **-** | **5,557,478** |
| **Total carrying amount** | **13,946,607** | **3,076,065** | **2,105,310** | **5,527,907** |

(*) Excluding equity securities.

(**) Including due from banks, cash collateral on reverse purchase agreements and money market placements.

The above table represents the credit risk exposure of the Group at 31 December 2021 and 31 December 2020, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

*Impaired loans and receivables*

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

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

## 4. FINANCIAL RISK MANAGEMENT (continued)

**Credit Risk (continued)**

*Loans with renegotiated terms*

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

*Past due but not impaired loans*

Loans and receivables where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

*Allowances for impairment*

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

*Write-off policy*

The amendment with respect to the regulation on the "Principles and Procedures Regarding the Classification of Loans and Provisions To Be 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 off the balance sheet the portion of a loan which is classified as "Group V Loan" (Loans Classified as Loss) if it cannot reasonably be expected to be recovered. The Bank performs objective and subjective assessments whether there is reasonable expectation.

The write-down of these loans, which are not possible to be collected, is an accounting policy and this policy does not result in waiving the right of receivables.

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

| | Loans and advances to customers | |
|---|---|---|
| **31 December 2021** | **Gross** | **Net** |
| Loans and Receivables with Limited Collectability | 172 | 156 |
| Loans and Receivables with Doubtful Collectability | 61 | 12 |
| Uncollectible Loans and Receivables | 43,727 | 5,846 |
| **Total** | **43,960** | **6,014** |

| **31 December 2020** | **Gross** | **Net** |
|---|---|---|
| Loans and Receivables with Limited Collectability | - | - |
| Loans and Receivables with Doubtful Collectability | 3,017 | 2,338 |
| Uncollectible Loans and Receivables | 42,726 | 7,485 |
| **Total** | **45,743** | **9,823** |

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

## 4. FINANCIAL RISK MANAGEMENT (continued)

### Credit Risk (continued)

*Collateral policy*

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

The breakdown of cash and non-cash loans and advances to customers by type of collateral is as follows:

| **Cash Loans** | **31 December 2021** | **31 December 2020** |
|---|---|---|
| Secured loans: | 3,849,451 | 4,229,851 |
| Secured by cash collateral | - | - |
| Secured by other collateral (pledge on assets, corporate and personal guarantees, promissory notes) | 3,849,451 | 4,229,851 |
| Unsecured loans | 17,155,517 | 9,716,756 |
| **Total** | **21,004,968** | **13,946,607** |

| **Non-cash Loans** | **31 December 2021** | **31 December 2020** |
|---|---|---|
| Secured loans: | - | - |
| Secured by mortgages | - | - |
| Secured by cash collateral | - | - |
| Secured by other collateral (pledge on assets, corporate and personal guarantees, promissory notes) | - | 441,937 |
| Unsecured loans | 10,503,055 | 8,969,612 |
| **Total** | **10,503,055** | **9,411,549** |

The breakdown of non-performing loans and receivables based on the types of collaterals held against them is as follows:

| | **31 December 2021** | **31 December 2020** |
|---|---|---|
| Secured by mortgages | 7,183 | 26,835 |
| Pledge on vehicles and other collateral | 86 | 1,333 |
| Unsecured | 36,691 | 17,575 |
| **Total** | **43,960** | **45,743** |

The collateral amounts on the table above represent the minimum of the fair value of the collateral or the amount of non-performing loan against which the collateral acquired.

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

## 4. FINANCIAL RISK MANAGEMENT (continued)

**Credit Risk (continued)**

The Group monitors concentrations of credit risk by sector and by geographic location, Industry exposure information of biggest thirteen business sector for aggregate cash loans and non-cash loans is as follows:

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | **Cash** | **Non-cash** | **Cash** | **Non-cash** |
| Finance | 6,942,647 | 1,904,553 | 5,247,971 | 1,344,808 |
| Electricity, gas and water | 3,118,327 | 36,632 | 2,663,557 | 2,051,642 |
| Service | 4,143,647 | 278,291 | 1,124,915 | 320,785 |
| Construction industry | 1,983,348 | 4,352,408 | 1,772,482 | 1,717,146 |
| Transportation, warehousing and communication | 419,130 | 1,711,917 | 432,744 | 996,615 |
| Food, beverages and tobacco | 1,032,084 | - | 395,988 | 394 |
| Tourism | 392,087 | 1,622 | 336,047 | 2,726 |
| Paper raw materials and paper products | 252,570 | - | 179,038 | 140 |
| Mining and stone pits | 176,788 | 1,037 | 299,258 | 1,630,770 |
| Wholesale, retail commerce and motor vehicle services | 1,025,400 | 210,370 | 558,091 | 548,717 |
| Textile, fabrics and yarn industry | 574 | 1,214,213 | 4,832 | 6,945 |
| Chemical Industry | 252,993 | - | 795 | 3,837 |
| Agriculture, fishing and forestry | - | 141 | 592 | 369 |
| Others | 1,265,373 | 690,665 | 551,865 | 786,655 |
| **Total** | **21,004,968** | **10,401,849** | **13,946,607** | **9,346,332** |

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | **Cash** | **Non-cash** | **Cash** | **Non-cash** |
| Corporate loans | 21,326,455 | 10,505,929 | 13,568,175 | 9,411,549 |
| Consumer loans and credit cards | 404,831 | - | 541,090 | - |
| Investment loans | - | - | 86,060 | - |
| Loans in arrears | 43,960 | - | 45,743 | - |
| Provision for possible loan losses | (770,278) | (104,080) | (294,461) | (65,217) |
| **Total** | **21,004,968** | **10,401,849** | **13,946,607** | **9,346,332** |

Breakdown of non-performing loans is shown below:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Corporate loans | 37,910 | 36,948 |
| Consumer loans | 5,648 | 8,478 |
| Credit cards | 402 | 317 |
| **Total non-performing loans** | **43,960** | **45,743** |

The Group's activities are mainly concentrated in Turkey, as at 31 December 2021, 98% of cash loan portfolio including non-performing loans are granted in Turkey (31 December 2020: 95.9% in Turkey). Regarding foreign lending, the Group has a structure evaluating the country and market risks of the countries of counterparties, besides, the outstanding foreign loan transactions of the Group are majorly loans given against cash collateral.

As at 31 December 2021, the share of the Group's receivables from its top 100 cash loan customers in its total cash loan portfolio is 97.2% (31 December 2020: 95%).

As at 31 December 2021, the share of the Group's receivables from its top 100 non-cash loan customers in its total non-cash loan portfolio is 99.9% (31 December 2020: 99.9%).

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

## 4. FINANCIAL RISK MANAGEMENT (continued)

**Liquidity Risk**

Liquidity risk occurs when there is an insufficient amount of cash or cash inflows to fulfill the cash outflows in full and on time, resulting from the unstable cash inflows.

Liquidity risk may occur when there is an inadequate market penetration, and the open positions cannot be closed on a timely basis with an appropriate price and sufficient amount due to barriers and break-ups at the markets.

A main objective of the Bank's asset and liability management is to ensure that sufficient liquidity is available to meet the Bank's commitments to customers and counterparties. The Bank achieves this through the maintenance of a stock of high-quality liquid assets.

Net outflows are monitored on a daily basis and the required minimum liquidity stock can be increased if these outflows exceed the predetermined target levels. The available free lines in the BIST (Borsa Istanbul) Settlement and Custody Bank's Stock Exchange Money Market, Interbank and secondary market are monitored frequently. Regarding maturity mismatch risk in the statement of financial position, the maximum limits have been set by the Board of Directors.

The Bank diversifies its funding with steady deposit base and medium/long-term funds borrowed from international institutions which are mainly placed in interest earning assets. Deposits are obtained from individuals and corporate/commercial entities, The portion of saving deposits over total deposits is 9% as at 31 December 2021 (31 December 2020: 13%). The Bank performs customer concentration analysis on a branch basis and takes short- and long-term actions to disseminate customers in the branches with concentration risk. Funds borrowed account consists of funds with different characteristics and maturity-interest structures and are provided from different reputable institutions.

Residual contractual maturities of financial liabilities:

| 31 December 2021 | Carrying amount | Gross nominal outflow | Demand | Less than one month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|
| Due to banks | 748,362 | 748,362 | 148,109 | 600,253 | - | - | - | - |
| Deposits | 15,558,191 | 15,542,908 | 2,702,684 | 9,923,715 | 2,396,974 | 518,464 | 1,071 | - |
| Other money market deposits | 3,024,482 | 3,024,482 | - | 3,024,482 | - | - | - | - |
| Funds borrowed | 12,974,644 | 12,963,603 | - | 11,041 | 1,333,070 | 10,341,960 | 1,277,532 | - |
| Subordinated loans | 3,999,625 | 3,999,625 | - | - | - | - | - | 3,999,625 |
| **Total** | **36,305,304** | **36,278,980** | **2,850,793** | **13,574,774** | **3,730,044** | **10,871,465** | **1,278,603** | **3,999,625** |
| **Non-cash loans(*)** | **10,503,055** | **10,503,055** | **4,918,144** | **910,930** | **1,000,516** | **1,204,684** | **2,465,449** | **3,332** |

(*) The letter of guarantees without a defined maturity date due to their business nature are presented at demand column.

| 31 December 2020 | Carrying amount | Gross nominal outflow | Demand | Less than one month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|
| Due to banks | 179,548 | 183,803 | 87,036 | 96,767 | - | - | - | - |
| Deposits | 11,459,149 | 11,774,241 | 835,100 | 8,733,045 | 2,025,310 | 175,165 | 5,621 | - |
| Other money market deposits | 697,700 | 733,697 | - | 697,700 | - | - | - | 35,997 |
| Funds borrowed | 8,091,838 | 8,560,769 | - | 57,171 | 1,713,070 | 4,017,858 | 2,772,670 | - |
| Subordinated loans | 2,202,640 | 2,202,640 | - | - | - | - | - | 2,202,640 |
| **Total** | **22,630,875** | **23,455,150** | **922,136** | **9,584,683** | **3,738,380** | **4,193,023** | **2,778,291** | **2,238,637** |
| **Non-cash loans(*)** | **9,411,549** | **9,411,549** | **571,067** | **310,488** | **349,075** | **931,702** | **7,244,532** | **4,685** |

(*) The letter of guarantees without a defined maturity date due to their business nature are presented at demand column.

The contractual maturity distribution of derivative contracts are presented in Note 19.

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

## 4. FINANCIAL RISK MANAGEMENT (continued)

### Liquidity Risk (continued)

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at date of financial position to contractual maturity date.

| | On Demand | Up to 1 month | 1 to 3 months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | No maturity | Total |
|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2021** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with Central Bank | 2,694,448 | 4,490,310 | - | - | - | - | - | 7,604,758 |
| Due from banks | 162,234 | 291,651 | 268 | - | - | - | - | 454,153 |
| Money market placements | - | 20,955 | - | - | | | | 20,955 |
| Trading securities | 67,224 | - | - | - | - | - | - | 67,224 |
| Derivative financial assets | - | 165,326 | 15,190 | 10,613 | - | - | - | 191,129 |
| Loans and advances | - | 3,034,353 | 270,880 | 6,928,486 | 6,246,139 | 4,525,110 | - | 21,004,968 |
| Investment securities | - | 889,254 | 1,163,039 | 1,476,204 | 4,765,470 | 1,159,706 | - | 9,453,673 |
| Tangible assets | - | - | - | - | - | - | 123,237 | 123,237 |
| Intangible assets | - | - | - | - | - | - | 11,437 | 11,437 |
| Deferred tax assets | - | - | - | - | - | 300,614 | - | 300,614 |
| Other assets | - | 131,040 | 2,533 | 3,639 | 1,564 | - | 1,962 | 140,738 |
| **Total assets** | **2,923,906** | **9,442,889** | **1,451,910** | **8,418,942** | **11,013,173** | **5,985,430** | **136,636** | **39,372,886** |
| **Liabilities** | | | | | | | | |
| **Due to banks** | 148,109 | 600,253 | - | - | - | - | - | 748,362 |
| Deposits from customers | 2,702,684 | 9,938,998 | 2,396,974 | 518,464 | 1,071 | - | - | 15,558,191 |
| Funds borrowed and sub. loans | - | 11,041 | 1,333,070 | 10,353,001 | 1,277,532 | 3,999,625 | - | 16,974,269 |
| Derivative financial liabilities | - | 2,157 | 4,379 | 9,083 | - | - | - | 15,619 |
| Other money market deposits | - | 3,024,482 | - | - | - | - | - | 3,024,482 |
| Provisions | - | - | - | - | - | - | 391,103 | 391,103 |
| Employee benefits | - | - | - | - | - | - | 43,773 | 43,773 |
| Other liabilities | - | 29,565 | 168,942 | 9,610 | 19,155 | 47,158 | 2,342,657 | 2,617,087 |
| **Total liabilities** | **2,850,793** | **13,606,496** | **3,903,365** | **10,890,158** | **1,297,758** | **4,046,783** | **2,777,533** | **39,372,886** |
| **Net liquidity gap** | **73,113** | **(4,163,607)** | **(2,451,455)** | **(2,471,216)** | **9,715,415** | **1,938,647** | **(2,640,897)** | **-** |
| **As at 31 December 2020** | | | | | | | | |
| **Total assets** | 1,958,791 | 3,733,142 | 1,433,009 | 4,198,835 | 10,428,760 | 3,304,401 | 124,245 | 25,181,183 |
| **Total liabilities** | 922,136 | 9,394,884 | 3,572,834 | 4,098,937 | 2,635,348 | 2,238,637 | 2,318,407 | 25,181,183 |
| **Net liquidity gap** | **1,036,655** | **(5,661,742)** | **(2,139,825)** | **99,898** | **7,793,412** | **1,065,765** | **(2,194,163)** | **-** |

The contractual maturity distribution of derivative contracts are presented in Note 19.

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

## 4. FINANCIAL RISK MANAGEMENT (continued)

### Liquidity Risk (continued)

As per the Banking Regulation and Supervision Agency's (BRSA) Communiqué "Regulation on Liquidity Coverage Ratio Calculation" published on the Official Gazette no.28948 dated 21 March 2014 and became effective starting from 1 January 2015, liquidity coverage ratios calculated weekly on bank only basis and monthly on consolidated basis are subject to regulatory reporting. Liquidity coverage ratios for foreign currency assets/liabilities and total assets/liabilities should be minimum 80% and 100%, respectively.

The Group's consolidated liquidity coverage ratios for 2021 and 2020 are as follows:

| **Liquidity Coverage Ratios** | **FC Liquidity Coverage Ratio** | **Total Liquidity Coverage Ratio** |
|---|---|---|
| 31 December 2021 | 553.45 | 338.66 |
| Average (%) | 284.12 | 339.96 |
| Max, (%) | 356.38 | 346.39 |
| Min, (%) | 266.24 | 334.57 |

| **Liquidity Coverage Ratios** | **FC Liquidity Coverage Ratio** | **Total Liquidity Coverage Ratio** |
|---|---|---|
| 31 December 2020 | 629.74 | 372.88 |
| Average (%) | 605.45 | 417.22 |
| Max, (%) | 824.27 | 701.48 |
| Min, (%) | 371.69 | 250.81 |

### Market Risk

The Bank has established market risk management operations and has taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Control and Risk Management Systems of Banks" announced in the Official Gazette dated 1 November 2006.

"General market risk" is the risk of loss composed of "interest rate risk", "position risk of equity securities" and "foreign exchange risk", regarding the assets and liabilities of the Group's on-off balance sheet, arising from changes in value of positions in the trading book due to changes in equity prices, interest rates and foreign currency exchange rates. The market risk is measured by employing the Value at Risk method. Value at Risk (VaR) is the amount, estimated by using various statistical methods that expresses the maximum loss for a given confidence interval and holding period which a bank may be exposed to as a result of changes in the value of its portfolio or its assets due to fluctuations in interest rates, foreign exchange rates and equity prices.

"Value at Risk" is calculated on a daily basis by employing Standard Method, and internal models (Parametric, Historical Simulation and Monte Carlo methods). In calculating VaR a one-tailed 99% confidence level is used regarding one-day holding period. The results are reported to the Senior Level Risk Committee and Risk Management Committee of Board of Directors in regular periods. By regarding the VaR results, the risk of maturity mismatch is examined in the Risk Committees and the necessary measures are taken by Committee.

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

## 4. FINANCIAL RISK MANAGEMENT (continued)

### Market Risk (continued)

Standard method defined in the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" published in Official Gazette no. 29111 dated 6 September 2014 is used in calculating the market risk. The criteria for the standard method have been set by the BRSA via section 2 of "Calculation of Market Risk" and "Communiqué on Capital Requirement Calculation for Market Risk arising from Options". Consolidated and bank only market risk is reported to BRSA on a monthly basis. The consolidated value at market risks calculated as per the statutory consolidated financial statements prepared.

| | 2021 RWA (Risk Weighted Amount) | 2020 RWA (Risk Weighted Amount) |
|---|---|---|
| Interest rate risk | 141,175 | 118,488 |
| Equity securities risk (*) | 257,963 | 108,512 |
| Currency risk | 1,323,187 | 403,313 |
| Settlement risk | - | - |
| Option risk | - | - |
| Counterparty credit risk | - | - |
| **Total value at risk** | **1,722,325** | **630,313** |

(*)VaR for mutual funds in trading securities are included here,

### Currency Risk

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to adverse movements between currencies. The Treasury manages the Bank's structural foreign exchange risk arising from net position in foreign currencies, mostly in US Dollar and Euro.

The Group's foreign currency position risk is measured by "Standard Method" and "Value at Risk Methods".

The concentrations of assets, liabilities and off balance sheet items are as follows:

| **As at 31 December 2021** | **Euro** | **US Dollars** | **Others** | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with Central Bank (**) | 799,207 | 6,490,658 | 890 | 7,290,755 |
| Due from banks | 31,748 | 350,893 | 63,689 | 446,330 |
| Money market placements | 25,694 | - | - | 25,694 |
| Trading securities | - | - | - | - |
| Loans and advances | 11,558,039 | 5,663,434 | - | 17,221,473 |
| Investment securities | 1 | 5,382,076 | 798,273 | 6,180,350 |
| Other assets | 570 | 3,849 | 2 | 4,421 |
| **Total assets (*)** | **12,415,259** | **17,890,910** | **862,854** | **31,169,023** |
| **Liabilities** | | | | |
| Due to banks | - | 5 | 128,067 | 128,072 |
| Deposits | 4,206,138 | 9,348,479 | 390,456 | 13,945,073 |
| Other money market deposits | - | - | - | - |
| Funds borrowed | 3,621,611 | 13,341,617 | - | 16,963,228 |
| Other liabilities | 279,518 | 123,934 | 155,104 | 558,556 |
| **Total liabilities (*)** | **8,107,267** | **22,814,035** | **673,627** | **31,594,929** |
| **Net on-balance sheet position** | **4,307,992** | **(4,923,125)** | **189,227** | **(425,906)** |
| **Off-balance sheet position** | | | | |
| Net notional amount of derivatives (***) | (4,210,917) | 5,724,264 | (187,665) | 1,325,682 |
| **Net Position** | **97,075** | **801,139** | **1,562** | **899,776** |
| **As at 31 December 2020** | | | | |
| Total assets (*) | 6,900,860 | 13,489,201 | 92,379 | 20,482,440 |
| Total liabilities (*) | 3,849,559 | 15,976,985 | 199,867 | 20,026,411 |
| Net on-balance sheet position | 3,051,301 | (2,487,784) | (107,488) | 456,029 |
| Off-balance sheet position | - | - | - | - |
| **Net Position** | **16,589** | **376,133** | **(14,028)** | **378,694** |

(*) The amounts recorded as accrual differences of derivative transactions on asset and liability sides are not included above.

(**) As at 31 December 2021, the Group has no precious metal standing in Central Bank of Turkey accounts is consolidated in 'Others' column above (31 December 2020: None).

(***) As at 31 December 2021, the Group has no precious metal swap sales transactions consolidated in 'Others' column above (31 December 2020: None).

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

## 4. FINANCIAL RISK MANAGEMENT (continued)

**Currency Risk (continued)**

*Exposure to currency risk*

A 10 percent devaluation of the TL against the following currencies as at 31 December 2021 and 2020 would have decreased equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Profit or loss | Equity (*) | Profit or loss | Equity (*) |
| US Dollar (Increase) | 79,958 | 80,114 | 37,613 | (37,613) |
| Euro (Increase) | 9,707 | 9,707 | 1,659 | (1,659) |
| Other currencies (Increase) | 156 | 156 | (1,403) | 1,403 |
| US Dollar (Decrease) | (79,958) | (80,114) | (37,613) | 37,613 |
| Euro (Decrease) | (9,707) | (9,707) | (1,659) | 1,659 |
| Other currencies (Decrease) | (156) | (156) | 1,403 | (1,403) |

(*) Equity effect also includes profit or loss effect of 10% devaluation of TL against related currencies.

**Interest Rate Risk**

"Interest rate risk" is the probability of loss due to changes in interest rates depending on the Group's position regarding the interest-bearing financial instruments. Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, changes in correlation of interest rates between different financial instruments and, unexpected changes in the shape and slope of yield curves. Exposure to interest rate movements arises when there is a mismatch between interest rate sensitive assets and liabilities. In Turkey, the interest rates are highly volatile. Therefore, interest rate risk is the key component of the Bank's asset and liability management. Interest risk is managed on a portfolio basis by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. Special emphasis is given to providing a balance between the duration of assets and liabilities. Duration, gap and sensitivity analysis are the main methods used to manage the risks. The Bank closely monitors interest rate movements, the interest rate and, re-pricing maturity structure of its interest-bearing assets and liabilities and the level of non-interest-bearing assets and liabilities.

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

## 4. FINANCIAL RISK MANAGEMENT (continued)

### Interest Rate Risk (continued)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the date of statement of financial position to the re-pricing date:

| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| **As at 31 December 2021** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with Central Bank | 4,910,310 | - | - | - | - | 2,694,448 | 7,604,758 |
| Due from banks | 286,625 | 268 | - | - | - | 167,262 | 454,153 |
| Money market placements | 20,955 | - | - | - | - | - | 20,955 |
| Trading securities | - | - | - | - | - | 67,224 | 67,224 |
| Derivative financial instruments | 165,326 | 15,190 | 10,613 | - | - | - | 191,129 |
| Loans and advances(*) | 4,787,547 | 11,464,746 | 1,681,010 | 2,816,657 | 1,025,286 | (770,278) | 21,004,968 |
| Investment securities(*) | 1,149,769 | 1,211,177 | 2,603,048 | 4,158,041 | 349,127 | (17,489) | 9,453,673 |
| Tangible assets | - | - | - | - | - | 123,237 | 123,237 |
| Intangible assets | - | - | - | - | - | 11,437 | 11,437 |
| Deferred tax asset | - | - | - | - | - | 300,614 | 300,614 |
| Other assets | - | - | - | - | - | 140,738 | 140,738 |
| **Total assets** | **11,320,530** | **12,691,381** | **4,294,671** | **6,974,698** | **1,374,413** | **2,717,193** | **39,372,886** |
| **Liabilities** | | | | | | | |
| Due to banks | 600,253 | - | - | - | - | 148,109 | 748,362 |
| Deposits | 9,938,998 | 2,396,974 | 518,464 | 1,071 | - | 2,702,684 | 15,558,191 |
| Other money market deposits | 3,024,482 | - | - | - | - | - | 3,024,482 |
| Derivative financial instruments | 2,157 | 4,379 | 9,083 | - | - | - | 15,619 |
| Funds borrowed | 615,308 | 2,006,335 | 14,352,626 | - | - | - | 16,974,269 |
| Other liabilities (*) | 563,127 | - | 1,408 | - | - | 2,443,655 | 3,008,190 |
| Provisions and employee benefits | - | - | - | - | - | 43,773 | 43,773 |
| **Total liabilities** | **14,744,325** | **4,407,688** | **14,881,581** | **1,071** | **-** | **5,338,221** | **39,372,886** |
| **Interest sensitivity gap** | **(3,423,795)** | **8,283,693** | **(10,586,910)** | **6,973,627** | **1,374,413** | **(2,621,028)** | **-** |
| **As at 31 December 2020** | | | | | | | |
| **Total assets** | 6,058,435 | 4,885,970 | 4,472,661 | 8,281,067 | 671,340 | 811,710 | 25,181,183 |
| **Total liabilities** | 9,966,580 | 5,380,786 | 6,656,010 | 394,696 | - | 2,783,111 | 25,181,183 |
| **Interest sensitivity gap** | **(3,908,145)** | **(494,816)** | **(2,183,349)** | **7,886,371** | **671,340** | **(1,971,401)** | **-** |

(*) TL (770,278) provision from loans and TL (17,489) provisions from investment securities have shown in non-interest bearing column respectively. Amounting to TL 1,625,214 Equity have shown in non- interest bearing column in other liabilities

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

## 4. FINANCIAL RISK MANAGEMENT (continued)

### Interest Rate Risk (continued)

The following table indicates the effective interest rates by major currencies for the major components of the statement of financial position as at 31 December 2021 and 2020:

| 31 December 2021 | EURO % | USD % | YEN% | TL % |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and Balances with the central banks | - | - | - | 8.50 |
| Due from banks | - | 0.10 | - | - |
| Money Market Placements | - | - | - | 16.86 |
| Investment Securities – FVOCI | - | 5.05 | - | 22.05 |
| Investment Securities – Amortised Cost | - | 5.91 | - | 9.86 |
| Loans | 2.82 | 3.67 | - | 18.17 |
| **Liabilities** | | | | |
| Due to banks | - | - | - | 15.23 |
| Deposits | 0.47 | 1.00 | - | 15.23 |
| Obligations under repurchase agreements | - | - | - | 14.02 |
| Funds Borrowed | 0.05 | 1.16 | - | 17.02 |

| 31 December 2020 | EURO % | USD % | YEN% | TL % |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and Balances with the central banks | - | - | - | 11.36 |
| Due from banks | 0.86 | 0.65 | - | - |
| Money Market Placements | - | - | - | 8.26 |
| Investment Securities – FVOCI | 2.65 | 4.87 | - | 16.19 |
| Investment Securities – Amortised Cost | - | 6.51 | - | 3.42 |
| Loans | 2.85 | 3.69 | - | 14.60 |
| **Liabilities** | | | | |
| Due to banks | - | 0.20 | - | - |
| Deposits | 2.03 | 3.25 | 0.01 | 17.32 |
| Obligations under repurchase agreements | - | - | - | 18.52 |
| Funds Borrowed | 0.33 | 2.27 | - | 14.25 |

In accordance with the BRSA’s “Regulation on Measurement and Evaluation of Interest Rate Risk Arising from Banking Accounts via Standard Shock Method”, published in the Official Gazette numbered 28034 and dated 23 August 2011, the interest rate risk of the banking book items (items other than trading accounts) is measured and reported monthly to BRSA. The interest rate risks of financial instruments on trading portfolio are considered within the scope of the market risk.

In accordance with the “Regulation on Measurement and Evaluation of Interest Rate Risk Arising from Banking Accounts via Standard Shock Method”, for unconsolidated statutory accounts of the Bank, economic valuation differences arising from fluctuations in interest rates, in different currencies are presented in the table below (excluding tax effect) as of 31 December 2021 and 2020.

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

## 4. FINANCIAL RISK MANAGEMENT (continued)

**Interest Rate Risk (continued)**

| **31 December 2021** | Shocks Applied (+/-basis points) | Gains/(Losses) | Gains/Equity-Losses/Equity |
|---|---|---|---|
| TL | 500 | (102,089) | (1.79%) |
| | (400) | 89,913 | 1.57% |
| Euro | 200 | (181,200) | (3.18%) |
| | (200) | 12,255 | 0.22% |
| US Dollar | 200 | (132,357) | (2.32%) |
| | (200) | 182,470 | 3.20% |
| **Total (of negative shocks)** | | **284,438** | **4.99%** |
| **Total (of positive shocks)** | | **(415,646)** | **(7.30%)** |

| **31 December 2020** | Shocks Applied (+/-basis points) | Gains/(Losses) | Gains/Equity-Losses/Equity |
|---|---|---|---|
| TL | 500 | (85,956) | (2.70)% |
| | (400) | 80,789 | 2.60% |
| Euro | 200 | (45,759) | (1.50)% |
| | (200) | (4,993) | (0.20)% |
| US Dollar | 200 | 4,130 | 0.10% |
| | (200) | 881 | 0.00% |
| **Total (of negative shocks)** | | **74,915** | **2.40%** |
| **Total (of positive shocks)** | | **(127,585)** | **(4.10)%** |

### Operational Risk

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

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

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

The Group calculated the value at operational risk in accordance with the "Computation of the Operational Risk" of the circular, "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" published in the Official Gazette numbered 29111 and dated 6 September 2014, using gross profit of the last three years 2020, 2019 and 2018 by using "Basic Indicator Approach" method. Value at operational risk, used in calculation of capital adequacy ratio, is amounting to TL 1,035,780 The 8% of VaR; TL 82,822 as at 31 December 2021 represents the operational risk that the Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk.

### Capital Adequacy

BRSA sets and monitors capital requirements for the Bank both on unconsolidated and consolidated basis. Additionally, the consolidated subsidiaries; ICBC Yatırım and ICBC Portföy are supervised by Turkish Capital Market Board regarding capital adequacy ratios and related calculations.

Capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks", "Communiqué on Credit Risk Mitigation Techniques" published in the Official Gazette numbered 29111 dated 6 September 2014, "Communiqué on Capital Requirement Calculation for Market Risk of Options" published in the Official Gazette numbered 28337 dated 28 June 2012 and the "Regulation on Equities of Banks" published in the Official Gazette numbered 28756 dated 5 September 2013.

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

## 4. FINANCIAL RISK MANAGEMENT (continued)

### Capital Adequacy (continued)

In the calculation of the amount subject to credit risk, the Group assesses its loans and receivables by taking the risk classes, rating notes and risk mitigation into consideration. "Simple financial collateral method" is used for banking accounts while "comprehensive financial collateral method" is used for trading accounts for taking risk mitigation elements into consideration.

Counterparty Credit Risk is calculated for derivative transactions, repo transactions, security-stock lending transactions, overdraft security transactions and long term trade transactions.

In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets. The Bank and its subsidiaries' consolidated regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, fair value reserve relating to unrealized gains on securities classified as available-for-sale, revaluation surplus on buildings, actuarial gain/losses and minority interest after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general loan loss provision calculated and recorded in accordance with BRSA standards.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

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

A subordinated loan of USD 300 million (three hundred million USD) was obtained from the main shareholder of the Bank, Industrial and Commercial Bank of China Limited (ICBC), with a maturity of 10 years and repayment after 5 years. The Bank has used TL 3,998,700 of subordinated loans in the calculation of capital adequacy.

In accordance with the BRSA regulation, as of the date of initial recognition, financial assets at are subject to expected loss provision calculation have been followed in accordance with the following three-stage model below:

The regulatory capital and the capital adequacy ratio declared by the Bank as at 31 December 2021 are as follows:

| **31 December 2021** | **Consolidated** | **Bank Only** |
|---|---|---|
| Amount subject to credit risk (I) | 18,902,542 | 18,760,181 |
| Amount subject to market risk (II) | 1,722,325 | 1,415,750 |
| Amount subject to operational risk (III) | 1,175,127 | 1,035,280 |
| **Total Risk-weighted assets and value at market risk and operational risk (I+II+III)=(IV)** | **21,799,994** | **21,211,211** |
| | | |
| Tier 1 Capital | 1,635,040 | 1,464,502 |
| Tier 2 Capital | 4,234,982 | 4,233,202 |
| Deductions from Capital | (158) | (158) |
| **Total Regulatory Capital** | **5,869,864** | **5,697,546** |
| | | |
| **Total regulatory capital expressed as a percentage of total risk-weighted assets and value at risks** | **26.93%** | **26.86%** |

## 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

### Fair Values

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

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

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

## 5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

**Fair Values (continued)**

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| **31 December** | **2021** | **2020** | **2021** | **2020** |
| **Financial assets** | | | | |
| Due from banks | 454,153 | 1,600,920 | 454,153 | 1,600,920 |
| Money market placements | 20,955 | 504,390 | 20,955 | 504,390 |
| Loans and advances | 21,004,968 | 13,946,607 | 21,027,633 | 13,974,283 |
| | **21,480,076** | **16,051,917** | **21,502,741** | **16,079,593** |
| **Financial liabilities** | | | | |
| Due to banks | 748,362 | 179,548 | 748,362 | 179,548 |
| Deposits | 15,558,191 | 11,459,149 | 15,542,908 | 11,459,149 |
| Funds borrowed | 12,974,644 | 8,091,838 | 12,963,603 | 8,287,742 |
| Subordinated loans | 3,999,625 | 2,202,640 | 3,999,625 | 2,202,640 |
| | **33,280,822** | **21,933,175** | **33,254,498** | **22,129,079** |

The following methods and assumptions were used to estimate the fair value of the Group’s financial instruments that are carried at amortized cost:

*Deposits with other banks, financial institutions and money market receivables*

Fair values of deposits with other banks and financial institutions and money market receivables are considered to approximate their respective carrying values due to their short-term nature.

*Loans and Advances*

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates with similar currency and remaining maturity to determine their fair value.

*Deposits and Funds Borrowed*

The estimated fair values of deposits from other banks and customer with no stated maturity, which includes non-interest-bearing deposits, are the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and funds borrowed without quoted market price is based on discounted cash flows using interest rates for new deposits and debts with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortized cost, including balances with Central Bank, other money market placements, reserve deposits and other money market deposits are considered to approximate their respective carrying values due to their short-term nature.

**Fair Value Hierarchy**

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group’s market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed debt instruments.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the OTC derivative contracts. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

## 5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

**Fair Values (continued)**

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

| **31 December 2021** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Trading securities | | | | |
| Share certificates | 25,763 | - | - | 25,763 |
| Other financial assets | 41,461 | - | - | 41,461 |
| Investment securities – FVOCI | | | | |
| Share certificates | - | - | - | - |
| Turkish government bonds | 1,245,076 | - | - | 1,245,076 |
| Eurobonds issued by the Turkish Government | - | - | - | - |
| Other debt securities | 228,642 | - | - | 228,642 |
| Loans classified at FVOCI | - | 3,045,903 | - | 3,045,903 |
| Derivative financial assets | | 190,430 | - | 190,430 |
| **Total assets carried at fair value** | **1,540,942** | **3,236,333** | **-** | **4,777,275** |
| Derivative financial liabilities | - | 16,323 | - | 16,323 |
| **Total liabilities carried at fair value** | **-** | **16,323** | **-** | **16,323** |

| **31 December 2020** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Trading securities | | | | |
| Share certificates | 14,359 | - | - | 14,359 |
| Other financial assets | 21,846 | - | - | 21,846 |
| Investment securities – FVOCI | | | | |
| Share certificates | - | - | - | - |
| Turkish government bonds | 853,266 | - | - | 853,266 |
| Eurobonds issued by the Turkish Government | 171 | - | - | 171 |
| Other debt securities | - | 312,972 | - | 312,972 |
| Loans classified at FVOCI | - | 4,185,757 | - | 4,185,757 |
| Derivative financial assets | - | 1,504 | - | 1,504 |
| **Total assets carried at fair value** | **889,642** | **4,500,233** | **-** | **5,839,875** |
| Derivative financial liabilities | - | 90,052 | - | 90,052 |
| **Total liabilities carried at fair value** | **-** | **90,052** | **-** | **90,052** |

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

## 5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

**Fair Value Hierarchy (continued)**

There are no transfers between the first and the second levels in the current year.

The buildings recorded under property and equipment on the statement of financial position are carried at fair value. Such fair value measurement includes inputs of Level 3 of the fair value hierarchy. The fair values of property are determined by third party appraisers commissioned by BRSA and Capital Markets Board at the period ends. The fair value measurements are based on comparison of similar items method, substitution cost method and direct capitalization method.

## 6. CASH AND CASH EQUIVALENTS

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Cash on hand | 167,440 | 84,848 |
| Balances with Central Bank | 7,437,318 | 3,076,065 |
| **Cash and balances with central banks** | **7,604,758** | **3,160,913** |
| **Due from banks** | **459,181** | **1,606,968** |
| **Money market placements** | **20,955** | **504,390** |
| **Cash and cash equivalents** | **8,084,894** | **5,272,271** |
| Less: Income accrual | (5,786) | (1,479) |
| Less: Reserve deposits at Central Bank | (3,350,631) | (1,519,925) |
| **Cash and cash equivalents** | **4,728,477** | **3,750,867** |

As at 31 December 2021 and 31 December 2020, deposits and placements are as follows:

| | 31 December 2021 | | | | 31 December 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | Effective interest rate (%) | | Amount | | Effective interest rate (%) | |
| | Turkish Lira | Foreign Currency | Turkish Lira | Foreign Currency | Turkish Lira | Foreign Currency | Turkish Lira | Foreign Currency |
| Balances with Central Bank | 295,762 | 7,141,556 | 8.5 | - | 97,704 | 2,978,361 | 12 | - |
| Due from banks | 9,718 | 444,435 | - | 0.1 | 2,592 | 1,604,376 | - | 2.3 |
| Cash collateral on reverse repurchase agreements | - | - | - | - | - | - | - | - |
| Money market placements | 20,955 | - | 16.86 | - | 504,390 | - | 18.08 | - |
| **Total** | **326,435** | **7,585,991** | | | **604,686** | **4,582,737** | | |

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

## 6. CASH AND CASH EQUIVALENTS (continued)

Balances with Central Bank include:

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | **Turkish Lira** | **Foreign Currency** | **Turkish Lira** | **Foreign Currency** |
| Unrestricted demand deposits | 295,762 | 2,236,850 | 97,704 | 1,458,436 |
| Restricted reserve requirements | - | 4,904,706 | - | 1,519,925 |
| **Total** | **295,762** | **7,141,556** | **97,704** | **2,978,361** |

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

The reserve rates for TL liabilities vary between 3% and 8% for TL deposits and other liabilities according to their maturities as of 31 December 2021 (31 December 2020: 1% and 6% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 5% and 26% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2021 (31 December 2020: 5% and 22% for all foreign currency liabilities).

## 7. TRADING SECURITIES

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | **Amount** | **Effective Interest Rate (%)** | **Amount** | **Effective Interest Rate (%)** |
| **Other instruments** | | | | |
| Share certificates | 25,763 | - | 14,359 | - |
| Other securities | 41,461 | - | 21,846 | - |
| **Total trading securities** | **67,224** | **-** | **36,205** | **-** |

Trading debt securities have fixed rates.

As at 31 December 2021 and 2020, none of the trading securities are kept as collateral or guarantee.

## 8. INVESTMENT SECURITIES

**Fair value through other comprehensive income ("FVOCI")**

| | 31 December 2021 | |
|---|---|---|
| | **Amount** | **Effective Interest Rate (%)** |
| **Equity instruments** | | |
| Equity securities | - | - |
| **Debt instruments** | | |
| Turkish government bonds | 225,646 | 9.9-33.81 |
| Eurobonds issued by Turkish government | 1,019,430 | 4.81-6.32 |
| Other debt securities | 228,642 | 1.97-3.11 |
| **Total** | **1,473,718** | |

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

## 8. INVESTMENT SECURITIES (continued)

**Fair value through other comprehensive income ("FVOCI") (continued)**

As at 31 December 2021, TL 183,878 of investment securities - fair value through other comprehensive income has floating interest rates and the remaining portion has fixed rates.

| | 31 December 2020 | |
|---|---|---|
| | Amount | Effective Interest Rate (%) |
| **Equity instruments** | | |
| Equity securities | - | - |
| **Debt instruments** | | |
| Turkish government bonds | 674,573 | 15-16.4 |
| Eurobonds issued by Turkish government | 178,864 | 2.7-5.9 |
| Other debt securities | 312,972 | 3.7-5.2 |
| **Total** | **1,166,409** | |

As at 31 December 2020, TL 556,835 of investment securities - fair value through other comprehensive income has floating interest rates and the remaining portion has fixed rates.

The movement in investment securities - fair value through other comprehensive income is summarized as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| At 1 January | 1,166,409 | 1,803,706 |
| Foreign exchange differences | 217,082 | 153,360 |
| Purchases | 894,464 | 4,687 |
| Disposals and revaluation differences (sale or redemption) | (804,237) | (795,344) |
| **Total** | **1,473,718** | **1,166,409** |

As at 31 December 2021, TL 183,443 of fair value through other comprehensive income (31 December 2020: TL 574,734 of fair value through other comprehensive income) is kept as a guarantee for stock exchange and other money market operations,

As at 31 December 2021 and 2020, certain portion of investment securities is pledged under repurchase agreements. Carrying value of securities pledged under repurchase agreements and carrying value of liabilities that are related to such securities are as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Carrying value of securities pledged under repurchase agreements | - | 176,641 |
| Carrying value of liabilities of such securities | 22,549 | 697,700 |

Repurchase agreements mature within one month.

Gains and losses from investment securities arise from derecognition of securities at fair value through other comprehensive income.

**Measured at Amortized Cost ("AC")**

The Group has financial assets classified as measured at amortized cost amounting to TL 7,979,955 as at 31 December 2021 (31 December 2020: TL 4,361,498).

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

## 9. LOANS AND ADVANCES TO CUSTOMERS

| | 31 December 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Amount | | | | Effective interest rate (%) | | |
| | Turkish Lira | Foreign Currency | Foreign Currency Indexed | Total | Turkish Lira | Foreign Currency | Foreign Currency Indexed |
| Corporate loans (*) | 13,799,971 | 7,431,972 | 3,964 | 21,235,907 | 0.3-31 | 0.2-8.8 | 0.3-4.9 |
| Consumer loans | 390,352 | - | - | 390,352 | 0.3-27 | - | - |
| Credit cards | 16,566 | - | - | 16,566 | 14 | 1.5 | - |
| Specialized loans | - | - | - | - | - | - | - |
| Investment loans | 86,060 | - | - | 86,060 | - | - | - |
| **Total loans** | **14,292,949** | **7,432,590** | **3,964** | **21,729,503** | | | |
| **Loans under follow-up** | **45,743** | **-** | **-** | **45,743** | | | |
| 12-month ECL (stage 1) | (171,448) | - | - | (171,448) | | | |
| Lifetime ECL significant increase in credit risk (stage 2) | (560,884) | - | - | (560,884) | | | |
| Lifetime ECL impaired credits (stage 3) | (37,946) | - | - | (37,946) | | | |
| **Total** | **13,568,414** | **7,432,590** | **3,964** | **21,004,968** | | | |

(*) Financial assets at fair value through other comprehensive income include loans of TL 3,045,903 (31 December 2020: 4,185,757 TL). Related loans are monitored as financial assets at fair value through other comprehensive income within the scope of IFRS 9, The fair value of this loan was determined by taking into account the discounted cash flows, similar market multipliers, similar transaction multipliers in the same sector and market value average. Related loans are monitored as Level 2 within the scope of IFRS 13 Fair Value Measurement Standard.

| | 31 December 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Amount | | | | Effective interest rate (%) | | |
| | Turkish Lira | Foreign Currency | Foreign Currency Indexed | Total | Turkish Lira | Foreign Currency | Foreign Currency Indexed |
| Corporate loans | 1,945,864 | 11,618,347 | 3,964 | 13,568,175 | 9-34 | 1,6-8,7 | 0,3-4,9 |
| Consumer loans | 525,538 | - | - | 525,538 | 8,8-32,7 | - | - |
| Credit cards | 15,552 | - | - | 15,552 | 19 | - | - |
| Specialized loans | - | - | - | - | - | - | - |
| Investment loans | 86,060 | - | - | 86,060 | - | - | - |
| **Total loans** | **2,573,014** | **11,618,347** | **3,964** | **14,195,325** | | | |
| Loans under follow-up | **45,743** | **-** | **-** | **45,743** | | | |
| 12-month ECL (stage 1) | (54,822) | - | - | (54,822) | | | |
| Lifetime ECL significant increase in credit risk (stage 2) | (203,719) | - | - | (203,719) | | | |
| Lifetime ECL impaired credits (stage 3) | (35,920) | - | - | (35,920) | | | |
| **Total** | **2,324,296** | **11,618,347** | **3,964** | **13,946,607** | | | |

As at 31 December 2021, the amount of loans and advances, on which interest is not being accrued or where interest is suspended, is TL 43,960 (31 December 2020: TL 45,743).

As at 31 December 2021, TL 11,466,858 (31 December 2020: TL 9,428,880) of loans and advances have floating interest rates and the remaining portion has fixed rates.

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

## 9. LOANS AND ADVANCES TO CUSTOMERS (continued)

Movements in non-performing loans and finance lease receivables:

| **Movements in the allowance for impairment** | **31 December 2021** | **31 December 2020** |
|---|---|---|
| **Allowance for impairment on stage 3 loans** | | |
| Allowance at the beginning of year | 35,919 | 113,666 |
| Charge for the year | 4,483 | 485 |
| Recoveries | (2,456) | (60,948) |
| Provision net of recoveries | 2,027 | (60,463) |
| Loans written off during the year and other adjustments(*) | - | (17,284) |
| **Balance at 31 December 2021** | **37,946** | 35,919 |
| **Allowance for impairment on stage 1 and stage 2 loans** | | |
| Allowance at beginning of year | 284,980 | 92,185 |
| Charge / (reversal) for the year | 447,352 | 192,795 |
| **Balance at 31 December 2021** | 732,332 | 284,980 |
| **Total allowances for impairment** | **770,278** | **320,899** |

| **Reconciliation of provision for impairment of loans and advances** | **31 December 2021** | **31 December 2020** |
|---|---|---|
| Impairment loss for stage 1 and stage 2 loans | 447,352 | 192,795 |
| Impairment loss for stage 3 loans | 2,026 | (60,462) |
| **Total provision net of recoveries – for cash loans** | **449,378** | **132,333** |
| Provision net of recoveries – for non-cash loans and commitments | 19,054 | 16,332 |
| **Total provision for impairment of loans and advances** | **468,432** | **148,665** |

(*) In the current period, the Group has no written off TL portion of its non-performing loans (31 December 2020: TL 17,284).

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

## 9. LOANS AND ADVANCES TO CUSTOMERS (continued)

The credit portfolio of the Group per class is as shown below;

| **31 December 2021** | **Commercial** | **Consumer** | **Credit Cards** | **Total** |
|---|---|---|---|---|
| Stage 1 Loans to customers | 20,269,816 | 387,197 | 16,666 | 20,673,679 |
| Stage 2 Loans to customers | 1,054,122 | 3,369 | 116 | 1,057,607 |
| Stage 3 Loans to customers | 37,910 | 5,648 | 402 | 43,960 |
| **Total Gross Loans** | **21,361,848** | **396,214** | **17,184** | **21,775,246** |
| Stage 1 expected credit loss | (171,101) | (208) | (139) | (171,448) |
| Stage 2 expected credit loss | (560,790) | (50) | (44) | (560,884) |
| Stage 3 expected credit loss | (34,076) | (3,502) | (368) | (37,946) |
| **Total ECL** | **(765,967)** | **(3,760)** | **(551)** | **(770,278)** |
| **Total Loans** | **20,595,881** | **392,454** | **16,633** | **21,004,968** |

| **31 December 2020** | **Commercial** | **Consumer** | **Credit Cards** | **Total** |
|---|---|---|---|---|
| Stage 1 Loans to customers | 13,046,886 | 523,461 | 14,851 | 13,585,198 |
| Stage 2 Loans to customers | 607,905 | 2,315 | 69 | 610,289 |
| Stage 3 Loans to customers | 36,786 | 8,478 | 317 | 45,581 |
| **Total Gross Loans** | **13,691,577** | **534,254** | **15,237** | **14,241,068** |
| Stage 1 expected credit loss | (53,886) | (307) | (629) | (54,822) |
| Stage 2 expected credit loss | (203,3579 | (307) | (55) | (203,719) |
| Stage 3 expected credit loss | (31,942) | (3,697) | (281) | (35,920) |
| **Total ECL** | **(289,185)** | **(4,311)** | **(965)** | **(294,461)** |
| **Total Loans** | **13,402,392** | **529,943** | **14,272** | **13,946,607** |

The movement of loss allowances for loans to customers as of 31 December 2021 is as follows;

| **Loans to Customers** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| **1 January 2021** | **77,428** | **203,719** | **35,757** | **316,904** |
| Transfers | - | - | - | - |
| *Transfers from Stage 1 to Stage 2* | (24) | 41 | - | 17 |
| *Transfers from Stage 1 to Stage 3* | (4) | - | 31 | 27 |
| *Transfers from Stage 2 to Stage 3* | - | (12) | 14 | 2 |
| *Transfers from Stage 2 to Stage 1* | - | (15) | - | (15) |
| Originated or purchased and recoveries | 135,731 | 366,264 | 4,095 | 506,090 |
| Derecognized during the period other than write-offs | (41,683) | (9,113) | (1,951) | (52,747) |
| **Loss allowance as at 31 December 2021** | **171,448** | **560,884** | **37,946** | **770,278** |

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

## 10. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Furniture and Office Equipment | Leased Assets | Right of use | Motor Vehicles | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2021** | | | | | | |
| Net of accumulated depreciation and impairment | **21,420** | **27,576** | **-** | **64,427** | **-** | **113,423** |
| Additions | 241 | 8,055 | - | 19,304 | - | 27,600 |
| Addition from Finance Lease Assets | - | - | - | - | - | - |
| Disposals, net | - | - | - | - | - | - |
| Revaluation and impairment, net | 12,379 | - | - | | - | 12,379 |
| Depreciation charge for the year | (175) | (9,434) | - | (20,380) | - | (29,989) |
| **At 31 December 2021, net of accumulated depreciation and impairment** | **33,865** | **26,197** | **-** | **63,351** | **-** | **123,413** |
| **At 1 January 2021** | | | | | | |
| Cost | 25,396 | 78,622 | 2,269 | 99,055 | 36 | 205,378 |
| Revaluation and impairment, net (*) | - | - | - | - | - | - |
| Accumulated depreciation | (3,976) | (51,046) | (2,269) | (34,628) | (36) | (91,955) |
| **Net carrying amount** | **21,420** | **27,576** | **-** | **64,427** | **-** | **113,423** |
| **At 31 December 2021** | | | | | | |
| Cost | 38,016 | 86,677 | 2,269 | 118,183 | | 245,145 |
| Revaluation and impairment, net (*) | - | - | - | - | - | - |
| Accumulated depreciation | (4,151) | (60,480) | (2,269) | (55,008) | | (121,908) |
| **Net carrying amount** | **33,865** | **26,197** | **-** | **63,175** | **-** | **123,237** |

(*) As at 31 December 2021, there is TL 29,086 revaluation surplus on buildings (31 December 2020: TL 16,740). Such revaluation surplus is identified as the difference between the net book value and the fair value of property at the reporting date; the date of revaluation. Fair values are determined by a third-party appraiser commissioned by BRSA and Capital Markets Board.

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

## 10. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Buildings | Furniture and Office Equipment | Leased Assets | Right of use | Motor Vehicles | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2020** | | | | | | |
| Net of accumulated depreciation and impairment | 19,251 | 21,643 | - | 77,665 | - | 118,559 |
| Additions | - | 12,107 | - | 15,835 | - | 27,942 |
| Addition from Finance Lease Assets | | - | | 80,333 | | 80,333 |
| Disposals, net | - | (927) | - | | - | (927) |
| Revaluation and impairment, net | 2,350 | - | - | | - | 2,350 |
| Depreciation charge for the year | (181) | (10,472) | - | -34628 | - | (45,281) |
| **At 31 December 2020, net of accumulated depreciation and impairment** | **21,420** | **22,351** | **-** | **139,205** | **-** | **182,976** |
| **At 1 January 2020** | | | | | | |
| Cost | 23,046 | 67,280 | 2,269 | 95,313 | 36 | 187,944 |
| Revaluation and impairment, net(*) | - | - | - | - | - | - |
| Accumulated depreciation | (3,795) | (45,637) | (2,269) | (17,648) | (36) | (69,385) |
| **Net carrying amount** | **19,251** | **21,643** | **-** | **77,665** | **-** | **118,559** |
| **At 31 December 2020** | | | | | | |
| Cost | 25,396 | 78,622 | 2,269 | 99,055 | - | 205,342 |
| Revaluation and impairment, net(*) | - | - | - | - | - | - |
| Accumulated depreciation | (3,976) | (51,046) | (2,269) | (34,628) | - | (91,919) |
| **Net carrying amount** | **21,420** | **27,576** | **-** | **64,427** | **-** | **113,423** |

(*) As at 31 December 2020, there is TL 16,740 revaluation surplus on buildings (31 December 2019: TL 14,390). Such revaluation surplus is identified as the difference between the net book value and the fair value of property at the reporting date; the date of revaluation. Fair values are determined by a third-party appraiser commissioned by BRSA and Capital Markets Board.

## 11. INTANGIBLE ASSETS

| Software Licenses and Other | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Beginning of the year, net of accumulated amortization | 7,839 | 8,194 |
| Additions | 10,480 | 5,307 |
| Disposals, net | - | - |
| Amortization charge for the year | 6,882 | (5,662) |
| **At the end of the year, net of accumulated amortization** | **11,437** | **7,839** |
| At end of the year | | |
| Cost | 51,722 | 41,241 |
| Accumulated amortization | (40,285) | (33,402) |
| **Net carrying amount** | **11,437** | **7,839** |

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

## 12. OTHER ASSETS

| | 31 December 202 | 31 December 2020 |
|---|---|---|
| Collaterals given | 77,147 | 122,852 |
| Transitory receivables (*) | 39,524 | 11,464 |
| Prepaid expenses | 8,582 | 7,617 |
| Assets to be disposed of (**) | 1,686 | 3,143 |
| Office supply inventory | 1,934 | 1,095 |
| Receivables from credit cards and debit cards | 1,095 | 725 |
| Others | 10,770 | 18,310 |
| **Total** | **140,738** | **165,206** |

(*) Transitory receivables mainly include receivables from clearing house of cheques.

(**) Assets to be disposed of account comprise mainly property, acquired from defaulted loan customers and will be mainly realized through sale.

The movement of assets to be disposed of is as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Opening balance at 1 January | 3,143 | 4,176 |
| Additions | - | - |
| Disposals, net | (1,385) | (934) |
| Net (charge) / reversal of provision for impairment | (72) | (99) |
| **Closing balance at 31 December** | **1,686** | **3,143** |

## 13. DEPOSITS

**Due to Banks**

| | 31 December 2021 | | | | 31 December 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | Effective interest Rate (%) | | Amount | | Effective interest Rate (%) | |
| | Turkish Lira | Foreign Currency | Turkish Lira | Foreign Currency | Turkish Lira | Foreign Currency | Turkish Lira | Foreign Currency |
| Demand | 20,037 | 128,072 | - | - | 62,606 | 24,430 | - | - |
| Time | 600,253 | - | 15.15 | - | - | 92,512 | - | 0.38 |
| **Total** | **620,290** | **128,072** | | | **62,606** | **116,942** | | |

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

## 13. DEPOSITS (continued)

**Deposits**

| | 31 December 2021 | | | | 31 December 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | Effective interest rate (%) | | Amount | | Effective interest rate (%) | |
| | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency |
| **Saving** | | | | | | | | |
| Demand | 56,463 | - | - | - | 40,717 | - | - | - |
| Time | 1,332,010 | - | 2.0-18.0 | - | 1,453,801 | - | 3-19.2 | - |
| | **1,388,473** | **-** | | | **1,494,518** | **-** | | |
| **Commercial and other** | | | | | | | | |
| Demand | 157,790 | 2,491,851 | - | - | 47,924 | 502,781 | - | - |
| Time | 66,856 | 11,453,221 | 2.0-18.0 | 0.1-3.25 | 241,274 | 9,172,652 | 3-19.2 | 0.1-4.3 |
| | **224,646** | **13,945,072** | | | **289,198** | **9,675,433** | | |
| **Total** | **1,613,119** | **13,945,072** | | | **1,783,716** | **9,675,433** | | |

**Other Money Market Deposits**

| | 31 December 2021 | | | | 31 December 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | Effective interest Rate (%) | | Amount | | Effective interest Rate (%) | |
| | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency |
| **Obligations under repurchase agreements:** | | | | | | | | |
| Repurchase | 22,549 | - | 12.9-15.2 | | | | | |
| Due to banks & mutual funds | 3,001,933 | - | 14 | - | 550,633 | 147,067 | 11.4-17 | 1.75 |
| **Total** | **3,024,482** | **-** | | | **550,633** | **147,067** | | |

## 14. FUNDS BORROWED

| | 31 December 2021 | | | | 31 December 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | Effective interest rate (%) | | Amount | | Effective interest rate (%) | |
| | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency |
| **Short term(*)** | | | | | | | | |
| Fixed interest | 11,041 | 2,841,570 | 17 | 0.01-0.46 | 639,192 | 3,302,233 | 14.4 | 0.25-1.17 |
| **Medium/long term(*)** | | | | | | | | |
| Fixed interest | - | 10,122,033 | - | 0.3-3.0 | - | 4,150,413 | - | 1.14-3.67 |
| **Total** | **11,041** | **12,963,603** | | | **639,192** | **7,452,646** | | |

(*) The short term and medium/long term allocation of funds borrowed are based on the contractual payment period.

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

## 14. FUNDS BORROWED (continued)

Repayments of medium/long term borrowing are as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| 2021 | - | 1,537,789 |
| 2022 | 8,844,500 | 758,733 |
| 2023 | 604,268 | 1,853,891 |
| 2024 | 673,264 | - |
| **Total** | **10,122,032** | **4,150,413** |

Funds borrowed consist of funds obtained from Turkish Eximbank to finance certain export loans given to customers under prevailing regulations and funds obtained from foreign banks and financial institutions, In the current period the majority of the funds borrowed, 95%, are obtained from the Bank’s current shareholder ICBC and group companies of ICBC (31 December 2020: 100%).

**Lease payables:**

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| Less Than 1 Year | 8,222 | - | 3,738 | - |
| Between 1-4 Years | 19,155 | - | 29,400 | - |
| More Than 4 Years | 47,157 | - | 39,562 | - |
| **Total** | **74,534** | **-** | **72,700** | **-** |

## 15. SUBORDINATED LOANS

The details of subordinated liabilities of the Bank as of 31 December 2021 are presented in the table below:

| Lender | Amount USD | Amount TL | Opening date | Maturity | Interest rate (%) |
|---|---|---|---|---|---|
| Industrial and Commercial Bank of China Limited (ICBC) | USD 300,000 | 3,999,625 | 28 December 2018 | 10 years | 6M USD Libor + 1,75% |

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

## 16. OTHER LIABILITIES, EMPLOYEE BENEFITS AND PROVISIONS

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Other liabilities** | | |
| Blocked checks and other blockage items | 489,325 | 362,444 |
| Transitory payables | 92,305 | 222,161 |
| Lease payables | 74,534 | 72,700 |
| Taxes and funds payable | 36,826 | 28,348 |
| Transfer orders | 55,087 | 19,146 |
| Payable for credit card settlements | 3,526 | 1,614 |
| Advances taken | 57,987 | 482 |
| Others | 19,917 | 62,561 |
| | **829,507** | **769,457** |
| **Employee benefits** | | |
| Employee termination benefits | 28,799 | 16,889 |
| Employee vacation pay liability | 14,974 | 10,135 |
| | **43,773** | **27,024** |
| **Provisions** | | |
| Provision for non-cash loans | 104,079 | 65,216 |
| Provisions against lawsuits | 19,958 | 14,347 |
| Provision for premium | 257,429 | 97,344 |
| Other | 9,637 | |
| | **391,103** | **176,907** |
| **Total** | **1,227,557** | **973,388** |

### Employee Termination Benefits

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

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| At 1 January | 16,889 | 14,114 |
| Interest cost | - | 1,322 |
| Current service cost | 9,299 | 3,331 |
| Paid during the year | (2,086) | (1,510) |
| Effects of change in actuarial assumptions | 4,697 | (368) |
| **At 31 December** | **28,799** | **16,889** |

In accordance with existing social legislation, the Bank and its subsidiary incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct, In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of full TL 10,848,59 TL and full TL 7,117,17 at 31 December 2021 and 2020, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination, In the consolidated financial statements as at 31 December 2021 and 2020, the Group reflected a liability based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the date of financial position.

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

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Discount rate | 3.09 | 4.11 |
| Expected rates of salary/limit increases | 21.85 | 9.50 |

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

## 16. OTHER LIABILITIES, EMPLOYEE BENEFITS AND PROVISIONS (continued)

In the current period, actuarial gains / losses arising from changes in discount rates and expected rates of salary / limit increases and other demographic assumptions are recognized in the consolidated statement of profit or loss and other comprehensive income, the prior year actuarial gains / losses were recognized in the consolidated statement of profit or loss.

The movement in provision for employee vacation liability is as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| At 1 January | 10,135 | 6,861 |
| Paid during the year | (362) | (754) |
| Current service cost | 5,201 | 4,028 |
| **At 31 December** | **14,974** | **10,135** |

**Provisions**

As at 31 December 2021, the Group has provided TL 4,916 provision due to non-cash loans and irrevocable commitments that are not indemnified yet, however whose cash loan balances are impaired (31 December 2020: TL 3,449).

As at 31 December 2021, the Group has provided TL 19,958 provision due to certain lawsuits filed against the Group (31 December 2020: TL 14,347).

The movement in provision for non-cash loans is as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| At 1 January | 64,541 | 40,305 |
| Charge for the year | 34,815 | 5,060 |
| Recoveries | 4,723 | 19,176 |
| Transfer to ECL | - | - |
| **At 31 December** | **104,079** | **64,541** |

The movement in provision against lawsuits is as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| At 1 January | 14,347 | 13,051 |
| Charge for the year | 5,211 | 1,296 |
| Paid during the year | - | - |
| **At 31 December** | **19,558** | **14,347** |

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

## 17. TAXATION

**General Information**

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

In Turkey, the general corporate tax rate is 20%. However, within the scope of the Law No. 7316 on the "Law on the Collection of Public Claims and Amendments to Certain Laws" published in the Official Gazette dated 22 April 2021, this rate will be applied as 25% for the corporate earnings of the institutions for the 2021 taxation period, and 23% for the corporate earnings for the 2022 taxation period, starting from the declarations that must be submitted as of 1 July 2021.

The corporate tax rate is applied to the tax base to be found as a result of adding the expenses that are not accepted as a deduction in accordance with the tax laws to the commercial income of the corporations, deducting the exceptions (such as the participation earnings exception) and discounts (such as the investment discount) in the tax laws. If there is no dividend distribution, no further tax charges are made.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. Dividend payments made to individuals and institutions other than these are subject to 15% withholding tax. Addition of profit to capital is not considered as profit distribution and withholding tax is not applied. Pursuant to the President's Decision No. 4936 published in the Official Gazette dated 22 December 2021, the dividends distributed by fully-paying corporations are covered by Article 94 of the Income Tax Law and Articles 15 and 30 of the Corporate Tax Law the rate of withholding was reduced from 15% to 10%. The decision is applicable as of 22 December 2021.

In accordance with the tax legislation, corporate taxes are paid in advance based on the tax base calculated on the quarterly earnings of the companies at the rate of 20%. These payments can be deducted from the annual corporate tax calculated for the whole year earnings. Such taxes paid in advance are deducted from the final corporate tax liability.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

The Bank and its subsidiaries, ICBC Yatırım and ICBC Portföy, are subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

Major components of income tax expense for the years ended 31 December 2021 and 2020 are:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Consolidated statement of profit or loss** | | |
| *Current income tax expense* | 239,888 | 123,681 |
| *Deferred income tax expense / (income)* | | |
| Relating to origination and reversal of temporary differences and tax loss | (186,429) | (84,470) |
| **Income tax expense reported in the consolidated statement of profit or loss** | **53,459** | **39,211** |

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

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Profit before income tax** | **240,648** | **130,142** |
| At Turkish statutory income tax rate of 23% | 52,943 | 28,631 |
| Tax exempt income | - | - |
| Non-deductible expenses | 145 | 772 |
| Others, net | 516 | 9,808 |
| **Income tax expense** | **53,459** | **39,211** |

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

## 17. TAXATION (continued)

### Deferred Income Tax

Deferred income tax at 31 December 2021 and 2020 relates to the following:

| | Consolidated Statement of Financial Position | |
|---|---|---|
| | **31 December 2021** | **31 December 2020** |
| **Deferred tax assets** | | |
| Expected credit losses | 175,896 | 71,992 |
| Valuation differences of derivatives | - | 17,710 |
| Valuation differences of securities | 85,375 | 7,515 |
| Liability for employee termination benefits and unused vacation pay liability | 11,751 | 5,405 |
| Provisions | 67,172 | 1,630 |
| Reserve for loan losses | - | - |
| Others | 8,132 | 14,661 |
| **Gross deferred tax assets** | **348,326** | **118,913** |
| **Deferred tax liabilities** | | |
| Valuation and depreciation differences of property and equipment | 3,933 | 1,641 |
| IFRS 16 | - | 688 |
| Valuation differences of securities | 254 | 315 |
| Valuation differences of derivatives | 43,526 | - |
| **Gross deferred tax liabilities** | **47,713** | **2,644** |
| **Deferred tax assets, net** | **300,613** | **116,269** |

Movement of net deferred tax asset/liability can be presented as follows:

| | **2021** | **2020** |
|---|---|---|
| Deferred tax asset, net at 1 January | 116,269 | 30,918 |
| Deferred income tax recognized under profit or loss | 186,430 | 84,470 |
| Deferred income tax recognized under shareholders' equity (*) | (2,085) | 881 |
| **Deferred tax asset, net at 31 December** | **300,614** | **116,269** |

(*) The change in deferred tax asset/liability of TL 116,269 (31 December 2020: TL 84,470), recognized under shareholders' equity, consists of TL 1,055 (31 December 2020: TL 74) resulting from actuarial gains, TL (619) (31 December 2020: TL (74)) resulting from the revaluation surplus on buildings and TL (2,520) (31 December 2020: TL 881) resulting from valuation differences of securities.

### Current Income Tax Payable

Income tax payable at 31 December 2021 and 2020 are as follows:

| | **31 December 2021** | | **31 December 2020** | |
|---|---|---|---|---|
| | **Bank** | **Subsidiaries** | **Bank** | **Subsidiaries** |
| Current income tax charge | 216,160 | 23,731 | 114,950 | 8,730 |
| Prepaid income taxes | (57,606) | (19,919) | (49,516) | (4,918) |
| **Income tax payable, net** | **158,554** | **3,812** | **65,434** | **3,812** |

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

## 18. DERIVATIVES

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

The table below shows the favorable (assets) and unfavorable (liabilities) fair values of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Fair value assets | Fair value liabilities | Fair value assets | Fair value liabilities |
| **Derivatives held for trading** | | | | |
| Forward currency purchases and sales | 916 | 9,943 | 568 | 382 |
| Currency swap purchases and sales (*) | 190,213 | 5,676 | 936 | 89,627 |
| Options purchases and sales | - | - | - | 43 |
| **Total** | **191,129** | **15,619** | **1,504** | **90,052** |

(*) The Group has no fair value assets resulted from precious metal swap purchase and sales transaction (31 December 2020:None).

The fair values of derivative financial instruments are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

As at 31 December 2021 and 2020, the majority of outstanding transactions in derivative financial instruments were with the banks and financial institutions.

The table below shows the notional amounts of derivative instruments analyzed by currency:

| 31 December 2021 | Turkish Lira | US Dollars | Euro | Others | Total |
|---|---|---|---|---|---|
| Purchases / inflows | | | | | |
| Currency forwards | 98,206 | - | 1,509 | 10,732 | 110,447 |
| Currency swaps | - | 6,153,784 | 90,520 | 375,319 | 6,619,623 |
| Sales / outflows | | | | | |
| Currency forwards | 1,523 | 107,360 | - | 3,607 | 112,490 |
| Currency swaps | 3,559,441 | 2,797,459 | 89,234 | - | 6,446,224 |
| Total of purchases / inflows | 98,206 | 6,153,784 | 92,029 | 386,051 | 6,730,070 |
| Total of sales / outflows | 3,560,964 | 2,904,819 | 89,324 | 3,607 | 6,558,714 |
| **Net notional position** | **(3,462,758)** | **3,248,965** | **(2,705)** | **382,444** | **171,356** |

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

## 18. DERIVATIVES (continued)

| 31 December 2020 | Turkish Lira | US Dollars | Euro | Others | Total |
|---|---|---|---|---|---|
| Purchases / inflows | | | | | |
| Currency forwards | 7,132 | 11,929 | 2,702 | 4,418 | 26,181 |
| Currency swaps | - | 407,342 | 13,010 | 2,580,252 | 3,000,604 |
| Sales / outflows | | | | | |
| Currency forwards | 2,712 | 10,005 | 8,284 | 4,902 | 25,903 |
| Currency swaps | 6,199 | 11,591 | 3,048,157 | 19,888 | 3,085,835 |
| Total of purchases / inflows | 7,132 | 419,271 | 15,712 | 2,584,669 | 3,026,785 |
| Total of sales / outflows | 8,911 | 21,596 | 3,056,441 | 24,790 | 3,111,738 |
| **Net notional position** | **(1,779)** | **397,675** | **(3,040,729)** | **2,559,879** | **(84,953)** |

The table below shows the notional amounts of derivative instruments analyzed by the term to maturity:

| 31 December 2021 | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Total |
|---|---|---|---|---|---|---|
| Currency forwards: | | | | | | |
| Purchases / inflows | 20,830 | - | 89,617 | - | - | 110,447 |
| Sales / outflows | 19,902 | - | 92,588 | - | - | 112,490 |
| Currency swaps: | | | | | | |
| Purchases / inflows | 3,714,978 | 2,812,008 | 92,637 | - | - | 6,619,623 |
| Sales / outflows | 3,559,441 | 2,797,459 | 89,324 | - | - | 6,446,224 |
| Other transactions: | | | | | | |
| Purchases / inflows | - | - | - | - | - | - |
| Sales / outflows | - | - | - | - | - | - |
| Total of purchases / inflows | 3,735,808 | 2,812,008 | 182,254 | - | - | 6,730,070 |
| Total of sales / outflows | 3,579,343 | 2,797,459 | 181,912 | - | - | 6,558,714 |
| **Total of transactions** | **7,315,151** | **5,609,467** | **364,166** | **-** | **-** | **13,288,784** |

| 31 December 2020 | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Total |
|---|---|---|---|---|---|---|
| Currency forwards: | | | | | | |
| Purchases / inflows | 13,368 | 3,807 | 418 | 8,587 | - | 26,180 |
| Sales / outflows | 13,327 | 3,544 | 447 | 8,585 | - | 25,903 |
| Currency swaps: | | | | | | |
| Purchases / inflows | 213,574 | 1,040,762 | 1,693,611 | 52,658 | - | 3,000,605 |
| Sales / outflows | 214,287 | 1,120,271 | 1,708,005 | 43,272 | - | 3,085,835 |
| Other transactions: | | | | | | |
| Purchases / inflows | - | - | - | - | - | - |
| Sales / outflows | - | - | - | - | - | - |
| Total of purchases / inflows | 226,942 | 1,044,569 | 1,694,029 | 61,245 | - | 3,026,785 |
| Total of sales / outflows | 227,614 | 1,123,815 | 1,708,452 | 51,857 | - | 3,111,738 |
| **Total of transactions** | **454,556** | **2,168,384** | **3,402,481** | **113,102** | **-** | **6,138,523** |

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

## 19. SHARE CAPITAL

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Number of common shares**, TL 0,1 (in full TL), par value (Authorized and issued) | 8,600,000,000 | 8,600,000,000 |

In accordance with the decision of the general extraordinary meeting of the Bank dated 9 February 2017, the Bank's capital has decided to increase and the decision was registered by Istanbul Trade Registry Office at 29 June 2017. At this content, the Bank's capital has increased in cash amounting to TL 440,000 from TL 420,000 to TL 860,000 and the whole increase was made in cash, with this increase, ICBC's shareholding ratio at the Bank has increased from 92.82% to 92.84%.

As at 31 December 2021 and 2020, the composition of shareholders and their respective percentage of ownership in historical terms can be summarized as follows:

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Amount | Amount | Amount | % |
| Industrial and Commercial Bank of China Limited (ICBC) | 798,424 | 92.84 | 798,424 | 92.84 |
| Publicly held | 61,576 | 7.16 | 61,576 | 7.16 |
| **Total** | **860,000** | **100.00** | **860,000** | **100.00** |

The 70% of share capital of the Parent Bank consist of Type A shares and the 30% of the remaining consist of Type B shares. Three out of five members of the Board of Directors are appointed by Type A shareholders and the remaining two are appointed by Type B shareholders. There is no other privilege appointed.

At the Ordinary General Assembly Meeting of the Parent Bank held on 25 March 2021, it was decided to allocate 5% of the legal reserves of TL 2,902 from TL 58,048, which constitutes the net after-tax unconsolidated balance sheet profit of 2020, in accordance with Article 519/1 of the TCC and the remaining TL 55,146 was decided to be transferred to extraordinary reserves.

## 20. LEGAL RESERVES AND RETAINED EARNINGS

Movement in legal reserves and retained earnings is as follows:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Legal Reserves | Retained Earnings | Total | Legal Reserves | Retained Earnings | Total |
| At 1 January | 11,978 | 527,614 | 539,592 | 11,978 | 431,923 | 443,901 |
| Net profit for the year | - | 187,189 | 187,189 | - | 90,931 | 90,931 |
| Changes on initial application of IFRS 9 | - | - | - | - | - | - |
| Transfers | - | 3,536 | 3,536 | - | 4,760 | 4,760 |
| **At 31 December** | **11,978** | **718,339** | **730,317** | **11,978** | **527,614** | **539,592** |

**Legal Reserves**

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

## 21. DIVIDENDS PAID AND PROPOSED

As at 31 December 2021 and 2020, the Group did not distribute any dividends to shareholders in respect of 2020 and 2019 profits.

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

## 22. EARNINGS PER SHARE

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

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation, such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank are regarded similarly. Accordingly, the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through 31 December 2021.

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

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

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Profit attributable to equity holders of the Bank | 187,189 | 90,931 |
| Weighted average number of ordinary shares in issue (thousand) | 8,600,000 | 8,600,000 |
| **Basic earnings per thousand share (expressed in full TL)** | **0,0218** | **0,0106** |

## 23. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by ICBC which owns 92.84% (31 December 2019: ICBC - 92.84%) of ordinary shares. For the purpose of these consolidated financial statements, shareholders, and ICBC Group companies are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the ICBC's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms and at rates which approximate market rates.

The summary of related party balances and results of transactions are presented below:

| Related Party | | Cash Loans & Due From Banks | Non-cash Loans | Deposits Taken | Notional Amount of Derivative Transactions | Interest Income | Interest Expense |
|---|---|---|---|---|---|---|---|
| Shareholders | 2021 | 87,600 | 1,001,523 | 122,229 | - | 47 | - |
| | 2020 | 3,867 | 997,502 | 62,865 | 13 | - | - |
| | | | - | | | | |
| Others | 2021 | 21 | 2 | 657,327 | - | 390 | 14,807 |
| | 2020 | - | - | - | 8 | - | 45 |
| | | - | | | | | |
| Directors' interests | 2021 | 28 | 40 | 5,224 | - | - | 100 |
| | 2020 | - | - | 2,261 | - | - | 8 |

A subordinated loan of USD 300 million (three hundred million USD) was obtained from the main shareholder of the Bank, Industrial and Commercial Bank of China Limited (ICBC), with a maturity of 10 years and repayment after 5 years (6M USD Libor + 1,75%), The Bank has taken into consideration TL 3,999,625 of subordinated loans in the calculation of capital adequacy.

**Compensation of Key Management Personnel of the Group**

For the year ended 31 December 2021, the executive and non-executive members of the Board of Directors and management received remuneration and fees totaling approximately TL 32,354 (31 December 2020: TL 29,526) comprising salaries and other short-term benefits.

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

## 24. FEE AND COMMISSION INCOME AND EXPENSE

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Fee and commission income** | | |
| Letters of guarantee | 42,576 | 5,308 |
| Letters of credit, acceptance credits and other guarantees | 140,877 | 19,449 |
| **Total** | **183,453** | **24,757** |
| **Fees and commission expense** | | |
| Corresponding bank fees and other commissions | 22,205 | 15,470 |
| **Total** | **22,205** | **15,470** |

## 25. NET TRADING INCOME/ (EXPENSE)

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Commissions from capital market transactions | 28,632 | 24,664 |
| Gain from derecognition of FVOCI securities | 1,405 | 32,251 |
| Net trading income from derivative and currency transactions | - | (59,698) |
| Other gain/(loss) | 236 | 5,175 |
| **Total** | **30,273** | **2,392** |

## 26. OTHER INCOME

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Collections from loans written off in prior years | 9,516 | - |
| Project evaluation | 24,415 | 9,260 |
| Revenue cancellation | 34,862 | 39,336 |
| Income from sale of property, equipment and assets to be disposed of | 2,167 | 446 |
| Others | 24,317 | 25,209 |
| **Total** | **95,277** | **74,251** |

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

## 27. SALARIES AND EMPLOYEE BENEFITS

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Personnel expenses** | | |
| Wages and salaries | 189,644 | 147,763 |
| Other fringe benefits | 26,310 | 60,821 |
| Bonus payments | 120,160 | 49,062 |
| Food expenses | 6,006 | 5,114 |
| Provision for employee termination benefits and unused vacation pay liability | 2,198 | 4,487 |
| Employers' share of social security premiums | 29,823 | 2,454 |
| **Total** | **374,141** | **215,767** |

## 28. GENERAL AND ADMINISTRATIVE EXPENSES

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Repair and maintenance expense | 21,287 | 16,305 |
| Communication expenses | 16,151 | 12,598 |
| Cleaning and other residential expenses | 10,270 | 8,064 |
| Operating lease expenses | 2,919 | 3,824 |
| Heating and lighting expenses | 4,277 | 3,819 |
| Transportation expenses | 4,172 | 2,338 |
| Printing and stationary expenses | 1,951 | 2,012 |
| Advertising expenses | 2,741 | 1,863 |
| Computer expenses | 1,917 | 1,236 |
| Hospitality and representation expenses | 921 | 851 |
| Insurance expenses | 905 | 612 |
| Others | 11,906 | 12,225 |
| **Total** | **79,417** | **65,747** |

## 29. OTHER EXPENSES

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Short term employee benefits | 210,653 | 86,583 |
| Saving deposit insurance fund premium | 13,145 | 14,009 |
| Participation fees | 4,973 | 4,135 |
| Provision for litigations | 5,611 | 3,638 |
| Consultancy expenses | 5,984 | 1,394 |
| Others | 8,850 | 5,499 |
| **Total** | **249,216** | **115,258** |

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

## 30. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Bank and its subsidiary undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Letters of guarantee | 4,738,369 | 3,302,930 |
| Letters of credit | 1,379,096 | 465,371 |
| Other guarantees | 4,385,590 | 5,643,248 |
| **Total non-cash loans** | **10,503,055** | **9,411,549** |
| Credit card limits | 74,208 | 85,095 |
| Other commitments | 483,839 | 90,333 |
| **Total** | **11,061,102** | **9,586,977** |

**Operating Lease Commitments - Group as Lessee**

The Group has entered into commercial leases on branch premises. These leases have an average life of 1 to 10 years and with renewal option in the contracts. There are no restrictions placed upon the lessee by entering into these leases. There are no non-cancellable operating leases.

**Litigation**

In the normal course of its operations, the Group may face with legal disputes, claims and complaints. The necessary provision for those cases is provided based on management estimates and professional advice, As at 31 December 2021, TL 19,958 provision is provided against such litigations (31 December 2020: TL 14,347).

**Fiduciary Activities**

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements.

The Group also manages 8 open-ended mutual funds (31 December 2020: 6 open-ended mutual funds), which were established under the regulations of the Turkish Capital Market Board, In accordance with the funds’ charters, the Group purchases and sells securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

## 31. SUBSEQUENT EVENTS

None.