**AKBANK T.A.Ş.**

**CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT 31 DECEMBER 2021**
**TOGETHER WITH THE INDEPENDENT**
**AUDITOR'S REPORT**

**INDEPENDENT AUDITOR'S REPORT**

To the General Assembly of Akbank T.A.Ş.

## Qualified opinion

In our opinion, except for the effect of the matter on the consolidated financial statements described in the basis for qualified opinion paragraph below, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Akbank T.A.Ş. (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2021, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

## What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholder's equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

## Basis for qualified opinion

As explained in Note 19, the accompanying consolidated financial statements as at 31 December 2021 include a free provision amounting to TL 1,400,000 thousand which consist of TL 1,150,000 thousand provided in prior years and TL 250,000 thousand recognized in the current year. The free provision recognized by the Bank management is not within the requirements of the recognition criteria of IAS 37 "Provisions, contingent liabilities and contingent assets".

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

## Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and "Independence Audit by-Law" published by the Public Oversight Accounting and Auditing Standards Authority ("POA"), independent auditing requirements referred to in Article 400 of the Turkish Commercial Code ("TCC"), "Regulation on Independent Audit of Banks" published by the Turkish Banking Regulation and Supervision Agency on the Official Gazette No.29314 dated 2 April 2015 and Communiqué Series: X No: 22 on "Principles Regarding Independent Auditing Standards in the Capital Markets" (collectively referred to as "Turkish Local Independence Rules"). We have fulfilled our other ethical responsibilities in accordance with these requirements.

## Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the financial services industry in which the Group operates.

## 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. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for qualified opinion section we have determined the matters described below to be key audit matters to be communicated in our report.

| Key Audit Matters | How Our Audit Addressed the Key Audit Matter |
|---|---|
| **Impairment of loans and advances to customers in accordance with IFRS 9**<br><br>The Group has total provision for impairment of 19,014,504 thousands in respect to loans and lease receivables of TL 404,788.296 thousands which represent a significant portion of the Group's total assets in its consolidated financial statements as at 31 December 2021. Explanations and notes related to provision for impairment of loans and advances are presented in note 8 in the accompanying consolidated financial statements as at 31 December 2021.<br><br>The Group recognizes provisions for impairment in accordance with "IFRS 9 Financial Instruments" expected credit loss model. IFRS 9 is a complex accounting standard which requires considerable judgement and interpretation. These judgements are key in the development of the financial models built to measure the expected credit losses on loans recorded at amortized cost. In addition, the operation of the models requires large data inputs that are generated through more than one system and the accuracy and completeness of the data are key in the determination of expected credit losses on loans. Impairment allowances are calculated on a collective basis for portfolios of loans of a similar nature and on individual basis for significant loans taking into account Management's best estimate at the balance sheet date and historical losses incurred. The impacts of COVID-19 global pandemic have increased the importance of the estimations and assumptions used by the Bank management in determination of the expected credit loan loss provision. The uncertainties arising from these impacts have been evaluated by the management in their judgements and estimations.<br><br>Our audit was focused on this area due to existence of complex estimates and information used in the impairment assessment such as macro-economic expectations, current conditions, historical loss experiences; the significance of the loan balances; the appropriateness of classification of loans and advances to customers as per their credit risk (staging) and the importance of determination of the associated impairment allowances. Timely and correctly identification of loss event and the level of judgements and estimations made by the management have significant impacts on the amount of impairment provisions for loans. Therefore, this area is considered as key audit matter. | Within our audit procedures, we assessed policies and procedures together with the overall governance established by the Group with respect to classification of loans and advances to customers and estimation of impairment considering also the impacts of COVID-19. We have tested the design and operating effectiveness of controls implemented by the Group in line with its governance, policies and procedures.<br><br>Together with our modelling specialists, we have evaluated and tested the methodologies used in building impairment models in line with the requirement of IFRS 9 and the Group's policies for the significant portfolio of loans. We have tested model calculations through re-performance together with our modelling specialists on a sample basis. We have independently assessed together with our related specialists methodologies used in the models with respect to segmentation, life time expected credit losses, losses given default and use of macro-economic expectations that include the impacts of COVID-19.<br><br>We have carried loan review on a selected sample of loans and advances with the objective to identify whether the classification of loans is performed, whether the loss event had occurred and whether the provision for impairment has been recognized in a timely manner within the IFRS 9 framework.<br><br>In addition, for non-performing loans and other significant loans that are subject to individual assessment based on the Group policies, we have evaluated the appropriateness of specific impairment provision with supportable input. Based on our discussions with the Group management, we have evaluated and challenged whether the key assumptions and other judgements underlying the estimation of impairment were reasonable including the areas affected by the uncertainties related to COVID-19.<br><br>We have reviewed the appropriateness and sufficiency of disclosures made in the financial statements of the Group with respect to loan and lease receivables and related impairment provision. |

| Key Audit Matters | How Our Audit Addressed the Key Audit Matter |
|---|---|
| **Valuation of Pension Fund Obligations**<br><br>The Bank has booked provision amounting to TL 294,503 thousand for Pension Fund Liabilities in the accompanying consolidated financial statements as at 31 December 2021. Explanations on Valuation of Pension Obligations are presented in note 20 in the accompanying consolidated financial statements as at 31 December 2021.<br><br>The Bank's Personnel Pension Fund Foundation (Pension Fund) is established in accordance with the Social Security Law numbered 506 article No 20 and is within the scope of Funds to be transferred to the Social Security Institution (SSI). The President of the Republic of Turkey is authorized to determine the transfer date. The total obligation of the fund is estimated using separate methods and assumption for benefits to be transferred and for non-transferrable benefits. The valuations of the pension obligations require significant judgement and technical expertise in choosing appropriate assumptions. The Bank's management uses external actuaries for the purpose of valuations of pension obligations. The reason we focused on this area during our audit is; the importance of the actuarial and economic assumptions such as discount rates, salary increases, demographic assumptions used in the valuation of pension obligations with respect to social benefits and the significant impact that may arise from the possible change in the assumptions used in the evaluation of pension fund liabilities. | Within our audit we tested on a sample basis the accuracy of the employee data supplied by the Bank management to the consulting firm for the purpose of evaluation pension obligation. In addition, we verified the existence and values of the Pension Fund assets.<br><br>Through use of our actuarial specialist, we assessed the reasonableness of assumptions and evaluation made by the external actuaries in the calculation of the liability.<br><br>In addition to the above procedures we have reviewed disclosures made with respect to pension fund. |

**Responsibilities of management and those charged with governance for the consolidated financial statements**

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

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

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

**Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, however is not a guarantee that an audit conducted in accordance with ISA 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 ISA, we exercise professional judgment and maintain professional scepticism 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 actions taken to eliminate threats or safeguards applied.

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

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

Zeynep Uras, SMMM
Partner

Istanbul, 2 March 2022

## AKBANK T.A.Ş.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2021

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

| | Notes | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and due from banks and balances with the Central Bank of Turkey | 6 | 148,205,085 | 65,527,455 |
| Derivative financial instruments | 7 | 49,786,872 | 22,858,366 |
| Loans and advances to customers | 8 | 393,116,702 | 275,189,478 |
| -Measured at amortised cost | 8 | 385,773,792 | 267,846,568 |
| -Fair value through profit or loss | 8 | 7,342,910 | 7,342,910 |
| Investment securities | 9 | 156,362,585 | 101,928,119 |
| -Financial assets at fair value through profit or loss ("FVPL") | 9 | 3,466,465 | 1,836,502 |
| -Financial assets at fair value through OCI ("FVOCI") | 9 | 100,329,551 | 58,218,940 |
| -Financial assets at amortised cost ("AC") | 9 | 52,566,569 | 41,872,677 |
| Assets held for sale | 10 | 232,296 | 250,778 |
| Current tax asset | 17 | 124,001 | - |
| Deferred tax assets | 17 | 152,170 | 147,990 |
| Property, plant and equipment | 11 | 5,894,836 | 6,003,406 |
| Intangible assets | 12 | 1,499,602 | 1,190,909 |
| Other assets and pre-payments | 13 | 7,424,181 | 5,220,074 |
| **Total assets** | | **762,798,330** | **478,316,575** |
| **LIABILITIES** | | | |
| Deposits and obligations under repurchase agreements | 14 | 516,806,629 | 312,997,257 |
| Interbank money market deposits | 15 | 1,381,411 | 429,094 |
| Derivative financial instruments | 7 | 25,682,682 | 14,840,973 |
| Funds borrowed | 15 | 34,658,128 | 22,377,917 |
| Debt securities issued | 16 | 74,323,507 | 43,909,328 |
| Income taxes payable | 17 | 1,486,717 | 1,126,257 |
| Provisions | 19 | 2,580,544 | 1,943,434 |
| Other liabilities and accrued expenses | 18 | 28,688,345 | 17,086,179 |
| Employment benefit obligations | 20 | 776,749 | 557,621 |
| Deferred tax liabilities | 17 | 454,305 | 124,458 |
| **Total liabilities** | | **686,839,017** | **415,392,518** |
| **EQUITY** | | | |
| **Capital and reserves attributable to the equity holders of the parent:** | | | |
| - Share capital | 21 | 5,200,000 | 5,200,000 |
| - Adjustment to share capital | | 1,529,151 | 1,529,151 |
| Total paid-in share capital | | 6,729,151 | 6,729,151 |
| Share premium | | 3,514,840 | 3,514,840 |
| Translation reserve | | 9,870,493 | 4,732,835 |
| Other reserves | | (2,981,806) | 650,773 |
| Retained earnings | | 58,826,635 | 47,296,276 |
| **Total shareholders' equity** | | **75,959,313** | **62,923,875** |
| Non-controlling interest | | - | 182 |
| **Total equity** | | **75,959,313** | **62,924,057** |
| **Total liabilities and equity** | | **762,798,330** | **478,316,575** |

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

**AKBANK T.A.Ş.**

## CONSOLIDATED STATEMENT STATEMENT OF INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2021

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

| | Notes | 1 January 2021-<br>31 December 2021 | 1 January 2020-<br>31 December 2020 |
|---|---|---|---|
| Interest income | | 50,970,607 | 35,128,018 |
| Interest expense | | (26,622,499) | (14,429,250) |
| **Net interest income** | 23 | **24,348,108** | **20,698,768** |
| Fee and commission income | | 7,802,535 | 5,611,371 |
| Fee and commission expense | | (1,715,705) | (1,054,506) |
| **Net fee and commission income** | 24 | **6,086,830** | **4,556,865** |
| Impairment losses on loans and credit related commitments | | (10,801,405) | (7,903,990) |
| Foreign exchange gains and losses, net | | 12,559,122 | 2,088,261 |
| Trading gains and losses, net | 25 | (5,767,104) | (2,763,808) |
| Dividend income | | 13,156 | 4,866 |
| Other operating income | | 379,256 | 234,600 |
| **Operating income** | | **26,817,963** | **16,915,562** |
| Operating expenses | 26 | (10,177,501) | (8,631,403) |
| **Profit before income taxes** | | **16,640,462** | **8,284,159** |
| **Income taxes** | | (4,513,271) | (2,167,511) |
| Income tax expense | 17 | (3,399,761) | (2,387,901) |
| Deferred tax income / (expense) | 17 | (1,113,510) | 220,390 |
| **Profit for the period** | | **12,127,191** | **6,116,648** |
| **Attributable to:** | | | |
| Equity holders of the Group | | 12,127,191 | 6,116,625 |
| Non-controlling interest | | - | 23 |
| | | **12,127,191** | **6,116,648** |
| Basic and diluted earnings per share (expressed in TL, full amount, per share) | 4 | 0.0233 | 0.0118 |

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

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

| | 1 January 2021- 31 December 2021 | 1 January 2020- 31 December 2020 |
|---|---|---|
| **Net profit for the period** | **12,127,191** | **6,116,648** |
| **Other comprehensive income to be reclassified to profit or loss in subsequent periods** | | |
| Changes in the fair value of debt instruments at fair value through OCI | (2,867,688) | 432,714 |
| Foreign exchange differences on translation of foreign operations | 5,137,658 | 1,957,450 |
| Gain/(Loss) from cash flow hedges (effective part of fair value changes) | 3,174,983 | 550,820 |
| Gain/(Loss) from net foreign investment hedges (effective part of exchange difference on borrowings) | (4,698,557) | (1,464,540) |
| Tax related to gain and loss recognized directly in equity | 904,370 | 54,219 |
| **Net other comprehensive income to be reclassified to profit or loss in subsequent periods** | **1,650,766** | **1,530,662** |
| **Other comprehensive income not being reclassified to profit or loss in subsequent periods** | | |
| Remeasurement gain/(loss) on defined benefit plans, net of taxes | (158,728) | (68,211) |
| Property and plant revaluation differences | 13,183 | 912,544 |
| Other comprehensive income items not reclassified through profit or loss | - | 5,687 |
| Tax related to gain and loss recognized directly in equity | 29,106 | (78,898) |
| **Net other comprehensive income net of tax not reclassified to profit or loss in subsequent periods** | **(116,439)** | **771,122** |
| **Other comprehensive income net of tax** | **1,534,327** | **2,301,784** |
| **Total comprehensive income, net of tax** | **13,661,518** | **8,418,432** |
| **Attributable to:** | | |
| Equity holders of the Group | 13,661,518 | 8,418,409 |
| Non-controlling interest | - | 23 |

The accompanying notes form 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.)

| | Attributable to equity holders of the Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | | | | | | | | |
| | **Share Capital** | **Adjustment to share capital** | **Total paid-in share capital** | **Share premium** | **Translation reserve** | **Other Reserve** | **Retained Earnings** | **Non-controlling interest** | **Total** |
| **Balance at 1 January 2020** | **5,200,000** | **1,529,151** | **6,729,151** | **3,514,840** | **2,775,385** | **319,146** | **41,166,772** | **159** | **54,505,453** |
| Transfer to retained earnings | - | - | - | - | - | (12,707) | 12,789 | | 172 |
| Property and Plant Revaluation Differences, net of tax | - | - | - | - | - | 821,647 | - | | 821,647 |
| Paid in capital | - | - | - | - | - | - | - | | - |
| Actuarial Gains and Losses | - | - | - | - | - | (56,212) | - | | (56,212) |
| Net unrealized market value gains from FVOCI portfolio | - | - | - | - | - | 341,687 | - | | 341,687 |
| Cash flow hedges, net of tax | - | - | - | - | - | (762,788) | - | | (762,788) |
| Translation reserve | - | - | - | - | 1,957,450 | - | - | | 1,957,450 |
| **Other comprehensive income (expense)** | - | - | - | - | **1,957,450** | **344,334** | - | - | **2,301,784** |
| **Profit for the period** | - | - | - | - | - | - | **6,116,625** | **23** | **6,116,648** |
| **Total comprehensive income for the period** | - | - | - | - | **1,957,450** | **344,334** | **6,116,625** | **23** | **8,418,432** |
| **Dividends paid** | - | - | - | - | - | - | - | - | - |
| **Balance at 31 December 2020** | **5,200,000** | **1,529,151** | **6,729,151** | **3,514,840** | **4,732,835** | **650,773** | **47,296,276** | **182** | **62,924,057** |

The accompanying notes form 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.)

| | Attributable to equity holders of the Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | | | | | | | | |
| | Share Capital | Adjustment to share capital | Total paid-in share capital | Share premium | Translation reserve | Other Reserve | Retained Earnings | Non-controlling interest | Total |
| **Balance at 1 January 2021** | **5,200,000** | **1,529,151** | **6,729,151** | **3,514,840** | **4,732,835** | **650,773** | **47,296,276** | **182** | **62,924,057** |
| Transfer to retained earnings | - | - | - | - | - | (29,248) | 29,248 | - | - |
| Property and Plant Revaluation Differences, net of tax | - | - | - | - | - | 10,543 | - | - | 10,543 |
| Paid in capital | - | - | - | - | - | - | - | - | - |
| Actuarial Gains and Losses | - | - | - | - | - | (126,982) | - | - | (126,982) |
| Net unrealized market value gains (losses) from FVOCI portfolio | - | - | - | - | - | (2,270,528) | - | - | (2,270,528) |
| Cash flow hedges, net of tax | - | - | - | - | - | (1,216,364) | - | - | (1,216,364) |
| Translation reserve | - | - | - | - | 5,137,658 | - | - | - | 5,137,658 |
| **Other comprehensive income (expense)** | - | - | - | - | **5,137,658** | **(3,603,331)** | - | - | **1,534,327** |
| **Profit for the period** | - | - | - | - | - | - | **12,127,191** | - | **12,127,191** |
| **Total comprehensive income for the period** | - | - | - | - | **5,137,658** | **(3,603,331)** | **12,127,191** | - | **13,661,518** |
| **Increase/Decrease by Other Changes** | - | - | - | - | - | - | - | **(182)** | **(182)** |
| **Dividends paid** | - | - | - | - | - | - | **(626,080)** | - | **(626,080)** |
| **Balance at 31 December 2021** | **5,200,000** | **1,529,151** | **6,729,151** | **3,514,840** | **9,870,493** | **(2,981,806)** | **58,826,635** | - | **75,959,313** |

The accompanying notes form 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 2021- 31 December 2021 | 1 January 2020- 31 December 2020 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Profit before income tax | | 16,640,462 | 8,284,159 |
| Adjustments to reconcile profit before tax to net cash flows: | | | |
| Depreciation of property, plant and equipment | 11 | 430,703 | 375,354 |
| Amortization of intangible assets | 12 | 288,655 | 214,978 |
| Provision for loan losses, write off and net of recoveries | | 15,960,309 | 11,740,144 |
| Employment termination benefits and other short-term employee benefits | | 60,400 | 38,526 |
| (Gain)/loss on foreign exchange and derivative financial instruments | | (13,541,504) | (1,614,885) |
| Interest accrual | | (7,451,094) | (2,208,670) |
| Other non-cash items | | 135,094 | 171,367 |
| Taxes paid | | (3,214,806) | (2,147,238) |
| **Operating profit before changes in operating assets and liabilities** | | **9,308,219** | **14,853,735** |
| Net (increase)/decrease in reserve requirements with the Central Bank of Turkey and restricted cash | | (13,139,564) | (1,674,106) |
| Net (increase)/decrease in loans and advances to customers | | (114,058,841) | (54,984,593) |
| Net (increase)/decrease in trading securities | | (9,152,953) | (3,539,108) |
| Net (increase)/decrease in other assets and prepayments | | (46,240,688) | (24,273,459) |
| Net increase/(decrease) in other liabilities and accrued expenses | | 38,782,456 | 13,153,510 |
| Net increase/(decrease) in customer deposits and interbank money market deposits | | 181,080,404 | 53,491,814 |
| **Net cash from/(used in) operating activities** | | **46,579,033** | **(2,972,207)** |
| **Cash flows from/(used in) investing activities:** | | | |
| Purchase of property, plant and equipment | 11 | (496,747) | (685,704) |
| Proceeds from property, plant and equipment | 11 | 219,400 | 48,433 |
| Purchase of other intangible assets | 12 | (603,608) | (451,476) |
| Proceeds from other intangible assets | 12 | 9,695 | 234 |
| Proceeds from investment securities | | 33,858,558 | 35,994,793 |
| Purchase of investment securities | | (79,551,739) | (47,425,750) |
| Dividends Received | | 13,156 | 4,866 |
| **Net cash from/(used in) investing activities** | | **(46,551,285)** | **(12,514,604)** |
| **Cash flows from financing activities:** | | | |
| Proceeds from borrowed funds and debt securities in issue | | 44,931,900 | 34,834,318 |
| Payments of borrowed funds and debt securities in issue | | (22,115,394) | (27,755,375) |
| Dividends paid to equity holders | | (626,080) | - |
| Issued equity instruments | | - | - |
| Capital increase | | - | - |
| Payments of financial leases | | (306,502) | (304,925) |
| **Net cash from/(used in) financing activities** | | **21,883,924** | **6,774,018** |
| **Effect of exchange rates on cash and cash equivalents** | | **13,209,138** | **3,516,122** |
| **Net increase in cash and cash equivalents** | | **35,120,810** | **(5,196,671)** |
| **Cash and cash equivalents at the beginning of the period** | | **13,495,306** | **18,691,977** |
| **Cash and cash equivalents at the end of the period** | 6 | **48,616,116** | **13,495,306** |

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

## NOTE 1 - CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

Akbank T.A.Ş. (“the Parent Bank” or “Akbank” or together with its subsidiaries referred to as “the Group” in these consolidated financial statements) was formed in 1948 and is a member of the Sabancı Group of companies which is incorporated and domiciled in Turkey. The Parent Bank’s head offices are located at Sabancı Center 4. Levent Istanbul/Turkey. As at 31 December 2021, the Bank has 710 branches dispersed throughout the country and 1 branch operating outside the country (31 December 2020: 715 branches and 1 branch operating outside the country). As at 31 December 2021, the Group employed 12,606 people (31 December 2020: 12,862 people). In addition to regular banking operations, the Group also provides insurance intermediary services as an agency of Aksigorta A.Ş. and AgeSA Emeklilik ve Hayat A.Ş. via its branch network. As of 5 July 2021, the title of AvivaSA Emeklilik ve Hayat A.Ş. was changed to AgeSA Emeklilik ve Hayat A.Ş.. The Group’s operations are carried out substantially in one geographical segment (Turkey) and in business activities including retail banking, commercial banking, corporate and investment banking, private banking and wealth management, and treasury and other activities through its subsidiaries (i.e, leasing, brokerage and portfolio management).

The Parent Bank’s shares have been quoted on the Istanbul Stock Exchange since 1990. In April 1998, 4.03% of the outstanding share capital of the Parent Bank, was offered and sold in an international offering outside of Turkey in the form of Ordinary Shares and American Depository Receipt (“ADR”). As at 31 December 2021, approximately 51% of the shares are publicly traded, including the ADRs (31 December 2020: 51%).

The major shareholder of the Parent Bank, directly or indirectly, is Sabancı Group.

The consolidated financial statements as at and for the period ended 31 December 2021 have been approved for issue on 2 March 2022 by S. Hakan Binbaşgil, the Chief Executive Officer and by Türker Tunalı, the Chief Financial Officer of Akbank T.A.Ş..

## NOTE 2 - BASIS OF PREPARATION.

These consolidated financial statements for the year ended 31 December 2021 are prepared in accordance with International Financial Reporting Standards (“IFRS”) including International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IASB”). These financial statements have been derived from statutory financials prepared according Accounting Practice Regulations as promulgated by the BRSA; Turkish Financial Reporting Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority; the Turkish Commercial Code; and the Turkish Tax Legislation (“Turkish GAAP”) with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared in “Turkish Lira” (“TL”), under the historical cost convention, except for those assets and liabilities measured at fair value. The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The Bank maintains its books in Turkish Lira in accordance with the Banking Law, Turkish Commercial Code and Turkish Tax Legislation. The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdictions.

The consolidated financial statements are presented in the national currency of the Republic of Turkey, the Turkish lira (“TL”).

## NOTE 2 - BASIS OF PREPARATION (Continued)

The COVID-19 pandemic caused serious effects on health systems and the global economy as the virus spread to the world in the first quarter of 2020, widespread closure of businesses and unprecedented constraints in social interactions have significantly affected economic activity. Countries have taken measures to slow the spread of the pandemic, such as testing and treating patients, applying travel restrictions, quarantining citizens and canceling large meetings. Along with these social measures, comprehensive financial measures were taken simultaneously to reduce the negative effects on the economic outlook. Similarly, Turkey has taken measures to keep citizens' healty and safety, as well as to ensure that both companies and the households to support in these challenging circumstances, fiscal and monetary actions have been implemented. Additional measures are being announced to tackle adverse impacts on companies and certain sectors. Intensive vaccination campaign has been continuing in Turkey as in many parts of the world. On the other hand, estimations and assumptions used to reflect COVID-19 impacts on 31 December 2021 financial statements of the Bank are explained in the related notes to the financial statements.

## NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

### (3.1) Accounting Policies

### (3.1.1) Consolidation

Consolidation principles for subsidiaries:

Subsidiaries are the entities controlled directly or indirectly by the Parent 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 Parent Bank's returns.

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

In the full consolidation method, 100% of subsidiaries' assets, liabilities, income, expense and off-balance sheet items are combined with the Parent Bank's assets, liabilities, income, expense and off-balance sheet items. The carrying amount of the Group's investment in each subsidiary and the Group's portion of the cost value of the capital of each 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 subsidiaries are 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. Non-controlling interests are presented separately under equity in the consolidated balance sheet.

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

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

## NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

The Parent Bank and its subsidiaries, Ak Yatırım Menkul Değerler A.Ş., Ak Portföy Yönetimi A.Ş., Akbank AG, Ak Finansal Kiralama A.Ş., AkÖde Elektronik Para ve Ödeme Hizmetleri A.Ş. and together with A.R.T.S. Ltd., which is not subsidiary of the Bank, this company is "Structured Entity", has been included in the scope of consolidation. The Parent Bank together with its consolidated subsidiaries are referred to as the "Group" in these consolidated financial statements.

Ak Yatırım Menkul Değerler A.Ş. was established on 11 December 1996 to trade in capital markets in accordance with Capital Market Law. This company is providing intermediary services in capital markets, discretionary portfolio management, derivative transactions, repurchase and reverse repurchase agreements with authorizations given by the Capital Markets Board for each transaction.

Ak Finansal Kiralama A.Ş. was established in 1988 for leasing operations and all kinds of agreements and transactions related to these operations.

Ak Portföy Yönetimi A.Ş., established on 28 June 2000, manages its own investment (mutual) funds. The company also manages all pension funds of AgeSA Emeklilik ve Hayat A.Ş. and some of the pension funds of Axa Hayat Emeklilik A.Ş., Allianz Hayat Emeklilik A.Ş. and Allianz Yaşam Emeklilik A.Ş. The company also gives Discretionary Portfolio Management service to individuals and corporates. Besides these, the company also manages two SICAV funds and one Sompo Japan fund in the international market.

Akbank AG operates in Germany, providing corporate, consumer and private banking services.

Aköde Elektronik Para ve Ödeme Hizmetleri A.Ş., 100% owned by the Bank, has been established on 19 February 2018 to provide payment services and electronic money issuance under the Law No. 6493 on Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions registered in the trade registry.

A.R.T.S. Ltd. is a "Structured Entity" which was established in November 1999 for the purpose of supplying long term financing.

The list of consolidated subsidiary undertakings is set out below:

| | | Shareholding % | |
|---|---|---|---|
| **Name of subsidiary** | **Country of incorporation** | **2021** | **2020** |
| Ak Finansal Kiralama A.Ş. | Turkey | 100.00 | 99.99 |
| Ak Yatırım Menkul Değerler A.Ş. | Turkey | 100.00 | 100.00 |
| Ak Portföy Yönetimi A.Ş. | Turkey | 100.00 | 100.00 |
| Akbank AG | Germany | 100.00 | 100.00 |
| AkÖde Elektronik Para ve Ödeme Hizmetleri A.Ş. | Turkey | 100.00 | 100.00 |

**NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)**

**(3.1.2) Foreign currency translation**

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Turkish lira, which is the Parent Bank's functional and presentation currency.

*(ii) Transactions and balances*

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

*(iii) Group companies*

The results and financial position of all the group entities (none of which have the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each financial position presented are translated at the closing rate at the balance sheet date;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity under translation reserve.

**(3.1.3) Derivative financial instruments and hedge accounting**

The Bank classifies its derivative instruments as "Held-for-hedging" or "Held-for-trading" in accordance with "International Accounting Standard for Financial Instruments: Recognition and Measurement" ("IAS 39"). Although certain derivative transactions provide effective economic hedges under the Bank's risk management position, in accordance with IAS 39 they are treated as derivatives "Held-for-trading".

Although IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and hedge accounting, the Group continue to apply IAS 39 for hedge accounting in according to permission set out in IFRS 9 standard.

Embedded derivatives have not been separated from its host contract and accounted under host contracts' accounting standards. As of 31 December 2021, the Group has no embedded derivative instruments.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Fair values 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. Derivative financial instruments are classified as held for trading, unless they are designated as hedging instruments.

## NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

*(i) Cash flow and Fair value hedges*

The Group hedges its TL and foreign currency denominated fixed rate financial assets with cross currency swaps and interest rate swaps. Within the scope of fair value hedge, fair value changes of hedging instrument and hedged item are accounted in the income statement. As long as the hedge relationship is effective, fair value change of the hedged item is disclosed together with its related asset or liability in the balance sheet for TL denominated fixed rate financial assets. Fair value changes which have already been booked in equity, have been reclassified from equity to income statement for TL and FC denominated fixed rate financial assets.

The Group hedges against its cash flow risk stemming from foreign currency denominated floating rate financial assets and liabilities with interest rate and cross currency swaps. Within the scope of cash flow hedge accounting, effective part of the fair value changes of the hedging instrument are accounted in equity under "Hedging reserves" whereas ineffective part is accounted in the income statement. At instances when cash flows relating to hedged item (interest income/expense) affect the income statement, profit/loss of the related hedging item is taken out of the equity and reflected on the income statement.

Prospective tests are performed at the inception of the hedge relationships and both prospective and retrospective tests are performed at each reporting period-end regularly by using "Dollar off-set method". In this method, changes in the fair value of the hedged item and changes in the fair value of the hedging instruments between the designation date and each reporting period-end are compared and effectiveness ratio is calculated. Hedge accounting principles are applied by assessing the calculated effectiveness ratio within the scope of IAS 39.

When the hedging instrument expires, is executed, sold or the hedge relationship has become ineffective as a result of the effectiveness test or is discontinued as a result of the hedge relationship being revoked;

- The hedging gains and losses that were previously recognized under equity are transferred to profit or loss when the cash flows of the hedged item are realized for cash flow hedges,
- Adjustments made to the carrying amount of the hedged item are transferred to profit and loss over the life of the hedged item with straight line method for portfolio hedges or with effective interest rate method for fair value hedges.

In case the hedged item is derecognized, hedge accounting is discontinued and within context of fair value hedge accounting, adjustments made to the value of the hedged item are accounted in income statement.

In accordance with IAS 39, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy.

Within the scope of the Major Indicative Interest Rates Reform in 2021, new alternative interest rates will be used instead of the current benchmark interest rates, especially Libor. In addition to floating rate assets such as securities indexed to benchmark interest rates and loans, Banks' financial statements include liabilities such as securities issued, borrowed loans and derivative transactions, and off-balance sheet instruments. With the regulations published in September 2019 and December 2020 regarding the implementation of the aforementioned reform, early implementation of the amendments was permitted, while temporary exemption was given to the applications related to the determination of cash flows of hedge accounting and the termination of transactions. A working group was established to evaluate the impact of the interest rate reform on the financial statements and to adapt to reform. Reform changes have not been implemented early and developments are followed by the working group.

## NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

*(i) Cash flow and Fair value hedges (Continued)*

The average remaining maturity of the floating-rate USD Libor-Indexed borrowings directly affected by the interest rate reform is 3,3 years and the remaining amount is USD 951,393. Foreign currency interest swap transactions were made to hedge the cash flow risk of the aforementioned borrowing and subject to hedge accounting. There is no hedge accounting transaction terminated under the published exceptions.

*(ii) Net Investment Hedge*

The Group hedges the net investment risk on Akbank AG with the foreign currency denominated financial liabilities. The effective part of the foreign exchange differences on the foreign currency denominated financial liabilities is accounted under shareholders' equity. As at 31 December 2021, the amount of net investment hedge applied to hedge the foreign currency risk arising from share premium and paid-in capital of Akbank AG is EUR 787 million. As at 31 December 2021, the net-off tax amount of TL (6,043,843) (31 December 2020: TL (2,284,998)) is accounted under hedge reserves as an investment hedge reserve.

*(iii) Embedded derivatives*

Embedded derivatives are separated from the host contract and accounted for as a derivative in accordance with IFRS 9, if and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid contract is measured at fair value with changes in fair value recognised in profit or loss (ie a derivative that is embedded in a financial liability at fair value through profit or loss is not separated.

If an embedded derivative is separated, the host contract shall be accounted for in accordance with the appropriate IFRSs. This IFRS does not address whether an embedded derivative shall be presented separately in the statement of financial position. If an entity is required by this IFRS to separate an embedded derivative from its host, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid contract as at fair value through profit or loss.

Embedded derivatives have not been separated from its host contract and accounted under host contracts' accounting standards. As of 31 December 2021, the Group has no embedded derivative instruments.

### (3.1.4) Classification and measurement of financial assets

According to IFRS 9 requirements, classification and measurement of financial assets will depend on the business model within which financial assets are managed and their contractual cash flow characteristics whether the cash flows represent solely payments of principal and interest ("SPPI").

**NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)**

**Assessment whether contractual cash flows are solely payments of principal and interest:**

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group 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 Group consider:

- 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 – e.g. periodic reset of interest rates.

The Group fulfills the on-balance sheet classification and measurement criteria by applying the procedures described above for all financial assets.

Upon initial recognition each financial asset will be classified as either fair value through profit or loss ("FVPL"), amortized cost or fair value through other comprehensive income ("FVOCI").

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

When the business model determined by the Group's management is changed, all affected financial assets are reclassified and this reclassification is applied prospectively. In such cases, no adjustments is made to earnings, losses or interest that were previously recorded in the financial statements.

*(i) Financial assets at the fair value through profit or loss*

"Financial assets at fair value through profit/loss" are financial assets that are managed by business model and do not lead to cash flows representing solely payments of principal and interest at certain date; Financial assets at the fair value though profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. Financial assets measured at fair value though profit or loss are acquired for the purpose of generating profit from short-term fluctuations in price, or regardless of this purpose, the financial assets that are part of a portfolio with evidence of short-term profit making. All gains and losses arising from these valuations are reflected in the income statement.The Group reviewed the valuation of financial assets and liabilities at fair value through profit / loss and as of the reporting date, there are no changes that would require any adjustments in fair value measurement as of 31 December 2021, due to the negative effects of the COVID-19 pandemic.

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens the Group assess whether or not the new terms are substantially different to the original terms. If the terms are substantially different the Group derecognizes the original financial asset and recognizes a new asset. If the cash flows generated by the new asset do not constitute solely payment of principal and interest than the new financial asset is measured at fair value through profit or loss (Note 30).

## NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

*(ii) Financial assets at fair value through other comprehensive income*

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

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement.

"Unrealized gains and losses" arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity.

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

During initial recognition the Bank can choose in an irrevocable was to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss. The Group reviewed the valuation of financial assets and liabilities at fair value through other comprehensive income and as of the reporting date, there are no changes that would require any adjustments in fair value measurement as of 31 December 2021, due to the negative effects of the COVID-19 pandemic.

*(iii) Financial assets measured at amortized cost*

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

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

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

**NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)**

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value

and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method".

**(3.1.5) Sale and repurchase agreements**

Securities sold subject to repurchase agreements ("repos") are retained in the consolidated accompanying financial statements as investment securities and the counterparty liability is included in customer deposits. Securities purchased under agreements to resell ("reverse repos") are recorded as due from banks. The difference between sale and repurchase price is treated as interest and accrued evenly over the life of repo agreements using the effective interest rate method.

**(3.1.6) Impairment of financial assets**

The Group allocates impairment for expected loss on financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income, all financial assets with are not measured at fair value through profit or loss, loan commitments and financial guarantee contracts in accordance with IFRS 9 principals.

**1. Loans measured at amortised cost:**

These financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1:

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

Stage 2:

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

Stage 3:

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized.

## NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

### 2. Loans measured at fair value through profit or loss:

Loans at fair value through profit and loss, terms of the contract for loans, if at certain dates it does not result in cash flows involving principal balances and interest payments arising from the principal, it is recorded at fair value and is subject to fair value assessment following the recognition. Gains and losses resulting from the valuation are included in profit/loss accounts.

In certain circumstances, restructuring or modification of the contractual cash flows of a financial instrument may result in the derecognition of the existing financial asset in accordance with IFRS 9. A modified financial asset is considered as a new financial asset when the change in the financial asset is once excluded from the financial statement and the revised financial asset is recognized in accordance with IFRS 9.

The Bank determines that there are significant changes in the terms of the new contract compared to the terms of the initial contract, evaluates whether the new financial asset cash flow represent solely payments of principal and interest.

In the event that the contractual conditions for the financial asset do not result in cash flows that include solely payments of principal and interest on certain dates, the related financial asset is measured at its fair value and is subject to valuation.

**Significant increase in credit risk**

If the credit risk of financial assets determined to be significantly increasing, afore-mentioned assets are transferred to the stage 2. For stage 1 loans expected loss (provision) amounts are calculated for 1-year and for stage 2 loans expected loss (provision) is calculated for the remaining life of the loan.

In addition, the key considerations in determining whether a significant increase in the credit risk of financial asset and transferring it to stage 2, but are not limited with these, the following;

- Past due date is 30 or more
- Restructuring of loans
- If the loan classified as under follow-up
- Assessment of significant increase in the probability of impairment based on rating notes.

Definition of increase in the probability of default is the comparison between the probability of default on loan's opening date, benefitted by bank's internal rating-based credit rating models and probability of default on reporting date. If the loan's estimated probability of default on reporting date exceeds the threshold values determined, it is considered to be worsening of the probability of default.

**Definition of Default:**

The Bank considers that there is a default on the relevant debt in the following two cases:

1. Objective Default Definition: It means that the debt is overdue by more than 90 days. The definition of default, which is applicable to the Bank and its consolidated financial institutions, is based on the criteria that the debt is overdue by more than 90 days.

2. Subjective Default Definition: It means the determination that the debt will not be paid. If it is determined that the borrower cannot fulfill its debts related to the loan, regardless of whether there is a balance in delay or the number of days of delay, the debtor is considered in default.

## NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

### Write-off Policy:

Within the framework of the provisions of the "Regulation Amending the Regulation on the Procedures and Principles Regarding the Classification of Loans and Provisions for These" published in the Official Gazette dated Gazette dated 6 July 2021 and numbered 31533 the portion of the loans that are classified under "Fifth Group-Loans with a Loss Qualification" and for which a lifetime expected loan loss provision or special provision is made due to the default of the borrower, for which there are no reasonable expectations for the recovery of the loans, within the scope of IFRS 9, as of the first reporting period (interim or year-end reporting period) following their classification in this Group, deducted from the records within the period deemed appropriate by the bank, taking into account the situation of the debtor. In determining the cluster within this scope, the following indicators are used;

- In the corporate, commercial and retail segment follow-up portfolio, with very low or no collection expectation
- Monitored in the 5th group as of the last reporting period,
- Having a provision rate of 90% or more,
- No active payment plans
- No Credit Guarantee Fund (CGF) secured loan

Loans and provision ratio of 100% all abusive and fraudulent tracking accounts are included in the deletion of the active account.

The process of write-off the loans is an accounting practice and does not result in waiving the right to receivable regarding the related loans. Existing administrative and legal follow-up processes regarding the loans deducted from the record are continued. Partial write-off transactions mean that the financial asset will be repaid at a certain rate by the debtor, and the remaining amount after the payment or the part within the Bank that is classified under group 5 and has no reasonable expectations for its recovery will be removed from the financial statements. Regarding the write-off (asset disposal) process; the effect of the amount written off during the period and the amount written off on the NPL ratio is disclosed in the footnotes of the financial statements.

### Expected Credit Loss Provision (ECL):

The Group allocates impairment for expected loss on financial assets measured at amortised cost and measured at fair value through other comprehensive income.

As of 1 January 2018, the Group recognize provisions for impairment in accordance with IFRS 9 "Financial Instruments", issued by the IASB in July 2014, replaced IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

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

Expected Credit Loss (ECL) is calculated as 12 months or lifetime, depending on whether there is a significant increase in credit risk after initial recognition or whether an asset is considered as a credit loss. Expected Credit Loss is calculated by using the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) components.

- Probability of Default (PD): PD indicates the probability of default due to inability of the borrower to meet its debt obligations. It has been calculated for 12 months or lifetime depends on increase on borrower's credit risk.

**NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)**

- Loss Given Default (LGD): In case of default of the borrower, Loss Given Default has been calculated as dividing historical realized credit loss to Exposure at Default (EAD). LGD models includes data such as product type, customer segment, collateral structure, customer repayment performance Calculated LGD remains constant until its overdue.

- Exposure at Default: Specifies the amount of risk that the borrower should pay in case of default. It is kept in the system by constantly calculated until the maturity of the borrower. The amount of extra risk that can be incurred in the event of default is included in the calculations by using the credit conversion rate (CCR) calculated for the irrevocable commitment products.

Expected Credit Loss is calculated over the remaining maturity using the PD, LGD and EAD components. Calculated values are discounted on a monthly basis using the original effective interest rate or an approximate value of the discount rate. The expected credit loss value is calculated for all customers over the maturity period. However, for those who do not have a significant increase in credit risk, the 12-month ECL is taken into account, and for those with a significant increase in credit risk, the ECL value calculated over the remaining period is taken into account.

Within the scope of IFRS 9, models of Probability of default (PD), Loss given default and Exposure at default have been developed. The model used for the IRB ("Internal Rating Based Approach") are taken into account when developing these models. The models for IFRS 9 have a detailed segment structure. Loans that have similar characteristics are segmented in order to reflect the expected credit losses collectively in financial reports. When creating the segmentation structure, the following information of the loans is taken into consideration.

1. Customer type (retail or corporate / commercial)
2. Product type
3. IRB ratings/scores
4. Customer credit performance
5. Collateral type
6. Collection Period
7. Exposure at default

In addition, in the calculation of Expected Credit Loss in accordance with IFRS 9, certain part of commercial and corporate loans are subject to individual assessment on a customer basis based on the Bank's internal policies due to internal policies. This calculation is made by discounting the expected cash flows from the customer or the collateral sales to their present value with the effective interest rate.

The Parent Bank reflected the possible effects of COVID-19 on its cash flow estimates in the calculation of the Expected Credit Loss provision for the loans it is subject to individual assessment, taking into account the reasonable and relevant information available. Sectoral risks are also considered within the scope of individual assessment.

Macro-economic indicators are taken into account in determining the PD component in the expected credit loss calculation. Macro-economic indicators vary on a product-by-product basis for individual products and on a segment basis for commercial products. Future macroeconomic forecasts are reflected in the ECLs using more than one scenario.

The risk parameters used in the IFRS 9 calculations include prospective macroeconomic information. While macroeconomic information is included, models and estimates reflecting the relationships between model risk parameters and macroeconomic variables are taken into consideration. The main macroeconomic indicator of these estimation models is the Gross Domestic Product (GDP) growth rate. Macroeconomic estimation models include more than one scenario and the related scenarios are taken into account in the expected credit loss calculations.

**NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)**

Expected Credit Loss (ECL) calculations are reviewed at least once a year, and the macroeconomic model used in the process has been redeveloped during the reporting period. There was no change in the assumptions in the estimation techniques, and the model development studies were carried out by including recent up-to-date data. In the model development process, new indicators were used in addition to the indicators used in previous model studies.

Within the scope of the effects of COVID-19's Expected Credit Loss (ECL) calculations, the macroeconomic model data and scenario weights used in the process are also reviewed at the end of the interim period and updates are made if deemed necessary. No revisions were made to the scenario weights after the review.

- The expected credit loss calculation is made by considering 3 different scenarios the best, the worst, and the base.

Within the scope IFRS 9, macroeconomic expectations directly affect provisions (Expected Credit Loss-ECL). Related impact is realized when the default ratio of the Bank moves the default rate calculated for each maturity up or down. The main parameters of default ratio model are macroeconomic variables and the provision figures change when prospective estimations are revised.

The PD values subject to the ECL calculation have been obtained for the following portfolios.

| **Retail/Commercial** | **Portfolio** |
|---|---|
| Retail | Consumer |
| Retail | Automotive |
| Retail | Mortgage |
| Retail | Credit Card |
| Retail | Overdraft Account |
| Commercial | Micro |
| Commercial | Company |
| Commercial | Commercial |
| Commercial | Corporate |

In prospective expectations, 3 scenarios are being used as the base, the worst and the best. Final provisions are calculated by weighting on the possibilities given to the scenarios.

**(3.1.7) Derecognition of financial instruments:**

The Group recognizes a financial asset or financial liability in the balance sheet only when it becomes a party to the contractual provisions of instrument.

The Group recognizes all regular way purchases and sales of financial assets on the settlement date for example when the asset is delivered. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in the fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets ie. for assets carried at cost or amortised cost; change in value is not recognized.

**NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)**

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial asset) when the rights to receive cash flows from the assets have expired; or while retaining the right to receive cash flows from the assets. The Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the assets and either has transferred substantially all the risk and rewards of the asset, or has transferred the control of the assets.

The Group sometimes renogitiates or otherwise modifies the contractual cash flows or loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. If the terms are substantially different, the Group derecognizes the original financial assets and recognizes a new asset. In accordance with IFRS 9, if the the terms are not substantially different, the renegotiation or modification does not result in derecognition.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expired.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

**(3.1.8) Fee and commission income and expenses**

Fees and commission income/expenses are primarily recognized on an accrual basis or "Effective interest rate method" and IFRS 15 "Revenue from Contracts with Customers" according to the nature of the fee and commission, except for certain commission income and fees for various banking services which are recorded as income at the time of collection. Contract based fees or fees received for services such as the purchase and sale of assets on behalf of a third party or legal person are recognized as income at the time of collection.

**(3.1.9) Interest income and expense**

Interest income and expenses are recognized in the income statement by using the "Effective interest rate method". Starting from 1 January 2018, Group has started to calculate interest accrual on non-performing loans. Net book value of the non-performing loans (Gross Book Value – Expected Credit Loss) are rediscounted with effective interest rate and recognized with the gross book value of the non-performing loan.

**(3.1.10) Related parties**

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

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

**NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)**

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(iii) Both entities are joint ventures of the same third party.
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
(vi) The entity is controlled or jointly controlled by a person identified in (a)
(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
(viii) Pension funds

.

For the purpose of these consolidated financial statements, shareholders, key management personnel and board members, in each case together with their families and companies controlled by/affiliated with them, associated companies and other companies within the Sabancı Holding Group and the Parent Bank Akbank T.A.Ş. Personnel Pension Fund Foundation are considered and referred to as related parties. A number of banking transactions were entered into with related parties in the normal course of business. These include loans, deposits, trade finance and foreign currency transactions (Note 30).

**(3.1.11) Financial liabilities**

Financial liabilities including customer deposits, debt securities in issue and funds borrowed are recognized initially at cost net of transaction costs. Subsequently, financial liabilities are stated at amortized cost including transaction costs and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the financial liability using the effective interest rate method.

**(3.1.12) Property and equipment**

Property and equipment is measured at its cost when initially recognized and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement. Subsequently, property and equipment is carried at cost less accumulated depreciation and provision for value decrease.

The Group has started to account properties under the tangible assets with their revalued amount instead of cost values in accordance with "IAS 16 Plant and Equipment". The revaluation difference arising from the valuations made by the appraisal firms authorized by Capital Markets Board ("CMB") and BRSA is accounted in Investment Properties Revaluation Differences line under the Shareholders' Equity.

As of each reporting date, the Bank evaluates whether there is any indication that its assets may be impaired; If such indication exists, it estimates the recoverable amount of the related asset in accordance with IAS 36 - Impairment in Assets and if the recoverable amount is below the book value of the related asset, it reserves provision for impairment.

**NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)**

Depreciation is calculated over the cost of property and equipment using the straight-line method over estimated useful lives. The estimated useful lives are stated below:

| | |
|---|---|
| Buildings | 50 years |
| Vault | 5-50 years |
| Transportation vehicles | 5 years |
| Other property and equipments | 3-15 years |

Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its sales revenue.

Expenditures for the repair and renewal of property and equipment are recognized as expense. The capital expenditures incurred in order to increase the capacity of the tangible asset or to increase the future benefit of the asset are capitalized on the cost of the tangible asset. Capital expenditures include the cost components that increase the useful life, or the capacity of the asset, increase the quality of the product or decrease its costs.

**(3.1.13) Intangible assets**

Intangible assets are measured at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical costs after the deduction of accumulated depreciation and the provision for value decreases.
Intangibles are amortised over three to fifteen years (their estimated useful lives) using the straight-line method. The useful life of the asset is determined by assessing the expected useful time of the asset, technical, technological and other kinds of wear and tear and all required maintenance expenses necessary to utilize the economic benefit from the asset.

**(3.1.14) Fund management**

The Group manages and administers open-ended mutual funds. Determining whether the Group controls such a fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove the fund manager. As a result, after evaluating the aggregate economic interests in funds and the rights to remove the fund manager, the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

**(3.1.15) Accounting for leases**

*(i) A group company is the lessee*

Assets acquired under lease agreements are capitalized at the inception of the lease at the fair value of the leased asset. Lease payments are treated as comprising capital and interest elements; the capital element is treated as reducing the capitalized obligation under the lease and the interest element is charged to income. Depreciation on the leased asset is also charged to income on a straight-line basis over the useful life of the asset.

**NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)**

*(ii) A group company is the lessor*

When assets are sold under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

**(3.1.16) Taxation on income**

*(i) Income taxes currently payable*

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognized as an expense in the period in which profits arise.

Taxes other than on income are recorded within operating expenses (Note 26).

*(ii) Deferred income taxes*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The rates enacted, or substantively enacted, at the balance sheet date are used to determine deferred income tax.

As of 31 December 2021, for assets and liabilities subject to deferred tax calculation, enacted tax rates in accordance with the current tax legislation are used in accordance with their lifetime. In accordance with the Law No. 7316 published in the Official Gazette dated 22 April 2021, starting from the declarations that must be submitted as of 7 January 2021 and to be valid for the taxation period starting from 1 January 2021, the corporate tax rate is 25% for the taxation period of 2021, and this rate will be applied as 23% for the taxation period of 2022, it will be applied as 20% for the taxation periods of 2023 and beyond. As of 31 December 2021 for the items subject to deferred tax calculation, enacted tax rates valid in accordance with the current tax legislation are used in accordance with their lifetimes. As of 31 December 2020, deferred tax is calculated over 20%.

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

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

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

## NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

### (3.1.17) Retirement benefit obligations

*(i) Pension and other post-employment obligations*

Akbank T.A.Ş. Tekaüt Sandığı Vakfı ("the Fund") is a separate legal entity and a foundation recognized by an official decree, providing all qualified Bank employees with pension and post-retirement medical benefits. This scheme is funded through payments of both the employees and the employer as required by Social Security Law Numbered 506 and are as follows:

| | 31 December 2021 (%) | 31 December 2020 (%) |
|---|---|---|
| Pension benefit contributions-employer | 14 | 14 |
| Pension benefit contributions-employee | 10 | 10 |
| Medical benefit contributions-employer | 9.5 | 9.5 |
| Medical benefit contributions-employee | 5 | 5 |

Pension benefit contributions-employer includes 2% additional contribution provided by the Bank above the requirement of the related law.

The Group's obligation in respect of the Fund has been determined as the total of the following:

*Obligation for post-employment benefits transferrable to Social Security Institution ("SSI")*

The Group's obligation regarding post-employment benefits transferrable to SSI has been determined as the value of the payment that would need to be made to SSI to settle the obligation at the balance sheet date in accordance with the related article of the "Law regarding the changes in Social Insurance and General Health Insurance Law ("New Law") and other related laws and regulations" (Note 20). The disclosures set out in Note 20 for post-employment benefits transferrable to SSI therefore reflect the actuarial parameters and results in accordance with the New Law provisions.

*Obligation for other benefits*

The present value of the Group's obligation regarding pension benefits which are not transferrable to SSI in accordance with the New Law is calculated in accordance with IAS 19 employee benefits using the projected unit credit method.

The obligation for pension benefits transferrable to SSI and other benefits are calculated annually by an independent actuary who is registered with the Turkish Undersecretariat of the Treasury.

The liability to be recognized in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The Group does not have a legal right to access to the present value of any economic benefits available in the form of refunds from the Fund or reductions in future contributions to the plan, and therefore no assets are recognized in the balance sheet.

*(ii) Employment termination benefits - defined benefit plan*

Employment termination benefits represent the present value of the estimated total reserve for the future probable obligation of the Group arising from the retirement of the employees calculated in accordance with the Turkish Labour Law (Note 20) and is calculated using the projected unit credit method. In accordance with IAS 19, actuarial gain and loss are recognized in equity.

## NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

*(iii) Short-term employee benefits*

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

*(iv) 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.

### (3.1.18) Provisions, contingent assets and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and are treated as contingent assets or liabilities.

### (3.1.19) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements, therefore the related assets and liabilities are presented gross in the statements of financial position.

### (3.1.20) Share capital

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

*(ii) Share premium*

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

*(iii) Dividends on ordinary shares*

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Company's shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

### (3.1.21) Acceptances

Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as commitments and contingent liabilities (Note 28).

## NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

### (3.1.22) Other credit-related commitments

In the normal course of business, the Group enters into other credit-related commitments including loan commitments, letters of credit and guarantees. These are reported as off-balance sheet items at their notional amounts and are assessed using the same criteria as loans and receivables (Note 28).

### (3.1.23) Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents include cash, cash due from banks and balances with central bank excluding reserve requirements and restricted balances, trading securities and investment securities with original maturity periods of less than three months (Note 6).

### (3.1.24) Earnings per share

Earnings per share disclosed in the consolidated income statement are determined by dividing net income by the weighted average number of shares outstanding during the year concerned in (Note 4).

### (3.1.25) Segment reporting

An operating segment is a component of an entity:

(i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
(ii) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and,
(iii) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues. (Note 5)

### (3.1.26) Disclosures of IFRS 16 leases

Group - lessee:

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

Right of use assets:

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

a) The initial measurement amount of the lease obligation,
b) the amount obtained by deducting all the rental incentives received from all lease payments made at or before the beginning of the lease;
c) all initial direct costs incurred by the Group

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

## NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

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

a) accumulated depreciation and accumulated impairment losses are deducted and
b) measures the restatement of the lease obligation at the restated cost.

The group applies the provisions of depreciation regulated under the IAS 16 Tangible Assets Standards, while depreciating the rights of use assets.

The Lease Obligations:

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

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

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

a) Increase the book value to reflect the interest on the lease obligation
b) Reduces the book value to reflect the lease payments made and
c) The book value is measured to reflect reassessments and restructuring, or reflect to fixed lease payments as of revised nature.

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

Details based on the asset with regard to the recognized right of use is as follows:

| | **31 December 2021** | **31 December 2020** |
|---|---|---|
| Real estate | 840,297 | 756,191 |
| **Total right of use assets** | **840,297** | **756,191** |

Details of depreciation expense based on the asset with regard to the recognised right of use is as follows:

| | **31 December 2021** | **31 December 2020** |
|---|---|---|
| Real estate | 369,603 | 328,392 |
| **Total right of use assets depreciation expense** | **369,603** | **328,392** |

Lease agreements for vehicles and ATMs, which are determined as low value by the Bank with short-term lease agreements with a duration of 12 months or less, have been evaluated within the scope of the exemption granted by the standard. Within this scope, TL 135,321 has been paid in the relevant period.

The right and obligation of the lessee to use assets classified as finance leases has been measured at the carrying amount of such assets before the transition period.

## NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

### (3.1.27) Comparatives

The Group made some classifications on balance sheet dated 31 December 2020 to be in compliance with the presentation of financial statements dated 31 December 2021. Collaterals given for derivative transactions with foreign banks, which are shown under the item “Other Assets” in the balance sheet of 31 December 2020, were classified under the “Banks” item in accordance with the amendments made within the scope of the Regulation on Uniform Chart of Accounts effective as of 1 January 2021.

### (3.2) Judgements and estimates

The preparation of consolidated financial statements in conformity with IFRS and in line with International Accounting Standards (“IAS”) requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the

date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. These critical estimations and judgements are applied in areas such as; expected credit loss model of IFRS 9 and measurement of fair values. The judgements and estimates that may have significant effect on amounts recognized in the consolidated financial satements are discussed in relevant sections.

### (3.3) The new standards, amendments and interpretations

#### *(3.3.1) Standards, amendments and interpretations applicable as at 31 December 2021:*

**Amendments to IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform Phase 2;** effective from annual periods beginning on or after 1 January 2021. The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

**Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9;** effective from annual periods beginning on or after 1 January 2023. These amendments defer the date of application of IFRS 17 by two years to 1 January 2023 and change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9, Financial instrument until 1 January 2023.

#### *(3.3.2) Standards, amendments and interpretations that are issued but not effective as at 31 December 2021:*

**Amendment to IFRS 16, ‘Leases’ – Covid-19 related rent concessions Extension of the Practical expedient;** as of March 2021, this amendment extended till June 2022 and effective from 1 April 2021.As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the

**NOTE 3 - ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)**

concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

**IFRS 17, 'Insurance contracts';** effective from annual periods beginning on or after 1 January 2023. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

**Amendments to IAS 1, Presentation of financial statements' on classification of liabilities;** effective date deferred until accounting periods starting not earlier than 1 January 2024. These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

**A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16;** effective from Annual periods beginning on or after 1 January 2022.

**Amendments to IFRS 3,** 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

**Amendments to IAS 16,** 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

**Amendments to IAS 37,** 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.

**Narrow scope amendments to IAS 1**, Practice statement 2 and IAS 8; effective from annual periods beginning on or after 1 January 2023. The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

**Amendment to IAS 12** Deferred tax related to assets and liabilities arising from a single transaction; from annual periods beginning on or after 1 January 2023. These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.

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

## NOTE 4 - EARNINGS PER SHARE

Earnings per share disclosed in the consolidated statements of income is determined by dividing the net income attributable to the equity holders of the Group by the weighted average number of ordinary shares outstanding during the period concerned.

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

The number of rights issued in 2021: None (31 December 2020: None).

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

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Profit attributable to equity holders of the Group | 12,127,191 | 6,116,625 |
| Weighted average number of ordinary shares in issue (Thousand) | 520,000,000 | 520,000,000 |
| **Basic and diluted earnings per share (expressed in TL, full amount, per share)** | **0.02332** | **0.01176** |

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the year in which they were issued and for each earlier period. In case bonus shares are distributed after the balance sheet date but before the preparation of the financial statements, earnings per share is calculated considering the new number of shares.

Basic earnings per share are calculated by dividing the net income attributable to shareholders by the weighted average number of shares in issue.

There are no diluted shares and accordingly there are no diluted earnings per share for any class of shares.

## NOTE 5 - SEGMENT REPORTING

The Group operates in business segments including retail banking, commercial banking, corporate and investment banking, private banking and wealth management and treasury. These segments have been determined considering customer segments and branch network providing services to customers in accordance with the Bank's organizational structure.

## NOTE 5 - SEGMENT REPORTING (Continued)

Retail banking offers a variety of retail services such as deposit accounts, consumer loans, commercial installment loans, credit cards, insurance products and asset management services. The retail banking products and services also include bank cards, investment funds trading, automatic payment services, foreign currency trading, safe deposit box rentals, cheques, money transfers, investment banking, telephone and internet banking. In addition, retail banking provide financial solutions and banking services to SME customers.

Commercial Banking and Corporate-Investment Banking provide financial solutions and banking services to large, medium and small size corporate and commercial customers. The products and services offered to corporate and commercial customers include TL and foreign currency denominated working capital loans financing for investments, foreign trade financing, derivative instruments for hedging purposes of foreign currency and interest risk, letters of credit, foreign currency trading, corporate finance services and deposit and cash management services. In addition, the Bank provides timely and permanent solutions for corporate customers' working capital management, delivers cash management services tailored based on customers' requests that include collection and payment services and liquidity and information management. Project finance loans are provided within the context of investment banking activities.

In the scope of private banking, The Bank serves the members of the high-income customers who have expectations for upper-class service quality both in banking and investment transactions. Within the scope of international banking activities, activities are also being carried out in order to provide long-term funding, to provide funding under a price reflecting the country's risk, to diversify funding resources and to form an international investor base on this area.

The Treasury Unit conducts TL and FC spot and forward transactions, treasury bonds, government bonds, Eurobond and private sector bond transactions and also derivative trading activities within determined limits. Furthermore, Treasury Unit also carries out marketing and pricing activities of treasury products for customers and branch network.

Other operations includes activities of Ak Finansal Kiralama A.Ş., Ak Yatırım Menkul Değerler A.Ş., Ak Portföy Yönetim A.Ş. and AkÖde Elektronik Para ve Ödeme Hizmetleri A.Ş. which are consolidated as subsidiary of Bank.

Information on business segments as of 31 December 2021 and 31 December 2020 presented in the following tables. Explanations on business segments are prepared on the basis of data obtained from Bank Management Reporting System:

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

## NOTE 5 - SEGMENT REPORTING (Continued)

Segment information at 31 December 2021 and 31 December 2020 is as follows:

| | 31 December 2021 | | | | |
|---|---|---|---|---|---|
| | **Retail Banking** | **Commercial Banking, Corporate-Investment, Private Banking and Wealth Management** | **Treasury** | **Other and Unallocated** | **Group's Total Activities** |
| **Segment information regarding the balance sheet:** | | | | | |
| Segment assets | 149,235,137 | 292,940,200 | 284,100,942 | 13,581,758 | 739,858,037 |
| Equity securities | | | | 34,008 | 34,008 |
| Unallocated assets | | | | 22,906,285 | 22,906,285 |
| **Total assets** | | | | | **762,798,330** |
| Segment liabilities | 282,729,655 | 161,813,650 | 199,440,835 | 13,509,258 | 657,493,398 |
| Unallocated liabilities | | | | 29,345,619 | 29,345,619 |
| Equity | | | | 75,959,313 | 75,959,313 |
| **Total liabilities and equity** | | | | | **762,798,330** |
| **Segment information regarding the income statement:** | | | | | |
| Operating Income | 11,275,259 | 8,999,759 | 3,278,255 | 3,251,534 | 26,804,807 |
| Segment result | 3,672,986 | 7,572,216 | 2,755,594 | 2,626,510 | 16,627,306 |
| Dividend income | - | - | - | 13,156 | 13,156 |
| Income taxes | - | - | - | (4,513,271) | (4,513,271) |
| **Profit for the year** | **3,672,986** | **7,572,216** | **2,755,594** | **(1,873,605)** | **12,127,191** |

| | 31 December 2020 | | | | |
|---|---|---|---|---|---|
| | **Retail Banking** | **Commercial Banking, Corporate-Investment, Private Banking and Wealth Management** | **Treasury** | **Other and Unallocated** | **Group's Total Activities** |
| **Segment information regarding the balance sheet:** | | | | | |
| Segment assets | 101,012,305 | 198,994,220 | 148,545,090 | 8,974,388 | 457,526,003 |
| Equity securities | | | | 31,179 | 31,179 |
| Unallocated assets | | | | 20,759,393 | 20,759,393 |
| **Total assets** | | | | | **478,316,575** |
| Segment liabilities | 190,212,425 | 96,610,017 | 103,254,640 | 8,770,417 | 398,847,499 |
| Unallocated liabilities | | | | 16,545,019 | 16,545,019 |
| Equity | | | | 62,924,057 | 62,924,057 |
| **Total liabilities and equity** | | | | | **478,316,575** |
| **Segment information regarding the income statement:** | | | | | |
| Operating Income | 8,623,606 | 1,888,554 | 6,717,731 | (319,195) | 16,910,696 |
| Segment result | 2,459,746 | 635,219 | 6,295,997 | (1,111,669) | 8,279,293 |
| Dividend income | - | - | - | 4,866 | 4,866 |
| Income taxes | - | - | - | (2,167,511) | (2,167,511) |
| **Profit for the year** | **2,459,746** | **635,219** | **6,295,997** | **(3,274,314)** | **6,116,648** |

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

## NOTE 6 - CASH AND DUE FROM BANKS AND BALANCES WITH THE CENTRAL BANK OF TURKEY

Cash and due from banks comprises as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Cash funds:** | | |
| Cash on hand (*) | 10,094,046 | 5,071,922 |
| Purchased cheques | 234 | 29 |
| | **10,094,280** | **5,071,951** |
| **Current accounts and demand deposits:** | | |
| Central Bank of Turkey | 36,785,300 | 19,769,297 |
| Foreign banks | 48,271,054 | 16,205,991 |
| Domestic banks | 62,033 | 8,868 |
| | **85,118,387** | **35,984,156** |
| **Time deposits:** | | |
| Central Bank of Turkey | 45,007,192 | 22,835,073 |
| Foreign banks | 4,944,375 | 1,118,250 |
| Domestic banks | 192,238 | 29,478 |
| | **50,143,805** | **23,982,801** |
| **Interbank money market placements** | **2,848,612** | **488,547** |
| **Total cash and due from banks and the balances with the Central Bank of Turkey** | **148,205,085** | **65,527,455** |

(*) Includes precious metal accounts amounting to TL 2,152,617 (31 December 2020: 2,173,647).

At 31 December 2021, assets pledged as off-shore reserve requirements, payment accounts in connection with the issue of floating-rate notes and restricted demand and time deposits in foreign banks amount to TL 17,640,976 (31 December 2020: 9,347,637 TL) (Note 27).

Cash and cash equivalents included in the statements of cash flows for the year ended 31 December 2021 and 2020 are as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Cash and due from banks excluding accrued interest and blocked accounts (*) | 48,609,704 | 13,492,759 |
| Trading and investment securities with original maturities of less than three months excluding accrued interest | 6,412 | 2,547 |
| **Total** | **48,616,116** | **13,495,306** |

(*) Mainly include collateral amounts kept at banks for borrowings.

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

## NOTE 6 - CASH AND DUE FROM BANKS AND BALANCES WITH THE CENTRAL BANK OF TURKEY (Continued)

The balances with the Central Bank of Turkey ("the Central Bank"):

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| The balances with the Central Bank of Turkey: | | |
| - TL | 9,941,916 | 2,628,104 |
| - Foreign currency | 71,850,576 | 39,976,266 |
| **Total** | **81,792,492** | **42,604,370** |

The reserve requirements are promulgated by communiqués issued by the Central Bank and TL 9,933,342 in Turkish Lira and TL 71,850,576 in foreign currency promulgated as of 31 December 2021 (31 December 2020: TL 2,627,671 Turkish Lira and TL 39,976,266 in foreign currency).

The amounts of the reserve requirements are computed on the basis of the liabilities identified and at the rates prescribed in the related regulations.

In accordance with the Communiqué Regarding the Reserve Requirements no. 2013/15, the Bank is required to maintain reserves in CBRT for TL and foreign currency liabilities. The reserve requirements can be maintained as TL, USD, EUR and standard gold. According to the Communiqué on Required Reserves published in the Official Gazette dated 01.07.2021 and numbered 31528, the facility for maintain Turkish Lira reserve requirements in foreign currency was terminated as of 1 October 2021.

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

## NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters mainly into the following derivative financial instruments:

"Currency forwards" represent commitments to purchase or to sell foreign or domestic currency, including spot transactions. "Foreign currency futures" are contractual obligations to receive or pay a net amount based on changes in currency rates or to buy or sell foreign currency at a future date at a specified price established in an organized financial market. Since future contracts are collateralized by cash or marketable securities and changes in the future contract value are settled daily with the exchange rate, the credit risk is negligible.

"Currency and interest rate options" are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer ("OTC").

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

## NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

"Currency and interest rate swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. The Group's "credit risks" represent the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the consolidated statements of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held at 31 December 2021 and 31 December 2020 are set out in the following table.

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Fair values | | Fair values | |
| | Assets | Liabilities | Assets | Liabilities |
| **Derivatives held for trading:** | | | | |
| Currency and interest rate swap purchases and sales | 32,539,359 | 20,186,015 | 14,322,524 | 13,005,806 |
| Options purchases and sales | 296,503 | 567,853 | 152,494 | 163,564 |
| Currency and interest rate futures purchases and sales | - | - | - | - |
| Forward currency purchases and sales | 761,445 | 3,902,610 | 414,145 | 231,764 |
| Other purchases and sales | - | - | - | - |
| **Derivatives held for hedging:** | | | | |
| Currency and interest rate swap purchases and sales | 16,189,565 | 1,026,204 | 7,969,203 | 1,439,839 |
| **Total derivative assets/(liabilities)** | **49,786,872** | **25,682,682** | **22,858,366** | **14,840,973** |

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

Certain derivative transactions, while providing effective economic hedges under the Group's risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading.

As at 31 December 2021, contractual amounts of derivative financial instruments designated as hedging instruments and the net fair values carried in the balance sheet are summarized in the following table:

| | Current Period | | | Prior Period | | |
|---|---|---|---|---|---|---|
| | 31 December 2021 | | | 31 December 2020 | | |
| | Notional Amount | Assets | Liabilities | Notional Amount | Assets | Liabilities |
| Interest Rate and Cross Currency Swaps | | | | | | |
| -TL | 38,163,770 | 15,412,861 | 331,573 | 20,923,980 | 7,956,205 | 424,660 |
| -FC | 122,991,616 | 776,704 | 694,631 | 63,594,359 | 12,998 | 1,015,179 |
| **Total** | **161,155,386** | **16,189,565** | **1,026,204** | **84,518,339** | **7,969,203** | **1,439,839** |

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

## NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

### Explanations on Net Investment Hedge:

The Group has been using net investment hedging strategy to hedge foreign currency risk of EUR 787 million (31 December 2020: EUR 787 million) which represents share premiums and paid-in-capital of Akbank AG, one of its subsidiaries, with EUR 787 million of syndication loans used by the Group have been classified as "hedge instruments".

### 1. Explanations on Fair Value Hedges:

**Current Period - 31 December 2021**

| Hedging Instrument | Hedged Item | Risk Exposure | Fair Value Difference of Hedging Instrument | Fair Value Difference of Hedged Items (*) | Ineffective Portion (**) |
|---|---|---|---|---|---|
| Interest Rate Swap | Fixed interest rate FC financial assets at fair value through other comprehensive income | Interest rate risk | (293,557) | 255,051 | (38,506) |
| Cross-currency swap | Fixed interest rate FC financial assets at fair value through other comprehensive income, FC borrowings | Interest rate and currency risk | 39,753 | (39,469) | 284 |
| Cross-currency swap | Fixed interest rate TL financial assets at fair value through other comprehensive income, borrowings | Interest rate and currency risk | (91,345) | 84,039 | (7,306) |
| Interest Rate Swap | Fixed interest rate TL Commercial Loans | Interest rate risk | 44 | (187) | 143 |
| Cross-currency swap | Fixed interest rate TL Commercial Loans, FC borrowings | Interest rate and currency risk | 8,600 | (8,558) | 42 |
| Interest Rate Swap | Fixed interest rate TL Securities Issued | Interest rate risk | (46,140) | 49,696 | 3,556 |
| Interest Rate Swap | Fixed interest rate Lease Receivables | Interest rate risk | - | - | - |

(*) Includes fair value differences arising from changes in foreign exchange rates for hedges against interest rate and foreign currency from the interest rate and foreign exchange risks.

(**) Represents the cumulative amounts booked under "Gain / (Loss) on Derivative Financial Transactions" and "Gain/ (Loss) on Foreign Exchange Transactions" since the beginning of hedge accounting.

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

## NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

**Prior Period - 31 December 2020**

| Hedging Instrument | Hedged Item | Risk Exposure | Fair Value Difference of Hedging Instrument | Fair Value Difference of Hedged Items (*) | Ineffective Portion (**) |
|---|---|---|---|---|---|
| Interest Rate Swap | Fixed interest rate FC financial assets at fair value through other comprehensive income | Interest rate risk | (534,522) | 487,716 | (46,806) |
| Cross-currency swap | Fixed interest rate FC financial assets at fair value through other comprehensive income, FC borrowings | Interest rate and currency risk | 16,031 | (16,419) | (388) |
| Cross-currency swap | Fixed interest rate TL financial assets at fair value through other comprehensive income, FC borrowings | Interest rate and currency risk | (67,317) | 63,459 | (3,858) |
| Cross-currency swap | Fixed interest rate TL Mortgage Loans, FC borrowings | Interest rate and currency risk | 1,896,556 | (1,890,232) | 6,324 |
| Interest Rate Swap | Fixed interest rate TL Commercial Loans | Interest rate risk | (4,070) | 4,181 | 111 |
| Cross-currency swap | Fixed interest rate TL Commercial Loans, FC borrowings | Interest rate and currency risk | (28,992) | 28,662 | (330) |
| Interest Rate Swap | Fixed interest rate TL Securities Issued | Interest rate risk | (64,929) | 69,179 | 4,250 |
| Interest Rate Swap | Fixed interest rate Lease Receivables | Interest rate risk | (26) | 23 | (3) |

(*) Includes fair value differences arising from changes in foreign exchange rates for hedges against interest rate and foreign currency from the interest rate and foreign exchange risks.

(**) Represents the cumulative amounts booked under "Gain / (Loss) on Derivative Financial Transactions" and "Gain/ (Loss) on Foreign Exchange Transactions" since the beginning of hedge accounting.

As at 31 December 2021 fair value hedge transactions have been proven to be effective.

In addition, when the hedging instrument expires, is executed or sold and when the hedge relationship becomes ineffective or is discontinued as a result of the hedge relationship being revoked are given below:

- As at 31 December 2021, related to fair value hedge transactions, the remaining net amount after amortization of the fair value change of the hedged items since the beginning of hedge accounting is TL 2,779 (31 December 2020: TL 695).

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

## NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

## 2. Explanations on Cash Flow Hedge

### Current Period - 31 December 2021

| Hedging instrument | Hedged item | Nature of risk hedged | Hedging instrument FV | | Net gain/(loss) recognized in OCI during the period | Net gain/(loss) reclassified to income statement during the year | Ineffective portion recognized in income statement (Net) |
|---|---|---|---|---|---|---|---|
| | | | Assets | Liabilities | | | |
| Interest Rate Swap | Floating-rate long Term FC funds borrowed | Cash Flow risk due to changes in interest rate of funds | - | 203,465 | (51,984) | (177,515) | 8,805 |
| Cross Currency Swap | Short term FC commercial deposits | Cash Flow risk due to changes in interest rate of funds | 12,194,356 | - | 721,418 | (1,032,473) | 80,938 |
| Interest Rate Swap | Short term TL deposits | Cash Flow risk due to changes in interest rate of funds | 1,047,160 | 1,660 | 1,549,753 | 149,875 | 24,411 |
| Interest Rate Swap | Short term FC deposits | Cash Flow risk due to changes in interest rate of funds | 189,325 | 9,550 | 135,070 | (28,801) | 6,671 |
| Interest Rate Swap | Floating-rate TL financial assets at fair value through other comprehensive income | Cash Flow risk due to changes in interest rate of funds | 1,720 | 274,596 | (301,489) | (28,948) | 1,165 |

As of 31 December 2021 cash flow hedge transactions have been determined as effective.

### Prior Period - 31 December 2020

| Hedging instrument | Hedged item | Nature of risk hedged | Hedging instrument FV | | Net gain/(loss) recognized in OCI during the period | Net gain/(loss) reclassified to income statement during the year | Ineffective portion recognized in income statement (Net) |
|---|---|---|---|---|---|---|---|
| | | | Assets | Liabilities | | | |
| Interest Rate Swap | Floating-rate long Term FC funds borrowed | Cash Flow risk due to changes in interest rate of funds | - | 332,270 | (448,539) | (111,650) | (8,356) |
| Cross Currency Swap | Short term FC commercial deposits | Cash Flow risk due to changes in interest rate of funds | 4,679,051 | 1,453 | (513,439) | (1,145,621) | (616,994) |
| Cross Currency Swap | Floating-rate FC given loans | Cash Flow risk due to changes in interest rate of funds | - | - | 20,577 | 29,569 | (259) |
| Interest Rate Swap | Short term TL deposits | Cash Flow risk due to changes in interest rate of funds | 59,428 | 316,367 | 133,622 | (98,875) | (10,634) |
| Interest Rate Swap | Short term FC deposits | Cash Flow risk due to changes in interest rate of funds | - | 2,995 | 435 | (219) | (1,898) |
| Interest Rate Swap | Floating-rate TL financial assets at fair value through other comprehensive income | Cash Flow risk due to changes in interest rate of funds | - | 25,784 | (18,757) | (4,175) | (9,225) |

As of 31 December 2020 cash flow hedge transactions have been determined as effective.

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

## NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

In addition, when the hedging instrument expires, is executed or sold and when the hedge relationship becomes ineffective or is discontinued as a result of the hedge relationship being revoked with the information related discontinuous transactions are given below:

As of 31 December 2021, related to cash flow hedge transactions, the remaining before tax amount in equity after amortization of the fair value change of the hedging instruments, since the beginning of hedge accounting is TL 34,396 (31 December 2020: TL 28,746).

## NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS

Distribution of the loan portfolio of the Group by nature is as the following:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Consumer loans** | **60,709,260** | **41,914,006** |
| - Mortgage | 13,576,858 | 9,585,929 |
| - General purpose | 46,807,938 | 32,098,935 |
| - Automobile | 324,464 | 229,142 |
| **Credit cards** | **30,160,892** | **21,660,421** |
| - Retail | 24,922,573 | 18,418,751 |
| - Corporate | 5,238,319 | 3,241,670 |
| **Corporate, commercial and small business loans** | **295,690,327** | **203,361,362** |
| - Export financing loans | 36,025,512 | 21,448,393 |
| - Loans to financial institutions | 20,646,091 | 14,337,460 |
| - Leasing receivables | 7,578,829 | 5,015,140 |
| - Project finance loans | 84,151,374 | 60,087,990 |
| - Commercial installment loans | 18,368,632 | 17,003,445 |
| - Other | 128,919,889 | 85,468,934 |
| **Performing loans(*)** | **386,560,479** | **266,935,789** |
| Impaired loans | 18,227,817 | 17,880,294 |
| **Total loans and advances to customers** | **404,788,296** | **284,816,083** |
| Provision for impairment | (19,014,504) | (16,969,515) |
| **Net loans and advances to customers** | **385,773,792** | **267,846,568** |

(*) Excluding loans measured at fair value through profit and loss amounting to TL 7,342,910 (31 December 2020: 7,342,910).

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

## NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Loans and advances to customers include finance lease receivables, as shown below:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Gross investment in finance leases | 8,998,846 | 6,214,449 |
| Less: Unearned finance income | (960,745) | (631,599) |
| Total investment in finance leases | 8,038,101 | 5,582,850 |
| Provision for impairment | (317,272) | (394,453) |
| **Net investment in finance leases** | **7,720,829** | **5,188,397** |

Gross lease rentals receivable and the net investment in direct financing leases have the following collection schedules:

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Gross investment in finance leases | Total investment in finance leases | Gross investment in finance leases | Total investment in finance leases |
| **Period ending** | | | | |
| 2021 | - | - | 2,122,120 | 1,871,231 |
| 2022 | 3,146,461 | 2,754,364 | 1,463,086 | 1,278,772 |
| 2023(*) | 5,852,385 | 5,283,737 | 2,629,243 | 2,432,847 |
| **Total** | **8,998,846** | **8,038,101** | **6,214,449** | **5,582,850** |

(*) Balances include the year 2023 and thereafter.

As of 31 December 2021 and 2020, the Group's collateral types are mainly composed of mortgages, cash blockages, vehicle and machine pledges.

The Group has provided an individual impairment for impaired loans amounting to TL 11,799,149 (31 December 2020: TL 11,093,238). As of 31 December 2021 total amount of provision for impairment provided by the Group, which amounts to TL 19,014,504 (31 December 2020: 16,969,515) represents the total amount of individual and collective provision on loans and advances.

Movements in the provision for loan losses are as follows:

| | 31 December 2021 | | | |
|---|---|---|---|---|
| | Commercial loans | Consumer loans and credit cards | Leasing receivables | Total |
| **1 January 2021** | **13,773,709** | **2,801,353** | **394,453** | **16,969,515** |
| Additions | 3,350,889 | 2,117,268 | 86,869 | 5,555,026 |
| Collections | (1,290,841) | (532,625) | (128,839) | (1,952,305) |
| Write-offs (*) | (986,020) | (536,501) | (35,211) | (1,557,732) |
| **31 December 2021** | **14,847,737** | **3,849,495** | **317,272** | **19,014,504** |

(*) The amount of write-off made according to the "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside" published in the Official Gazette dated 6 July 2021 and numbered 31533 is 1,450,497 TL and its effect on the NPL ratio is 34 basis point (31 December 2020: TL 774.976 and its effect on the NPL ratio is 25 basis point).

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

## NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

| | 31 December 2020 | | | |
|---|---|---|---|---|
| | Commercial loans | Consumer loans and credit cards | Leasing receivables | Total |
| **1 January 2020** | **9,980,873** | **2,324,492** | **401,711** | **12,707,076** |
| Additions | 4,995,029 | 1,316,920 | 176,214 | 6,488,163 |
| Collections | (916,709) | (414,812) | (89,154) | (1,420,675) |
| Write-offs (*) | (285,484) | (425,247) | (94,318) | (805,049) |
| **31 December 2020** | **13,773,709** | **2,801,353** | **394,453** | **16,969,515** |

(*) The amount of write-off made according to the "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside" published in the Official Gazette dated 27 November 2019 and numbered 30961 is TL 774,976 thousand and its effect on the NPL ratio is 23 basis point.

Loans and advances to related parties are as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Loans and advances measured at amortized cost (Net) | 9,970,098 | 7,923,015 |
| Loans and advances measured at FVPL | 7,342,910 | 7,342,910 |
| **Net loans and advances to related parties** | **17,313,008** | **15,265,925** |

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

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Private sector | 394,454,659 | 280,615,601 |
| Public sector | 10,333,637 | 4,200,482 |
| **Total loans and advances to customers** | **404,788,296** | **284,816,083** |

Further disclosures with respect to loans and advances to customers and expected credit loss are made in Note 30.

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

## NOTE 9 - INVESTMENT SECURITIES

### (9.1) Financial Assets At Fair Value Through Profit Or Loss:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Government bonds | 241,562 | 22,607 |
| Eurobonds | 337,168 | 167,331 |
| Share certificates | 1,073,896 | 305,711 |
| Other | 1,813,838 | 1,340,853 |
| **Total** | **3,466,465** | **1,836,502** |

As of 31 December 2021, the group has no financial assets pledged under repurchase agreements with financial institutions (31 December 2020: None).

As of 31 December 2021, there are no financial assets at fair value through profit or loss given as collateral/blocked (31 December 2020: TL 9,995); and financial assets subject to repo transactions (31 December 2020: None).

### (9.2) Financial Assets Measured Fair Value Through Other Comprehensive Income:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Debt securities | | |
| - Government bonds | 34,746,069 | 23,067,781 |
| - Eurobonds | 43,909,234 | 21,352,442 |
| - Treasury bills | - | - |
| - Other bonds | 20,817,665 | 13,277,209 |
| Equity securities | | |
| - Listed | - | - |
| - Unlisted | 34,008 | 31,179 |
| - Mutual Funds | 822,575 | 490,329 |
| **Total** | **100,329,551** | **58,218,940** |

As of 31 December 2021, financial assets fair value through other comprehensive income subject to repurchase agreements amounting to TL 40,231,789 (31 December 2020: TL 16,984,050); and those given as collateral/blocked amounting to TL 29,582,153 (31 December 2020: TL 18,374,196).

Unrealized gain and losses arising from changes in the fair value of securities classified as "financial assets measured at fair value OCI" in current period are recognized as "other reserves" in other comprehensive income unless there is an objective evidence that the asset is impaired in which case the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss.

Government bonds, Eurobonds and treasury bills under trading and investment securities are issued by the Government of the Republic of Turkey. Other bonds mainly represent bonds issued by corporate and other financial institutions.

### (9.3) Financial Assets Measured At Amortised Cost (Net)

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Debt securities | | |
| - Government bonds | 50,307,457 | 40,236,839 |
| - Other government debt securities | 1,289,549 | 976,369 |
| - Other Marketable Securities | 969,563 | 659,469 |
| **Total** | **52,566,569** | **41,872,677** |

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

## NOTE 9 - INVESTMENT SECURITIES (Continued)

As at 31 December 2021, financial assets measured at amotised cost subject to repurchase agreements amount to TL 25,564,815 (31 December 2020: TL 6,241,092); and those given as collateral/blocked amount to TL  TL 7,986,075 (31 December 2020: TL 8,687,723).

Government bonds, Eurobonds and treasury bills under trading and investment securities are issued by the Government of the Republic of Turkey. Other bonds mainly represent bonds issued by corporate and other financial institutions.

The movement of financial assets measured at amortised costs is as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Opening Balance** | **41,872,677** | **15,565,525** |
| Additions | 17,887,458 | 25,884,971 |
| Redemptions | (15,853,467) | (4,774,521) |
| Exchange differences | 4,555,125 | 4,715,654 |
| Impairment Provision (-) (*) | (45,864) | (14,050) |
| Change in Amortized Cost | 4,150,640 | 495,098 |
| **Closing Balance** | **52,566,569** | **41,872,677** |

(*) At 31 December 2021 and 31 December 2020, expected loss provisions are included.

## NOTE 10 – ASSETS HELD FOR SALE

| | Current Period 31 December 2021 | Prior Period 31 December 2020 |
|---|---|---|
| Cost | 232,296 | 250,782 |
| Accumulated Depreciation (-) | - | 4 |
| **Net Book Value** | **232,296** | **250,778** |

| | Current Period 31 December 2021 | Prior Period 31 December 2020 |
|---|---|---|
| **Opening Balance Net Book Value** | **250,778** | **666,067** |
| Additions | 200,398 | 265,721 |
| Disposals (-), net | 217,363 | 184,122 |
| Impairment (-) | 1,517 | 496,888 |
| **Closing Net Book Value** | **232,296** | **250,778** |

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

## NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

| | Immovables(*) | Other Tangible Fixed Assets | Construction in Progress | Total |
|---|---|---|---|---|
| **Prior Period End: 31 December 2020** | | | | |
| Cost | 5,160,043 | 2,719,643 | 10,224 | 7,889,910 |
| Accumulated Depreciation(-) | 458,611 | 1,427,893 | - | 1,886,504 |
| **Net Book Value** | **4,701,432** | **1,291,750** | **10,224** | **6,003,406** |
| **Current Period End: 31 December 2021** | | | | |
| Net Book Value at the Beginning of the Period | 4,701,432 | 1,291,750 | 10,224 | 6,003,406 |
| Additions | 148,334 | 434,142 | 35,475 | 617,951 |
| Investment Properties Revaulation differences | - | - | - | - |
| Transferred | 26,772 | - | (26,772) | - |
| Disposals (-), net | 203,376 | 19,356 | - | 222,732 |
| Depreciation (-) | 153,695 | 370,216 | - | 523,911 |
| Impairment | - | - | - | - |
| Currency Translation Differences on Foreign Operations, Net | 18,233 | 1,889 | - | 20,122 |
| Cost at Period End | 5,095,796 | 3,019,002 | 18,927 | 8,133,725 |
| Accumulated Depreciation at Period End (-) | 558,096 | 1,680,793 | - | 2,238,889 |
| **Closing Net Book Value** | **4,537,700** | **1,338,209** | **18,927** | **5,894,836** |

(*) Immovables includes the asset usage rights of the real estates rented under the "IFRS 16 Leases" Standard. As of 31 December 2021, asset usage rights are TL 840,297, and accumulated depreciation amount is TL 369,603.

| | Immovables(*) | Other Tangible Fixed Assets | Construction in Progress | Total |
|---|---|---|---|---|
| **Prior Period End: 31 December 2019** | | | | |
| Cost | 4,405,887 | 2,159,285 | 7,069 | 6,572,241 |
| Accumulated Depreciation(-) | 516,290 | 1,136,254 | - | 1,652,544 |
| **Net Book Value** | **3,889,597** | **1,023,031** | **7,069** | **4,919,697** |
| **Current Period End: 31 December 2020** | | | | |
| Net Book Value at the Beginning of the Period | 3,889,597 | 1,023,031 | 7,069 | 4,919,697 |
| Additions | 168,616 | 600,174 | 25,322 | 794,112 |
| Investment Properties Revaulation differences | 912,544 | - | - | 912,544 |
| Transferred | 22,167 | - | (22,167) | - |
| Disposals (-), net | 153,771 | 1,780 | - | 155,551 |
| Depreciation (-) | 141,695 | 329,808 | - | 471,503 |
| Impairment | (11,922) | - | - | (11,922) |
| Currency Translation Differences on Foreign Operations, Net | 15,896 | 133 | - | 16,029 |
| Cost at Period End | 5,160,043 | 2,719,643 | 10,224 | 7,889,910 |
| Accumulated Depreciation at Period End (-) | 458,611 | 1,427,893 | - | 1,886,504 |
| **Closing Net Book Value** | **4,701,432** | **1,291,750** | **10,224** | **6,003,406** |

(*)Immovables includes the asset usage rights of the real estates rented under the "IFRS 16 Leases" Standard. As of 31 December 2020, asset usage rights are TL 756,191, and accumulated depreciation amount is TL 328,392.

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

## NOTE 12 - INTANGIBLE ASSETS

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Cost | 2,503,491 | 1,918,033 |
| Accumulated depreciation | 1,003,889 | 727,124 |
| **Net book amount** | **1,499,602** | **1,190,909** |
| **Opening balance at 1 January** | **1,190,909** | **953,188** |
| Disposals (-) | 9,696 | 234 |
| Additions | 603,608 | 451,476 |
| Depreciation (-) | 287,090 | 214,978 |
| Currency Translation Differences on Foreign Operations, Net | 1,871 | 1,457 |
| **Net book amount** | **1,499,602** | **1,190,909** |

## NOTE 13 - OTHER ASSETS AND PRE-PAYMENTS

The principal components of other assets and pre-payments are as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Derivative collaterals | 687,955 | 654,661 |
| Miscellaneous receivables | 1,442,406 | 1,504,927 |
| Prepaid expenses | 1,975,203 | 998,856 |
| Receivables from cheques in clearance | 1,370,281 | 852,507 |
| Receivables from credit card payments | 67,693 | 51,695 |
| Other | 1,880,643 | 1,157,428 |
| **Total** | **7,424,181** | **5,220,074** |

## NOTE 14 - DEPOSITS AND OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The breakdown of deposits according to type and maturity is as follows:

| | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Demand** | **Time** | **Total** | **Demand** | **Time** | **Total** |
| Saving deposits | 97,492,447 | 177,690,493 | 275,182,940 | 53,209,482 | 129,399,700 | 182,609,182 |
| Commercial deposits | 61,742,909 | 95,326,679 | 157,069,588 | 36,424,264 | 56,466,245 | 92,890,509 |
| Funds deposited under repurchase agreements | - | 63,256,050 | 63,256,050 | - | 20,478,250 | 20,478,250 |
| Bank deposits | 1,776,500 | 12,060,042 | 13,836,542 | 280,804 | 12,293,003 | 12,573,807 |
| Other | 1,838,712 | 5,622,797 | 7,461,509 | 1,394,099 | 3,051,410 | 4,445,509 |
| **Total** | **162,850,568** | **353,956,061** | **516,806,629** | **91,308,649** | **221,688,608** | **312,997,257** |

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

## NOTE 14 - DEPOSITS AND OBLIGATIONS UNDER REPURCHASE AGREEMENTS (Continued)

Foreign exchange-protected deposit instrument, the operating rules of which are determined by the Ministry of Treasury and Finance and the CBRT, and which ensures that TL deposits are valued with interest rates and are protected against foreign exchange rates, started to be offered to bank customers as of the current accounting period reported. As of 31 December 2021, TL deposit amount includes TL 4,875,953 thousand TL deposits within this scope.

At 31 December 2021, deposits of TL 25,553,295 (31 December 2020: 18,308,406 TL) were from Sabancı Holding Group companies and other related parties. The total interest expense paid to related party deposits is TL 1,667,632 (31 December 2020: TL 976,517) for the year ended 31 December 2021.

## NOTE 15 - INTERBANK MONEY MARKET DEPOSITS, FUNDS BORROWED

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Interbank money market deposits** | **1,381,411** | **429,094** |
| Domestic banks | | |
| - TL | 676,304 | 367,411 |
| - Foreign currency | 4,015,282 | 4,939,707 |
| Foreign institutions | 29,966,542 | 17,070,799 |
| **Funds borrowed** | **34,658,128** | **22,377,917** |

Interbank money market deposits represent borrowings from Istanbul Settlement and Custody Bank and the interbank money market which is regulated by the Central Bank of Turkey.

Funds borrowed from domestic banks mainly represent funds obtained from Turkish Eximbank to finance certain export loans given to customers, under prevailing regulations.

As of 31 December 2021, Akbank has two outstanding syndicated loan facilities.

First outstanding facility with 1 year tenor tranches was signed on 9 April 2021 and raised a total of EUR 279 million and USD 344,5 million with Euroibor + 225 bps and Libor + 250 bps.

Second outstanding facility with 1 year tenor was signed on 19 October 2021 and raised a total of EUR 206,8 million and USD 460 million with Euribor + 175 bps and Libor + 215 bps.

## NOTE 16 - DEBT SECURITIES ISSUED

Debt securities consist of USD, EUR and TL denominated securities.

The balances amounting to USD 4,855,463 thousands and EUR 10,113 thousands consist of securitization deals issued by the Group. The repayment schedule of the total USD and EUR denominated notes in issue is as follows:

## NOTE 16 - DEBT SECURITIES ISSUED (Continued)

| | 31 December 2021 | | | | |
|---|---|---|---|---|---|
| | USD (000) | TL | EUR (000) | TL | Other TL |
| 2022 | 1,374,501 | 18,320,724 | 392 | 5,914 | - |
| 2023 | 594,934 | 7,929,876 | 377 | 5,691 | - |
| 2024 | 623,172 | 8,306,260 | 363 | 5,478 | - |
| 2025 | 768,654 | 10,245,389 | 349 | 5,268 | - |
| 2026 | 475,608 | 6,339,379 | 335 | 5,054 | - |
| 2027 | 414,115 | 5,519,739 | 322 | 4,858 | - |
| 2028 | 292,139 | 3,893,921 | 309 | 4,662 | - |
| 2029 | 19,991 | 266,460 | 7,666 | 115,655 | - |
| 2030 | 18,680 | 248,986 | - | - | - |
| 2031 | 273,669 | 3,647,734 | - | - | - |
| **Total** | **4,855,463** | **64,718,468** | **10,113** | **152,580** | **-** |

| | 31 December 2020 | | | | |
|---|---|---|---|---|---|
| | USD (000) | TL | EUR (000) | TL | Other TL |
| 2020 (*) | | | | | |
| 2021 | 630,546 | 4,678,273 | 23,131 | 210,872 | - |
| 2022 | 1,068,575 | 7,928,186 | 377 | 3,438 | - |
| 2023 | 571,133 | 4,237,464 | 362 | 3,301 | - |
| 2024 | 599,240 | 4,446,001 | 348 | 3,173 | - |
| 2025 | 911,404 | 6,762,071 | 335 | 3,055 | - |
| 2026 | 428,422 | 3,178,634 | 322 | 2,936 | - |
| 2027 | 370,994 | 2,752,553 | 309 | 2,818 | - |
| 2028 | 257,937 | 1,913,738 | 297 | 2,708 | - |
| 2029 | - | - | 7,370 | 67,179 | - |
| 2030 | - | - | - | - | - |
| 2031 | - | - | - | - | - |
| **Total** | **4,838,251** | **35,896,920** | **32,851** | **299,480** | **-** |

(*) Repayments include accrued interest payables in the amount.

As of 31 December 2021 the outstanding TL denominated bonds with the maturity of 1-3 months are TL 2,749,399, with the maturity of 3-6 months are TL 3,877,629 , with the maturity of 6-12 months are TL 448,064, with the maturity of 1-5 years are TL 991,778 and with the maturity of over 5 years are TL 1,385,587.

As of 31 December 2020 the outstanding TL denominated bonds with the maturity of 1-3 months are TL 933,926 , with the maturity of 3-6 months are TL 123,854 , with the maturity of 6-12 months are TL 4,229,049 , with the maturity of 1-5 years are TL 1,062,073 and with the maturity of over 5 years are TL 1,364,024.

### Net Debt Reconciliation

| | Funds Borrowed | Debt Securities in Issue | Interbank Money Market Deposits | Total |
|---|---|---|---|---|
| **Opening Balance (As of 31 December 2020)** | **22,377,917** | **43,909,328** | **429,094** | **66,716,339** |
| Additional Liabilities | 12,171,346 | 30,237,328 | 946,992 | 43,355,666 |
| Principal Payments | - | - | - | - |
| Interest Accrual Changes | 108,865 | 176,851 | 5,325 | 291,041 |
| **Closing Balance (As of 31 December 2021)** | **34,658,128** | **74,323,507** | **1,381,411** | **110,363,046** |

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

## NOTE 17 - TAXATION

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Current income tax expense | 3,399,761 | 2,387,901 |
| Deferred tax expense/(income) | 1,113,510 | (220,390) |
| **Income tax expense** | **4,513,271** | **2,167,511** |

### (a) Income taxes currently payable

In Turkey, corporate tax rate is 25%. In accordance with the Law No. 7316 published in the Official Gazette dated 22 April 2021, starting from the declarations that must be submitted as of 1/7/2021 and to be valid for the taxation period starting from 1/1/2021, the corporate tax rate is 25% for the taxation period of 2021, this rate will be applied as 23% for the taxation period of 2022 and 20% for the taxation period of 2023 and beyond.

Dividends paid to non-resident corporations, which have a place of business in Turkey or are resident corporations, are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporate tax quarterly on their corporate income with current rate. Advance tax is declared and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations which is for the current period is credited against the annual corporation tax calculated on their annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

A 75% portion of the capital gains derived from the sale of equity investments and a 50% portion of the capital gains derived from the sale of immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or held in a special fund account under liability for five years.

Under the Turkish Corporate Tax Law, losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns until the 30th day of the following fourth month after the closing of the accounting year to which they relate. Tax returns are open for five years from the beginning of the year following the date of filing during this time period the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Current tax, related to items recognized directly in equity is also credited or charged directly to equity:

As of the end of the 2021 calendar year, the conditions sought for inflation adjustment in the calculation of corporate tax have been fulfilled, within the framework of the repeated provision of Article 298/A of the Tax Procedure Law. However, with the regulation made with the Law No. 7352 dated 20 January 2022, the application of inflation adjustment in the calculation of corporate tax was postponed to 2023. Accordingly, TPL financial statements for the 2021 and 2022 accounting periods, including the

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

## NOTE 17 - TAXATION (Continued)

provisional tax periods, will not be subject to inflation adjustment, and for the 2023 accounting period; will not be subject to inflation adjustment as of the provisional tax periods, and the TPL financial statements dated 31 December 2023 will be subject to inflation adjustment regardless of whether the inflation adjustment conditions are met or not. Profit/loss difference arising from inflation adjustment in financial statements in accordance with the tax regulations will be shown in previous years' profit/loss accounts and will not affect the corporate tax base.

Akbank AG (Germany)

German-resident corporations (i.e. corporations with legal or business centers located in Germany) are subject to corporate taxation in Germany over their total income. Regardless of any profit distribution corporate tax is levied at 15% over total income. Effective corporate tax rate is 15,825% since an additional solidarity tax of 5,5% is applied over the calculated corporate tax. In addition to that, trade income tax is applied on the basis of local governments. Akbank AG moved its headquarters from Frankfurt am Main to Eschborn as of June 2020, and the commercial income tax rate, which was applied at the level of 16% until 1 July 2020, decreased to 11.5% as of 1 July 2020. Accordingly, as of July 1, 2020, when all tax types (corporate tax, solidarity tax and commercial income tax) of Akbank AG are considered, the tax burden is at the level of 27.4%.

The movement of current income taxes at 31 December 2021 and 2020 is as follows;

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Balance at 1 January** | **1,126,257** | **326,797** |
| Current taxes charged to income statement | 3,399,761 | 2,387,901 |
| Current taxes charged to equity | - | 386,061 |
| Less: Taxes paid | (3,163,302) | (1,974,502) |
| **Total** | **1,362,716** | **1,126,257** |

The reconciliation between the expected and the actual taxation charge is stated below:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Profit before income taxes and minority interest | 16,640,462 | 8,284,159 |
| Theoretical tax charge at the applicable tax rate 25% (2020: 22%) | 4,160,116 | 1,822,515 |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| Income exempt from taxation | (3,495) | (87,652) |
| Non-deductible expenses | 356,650 | 432,648 |
| | **4,513,271** | **2,167,511** |

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

## NOTE 17 - TAXATION (Continued)

### (b) Deferred income taxes

The Group calculates and accounts for deferred income taxes for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with "International Accounting Standard for Income Taxes" ("IAS 12"). As of 31 December 2021, for assets and liabilities subject to deferred tax calculation, enacted tax rates in accordance with the current tax legislation are used in accordance with their lifetime. In accordance with the Law No. 7316 published in the Official Gazette dated 22 April 2021, starting from the declarations that must be submitted as of 7 January 2021 and to be valid for the taxation period starting from 1 January 2021, the corporate tax rate is 25% for the taxation period of 2021, and this rate will be applied as 23% for the taxation period of 2022, it will be applied as 20% for the taxation periods of 2023 and beyond. As of 31 December 2021 for the items subject to deferred tax calculation, enacted tax rates valid in accordance with the current tax legislation are used in accordance with their lifetimes. The Group calculated its deferred tax over 20% as of 31 December 2020.

Deferred tax liabilities are recognized for all resulting temporary differences whereas deferred tax assets resulting from temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized.

Deferred tax calculation is not calculated for free provisions.

Calculated deferred tax receivables and deferred tax liabilities have shown in net balances in the financial statements separately for domestic and international branches and for different subsidiaries subject to consolidation. Net balances of deferred tax assets and liabilities from companies are shown separately in assets and liabilities.

Deferred tax, related to items recognized directly in equity is also credited or charged directly to equity.

The movement of deferred income taxes at 31 December 2021 and 2020 as follows;

| | **31 December 2021** | **31 December 2020** |
|---|---|---|
| **Deferred tax asset, net at 1 January** | **23,532** | **(558,240)** |
| Deferred income tax recognized in income statement | (1,113,510) | 220,390 |
| Deferred income tax recognized in equity | 787,843 | 361,382 |
| **-Deferred tax asset/(liability), net at 31 December** | **(302,135)** | **23,532** |

The deferred tax asset and liability represents the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return, in accordance with the applicable tax law. The temporary differences giving rise to deferred income tax assets and deferred tax liabilities are as follows:

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

## NOTE 17 - TAXATION (Continued)

| | Accumulated temporary differences | Deferred tax assets/liabilities |
|---|---|---|
| **Current Period - 31 December 2021** | | |
| Employment benefit obligations | 776,749 | 155,439 |
| Expected credit losses (Stage 1 and Stage 2) | 7,642,859 | 1,594,838 |
| Other temporary differences | 11,415,255 | 2,292,414 |
| Differences between book value and tax base of property, plant and equipment | (2,018,402) | (403,680) |
| Temporary differences on financial instruments | (14,721,970) | (3,209,893) |
| Property revaluation differences | (3,119,611) | (362,222) |
| Reversal of country risk provision | (1,348,059) | (369,031) |
| **Deferred Tax Asset/(Liabilities) Net** | | **(302,135)** |

| | Accumulated temporary differences | Deferred tax assets/liabilities |
|---|---|---|
| **Prior Period - 31 December 2020** | | |
| Employment benefit obligations | 557,621 | 111,631 |
| Expected Credit Losses (Stage 1 and Stage 2) | 6,353,998 | 1,278,422 |
| Other temporary differences | 4,078,548 | 821,268 |
| Differences between book value and tax base of property, plant and equipment | (1,512,325) | (302,465) |
| Temporary differences on financial instruments | (6,717,646) | (1,338,309) |
| Property Revaluation Differences | (3,359,193) | (389,766) |
| Reversal of country risk provision | (574,424) | (157,249) |
| **Deferred Tax Asset/(Liabilities) Net** | | **23,532** |

## NOTE 18 - OTHER LIABILITIES AND ACCRUED EXPENSES

As at 31 December 2021, principal components of the other liabilities, are payables to point of sale acquiring merchants, payables on derivative instruments and other transitory accounts.

Payables to point of sale acquiring merchants include amounts owed to merchants related with credit card transactions in which the transacted amount will be paid to the merchants on a term basis.

At 31 December 2021, payables to point of sale acquiring merchants of TL 811,906 (31 December 2020: TL 620,376) were from related parties.

## NOTE 19 - PROVISIONS

As of 31 December 2021, the Group has accounted for employment termination benefit reserve and vacation liability amounting to TL 620,807 and TL 155,942 respectively (31 December 2020: TL 428,234 and TL 129,387).

Provision for non-cash loans as of 31 December 2021 is amounting to TL 641,035 (31 December 2020: TL 492,436).

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

## NOTE 19 - PROVISIONS (Continued)

In addition, the accompanying consolidated financial statement include a free provision amounting to TL 1,400,000 thousand which consists of TL 1,150,000 thousand provided in prior years and TL 250,000 thousand recognised in current period by the Bank management considering the possible effects of the circumstances that may arise from the changes in the economy and market conditions.

The Group has provision for credit cards and banking services promotion activities amounting to TL 85,010 (31 December 2020: TL 64,932).

The Group have recognised a provision amounting to TL 82,062 (31 December 2020: TL 75,471) for the contingent liabilities with a high probability of realization regarding continuing opposing trials. There are also some other opposing trials. In addition the probability of realization of these trials is low so no cash outflow expected regarding these trials.

As of 31 December 2021, the corporate tax liability after the deduction of temporary taxes paid is TL 1,486,717 (31 December 2020: TL 1,126,257).

## NOTE 20 - EMPLOYMENT BENEFIT OBLIGATIONS

| | **31 December 2021** | **31 December 2020** |
|---|---|---|
| Balance sheet obligations for: | | |
| - Reserve for employment termination benefits | 620,807 | 428,234 |
| - Reserve for unused vacation | 155,942 | 129,387 |
| **Total** | **776,749** | **557,621** |

The charge for the post-employment benefits representing the cash contributions to the Fund by the Group. Reserve for employment termination benefits and unused vacation have been included in employee costs under operating expenses (Note 26).

### (a) Post-employment benefits (pension and medical)

The surplus unrecognized in the balance sheet is determined as follows:

| | **31 December 2021** | **31 December 2020** |
|---|---|---|
| Total Obligations | (9,063,017) | (7,690,175) |
| Cash Value of Future Contributions | 6,336,667 | 5,601,360 |
| **Total Transfer Obligations to SSI (*)** | **(2,726,350)** | **(2,088,815)** |
| Past Service Obligation | (452,546) | (366,677) |
| **Total Transfer to SSI and Other Obligations** | **(3,178,896)** | **(2,455,492)** |
| Fair Value of Assets | 2,884,393 | 2,329,229 |
| **Surplus/(Deficit)** | **(294,503)** | **(126,263)** |

(*) The amount of the post-employment medical benefits transferrable to SSI is calculated over the net present value of medical liabilities and health premiums.

## NOTE 20 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

The Bank's personnel are members of the "Akbank T.A.Ş. Personnel Pension Fund Foundation" ("Pension Fund") established in accordance with the Social Security Law numbered 506, article No.20. The financial statements of the Pension Fund have been audited as of year ends by an independent actuary in accordance with the 38th article of the Insurance Supervisory Law and the "Actuarial Regulation" based on the same article.

Temporary 23rd article paragraph ("the paragraph") 1 of the Banking Law No 5411 published in the Official Gazette no 25983 dated 1 November 2005 envisaged that Banks would transfer their pension funds to the Social Security Institution ("SSI") within three years following the publication date of the Banking Law, and regulated the principles of this transfer. The first paragraph of the related article was rescinded as from the 31 March 2007, the publication date of the decision of the Constitutional Court dated 22 March 2007. The reasoned decree regarding the rescission of the mentioned paragraph was published in the Official Gazette numbered 26731, dated 15 December 2007.

Following the publication of the reasoned decree of the Constitutional Court, Turkish Grand National Assembly commenced to work on a new law regarding the transfer of the members of funds to the Social Security Institution; the related articles of the Social Security Law ("New Law") numbered 5754 regarding the transfer of the funds, were ratified by the TGNA General Meeting on 17 April 2008 and came into effect following the publication in the Official Gazette numbered 26870, dated 8 May 2008.

The main opposition party had appealed to the Constitutional Court for the cancellation of some of the articles of the New Law including transfer of the Funds to the SSI on 19 June 2008. The Constitution Court has dismissed the appeal with the decision taken in the meeting dated 30 March 2011. The reasoned decision has been published in the Official Gazette numbered 28156 dated 28 December 2011.

The New Law was requiring that present value of post-employment benefits at the transfer date shall be calculated by a commission consisting of the representatives of SSI, Ministry of Finance, Undersecretariat of Treasury, Undersecretariat of State Planning Organization, BRSA, SDIF and banks and funds, by using a technical discount rate of 9.8 percent taking into consideration the transferrable contributions and payments of the funds including any monthly payment differences paid by the funds above the limits within the framework of SSI regulations. Accordingly the transfer required by the New Law was to be completed until 8 May 2011. According to the decision of the Council of Ministers published on the Official Gazette dated 9 April 2011 no. 27900, the time frame for related transfer has been extended for two years.

Within the postponement right granted to the Council of Ministers through the change in the first clause of the 20th provisional article of the "Social Insurance and General Health Insurance Law no. 5510" published on the Official Gazette no. 28227 dated 8 March 2012, the transfer process has been postponed for one more year with the decision of the Council of Ministers published on the Official Gazette no. 28987 dated 30 April 2014. The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated 23 April 2015 and numbered 29335. According to paragraph (I) of Article 203 of Law no. 703 which published İn the Official Gazette no. 30473 dated 9 July 2018, the phrase, placed in 20th provisional article of Social Insurance and General Health Insurance Law no.5510, "Council of Ministers" is authorized to determine the date of transfer to the Social Security Institution has been replaced with "President".

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

## NOTE 20 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

According to the New Law, following the transfer of the members of the fund to the SSI, the funds and institutions will continue to provide the non-transferrable social benefits and payments which are included in the articles of association of the fund.

The Group has made a provision in the financial statements for the technical deficit amounted TL 294,503 (31 December 2020: TL 126,263) determined by the report prepared by an actuary registered in the actuaries register.

The consolidated affiliates do not have the above mentioned retirement benefit plans for their employees. The retirement related benefits of the employees of the consolidated affiliates are subject to the Social Security Institution and other defined contribution plans.

The Group's obligation in respect of the post-employment benefits transferrable to SSI, has been calculated by a registered actuary. In this context, the value of the obligation regarding these benefits to be transferred to SSI as of the balance sheet date would equal the approximate payment amount that would need to be made to SSI as part of the transfer. The actuarial parameters and results used for the calculation of this amount reflect the provisions of the New Law for the post-employment pension and medical benefits transferrable to SSI (e.g. a technical interest rate of 9.80%). Based on the actuary report, as of 31 December 2021, the deficit of the Fund amounts to TL 294,503 (31 December 2020: TL 126,263 deficit).

The principal actuarial assumptions used were as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Discount rate** | **(%)** | **(%)** |
| - Pension benefits transferrable to SSI | 9.80 | 9.80 |
| - Post-employment medical benefits transferrable to SSI | 9.80 | 9.80 |
| - Other non-transferrable benefits | 3.54 | 3.64 |

**Mortality rate:**

The average life expectancy in years of a pensioner retiring at age 60 for men, 58 for women determined using mortality table depending on statistical data is 19,7 years for men and 25,3 years for women.

**The movement in the fair value of plan assets of the year is as follows:**

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Prior period end** | **2,329,229** | **2,065,470** |
| Actual return on plan assets | 492,765 | 227,741 |
| Employer contributions | 498,701 | 432,814 |
| Employee contributions | 330,903 | 284,885 |
| Benefits paid | (767,205) | (681,681) |
| **Period end** | **2,884,393** | **2,329,229** |

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

## NOTE 20 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

**Plan assets are comprised as follows:**

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| Bank placements | 546,798 | 19% | 275,016 | 12% |
| Property and equipment | 15,955 | 1% | 16,421 | 1% |
| Marketable securities and share certificates | 1,473,310 | 51% | 1,551,810 | 67% |
| Other | 848,330 | 29% | 485,982 | 20% |
| **Period end** | **2,884,393** | **100%** | **2,329,229** | **100%** |

### (b) Employment termination benefits

Under the Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires.

The compensation amount equals to one month's salary of an employee for each year of service, but this amount is limited up to severance limit decided by law. This liability is not subject to any funding legally and there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of its employees.

IAS 19 "Employment Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Discount rate (%) | 3.54 | 3.64 |
| Turnover rate to estimate the probability of retirement (%) | 95.35 | 95.52 |

The principal actuarial assumption is that the current maximum liability will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. The amount of TL 10,596.74 (1 January 2021: TL 7,638.96) effective from 1 January 2022 has been taken into consideration in calculating the reserve for employee termination benefits.

Movements in the reserve for employment termination benefits during the year are as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Opening balance 1 January** | **428,234** | **324,669** |
| Increase during the year | 97,827 | 77,788 |
| Actuarial loss | 158,728 | 68,211 |
| Paid during the year | (63,982) | (42,434) |
| **Closing balanace 31 December** | **620,807** | **428,234** |

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

## NOTE 21 - SHARE CAPITAL

The historic amount of share capital of the Group is TL 5,200,000 (31 December 2020: TL 5,200,000) and consists of TL 5,200,000 (31 December 2020: TL 5,200,000) authorized shares with a nominal value of Kr 1 each.

At 31 December 2021 and 2020, the issued and fully paid-in share capital held is as follows:

| | Audited 31 December 2021 | | Audited 31 December 2020 | |
|---|---|---|---|---|
| | **Share (%)** | **TL** | **Share (%)** | **TL** |
| Total Sabancı Group, affiliated companies and family | 48.95 | 2,545,228 | 48.78 | 2,536,363 |
| Other | 51.05 | 2,654,772 | 51.22 | 2,663,637 |
| Historical share capital | 100.00 | 5,200,000 | 100.00 | 5,200,000 |
| Adjustment to share capital | | 1,529,151 | | 1,529,151 |
| **Total paid-in share capital** | | **6,729,151** | | **6,729,151** |

## NOTE 22 - RETAINED EARNINGS AND LEGAL RESERVES

The Ordinary General Assembly Meeting of the Parent Bank was held on 24 March 2021. In the General Assembly Meeting, it was decided to transfer the remaining amount of TL 5,761,865 to extraordinary reserves after allocating TL 36,608 as legal reserve of the unconsolidated net profit amounting to TL 5,177,468 from 2020 activities.

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

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

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

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

c) According to the Turkish Commercial Code, legal reserves can only be used to compensate accumulated losses and cannot be used for other purposes unless they exceed 50% of paid-in capital.

After deducting taxes and setting aside the legal reserves as discussed above, the remaining balance of net profit is available for distribution to shareholders.

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

## NOTE 23 - NET INTEREST INCOME

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Interest income on:** | | |
| Loans and advances to customers | 35,309,387 | 24,660,131 |
| Investment and trading securities | 14,332,031 | 9,471,535 |
| Deposits with banks | 1,161,760 | 932,916 |
| Other interest income | 167,429 | 63,436 |
| **Total interest income** | **50,970,607** | **35,128,018** |

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Interest expense on:** | | |
| Deposits | 17,815,859 | 9,224,039 |
| Funds borrowed | 1,187,559 | 1,179,023 |
| Interbank money market deposits | 4,695,512 | 1,668,235 |
| Interest on debt securities in issue | 2,799,641 | 1,928,619 |
| Other interest expenses | 123,928 | 429,334 |
| **Total interest expense** | **26,622,499** | **14,429,250** |

## NOTE 24 - NET FEE AND COMMISSION INCOME

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Fee and commission income on:** | | |
| Credit Cards | 3,614,298 | 2,223,415 |
| Retail and commercial banking operations | 1,198,368 | 1,177,709 |
| Mutual fund management fee | 394,354 | 285,983 |
| Insurance intermediary | 670,395 | 414,684 |
| Non-cash loans | 579,431 | 442,374 |
| Money transfers | 362,215 | 221,663 |
| Brokerage commission | 484,481 | 592,132 |
| Other | 498,993 | 253,411 |
| **Total income** | **7,802,535** | **5,611,371** |
| **Fee and commission expense on:** | | |
| Credit cards | (1,399,340) | (773,520) |
| Other | (316,365) | (280,986) |
| **Total expense** | **(1,715,705)** | **(1,054,506)** |
| **Net fee and commission income** | **6,086,830** | **4,556,865** |

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

## NOTE 25 - NET TRADING INCOME/(LOSS)

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Derivative financial instruments | (6,668,205) | (3,209,716) |
| Financial Instruments at fair value through PL and fair value through OCI | 901,101 | 445,908 |
| | **(5,767,104)** | **(2,763,808)** |

## NOTE 26 - OPERATING EXPENSES

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Employee costs | 3,832,328 | 3,075,575 |
| Credit card and banking services | 1,543,195 | 949,364 |
| Computer maintenance and support expenses | 843,882 | 607,974 |
| Free provision for general possible risks (Note 19) | 250,000 | 500,000 |
| Depreciation charges of property, plant and equipment (Note 11) | 523,911 | 471,503 |
| Saving deposits insurance fund | 500,597 | 464,074 |
| Sundry taxes and duties | 365,522 | 289,747 |
| Communication expenses | 234,338 | 235,260 |
| Amortization of other intangible assets (Note 12) | 287,090 | 214,978 |
| Marketing and advertisement expenses | 218,227 | 150,218 |
| Legal expenses | 218,199 | 149,181 |
| Operating lease expenses | 135,321 | 119,993 |
| Heating, lighting and water expenses | 105,883 | 96,629 |
| Stationery expenses | 56,957 | 62,675 |
| Repair and maintenance expenses | 70,294 | 51,152 |
| Other | 991,757 | 1,193,080 |
| | **10,177,501** | **8,631,403** |

## NOTE 27 - TRANSFERRED FINANCIAL ASSETS HELD OR PLEDGED AS COLLATERAL

### (a) Assets Pledged:

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | **Assets** | **Related Liability** | **Assets** | **Related liability** |
| Balances with other banks (Note 6) | 17,640,976 | 63,101,800 | 9,347,637 | 37,460,801 |
| Financial assets at fair value through profit or loss (Note 9) (*) | - | - | 9,995 | - |
| Financial assets at fair value through OCI (Note 9) (*) | 29,582,153 | - | 18,374,196 | - |
| Financial assets at amortised cost (Note 9) (*) | 7,986,075 | - | 8,687,723 | - |
| **Total** | **55,209,204** | **63,101,800** | **36,419,551** | **37,460,801** |

(*) Related with legal requirements

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

## NOTE 27 - TRANSFERRED FINANCIAL ASSETS HELD OR PLEDGED AS COLLATERAL (Continued)

### (b) Transferred Assets that are not Derecognized:

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | **Assets** | **Related liability** | **Assets** | **Related liability** |
| Financial assets at fair value through profit or loss (Note 9) (*) | - | - | - | - |
| Financial assets at fair value through OCI (Note 9) (*) | 40,231,789 | 38,048,309 | 16,984,050 | 15,599,576 |
| Financial assets at amortised cost (Note 9) (*) | 25,564,815 | 25,207,741 | 6,241,092 | 4,878,674 |
| **Total** | **65,796,604** | **63,256,050** | **23,225,142** | **20,478,250** |

(*) Includes repurchase agreement balances.

## NOTE 28 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the normal course of banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these consolidated balance sheets, including letters of guarantee, acceptance credits, letters of credit and off-balance sheet derivative instruments. The management does not expect any material losses as a result of these transactions, The following is a summary of significant commitments and contingent liabilities:

### (a) Legal proceedings

The bank has accounted a provision amounting to TL 82,062 (31 December 2020: TL 75,471) for the contingent liabilities with a high probability of realization regarding continuing opposing trials. There are also some other opposing trials. In addition the probability of realization of these trials is low so no cash outflow expected regarding these trials.

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

## NOTE 28 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

### (b) Commitments under derivative instruments:

The breakdown of notional amounts of derivative transactions at 31 December 2021 and 2020 is as follows:

| | 31 December 2021 | | | | | |
|---|---|---|---|---|---|---|
| | **USD** | **EUR** | **GBP** | **Other** | **TL** | **Total** |
| **Derivatives held for trading:** | | | | | | |
| Currency forward transactions | 6,464,834 | 3,760,204 | 67,884 | 242,891 | 15,557,894 | 26,093,707 |
| Swap transactions | 225,858,076 | 64,649,441 | 6,944,074 | 3,109,803 | 44,828,496 | 345,389,890 |
| - Currency rate swaps | 145,238,696 | 40,846,510 | 6,944,074 | 3,109,803 | 15,706,203 | 211,845,286 |
| - Interest rate swaps | 80,619,380 | 23,802,931 | - | - | 29,122,293 | 133,544,604 |
| Spot transactions | 6,711,223 | 2,202,498 | 34,131 | 688,043 | 1,062,835 | 10,698,730 |
| Option transactions | 11,896,135 | 8,094,190 | 143,685 | - | 6,177,943 | 26,311,953 |
| Future transactions | - | - | - | - | 8,206,775 | 8,206,775 |
| Other Derivative Instruments | 18,473,994 | - | - | 22,342,665 | - | 40,816,659 |
| **Derivatives held for hedging:** | | | | | | |
| Swap transactions | 71,323,951 | - | - | - | 15,768,000 | 87,091,951 |
| - Interest rate swaps | 21,781,486 | - | - | - | - | 21,781,486 |
| - Currency rate swaps | 49,542,465 | - | - | - | 15,768,000 | 65,310,465 |
| **Total purchases** | **340,728,213** | **78,706,333** | **7,189,774** | **26,383,402** | **91,601,943** | **544,609,665** |
| | | | | | | |
| **Derivatives held for trading:** | | | | | | |
| Currency forward transactions | 21,297,181 | 6,685,702 | - | 231,667 | 243,665 | 28,458,215 |
| Swap transactions | 146,057,702 | 96,721,262 | - | 619,028 | 116,972,987 | 360,370,979 |
| - Currency rate swaps | 65,438,322 | 72,918,331 | - | 619,028 | 87,850,694 | 226,826,375 |
| - Interest rate swaps | 80,619,380 | 23,802,931 | - | - | 29,122,293 | 133,544,604 |
| Spot transactions | 2,348,630 | 1,621,718 | 80,491 | 694,202 | 5,928,869 | 10,673,910 |
| Option transactions | 14,587,551 | 9,200,235 | 27,396 | 586,934 | 3,577,964 | 27,980,080 |
| Future transactions | 8,114,789 | - | - | - | - | 8,114,789 |
| Other Derivative Instruments | 11,329,650 | - | - | 3,070,400 | 183,802 | 14,583,852 |
| **Derivatives held for hedging:** | | | | | | |
| Swap transactions | 49,542,465 | - | - | 2,125,200 | 22,395,770 | 74,063,435 |
| - Interest rate swaps | - | - | - | 2,125,200 | 6,627,770 | 8,752,970 |
| - Currency rate swaps | 49,542,465 | - | - | | 15,768,000 | 65,310,465 |
| **Total sales** | **253,277,968** | **114,228,917** | **107,887** | **7,327,431** | **149,303,057** | **524,245,260** |
| | | | | | | |
| **Off-balance sheet net notional position** | **87,450,245** | **(35,522,584)** | **7,081,887** | **19,055,971** | **(57,701,114)** | **20,364,405** |

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

## NOTE 28 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

### (b) Commitments under derivative instruments: (Continued)

| | 31 December 2020 | | | | | |
|---|---|---|---|---|---|---|
| | **USD** | **EUR** | **GBP** | **Other** | **TL** | **Total** |
| **Derivatives held for trading:** | | | | | | |
| Currency forward transactions | 2,582,893 | 1,006,162 | 155,624 | 22,362 | 6,721,463 | 10,488,504 |
| Swap transactions | 132,219,474 | 39,218,293 | 4,745,013 | 1,739,280 | 31,341,286 | 209,263,346 |
| - Currency rate swaps | 77,247,562 | 25,302,474 | 4,745,013 | 1,739,280 | 13,751,901 | 122,786,230 |
| - Interest rate swaps | 54,971,912 | 13,915,819 | - | - | 17,589,385 | 86,477,116 |
| Spot transactions | 3,021,037 | 438,016 | 24,348 | 66,374 | 264,591 | 3,814,366 |
| Option transactions | 6,802,628 | 5,051,438 | 3,135 | 261,964 | 1,152,214 | 13,271,379 |
| Future transactions | 2,344,916 | - | - | - | 312,150 | 2,657,066 |
| Other Derivative Instruments | 11,882,262 | 207,191 | - | 14,193,375 | - | 26,282,828 |
| **Derivatives held for hedging:** | | | | | | |
| Swap transactions | 41,199,656 | - | - | - | 5,151,500 | 46,351,156 |
| - Interest rate swaps | 22,678,757 | - | - | - | - | 22,678,757 |
| - Currency rate swaps | 18,520,899 | - | - | - | 5,151,500 | 23,672,399 |
| **Total purchases** | **200,052,866** | **45,921,100** | **4,928,120** | **16,283,355** | **44,943,204** | **312,128,645** |
| | | | | | | |
| **Derivatives held for trading:** | | | | | | |
| Currency forward transactions | 5,313,329 | 3,779,929 | 119,303 | 26,071 | 718,644 | 9,957,276 |
| Swap transactions | 98,502,829 | 48,894,313 | - | 212,028 | 78,769,672 | 226,378,842 |
| - Currency rate swaps | 43,530,917 | 34,978,494 | - | 212,028 | 61,180,287 | 139,901,726 |
| - Interest rate swaps | 54,971,912 | 13,915,819 | - | - | 17,589,385 | 86,477,116 |
| Spot transactions | 828,764 | 359,433 | 46,020 | 30,157 | 2,616,952 | 3,881,326 |
| Option transactions | 6,239,960 | 4,756,400 | 79,498 | 282,821 | 1,793,697 | 13,152,376 |
| Future transactions | 294,194 | - | - | - | 2,533,804 | 2,827,998 |
| Other Derivative Instruments | 7,698,852 | 165,753 | - | 301,770 | 111,624 | 8,277,999 |
| **Derivatives held for hedging:** | | | | | | |
| Swap transactions | 18,520,899 | 2,552,592 | - | 1,321,212 | 15,772,480 | 38,167,183 |
| - Interest rate swaps | - | 2,552,592 | - | 1,321,212 | 10,620,980 | 14,494,784 |
| - Currency rate swaps | 18,520,899 | - | - | - | 5,151,500 | 23,672,399 |
| **Total sales** | **137,398,827** | **60,508,420** | **244,821** | **2,174,059** | **102,316,873** | **302,643,000** |
| | | | | | | |
| **Off-balance sheet net notional position** | **62,654,039** | **(14,587,320)** | **4,683,299** | **14,109,296** | **(57,373,669)** | **9,485,645** |

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

## NOTE 28 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

The above table summarizes the Group's derivative transactions. Each derivative transaction represents a simultaneous receivable and payable to be received and paid, on a future date, in respective currencies. Accordingly, the difference between the "sale" and "purchase" transactions represents the net exposure of the Group with respect to commitments arising from these transactions.

The related party balances in forward currency purchase/sale and swap transactions are as follows:

| | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **TL** | **Foreign currency** | **Total** | **TL** | **Foreign currency** | **Total** |
| Currency forward purchases | - | - | - | - | 36,466 | 36,466 |
| Currency forward sales | - | - | - | - | (34,809) | (34,809) |
| Currency swap purchases | 5,700 | 1,203,609 | 1,209,309 | 770,200 | 832,950 | 1,603,150 |
| Currency swap sales | - | (1,182,408) | (1,182,408) | (23,520) | (1,874,855) | (1,898,375) |
| Interest rate swap purchases | - | - | - | - | - | - |
| Interest rate swap sales | - | - | - | - | - | - |
| Option purchases | - | 12,547 | 12,547 | - | 20,567 | 20,567 |
| Option sales | - | (12,633) | (12,633) | - | (21,362) | (21,362) |
| Spot purchases | - | - | - | - | 100,611 | 100,611 |
| Spot sales | - | - | - | (100,700) | - | (100,700) |
| Other purchases | - | - | - | - | - | - |
| Other sales | - | - | - | - | - | - |
| **Net position** | **5,700** | **21,115** | **26,815** | **645,980** | **(940,432)** | **(294,452)** |

The following table shows the outstanding credit related commitments of the Group at 31 December 2021 and 2020:

| | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | **Up to 1 year** | **Over 1 year** | **Total** | **Up to 1 year** | **Over 1 year** | **Total** |
| Letters of guarantee issued by the Group | | | | | | |
| - Turkish lira | 12,811,249 | 13,780,045 | 26,591,294 | 9,950,514 | 11,306,369 | 21,256,883 |
| - Foreign currency | 16,096,315 | 15,861,031 | 31,957,346 | 7,060,576 | 9,207,159 | 16,267,735 |
| Acceptance credits | | | | | | |
| - Turkish lira | - | - | - | - | - | - |
| - Foreign currency | 159,525 | - | 159,525 | 47,814 | - | 47,814 |
| Letter of credit | | | | | | |
| - Turkish lira | 31,796 | 17,493 | 49,289 | 7,931 | - | 7,931 |
| - Foreign currency | 12,840,040 | 2,281,096 | 15,121,136 | 3,506,555 | 1,146,504 | 4,653,059 |
| Other guarantees | | | | | | |
| - Turkish lira | 95,228 | 6,027,274 | 6,122,502 | 150,591 | 3,485,569 | 3,636,160 |
| - Foreign currency | 6,693,229 | 1,641,795 | 8,335,024 | 3,193,204 | 2,372,866 | 5,566,070 |
| **Total** | **48,727,382** | **39,608,734** | **88,336,116** | **23,917,185** | **27,518,467** | **51,435,652** |

Letters of guarantee and acceptance credits for related parties amount to TL 2,924,976 at 31 December 2021 (31 December 2020: TL 2,176,927).

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

## NOTE 28 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

The economic sector risk concentrations for outstanding credit related commitments of the Group are as follows:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Wholesaling | 15,326,086 | 9,446,209 |
| Construction | 15,992,346 | 8,783,113 |
| Financial institutions | 8,143,758 | 5,279,470 |
| Other manufacturing | 9,945,614 | 4,434,126 |
| Small-scale retailers | 5,388,798 | 3,871,885 |
| Steel and mining | 5,875,656 | 3,549,328 |
| Electricity, gas, water | 4,102,200 | 3,245,810 |
| Automotive | 3,127,477 | 2,083,924 |
| Chemicals | 3,975,009 | 1,855,060 |
| Transportation | 2,806,224 | 1,744,525 |
| Textile | 3,971,143 | 1,679,855 |
| Food and beverage | 1,674,154 | 944,397 |
| Agriculture and forestry | 639,844 | 385,570 |
| Tourism | 878,035 | 361,201 |
| Telecommunications | 625,893 | 349,336 |
| Electronics | 463,228 | 250,609 |
| Other | 5,400,651 | 3,171,234 |
| **Total** | **88,336,116** | **51,435,652** |

## NOTE 29 - RELATED PARTY TRANSACTIONS

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

### (a) Balances with related parties:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Loans and advances measured at amortized cost (Net) (*) | 9,970,098 | 7,919,690 |
| Loans and advances measured at FVPL (**) | 7,342,910 | 7,342,910 |
| Finance lease receivables | - | 3,325 |
| **Total Assets** | **17,313,008** | **15,265,925** |
| Deposits and obligations under repurchase agreements (Note 14) | 25,553,295 | 18,308,406 |
| **Total Liabilities** | **25,553,295** | **18,308,406** |
| Credit related commitments | 2,924,976 | 2,176,927 |
| Commitment under derivative instruments (***) | 23,469,742 | 10,166,262 |
| **Total Commitments and contingent liabilities** | **26,394,718** | **12,343,189** |

(*) Loans measured at amortised cost amounting to TL 318,187 thousands arising from its invesments in Türk Telekomünikasyon A.Ş. considered as associate are disclosed as a related party balances. Amounting to 9,651,911 thousands arising from the Group's other related parties.

(**) Includes loans measured at FVPL amounting to TL 7,342,910 thousands and arising from LYY Telekomünikasyon A.Ş. owned by the Group considered as related party. (Note 29)

**(***)** Figures presented in the table above show the total of "sale" and "purchase" amounts of the related transactions.

As at 31 December 2021, the Group has repurchase commitments amounting to 13,873 TL (31 December 2020: TL 11,185).

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

## NOTE 29 - RELATED PARTY TRANSACTIONS (Continued)

### (b) Transactions with related parties:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Interest income on loans | 822,330 | 1,274,726 |
| **Interest income** | **822,330** | **1,274,726** |
| Interest expense on deposits (Note 14) | 1,667,632 | 976,517 |
| **Interest expense** | **1,667,632** | **976,517** |

### (c) Balances with senior management and Board of Directors and their related parties:

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| Deposits | 2,457,795 | 1,855,160 |
| **Total due to customers** | **2,457,795** | **1,855,160** |

For the period ended 31 December 2021, benefits provided to the senior management and Board of Directors of the Group amounted to TL 104,711 (31 December 2020: TL 91,258).

## NOTE 30 - FINANCIAL RISK MANAGEMENT

### (30.1) Strategy in using financial instruments

The Group's core business activities include retail banking, commercial banking, corporate and investment banking, private banking and wealth management, treasury transactions and international banking services. The Group performs financial leasing transactions through Ak Finansal Kiralama A.Ş. By nature the Group's activities are principally related to the use of financial instruments. As the main funding source, the Group accepts deposits from customers for various periods and invests these funds in high quality assets with high interest margins. Other than deposits, the Group's most important funding sources are equity, marketable securities issued, money market borrowings and mostly borrowings from foreign financial institutions. The Group follows an asset-liability management strategy that mitigates risk and increases earnings by balancing the funds borrowed and the investments in various financial assets. The main objective of asset-liability management is to limit the Group's exposure to liquidity risk, interest rate risk, currency risk and credit risk while increasing profitability and strengthening the Group's equity. The Asset-Liability Committee ("ALCO") manages the assets and liabilities within the trading limits on the level of exposure placed by the Executive Risk Committee ("ERC").

The Group's risk management is under the responsibility of the "Executive Risk Committee ("the ERC")" which reports to the Board of Directors. The ERC is comprised of the Vice Chairman, 1 Executive Board Member and the Chief Executive Officer. The ERC establishes principles, policies, procedures with regards to risk management of the Group and develops risk management strategies. The ERC 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 updated as necessary. These limits and implementation of policies are broken down to various levels of authorities in order to enhance control effectiveness. The Group's risk positions are reported to the ERC members on a regular basis. Additionally, the ERC reviews the latest figures and projections for the Group's profit and loss accounts and consolidated statement of financial position, liquidity position, interest and foreign exchange exposures, as well as yield analysis and the macroeconomic environment.

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

The Asset-Liability Committee ("ALCO") manages the assets and liabilities within the risk limits placed by the ERC. ALCO consists of the Chief Executive Officer, each of the Executive Vice Presidents in charge of the Parent Bank's marketing, lending, treasury and financial coordination business units and Chief Risk Officer of the Parent Bank's risk management unit. ALCO meets twice a week to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy, risk limits and the macroeconomic environment in order to develop investment, pricing and funding strategies. In the event of unexpected negative economic conditions, stress tests are carried out regularly considering the exchange rate and interest rate shocks and the deterioration of the loan portfolio at different stress rates. Also, for stresses caused by the COVID-19 pandemic, the intensities are increased and the effects on equity and capital adequacy ratios are measured.

### (30.2) Credit risk

Risk limits are defined by Board of Directors in a such manner that covers all possible important risk components, in accordance with the Bank's operations and the size and complexity of products and services. Care is taken to ensure that the risk limits are in line with market expectations and reflect the Bank's risk appetite and Bank's strategies. The credit policies are established in consistence with risk limits.

Credit rating models are used in loan allocation processes in accordance with the risk appetite, credit policies and targets of the Bank. Rating all credit customers is essential for the Bank. Credit ratings are used as the main factor in determining target segments, authority levels, prices, limits and collateralization levels in loan portfolios. Application models are used during initial loan underwriting and behavioral models are used for customers whose previous credit performance could be monitored.

Behavioral models are mainly used in the credit monitoring process and in the evaluation process of portfolio risk.

In order to ensure timely and complete fulfillment of all obligations arising from the loan, it is essential to obtain adequate collateral from the customers. The main purpose of collateralization of any loan is to minimize the credit, foreign exchange and maturity risk. In this context, the minimum margin is determined by considering the quality of the collateral and collection expectancy in case of default and it is ensured that appropriate collateral is obtained for the loan type.

Credit risk is encountered when the counterparty is unable to fulfill its obligations defined with the agreement. All credit risk bearing banking products are managed with prudent credit policies and procedures in the Bank. The credit quality of the counterparty is evaluated with an internal rating score in all credit transactions. In order to monitor the credit risk, internal limits are determined on the basis of sector, customer, credit type and customer segment.

Credit risk management is a process in which credit risks are assessed and monitored in a consistent manner, besides all credit portfolios are included on a consolidated basis. During the process of credit risk management, the Risk Management Department conducts measurement, monitoring and reporting activities of the credit risk using statistical models. In addition to the credit risk related risk limits, various concentrations in the loan portfolio are also analyzed. It is assured to act within the policy of allocation, monitoring, Limit Follow-up and management, by establishing policy regarding to Country risk and concentration risk management. Cost of loan and collections of non-performing loans are monitored periodically. In addition, stress testing and scenario analysis studies are carried out on the loan portfolio.

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

**NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)**

The Parent Bank's credit risk measurement techniques and information on the rating of securities and loan portfolio are as follows:

*Bank's rating system:*

The Bank has rating models/scorecards internally developed for each segment to evaluate & monitor the credit quality of borrowers. Probability of Default (PD) models are being categorized into two main streams as Application and Behavioral models.

Both types of models have been used collaboratively for credit underwriting, monitoring, collection, early warning, IFRS 9 provisioning, ICAAP and credit pricing etc. processes . In addition to PD models, Loss Given Default ( LGD) and Exposure at Deafult ( EAD) models have been developed and used in similar processes.

All rating models have been validated (initial validation) before being implemented and monitored (ongoing validation) regularly afterwards. Models with deteriorating performance have been revised or redeveloped.

Risk limits are set both at customer and group level and monitored by the ERC in terms of sectors, tenor and concentration. On yearly basis, the ERC review the risk limits and make limit updates when required.

The table which shows the Bank's rating concentration by risk classes as of 31 December 2021 and 2020 is as follows:

| | **31 December 2021** | **31 December 2020** |
|---|---|---|
| Above average | 47.78% | 41.66% |
| Average | 31.89% | 38.21% |
| Below average | 14.86% | 15.92% |
| Unrated | 5.48% | 4.22% |

- Loans which demonstrate a strong capacity to meet financial commitments, with low probability of default are defined "Above average".

- Loans that require close monitoring and demonstrate average to adequate capacity to meet financial commitments with moderate default risk are defined "Average".

- Loans which require varying degrees of specific consideration and have diverse default risks are defined "Below average".

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Group's exposure and credit ratings of its counterparties are continuously monitored. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

(Amounts expressed in thousands of Turkish lira (“TL”) unless otherwise stated.)

**NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)**

*Exposure to credit risk:*

| | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Credit risk exposures relating to on-balance sheet assets:** | **736,403,025** | **460,602,528** |
| Due from banks and balances with the CBRT | 138,110,805 | 60,630,880 |
| Loans and advances to customers | 393,116,702 | 275,189,478 |
| -Commercial loans | 288,178,872 | 199,608,972 |
| -Consumer loans and credit cards | 89,874,091 | 63,049,200 |
| -Financial lease receivables | 7,720,829 | 5,188,397 |
| -Fair value through profit or loss | 7,342,910 | 7,342,910 |
| Investment securities measured at Fair Value Through Profit or Loss (*) | 1,078,575 | 434,817 |
| -Government debt securities | 578,730 | 189,938 |
| -Other marketable securities | 499,845 | 244,879 |
| Trading Derivative Financial Instruments | 33,597,307 | 14,889,163 |
| Hedging Derivative Instruments | 16,189,565 | 7,969,203 |
| Investment securities measured at Fair Value Through Other Comprehensive Income (*) | 99,472,968 | 57,697,432 |
| -Government debt securities | 78,655,303 | 44,420,223 |
| -Other marketable securities | 20,817,665 | 13,277,209 |
| Investment securities measured at Amortised Cost | 52,566,569 | 41,872,677 |
| -Government debt securities | 51,597,915 | 41,452,760 |
| -Other marketable securities | 968,654 | 419,917 |
| Other assets | 2,270,534 | 1,918,877 |
| **Credit risk exposures relating to off-balance sheet items:** | **145,352,333** | **93,439,186** |
| Letter of guarantees | 58,548,640 | 37,524,618 |
| Other guarantees and warranties | 29,787,476 | 13,911,034 |
| Credit granting commitments | 19,307,877 | 10,154,360 |
| Check payment commitments | 3,394,242 | 2,730,978 |
| Credit card limit commitments | 34,314,098 | 29,118,196 |
| | **881,755,358** | **554,041,714** |

(*) Excluding equity securities and mutual funds.

The above table represents the credit risk exposure of the Group as at 31 December 2021 and 2020, without taking into account 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 balance sheet.

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

*Industry analysis:*

| | Financial Institutions | Public sector | Wholesale and retail trade | Manufacturing | Other industries | Individuals | Total |
|---|---|---|---|---|---|---|---|
| **Due from banks and balances with the CBT** | **138,110,805** | **-** | **-** | **-** | **-** | **-** | **138,110,805** |
| **Loans and advances to customers** | **23,516,316** | **10,333,637** | **42,220,457** | **127,081,132** | **100,091,069** | **89,874,091** | **393,116,702** |
| **Measured at amortised cost** | **23,516,316** | **10,333,637** | **42,220,457** | **127,081,132** | **92,748,159** | **89,874,091** | **385,773,792** |
| -Commercial loans | 23,483,533 | 10,333,637 | 41,934,186 | 123,093,508 | 89,334,008 | - | 288,178,872 |
| -Consumer loans and credit cards | - | - | - | - | - | 89,874,091 | 89,874,091 |
| -Financial lease receivables | 32,783 | - | 286,271 | 3,987,624 | 3,414,151 | - | 7,720,829 |
| **Fair value through profit or loss** | **-** | **-** | **-** | **-** | **7,342,910** | **-** | **7,342,910** |
| **Financial Assets at Fair Value Through Profit or Loss (*)** | **411,726** | **578,730** | **-** | **77,442** | **10,677** | **-** | **1,078,575** |
| -Government debt securities | - | 578,730 | - | - | - | - | 578,730 |
| -Other marketable securities | 411,726 | - | - | 77,442 | 10,677 | - | 499,845 |
| **Trading derivative financial instruments** | **20,439,026** | **-** | **-** | **-** | **13,084,099** | **74,182** | **33,597,307** |
| **Hedging derivative instruments** | **16,169,057** | **-** | **-** | **-** | **20,508** | **-** | **16,189,565** |
| **Investment securities (*)** | **15,529,792** | **133,095,318** | **-** | **3,414,427** | **-** | **-** | **152,039,537** |
| Financial Assets at Fair Value Through Other Comprehensive Income (*) | 15,207,334 | 81,497,403 | - | 2,768,231 | - | - | 99,472,968 |
| -Government debt securities | - | 78,655,303 | - | - | - | - | 78,655,303 |
| -Other marketable securities | 15,207,334 | 2,842,100 | - | 2,768,231 | - | - | 20,817,665 |
| Financial Assets Measured at Amortised Cost | 322,458 | 51,597,915 | - | 646,196 | - | - | 52,566,569 |
| -Government debt securities | - | 51,597,915 | - | - | - | - | 51,597,915 |
| -Other marketable securities | 322,458 | - | - | 646,196 | - | - | 968,654 |
| **Other assets** | **2,270,534** | **-** | **-** | **-** | **-** | **-** | **2,270,534** |
| **As at 31 December 2021** | **216,447,256** | **144,007,685** | **42,220,457** | **130,573,001** | **113,206,353** | **89,948,273** | **736,403,025** |

(*) Excluding equity securities and mutual funds.

| | Financial Institutions | Public sector | Wholesale and retail trade | Manufacturing | Other industries | Individuals | Total |
|---|---|---|---|---|---|---|---|
| **Due from banks and balances with the CBT** | **60,630,880** | **-** | **-** | **-** | **-** | **-** | **60,630,880** |
| **Loans and advances to customers** | **16,310,380** | **4,200,482** | **31,929,420** | **87,850,982** | **71,849,015** | **63,049,200** | **275,189,478** |
| **Measured at amortised cost** | **16,310,380** | **4,200,482** | **31,929,420** | **87,850,982** | **64,506,105** | **63,049,200** | **267,846,568** |
| -Commercial loans | 16,235,571 | 4,200,278 | 31,615,548 | 85,509,952 | 62,047,623 | - | 199,608,972 |
| -Consumer loans and credit cards | - | - | - | - | - | 63,049,200 | 63,049,200 |
| -Financial lease receivables | 74,809 | 204 | 313,872 | 2,341,030 | 2,458,482 | - | 5,188,397 |
| **Fair value through profit or loss** | **-** | **-** | **-** | **-** | **7,342,910** | **-** | **7,342,910** |
| **Financial Assets at Fair Value Through Profit or Loss (*)** | **243,561** | **189,938** | **-** | **-** | **1,318** | **-** | **434,817** |
| -Government debt securities | - | 189,938 | - | - | - | - | 189,938 |
| -Other marketable securities | 243,561 | - | - | - | 1,318 | - | 244,879 |
| **Trading derivative financial instruments** | **7,607,792** | **-** | **-** | **-** | **7,261,550** | **19,821** | **14,889,163** |
| **Hedging derivative instruments** | **7,969,203** | **-** | **-** | **-** | **-** | **-** | **7,969,203** |
| **Investment securities (*)** | **10,061,731** | **86,782,757** | **-** | **2,460,508** | **265,113** | **-** | **99,570,109** |
| Financial Assets at Fair Value Through Other Comprehensive Income (*) | 10,042,204 | 45,329,997 | - | 2,060,118 | 265,113 | - | 57,697,432 |
| -Government debt securities | | 44,420,223 | | | | | 44,420,223 |
| -Other marketable securities | 10,042,204 | 909,774 | - | 2,060,118 | 265,113 | - | 13,277,209 |
| Financial Assets Measured at Amortised Cost | 19,527 | 41,452,760 | - | 400,390 | - | - | 41,872,677 |
| -Government debt securities | - | 41,452,760 | - | - | - | - | 41,452,760 |
| -Other marketable securities | 19,527 | - | - | 400,390 | - | - | 419,917 |
| **Other assets** | **1,918,877** | **-** | **-** | **-** | **-** | **-** | **1,918,877** |
| **As at 31 December 2020** | **104,742,424** | **91,173,177** | **31,929,420** | **90,311,490** | **79,376,996** | **63,069,021** | **460,602,528** |

(*) Excluding equity securities and mutual funds.

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

*Geographical Distribution:*

| | Turkey | USA | EU Countries | Non- EU Countries | Total |
|---|---|---|---|---|---|
| **Due from banks and balances with the CBT** | **84,894,390** | **11,187,687** | **41,335,170** | **693,558** | **138,110,805** |
| **Loans and advances to customer** | **384,586,231** | **889,427** | **6,936,492** | **704,552** | **393,116,702** |
| **Measured at amortised cost** | **377,243,321** | **889,427** | **6,936,492** | **704,552** | **385,773,792** |
| -Commercial loans | 279,648,401 | 889,427 | 6,936,492 | 704,552 | 288,178,872 |
| -Consumer loans and credit cards | 89,874,091 | - | - | - | 89,874,091 |
| -Financial lease receivables | 7,720,829 | - | - | - | 7,720,829 |
| **Fair value through profit or loss** | **7,342,910** | **-** | **-** | **-** | **7,342,910** |
| **Investment securities measured at Fair Value Through Profit or Loss (*)** | **1,078,575** | **-** | **-** | **-** | **1,078,575** |
| -Government debt securities | 578,730 | - | - | - | 578,730 |
| -Other financial assets | 499,845 | - | - | - | 499,845 |
| **Trading derivative financial instruments** | **20,572,409** | **126** | **12,978,567** | **46,205** | **33,597,307** |
| **Hedging derivative instruments** | **62,716** | **-** | **16,126,849** | **-** | **16,189,565** |
| **Investment securities (*)** | **147,938,612** | **1,326,892** | **2,774,033** | **-** | **152,039,537** |
| **-Measured at Fair Value Through Other Comprehensive Income (*)** | **95,372,043** | **1,326,892** | **2,774,033** | **-** | **99,472,968** |
| -Government debt securities | 78,655,303 | - | - | - | 78,655,303 |
| -Other financial assets | 16,716,740 | 1,326,892 | 2,774,033 | - | 20,817,665 |
| **-Measured at Amortised Cost** | **52,566,569** | **-** | **-** | **-** | **52,566,569** |
| -Government debt securities | 51,597,915 | - | - | - | 51,597,915 |
| -Other financial assets | 968,654 | - | - | - | 968,654 |
| **Other assets** | **2,270,534** | **-** | **-** | **-** | **2,270,534** |
| **As at 31 December 2021** | **641,403,467** | **13,404,132** | **80,151,111** | **1,444,315** | **736,403,025** |

(*) Excluding equity securities and mutual funds.

| | Turkey | USA | EU Countries | Non- EU Countries | Total |
|---|---|---|---|---|---|
| **Due from banks and balances with the CBT** | **48,258,013** | **2,519,706** | **9,445,313** | **407,848** | **60,630,880** |
| **Loans and advances to customer** | **263,328,823** | **106,034** | **11,158,825** | **595,797** | **275,189,478** |
| **Measured at amortised cost** | **255,985,913** | **106,034** | **11,158,825** | **595,797** | **267,846,568** |
| -Commercial loans | 187,748,316 | 106,034 | 11,158,825 | 595,797 | 199,608,972 |
| -Consumer loans and credit cards | 63,049,200 | - | - | - | 63,049,200 |
| -Financial lease receivables | 5,188,397 | - | - | - | 5,188,397 |
| **Fair value through profit or loss** | **7,342,910** | **-** | **-** | **-** | **7,342,910** |
| **Investment securities measured at Fair Value Through Profit or Loss (*)** | **434,817** | **-** | **-** | **-** | **434,817** |
| -Government debt securities | 189,938 | - | - | - | 189,938 |
| -Other financial assets | 244,879 | - | - | - | 244,879 |
| **Trading derivative financial instruments** | **7,293,386** | **-** | **7,548,958** | **46,819** | **14,889,163** |
| **Hedging derivative instruments** | **33,881** | **-** | **7,935,322** | **-** | **7,969,203** |
| **Investment securities (*)** | **96,627,106** | **2,164,729** | **778,274** | **-** | **99,570,109** |
| **-Measured at Fair Value Through Other Comprehensive Income (*)** | **54,754,429** | **2,164,729** | **778,274** | **-** | **57,697,432** |
| -Government debt securities | 44,420,223 | - | - | - | 44,420,223 |
| -Other financial assets | 10,334,206 | 2,164,729 | 778,274 | | 13,277,209 |
| **-Measured at Amortised Cost** | **41,872,677** | **-** | **-** | **-** | **41,872,677** |
| -Government debt securities | 41,452,760 | - | - | - | 41,452,760 |
| -Other financial assets | 419,917 | - | - | - | 419,917 |
| **Other assets** | **1,918,877** | **-** | **-** | **-** | **1,918,877** |
| **As at 31 December 2020** | **417,894,903** | **4,790,469** | **36,866,692** | **1,050,464** | **460,602,528** |

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

*Risk management related to class of loans and advances:*

The internal rating systems of the Bank focus more on credit-quality mapping from the inception of the lending and investment activities. The credit risk classification of the Group with the outstanding balances of each asset class is as the following:

| | 31 December 2021 | | | |
|---|---|---|---|---|
| | **Commercial Loans** | **Consumer loans and credit cards** | **Lease Receivables** | **Total** |
| **Loans measured at amortised cost** | | | | |
| Stage 1 | 254,729,191 | 84,814,036 | 7,228,503 | 346,771,730 |
| Stage 2 | 33,382,306 | 6,056,116 | 350,327 | 39,788,749 |
| Stage 3 | 14,915,112 | 2,853,434 | 459,271 | 18,227,817 |
| **Gross** | **303,026,609** | **93,723,586** | **8,038,101** | **404,788,296** |
| **Provisions** | **14,847,737** | **3,849,495** | **317,272** | **19,014,504** |
| **Loans measured at FVPL** | **7,342,910** | **-** | **-** | **7,342,910** |
| **Net** | **295,521,782** | **89,874,091** | **7,720,829** | **393,116,702** |

| | 31 December 2020 | | | |
|---|---|---|---|---|
| | **Commercial Loans** | **Consumer loans and credit cards** | **Lease Receivables** | **Total** |
| **Loans measured at amortised cost** | | | | |
| Stage 1 | 175,750,128 | 59,857,510 | 4,584,794 | 240,192,432 |
| Stage 2 | 22,596,095 | 3,716,917 | 430,345 | 26,743,357 |
| Stage 3 | 15,036,457 | 2,276,126 | 567,711 | 17,880,294 |
| **Gross** | **213,382,680** | **65,850,553** | **5,582,850** | **284,816,083** |
| **Provisions** | **13,773,709** | **2,801,353** | **394,453** | **16,969,515** |
| **Loans measured at FVPL** | **7,342,910** | **-** | **-** | **7,342,910** |
| **Net** | **206,951,881** | **63,049,200** | **5,188,397** | **275,189,478** |

Information on the expected credit loss provision is as the following:

| | **Commercial Loans** | | **Consumer Loans** | | **Credit Cards** | | **Financial Lease** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Current Period-31.12.2021** | **Balance** | **Expected Credit Loss** | **Balance** | **Expected Credit Loss** | **Balance** | **Expected Credit Loss** | **Balance** | **Expected Credit Loss** | **Balance** | **Expected Credit Loss** |
| **Loans measured at amortised cost** | **303,026,609** | **14,847,737** | **62,381,238** | **2,115,708** | **31,342,348** | **1,733,787** | **8,038,101** | **317,272** | **404,788,296** | **19,014,504** |
| Stage 1 | 254,729,191 | 738,093 | 56,945,865 | 422,078 | 27,868,171 | 417,845 | 7,228,503 | 57,392 | 346,771,730 | 1,635,408 |
| Stage 2 | 33,382,306 | 4,817,590 | 3,763,395 | 371,788 | 2,292,721 | 324,800 | 350,327 | 65,769 | 39,788,749 | 5,579,947 |
| Stage 3 | 14,915,112 | 9,292,054 | 1,671,978 | 1,321,842 | 1,181,456 | 991,142 | 459,271 | 194,111 | 18,227,817 | 11,799,149 |
| **Loans measured at FVPL** | **7,342,910** | - | - | - | - | - | - | - | **7,342,910** | - |
| **Financial Assets** | - | **217,778** | - | - | - | - | - | - | **209,558,642** | **217,778** |
| **Other** | - | **24,141** | - | - | - | - | - | - | **14,712,784** | **24,141** |
| **Non-Cash Loans** | - | **641,035** | - | - | - | - | - | - | **88,336,116** | **641,035** |
| Stage 1 and 2 | 86,791,945 | 185,584 | - | - | - | - | - | - | 86,791,945 | 185,584 |
| Stage 3 | 1,544,171 | 455,451 | - | - | - | - | - | - | 1,544,171 | 455,451 |
| **Total** | **622,977,061** | **15,730,691** | **62,381,238** | **2,115,708** | **31,342,348** | **1,733,787** | **8,038,101** | **317,272** | **724,738,748** | **19,897,458** |

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Information on the expected credit loss of loans is as the following(***):

| | Stage 1 | Stage 2 | Stage 3 |
|---|---|---|---|
| **Opening (1 January 2021)** | **1,521,946** | **4,354,331** | **11,093,238** |
| Additions (*) | 613,888 | 1,961,905 | 912,220 |
| Disposal (**) | (737,370) | (928,860) | (733,690) |
| Effect of change in foreign exchange | 164,051 | 1,824,462 | - |
| **Stage 1 and 2 movement** | | | |
| Loans classified under Stage 1 in two periods (Model effect) | (95,826) | - | - |
| Loans classified under Stage 1 in two periods (Change in balance effect) | 13,312 | - | - |
| Transfers from Stage 1 to Stage 2 (Stating and balance change effect) | (80,605) | 307,762 | - |
| Loans classified under Stage 2 in two periods (Model effect) | - | (440,665) | - |
| Loans classified under Stage 2 in two periods (Change in balance effect) | - | (22,234) | - |
| Transfers from Stage 2 to Stage 1 (Stating and balance change effect) | 248,816 | (985,266) | - |
| **Stage 3 movement** | | | |
| Transfers from Stage 1 to Stage 3 | (12,804) | - | 272,313 |
| Transfers from Stage 2 to Stage 3 | - | (498,911) | 1,226,111 |
| Transfers from Stage 3 to Stage 2 | | 7,423 | (52,981) |
| Transfers from Stage 3 to Stage 1 | - | - | - |
| Loans classified under Stage 3 in two periods (Change in balance effect) | - | - | 639,670 |
| Write-offs | - | - | (1,557,732) |
| Sold Portfolio effect | - | - | - |
| **Closing (31 December 2021)** | **1,635,408** | **5,579,947** | **11,799,149** |

(*) Loans which are not included in the loan portfolio as of 31 December 2020 and included in the credit portfolio and calculated provisions as of 31 December 2021.

(**) Loans which are included in the credit portfolio and calculated provisions as of 31 December 2020 but which are not included in the loan portfolio as of 31 December 2021.

(***) In the calculations the transitions between the records in both periods have been considered by making additions and disposals.

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Information on the loans and advances is as the following:(*)

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Opening (1 January 2020)** | **240,192,432** | **26,743,357** | **17,880,294** | **284,816,083** |
| Additions | 154,322,268 | 20,251,758 | 1,301,779 | 175,875,805 |
| Disposals | (88,476,729) | (8,372,443) | (1,167,084) | (98,016,256) |
| Sold portfolio | - | - | - | - |
| Write-offs | - | - | (1,557,732) | (1,557,732) |
| Transfers to Stage 1 | 5,544,650 | (5,544,650) | - | - |
| Transfers to Stage 2 | (3,032,048) | 3,166,911 | (134,863) | - |
| Transfers to Stage 3 | (422,134) | (1,483,289) | 1,905,423 | - |
| Foreign exchange effect | 38,643,291 | 5,027,105 | - | 43,670,396 |
| **Closing (31 December 2020)** | **346,771,730** | **39,788,749** | **18,227,817** | **404,788,296** |

(*) Loans classified at fair value through profit or loss are not included.

The details of the past due not impaired loans are as follows (*):

The details of the loans and advances past due but not impaired (the Group defines this group as loans with a past due over 30 days) which are classified under performing loans (including past due close monitoring loans) are as follows;

| | 31 December 2021 | | | |
|---|---|---|---|---|
| | Commercial Loans | Consumer Loans & Credit Cards | Leasing receivables | Total |
| Past Due 30-60 days | 305,433 | 1,042,387 | 889 | 1,348,709 |
| Past Due 60-90 days | 272,689 | 490,275 | 128,913 | 891,877 |
| Past Due over 90 days (*) | 243 | 7,548 | - | 7,791 |
| **Total** | **578,365** | **1,540,210** | **129,802** | **2,248,377** |

(*) Due to COVID-19 outbreak impact, the 90 past due days criteria applied for the definition of default started to be applied as 180 days as of 17 March 2020 in accordance with the local legislation. Despite of the classification changes due to local regulation, the Bank calculates provisions for loans with 90-180 past due days in accordance with the requirements of IFRS 9 and its own risk policies by taking the borrower's conditions into account. In addition, the days passed due limit applied to determine significant increase in credit risk has been changed from 30 to 90 days as of 17 March 2020 according to the legislation. The portfolio with past due over 90 days consist of TL 7,791 (31 December 2020: TL 1,165,481) of risk amount. Although the Bank applies the aforementioned regulation for the classification of loans, lifetime expected loss provision is provided for loans with a delay of 30-90 days. The amount of loans which have past due days between 30-90 days and classified to stage 1 is TL 585,422. This regulation was extended to 30 June 2021.

| | 31 December 2020 | | | |
|---|---|---|---|---|
| | Commercial Loans | Consumer Loans & Credit Cards | Leasing receivables | Total |
| Past Due 30-60 days | 243,716 | 346,661 | 8,153 | 598,530 |
| Past Due 60-90 days | 177,799 | 159,212 | 84,448 | 421,459 |
| Past Due over 90 days (*) | 584,099 | 487,351 | 94,031 | 1,165,481 |
| **Total** | **1,005,614** | **993,224** | **186,632** | **2,185,470** |

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

**NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)**

The details of the loans are as follows:

(i) Loans at amortised cost:

| | 31 December 2021 | | | |
|---|---|---|---|---|
| | Commercial Loans | Consumer Loans & Credit Cards | Leasing receivables | Total |
| Neither past due nor impaired | 287,533,132 | 89,329,942 | 7,449,028 | 384,312,102 |
| Past due and not individually impaired | 578,365 | 1,540,210 | 129,802 | 2,248,377 |
| Individually impaired | 14,915,112 | 2,853,434 | 459,271 | 18,227,817 |
| **Total gross** | **303,026,609** | **93,723,586** | **8,038,101** | **404,788,296** |
| Less: allowance for individually impaired loans | (5,555,683) | (1,536,511) | (123,161) | (7,215,355) |
| Less: allowance for collectively impaired loans | (9,292,054) | (2,312,984) | (194,111) | (11,799,149) |
| **Total Allowance for impairment** | **(14,847,737)** | **(3,849,495)** | **(317,272)** | **(19,014,504)** |
| **Total net** | **288,178,872** | **89,874,091** | **7,720,829** | **385,773,792** |

| | 31 December 2020 | | | |
|---|---|---|---|---|
| | Commercial Loans | Consumer Loans & Credit Cards | Leasing receivables | Total |
| Neither past due nor impaired | 197,340,609 | 62,581,203 | 4,828,507 | 264,750,319 |
| Past due and not individually impaired | 1,005,614 | 993,224 | 186,632 | 2,185,470 |
| Individually impaired | 15,036,457 | 2,276,126 | 567,711 | 17,880,294 |
| **Total gross** | **213,382,680** | **65,850,553** | **5,582,850** | **284,816,083** |
| Less: allowance for individually impaired loans | (4,869,317) | (906,961) | (99,999) | (5,876,277) |
| Less: allowance for collectively impaired loans | (8,904,392) | (1,894,392) | (294,454) | (11,093,238) |
| **Total Allowance for impairment** | **(13,773,709)** | **(2,801,353)** | **(394,453)** | **(16,969,515)** |
| **Total net** | **199,608,971** | **63,049,200** | **5,188,397** | **267,846,568** |

As of 31 December 2021 and 2020, the Group's collateral types are mainly composed of mortgages, cash blockages, share, vehicle and machine pledges.

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

(ii) Loans at fair value through profit or loss:

In the previous period, syndication loans extended to Ojer Telekomünikasyon A.Ş. were restructured. Within this scope, a pledge was established in favor of lenders in order to establish collateral for these loans. LYY Telekomünikasyon A.Ş., which was established as a special-purpose company in which 192,500,000,000 Group A shares, which constitute 55% of Türk Telekom's issued capital, are all direct or indirect partners. The acquisition of the company (formerly Levent Yapılandırma Yönetimi A.Ş.) was completed on 21 December 2018.The Bank has participated in LYY Telekomünikasyon A.Ş. with a 35.56% share in the receivables from OTAŞ.

Later on, at the Ordinary General Assembly Meeting of LYY Telekomünikasyon A.Ş. which was held on 23 September 2019, it was decided to convert some of the loan into capital and add it to the capital of LYY Telekomünikasyon A.Ş. The nominal value of their shares in TL increased from 18 TL to 1,416,090 TL. This amount is classified in the financial statements under the line "Assets for Sale and Discontinued Operations". As of 31 December 2021, the value of the part pursued as loan is TL 16,495,551 (31 December 2020: TL 8,968,855), and it is classified under "Other Financial Assets" under "Financial Assets at Fair Value through Profit Loss". The total fair value decrease accounted for the total amount turned into credit and capital is TL 10,568,731 (31 December 2020: TL 3,042,035), and the amount of TL 1,416,090 (31 December 2020: TL 1,416,090) of this amount is accounted under the "Assets Held for Sale and Discontinued Operations" and TL 9,152,641 (31 December 2020: 1,625,945) is accounted under "Other Financial Assets" which is the sub-item of "Financial Assets at Fair Value through Profit Loss".

Financial assets, whose fair value difference is reflected in profit and loss and the part that is transformed into capital, amount to TL 7,342,910 in total, these are measured at fair value within the scope of IFRS 9 Financial Instruments Standard and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations Standard. This value is determined based on the valuation study of an independent valuation company. In this valuation study, the fair value was determined by taking into account the average of different methods (discounted cash flows, similar market multipliers, similar transaction multipliers in the same sector, market value and analyst reports). Within the scope of IFRS 13, loans are followed under Level 3. Possible changes in the basic assumptions in the valuation study will affect the carrying value of the loan and the amount converted into capital.

If the growth rate and risk-free return rate on investment used in the discounted cash flow method in the valuation report are increased or decreased by 0.25%, provided that all other variables are constant, the total value of assets recognized in the financial statements and profit before tax will increase by about TL 170 million or will decrease by TL 150 million.

The main purpose of the creditor banks is to transfer the mentioned Türk Telekom shares to an expert investor by providing the necessary conditions as quickly as possible. An international invesment bank has been assigned as consultant for the sale of LYY Telekomünikasyon A.Ş.'s 55% shares in Türk Telekomünikasyon A.Ş. on 19 September 2019. As stated in the material event statement published on the Public Disclosure Platform on 17 December 2021, negotiations have started for the sale of the said shares to the Turkey Wealth Fund, and the process continues as of the date of this report.

TL 1,313,971 (31 December 2020: TL 1,094,617) of other financial assets consist Fourth Real Estate Investment Fund of Ak Portföy Yönetimi A.Ş. established by Ak Portföy Yönetimi A.Ş. and the fund is followed at its fair value and the related valuation differences are recognized in profit or loss.

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

*Debt securities, treasury bills and other securities:*

For debt securities and other bills, external ratings such as Moody's rating or their equivalents are used by the Treasury Unit for management of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

| Current Period - 31 December 2021 | Financial Assets at Fair Value Through P&L (Net)(**) | Financial Assets at Fair Value Through Other Comprehensive Income (Net)(*) | Financial Assets Measured at Amortised Cost (Net) | Total |
|---|---|---|---|---|
| **Moody's Rating** | | | | |
| Aaa | - | 1,326,892 | - | **1,326,892** |
| Aa1, Aa2, Aa3 | - | 995,229 | - | **995,229** |
| A1, A2, A3 | - | 587,516 | - | **587,516** |
| Baa1, Baa2, Baa3 | | 1,191,288 | - | **1,191,288** |
| Ba1 | - | - | - | - |
| Ba2 | - | - | - | - |
| Ba3 | - | - | - | - |
| B1, B2, B3 | 705,886 | 95,266,547 | 52,585,560 | **148,557,993** |
| C and lower than C | 91,320 | - | - | **91,320** |
| NR | - | 105,496 | - | **105,496** |
| **Total** | **797,206** | **99,472,968** | **52,585,560** | **152,855,734** |

(*) Excluding equity securities and mutual funds.
(**) Excluding share certificates and mutual funds.

| Prior Period - 31 December 2020 | Financial Assets at Fair Value Through P&L (Net)(**) | Financial Assets at Fair Value Through Other Comprehensive Income (Net)(*) | Financial Assets Measured at Amortised Cost (Net) | Total |
|---|---|---|---|---|
| **Moody's Rating** | | | | |
| Aaa | - | 2,164,729 | - | **2,164,729** |
| Aa1, Aa2, Aa3 | - | 368,419 | - | **368,419** |
| A1, A2, A3 | - | 132,687 | - | **132,687** |
| Baa1, Baa2, Baa3 | - | 182,920 | - | **182,920** |
| Ba1 | - | 94,248 | - | **94,248** |
| Ba2 | | 56,374 | - | **56,374** |
| Ba3 | 19,470 | 1,323 | | **20,793** |
| B1, B2, B3 | 252,771 | 54,627,077 | 41,885,059 | **96,764,907** |
| C and lower than C | - | - | - | **3,941** |
| NR | - | 69,655 | - | **69,655** |
| **Total** | **276,182** | **57,697,432** | **41,885,059** | **99,858,673** |

(*) Excluding equity securities and mutual funds.
(**) Excluding share certificates and mutual funds.

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

### (30.3) Market risk

The risk principles, policies and risk limits related to the management of market risk are approved by the Board of Directors and reviewed on a regular basis. The Bank's Senior Management performs day to day management of the market risk in accordance with the limits assigned by the Board of Directors. The Bank is exposed to market risk as a result of fluctuations in foreign exchange rates, interest rates, and market prices of stocks. Exchange rate risk and interest rate risk are evaluated as the two most important components of market risk. The Bank engages in derivative transactions for hedge purposes when found necessary.

Market risk is calculated by two different methods, namely the "inherent model" and the "standard method". According to inherent model market risk is measured by Value at Risk ("VaR") approach which takes into account different risk factors. VaR calculations use historical simulation and Monte Carlo simulation methods. The software used can perform calculations with an advanced yield curve and volatility models. The VaR model is based on the assumptions of 99% confidence interval and a 10-day holding period. VaR analyses are performed on a daily basis and reported to the Senior Management. VaR analyses are also used as risk and limit management instrument for trading transactions. The limits are reviewed periodically according to market conditions and the application of specified limits is subject to authority restrictions and therefore the control effectiveness is increased. VaR analyses are supported with scenario analyses and stress tests, and take into consideration the effects of low probability events which have significant impact and the effects of market fluctuations. Retrospective tests of the model outputs are performed regularly. The standard method is used for the legal reporting.

The following table indicates the details of the market risk calculation as of 31 December 2021, in accordance with the Market Risk Calculation principles pursuant to the Third Section of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" published in the Official Gazette no. 29511 on 23 October 2015.

Standardised approach:

| | | **RWA(Risk Weighted Amount)** |
|---|---|---|
| | **Outright products** | |
| 1 | Interest rate risk (general and specific) | 3,293,288 |
| 2 | Equity risk (general and specific) | 1,896,013 |
| 3 | Foreign exchange risk | 20,824,872 |
| 4 | Commodity risk | 2,659 |
| | **Options** | |
| 5 | Simplified approach | - |
| 6 | Delta-plus method | 333,888 |
| 7 | Scenario approach | - |
| 8 | Securitisation | - |
| **9** | **Total** | **26,350,720** |

Outright products refer to positions in products that are not optional.

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

### (30.4) Currency risk

The difference between the Group's foreign currency denominated and foreign currency indexed assets and liabilities is defined as the "Net Foreign Currency Position" and is the basis of currency risk. Foreign currency denominated assets and liabilities, together with purchase and sale commitments, give rise to foreign exchange exposure. The Bank keeps the foreign exchange exposure amount within the limits set by the ERC. The Board, taking into account the recommendations by the ERC, sets a limit for the size of a foreign exchange exposure, which is closely monitored by ALCO. Those limits are individually determined and followed for both the net overall foreign currency position and for the foreign exchange exposure. Derivative financial instruments like forward foreign exchange contracts and currency swaps are used as tools for foreign exchange exposure management.

The table below summarizes the Group's net foreign currency position, categorized by currency.

| | 31 December 2021 | | | | | |
|---|---|---|---|---|---|---|
| | **EUR** | **USD** | **GBP** | **Other** | **TL** | **Total** |
| Cash and due from banks and balances with the Central Bank of Turkey | 42,810,495 | 82,795,810 | 305,868 | 7,459,986 | 14,832,926 | 148,205,085 |
| Investment securities | 7,569,305 | 66,059,004 | - | 2,233,925 | 80,500,351 | 156,362,585 |
| Derivative financial instruments | 1,633,077 | 7,229,630 | 678 | 394,455 | 40,529,032 | 49,786,872 |
| Loans and advances to customers | 101,746,257 | 68,130,480 | 7,292 | 24,305 | 223,208,368 | 393,116,702 |
| Property, plant and equipment | 56,133 | 17,668 | - | - | 5,821,035 | 5,894,836 |
| Intangible assets | 13,817 | 1 | - | - | 1,485,784 | 1,499,602 |
| Current tax | - | - | - | - | 124,001 | 124,001 |
| Deferred tax assets | - | 73,610 | - | - | 78,560 | 152,170 |
| Other assets and pre-payments(*) | 738,792 | 440,092 | 108 | 2,367 | 6,475,118 | 7,656,477 |
| **Total assets** | **154,567,876** | **224,746,295** | **313,946** | **10,115,038** | **373,055,175** | **762,798,330** |
| Deposits and obligations under repurchase agreements | 99,912,580 | 194,753,660 | 7,200,020 | 29,115,665 | 185,824,704 | 516,806,629 |
| Interbank money market deposits, funds borrowed and debt securities in issue | 13,522,428 | 85,330,444 | - | - | 11,510,174 | 110,363,046 |
| Derivative financial instruments | 1,011,930 | 2,663,966 | - | 824 | 22,005,962 | 25,682,682 |
| Income taxes payable | - | - | - | - | 1,486,717 | 1,486,717 |
| Other liabilities and accrued expenses | 1,904,768 | 12,863,943 | 156,270 | 46,997 | 16,296,911 | 31,268,889 |
| Employment benefit obligations | 3,268 | - | - | - | 773,481 | 776,749 |
| Deferred tax liability | 282,831 | - | - | - | 171,474 | 454,305 |
| Equity and non-controlling interest | - | - | - | - | 75,959,313 | 75,959,313 |
| **Total liabilities and equity** | **116,637,805** | **295,612,013** | **7,356,290** | **29,163,486** | **314,028,736** | **762,798,330** |
| **Net balance sheet position** | **37,930,071** | **(70,865,718)** | **(7,042,344)** | **(19,048,448)** | **59,026,439** | **-** |
| **Off-balance sheet derivative instruments net notional position** | **(37,437,819)** | **74,066,886** | **7,081,883** | **19,687,660** | **(63,398,610)** | **-** |

(*) The balances of assets held for sale has been included.

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

At 31 December 2021, assets and liabilities denominated in foreign currency were translated into Turkish lira using a foreign exchange rate of TL 13.3290=USD 1 and TL 15.0867 =EUR 1.

| | 31 December 2020 | | | | | |
|---|---|---|---|---|---|---|
| | **EUR** | **USD** | **GBP** | **Other** | **TL** | **Total** |
| Cash and due from banks and balances with the Central Bank of Turkey | 21,095,746 | 30,748,548 | 193,410 | 3,643,565 | 4,894,534 | 60,575,803 |
| Investment securities | 5,918,568 | 34,880,295 | - | 1,586,516 | 59,542,740 | 101,928,119 |
| Derivative financial instruments | 1,234,681 | 5,380,297 | 33 | 17,182 | 16,226,173 | 22,858,366 |
| Loans and advances to customers | 58,963,658 | 44,595,566 | 175 | 61,930 | 171,568,149 | 275,189,478 |
| Property, plant and equipment | 36,733 | 17,799 | - | - | 5,948,874 | 6,003,406 |
| Intangible assets | 5,247 | 9 | - | - | 1,185,653 | 1,190,909 |
| Current tax | - | - | - | - | - | - |
| Deferred tax assets | - | - | - | - | 147,990 | 147,990 |
| Other assets and pre-payments(*) | 3,186,517 | 2,024,193 | 68 | 314 | 5,211,412 | 10,422,504 |
| **Total assets** | **90,441,150** | **117,646,707** | **193,686** | **5,309,507** | **264,725,525** | **478,316,575** |
| Deposits and obligations under repurchase agreements | 62,295,265 | 114,548,046 | 4,828,016 | 19,363,445 | 111,962,485 | 312,997,257 |
| Interbank money market deposits, funds borrowed and debt securities in issue | 10,394,376 | 47,812,531 | - | - | 8,509,432 | 66,716,339 |
| Derivative financial instruments | 1,475,477 | 2,088,019 | - | 127 | 11,277,350 | 14,840,973 |
| Income taxes payable | 27,787 | - | - | - | 1,098,470 | 1,126,257 |
| Other liabilities and accrued expenses | 3,402,358 | 3,176,118 | 120,589 | 31,080 | 12,299,468 | 19,029,613 |
| Employment benefit obligations | 1,453 | - | - | - | 556,168 | 557,621 |
| Deferred tax liability | 107,927 | 16,161 | - | - | 370 | 124,458 |
| Equity and non-controlling interest | - | - | - | - | 62,924,057 | 62,924,057 |
| **Total liabilities and equity** | **77,704,643** | **167,640,875** | **4,948,605** | **19,394,652** | **208,627,800** | **478,316,575** |
| **Net balance sheet position** | **12,736,507** | **(49,994,168)** | **(4,754,919)** | **(14,085,145)** | **56,097,725** | **-** |
| **Off-balance sheet derivative instruments net notional position** | **(14,675,745)** | **57,816,372** | **4,683,301** | **14,157,468** | **(61,981,396)** | **-** |

(*) The balances of assets held for sale has been included.

At 31 December 2020, assets and liabilities denominated in foreign currency were translated into Turkish lira using a foreign exchange rate of TL 7.4194=USD 1 and TL 9.1164=EUR 1.

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

### (30.5) Interest rate risk

"Interest Rate Risk" can be defined as the impact of interest rate changes on interest-sensitive asset and liability items of both on and off-balance sheets of the Group. The ERC sets limits for the interest rate sensitivity of on and off-balance sheet items and the sensitivity is closely monitored and reported weekly. In the case of high market fluctuations, daily transaction based reporting and analyses are made.

The Group manages the interest rate risk on a portfolio basis and tries to minimize the risk effect on the profitability, financial exposure and cash flows by applying different strategies. Basic methods such as using fixed or floating interest rates for different portfolios and maturities, setting the fixed margin in floating rates, or varying the rates for the short or long-term positions are applied actively.

The tables below summarize the Group's exposure to interest rate risks at 31 December 2021 and 31 December 2020. Included in the tables are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

| | 31 December 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Non-interest bearing | Total |
| Cash and due from banks and balances with the Central Bank of Turkey | 17,826,328 | 24,331 | - | - | 130,354,426 | 148,205,085 |
| Investment securities | 39,878,696 | 42,964,837 | 49,305,701 | 20,706,500 | 3,506,851 | 156,362,585 |
| Derivative financial instruments | 36,652,786 | 12,807,439 | 122,902 | 203,745 | - | 49,786,872 |
| Loans and advances to customers | 169,666,130 | 113,257,019 | 91,546,596 | 19,264,874 | (617,917) | 393,116,702 |
| Property, plant and equipment | - | - | - | - | 5,894,836 | 5,894,836 |
| Intangible assets | - | - | - | - | 1,499,602 | 1,499,602 |
| Deferred income tax assets | - | - | - | - | 152,170 | 152,170 |
| Current tax | - | - | - | - | 124,001 | 124,001 |
| Other assets and pre-payments (*) | 2,100,839 | 177,019 | 2,443 | 2,822 | 5,373,354 | 7,656,477 |
| **Total assets** | **266,124,779** | **169,230,645** | **140,977,642** | **40,177,941** | **146,287,323** | **762,798,330** |
| Deposits and obligations under repurchase agreements | 311,631,093 | 30,950,346 | 10,034,533 | 1,339,945 | 162,850,712 | 516,806,629 |
| Interbank money market deposits, funds borrowed and debt securities in issue | 46,451,735 | 27,228,402 | 17,994,069 | 18,660,721 | 28,119 | 110,363,046 |
| Derivative financial instruments | 17,055,144 | 8,337,691 | 289,847 | - | - | 25,682,682 |
| Income taxes payable | - | - | - | - | 1,486,717 | 1,486,717 |
| Other liabilities and accrued expenses | 8,986,717 | 4,977,090 | 493,308 | 422,838 | 16,388,936 | 31,268,889 |
| Employment benefit obligations | - | - | - | - | 776,749 | 776,749 |
| Deferred tax liability | - | - | - | - | 454,305 | 454,305 |
| **Total liabilities** | **384,124,689** | **71,493,529** | **28,811,757** | **20,423,504** | **181,985,538** | **686,839,017** |
| **Net repricing period gap** | **(117,999,911)** | **97,737,116** | **112,165,885** | **19,754,437** | **(35,698,215)** | **75,959,313** |
| **Off-balance sheet derivative instruments net notional position** | **39,622,992** | **(19,440,049)** | **(11,308)** | **144,887** | **-** | **20,316,522** |

(*) The balances of assets held for sale has been included.

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

| | 31 December 2020 | | | | | |
|---|---|---|---|---|---|---|
| | **Up to 3 months** | **3 months to 1 year** | **1 year to 5 years** | **Over 5 years** | **Non-interest bearing** | **Total** |
| Cash and due from banks and balances with the Central Bank of Turkey | 4,263,042 | - | - | - | 56,312,761 | 60,575,803 |
| Investment securities | 25,983,704 | 29,556,541 | 34,797,474 | 9,520,955 | 2,069,445 | 101,928,119 |
| Derivative financial instruments | 14,034,722 | 5,860,004 | 2,882,318 | 81,322 | - | 22,858,366 |
| Loans and advances to customers | 109,935,784 | 79,048,867 | 78,477,567 | 6,688,433 | 1,038,827 | 275,189,478 |
| Property, plant and equipment | - | - | - | - | 6,003,406 | 6,003,406 |
| Intangible assets | - | - | - | - | 1,190,909 | 1,190,909 |
| Deferred income tax assets | - | - | - | - | 147,990 | 147,990 |
| Current tax | - | - | - | - | - | - |
| Other assets and pre-payments (*) | 5,216,879 | 1,514,559 | 789,529 | 25,217 | 2,876,320 | 10,422,504 |
| **Total assets** | **159,434,131** | **115,979,971** | **116,946,888** | **16,315,927** | **69,639,658** | **478,316,575** |
| Deposits and obligations under repurchase agreements | 195,586,672 | 15,404,683 | 9,612,044 | 1,085,209 | 91,308,649 | 312,997,257 |
| Interbank money market deposits, funds borrowed and debt securities in issue | 40,496,421 | 5,527,681 | 10,286,787 | 10,390,107 | 15,343 | 66,716,339 |
| Derivative financial instruments | 10,824,176 | 3,530,712 | 486,085 | - | - | 14,840,973 |
| Income taxes payable | - | - | - | - | 1,126,257 | 1,126,257 |
| Other liabilities and accrued expenses | 4,434,429 | 2,009,097 | 447,616 | 386,026 | 11,752,445 | 19,029,613 |
| Employment benefit obligations | - | - | - | - | 557,621 | 557,621 |
| Deferred tax liability | - | - | - | - | 124,458 | 124,458 |
| **Total liabilities** | **251,341,698** | **26,472,173** | **20,832,532** | **11,861,342** | **104,884,773** | **415,392,518** |
| **Net repricing period gap** | **(91,907,567)** | **89,507,798** | **96,114,356** | **4,454,585** | **(35,245,115)** | **62,924,057** |
| **Off-balance sheet derivative instruments net notional position** | **15,181,092** | **(8,494,498)** | **2,865,360** | **64,337** | **-** | **9,616,291** |

(*) The balances of assets held for sale has been included.

The tables below summarize effective average interest rates by major currencies for monetary financial instruments at 31 December 2021 and 2020:

| | 31 December 2021 | | |
|---|---|---|---|
| **Assets** | **USD (%)** | **EUR (%)** | **TL (%)** |
| Cash and due from banks: | | | |
| - Time deposits in foreign banks | 0.15 | 0.00 | 0.00 |
| - Time deposits in domestic banks | 1.06 | 0.14 | 23.05 |
| - Interbank money market placements | 0.00 | 0.00 | 19.21 |
| - Reserve requirements with the Central Bank of Turkey | 0.00 | 0.00 | 8.50 |
| Financial assets at fair value through profit or loss | 6.66 | 2.48 | 18.76 |
| Loans and advances to customers | 4.97 | 3.86 | 17.62 |
| Financial asset at fair value through OCI | 5.32 | 2.88 | 18.35 |
| Financial asset at amortised cost | 5.89 | 0.00 | 20.90 |
| **Liabilities** | | | |
| Deposits and obligations under repurchase agreements | 0.46 | 0.12 | 14.50 |
| Interbank and money market deposits | 0.00 | 0.00 | 17.13 |
| Funds borrowed | 2.53 | 2.07 | 18.75 |
| Debt securities in issue | 4.83 | 4.00 | 16.36 |

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

| | 31 December 2020 | | |
|---|---|---|---|
| **Assets** | **USD (%)** | **EUR (%)** | **TL (%)** |
| Cash and due from banks: | | | |
| - Time deposits in foreign banks | 0.36 | 0.00 | 0.00 |
| - Time deposits in domestic banks | 1.10 | 0.77 | 17.45 |
| - Interbank money market placements | 0.00 | 0.00 | 17.92 |
| - Reserve requirements with the Central Bank of Turkey | 0.00 | 0.00 | 12.00 |
| Financial assets at fair value through profit or loss | 5.80 | 3.36 | 14.92 |
| Loans and advances to customers | 5.15 | 3.78 | 13.21 |
| Financial asset at fair value through OCI | 5.20 | 2.92 | 12.75 |
| Financial asset at amortised cost | 5.86 | 1.70 | 12.18 |
| **Liabilities** | | | |
| Deposits and obligations under repurchase agreements | 1.30 | 0.31 | 12.44 |
| Interbank and money market deposits | 0.00 | 0.00 | 17.98 |
| Funds borrowed | 2.42 | 1.12 | 11.22 |
| Debt securities in issue | 6.18 | 1.06 | 10.38 |

Interest rate risk for all banking transactions outside the trading portfolio are followed under interest rate risk related to the banking book. Interest rate risk related to the trading portfolio is followed under market risk.

ALCO performs daily management of interest rate risk in accordance with the risk limits set by the ERC in relation to interest rate sensitivities of the banking book. ALCO meetings are held on a weekly basis.

In addition to interest rate sensitivities measured and reported weekly, daily and transaction-based analyses are also performed when significant fluctuations occur in markets.

Repricing term mismatch and duration mismatch analyses, net economic value change analyses under different interest rate stress scenarios and income simulations are used for interest rate risk management. Repricing risk, yield curve risk, basis risk and optionality are considered under interest rate risk scope.

The interest rate risk arising from banking book is calculated and reported on a monthly basis according to "Regulation on Measurement and Evaluation of Interest Rate Risk in Banking Accounts with Standard Shock Method" published in the Official Gazette no 28034 on 23 August 2011 through applying interest rate shock method to on and off balance sheet positions.

As of 31 December 2021 and 31 December 2020, 500 bp shock, 400 bp shock and 200 bp shock are applied for Turkish Lira and foreign currency for the assessment of the changes in the fair value of balance sheet items which are subject to calculation.

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

| | | 31.12.2021 | | 31.12.2020 | |
|---|---|---|---|---|---|
| Currency | Applied Shock (+/- x basis points) | Gains/Losses | Gains/Shareholder's Equity - Losses/Shareholder's Equity | Gains/Losses | Gains/Shareholder's Equity - Losses/Shareholder's Equity |
| **TL** | (400) | 3,147,922 | 3.13% | 3,613,453 | 4.97% |
| **TL** | 500 | (3,614,936) | (3.60)% | (4,110,166) | (5.65)% |
| **USD** | (200) | (24,617) | (0.02)% | 231,365 | 0.32% |
| **USD** | 200 | 663,352 | 0.66% | (359,087) | (0.49)% |
| **EUR** | (200) | 159,257 | 0.16% | 1 | 0.00% |
| **EUR** | 200 | (1,245,563) | (1.24)% | 45,437 | 0.06% |
| **Total (for negative shocks)** | | **3,282,562** | **3.27%** | **3,844,819** | **5.29%** |
| **Total (for positive shocks)** | | **(4,197,147)** | **(4.18)%** | **(4,423,816)** | **(6.08)%** |

### (30.6) Liquidity risk

The liquidity risk of the Bank is the risk of being unable to fulfill its payment obligations on time due to not having enough cash sources or cash inflows to finance its cash outflows fully and on time due to cash flow instabilities. Liquidity risk arises from situations in which the Bank is unable to meet the cash outflows with its cash sources and borrowing opportunities over collateralizing marketable securities, in case of sudden fund withdrawals by the individual/institutional funders of the Bank.

The Bank's liquidity and funding policy is to own sufficient liquidity reserve and funding opportunities to meet Bank's liabilities even in cases of stress, resulting from the market conditions or other conditions specific to the Bank.

The Bank has capacity to meet a high risk with broad and stable deposit, strong base capital structure and diversified foreign borrowing sources and is capable of providing additional liquidity with high quality liquid securities in its portfolio and available limits at both the Central Bank of Republic of Turkey and other money markets.

Management of liquidity risk is shared by the ERC, ALCO, Treasury Department and Risk Management Department. The ERC determines the liquidity management policies and the appropriate liquidity risk level in line with the Bank's risk appetite and monitors whether the liquidity risk is managed under the framework of determined policies and within the defined limits.

The different categories of defined limits are;

- Limits related to wholesale funding sources,
- Limits related to liquid asset buffer,
- Limits related to loan/deposit ratio,
- Limits related to the cash inflows coverage capacity to cash outflows,
- Limits related to cash outflow coverage capacity in the stress environment

ALCO takes decision to use alternative funding sources, pricing of obtained funds and granted loans, and other decisions of Daily liquidity management. Treasury Department ensures that the Bank meets its short, middle and long term liabilities, with the transactions made in accordance with ALCO decisions order to utilize excess funding or close the funding gap, occurring on foreign currencies or maturity terms. Risk Management Department measures and monitors the liquidity risk, with the reports prepared and analyses made, and informs the top management. Liquidity risk reporting consists of periodic and special purpose reports prepared to be discussed in the ERC and ALCO meetings, stress tests, scenario analyses, risk limit compliance reports and legal liquidity reports. Considering the negative economic general impact caused by the COVID-19 pandemic, it is aimed to measure the liquidity vulnerabilities that may arise by performing different scenario analyzes with using stress tests which are already part of the risk management process. The effects of cash inflows and outflows under different stress scenarios have been studied and evaluated.

(Amounts expressed in thousands of Turkish lira (“TL”) unless otherwise stated.)

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

### (30.6) Liquidity risk (Continued)

| | Current Period - 31 December 2021 | | Prior Period - 31 December 2020 | |
|---|---|---|---|---|
| | TL+FC | FC | TL+FC | FC |
| October | 172.77 | 237.55 | 209.16 | 229.25 |
| November | 203.94 | 342.34 | 239.61 | 281.26 |
| December | 240.93 | 414.82 | 223.66 | 257.43 |

The table below analyses carrying amount of assets and liabilities of the Group into relevant maturity groupings based on the remaining period to contractual maturity at the balance sheet date.

| | 31 December 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Demand | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | No maturity | Total |
| Cash and due from banks and balances with the Central Bank of Turkey | 95,281,621 | 52,924,449 | - | - | - | (985) | 148,205,085 |
| Investment securities | 3,525,841 | 8,037,108 | 14,192,421 | 83,376,798 | 47,249,408 | (18,991) | 156,362,585 |
| Derivative financial instruments | - | 13,088,520 | 9,361,494 | 13,855,876 | 13,480,982 | - | 49,786,872 |
| Loans and advances to customers(*) | 168,772 | 128,590,232 | 103,493,118 | 120,027,033 | 41,624,234 | (786,687) | 393,116,702 |
| Property, plant and equipment | - | - | - | - | - | 5,894,836 | 5,894,836 |
| Intangible assets | - | - | - | - | - | 1,499,602 | 1,499,602 |
| Deferred income tax assets | - | - | - | 152,170 | - | - | 152,170 |
| Current Tax | - | - | - | - | - | 124,001 | 124,001 |
| Other assets and pre-payments (**) | - | 1,775,776 | 129,104 | 191,557 | 186,690 | 5,373,350 | 7,656,477 |
| **Total assets** | **98,976,234** | **204,416,085** | **127,176,137** | **217,603,434** | **102,541,314** | **12,085,126** | **762,798,330** |
| Deposits and obligations under repurchase agreements | 162,850,713 | 301,702,567 | 34,922,626 | 12,065,607 | 5,265,116 | - | 516,806,629 |
| Interbank money market deposits, funds borrowed and debt securities in issue | - | 10,404,370 | 38,655,219 | 40,759,766 | 20,543,691 | - | 110,363,046 |
| Derivative financial instruments | - | 8,308,272 | 6,265,625 | 8,530,020 | 2,578,765 | - | 25,682,682 |
| Income taxes payable | - | - | 1,486,717 | - | - | - | 1,486,717 |
| Other liabilities and accrued expenses | 1,227,968 | 8,168,147 | 3,385,207 | 4,545,623 | 1,795,976 | 12,145,968 | 31,268,889 |
| Employment benefit obligations | - | - | - | 776,749 | - | - | 776,749 |
| Deferred tax liability | - | - | - | 454,305 | - | - | 454,305 |
| **Total liabilities** | **164,078,681** | **328,583,356** | **84,715,394** | **67,132,070** | **30,183,548** | **12,145,968** | **686,839,017** |
| **Net gap as at 31 December 2021** | **(65,102,447)** | **(124,167,271)** | **42,460,743** | **150,471,364** | **72,357,766** | **(60,842)** | **75,959,313** |

(*) The non-performing loans and netted amounts of the third stage expected loss provisions for these loans are stated in the "No maturity" column with the first and second stage expected loss provisions for performing loans.

(**) The balances of assets held for sale has been included.

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

### (30.6) Liquidity risk (Continued)

| | 31 December 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Demand | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | No maturity | Total |
| Cash and due from banks and balances with the Central Bank of Turkey | 36,105,674 | 24,470,407 | - | - | - | (278) | 60,575,803 |
| Investment securities | 2,081,827 | 5,844,861 | 20,364,254 | 57,691,278 | 15,958,281 | (12,382) | 101,928,119 |
| Derivative financial instruments | - | 3,833,872 | 4,571,067 | 8,895,941 | 5,557,486 | - | 22,858,366 |
| Loans and advances to customers(*) | 128,049 | 82,690,482 | 74,350,500 | 93,682,182 | 23,427,486 | 910,779 | 275,189,478 |
| Property, plant and equipment | - | - | - | - | - | 6,003,406 | 6,003,406 |
| Intangible assets | - | - | - | - | - | 1,190,909 | 1,190,909 |
| Deferred income tax assets | - | - | - | 147,990 | - | - | 147,990 |
| Current Tax | - | - | - | - | - | - | - |
| Other assets and pre-payments (**) | - | 2,579,477 | 1,188,199 | 2,316,927 | 1,461,581 | 2,876,320 | 10,422,504 |
| **Total assets** | **38,315,550** | **119,419,099** | **100,474,020** | **162,734,318** | **46,404,834** | **10,968,754** | **478,316,575** |
| Deposits and obligations under repurchase agreements | 91,308,649 | 188,604,042 | 15,018,520 | 14,789,265 | 3,276,781 | - | 312,997,257 |
| Interbank money market deposits, funds borrowed and debt securities in issue | - | 8,183,611 | 21,496,601 | 25,496,465 | 11,539,662 | - | 66,716,339 |
| Derivative financial instruments | - | 4,613,429 | 1,132,118 | 6,308,345 | 2,787,081 | - | 14,840,973 |
| Income taxes payable | - | - | 1,126,257 | - | - | - | 1,126,257 |
| Other liabilities and accrued expenses | 1,277,192 | 4,995,926 | 503,861 | 2,392,413 | 1,414,361 | 8,445,860 | 19,029,613 |
| Employment benefit obligations | - | - | - | 557,621 | - | - | 557,621 |
| Deferred tax liability | - | - | - | 124,458 | - | - | 124,458 |
| **Total liabilities** | **92,585,841** | **206,397,008** | **39,277,357** | **49,668,567** | **19,017,885** | **8,445,860** | **415,392,518** |
| **Net gap as at 31 December 2020** | **(54,270,291)** | **(86,977,909)** | **61,196,663** | **113,065,751** | **27,386,949** | **2,522,894** | **62,924,057** |

(*) The non-performing loans and netted amounts of the third stage expected loss provisions for these loans are stated in the "No maturity" column with the first and second stage expected loss provisions for performing loans.

(**) The balances of assets held for sale has been included.

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

The most important funding resources of the Parent Bank are the shareholders' equity, the diversified and steady deposit base and the long-term funds borrowed from international institutions which are mainly placed in interest earning assets. In spite of a substantial portion of deposits from individuals being short-term, deposits are diversified by number and type, and maturities of a large portion of deposits are renewed, which indicates that these deposits will provide a long-term and stable source of funding for the Parent Bank.

Undiscounted cash flows of the financial liabilities of the Group are as follows:

| | 31 December 2021 | | | | | |
|---|---|---|---|---|---|---|
| **Liabilities** | **Up to 1 month and demand** | **1-3 months** | **3-12 months** | **1-5 years** | **5 years and over** | **Total** |
| Deposits and obligations under repurchase agreements | 419,221,401 | 47,057,952 | 35,615,838 | 12,670,011 | 5,503,953 | 520,069,156 |
| Funds borrowed and debt securities in issue | 3,007,524 | 6,783,710 | 41,482,632 | 50,688,471 | 23,643,398 | 125,605,736 |
| Interbank money market deposits | 1,297,321 | 89,561 | - | - | - | 1,386,882 |
| **Total** | **423,526,246** | **53,931,224** | **77,098,470** | **63,358,482** | **29,147,351** | **647,061,774** |
| **Letter of guarantees (*)** | **4,192,156** | **942,840** | **25,186,870** | **23,209,406** | **34,804,844** | **88,336,116** |

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

| | 31 December 2020 | | | | | |
|---|---|---|---|---|---|---|
| **Liabilities** | **Up to 1 month and demand** | **1-3 months** | **3-12 months** | **1-5 years** | **5 years and over** | **Total** |
| Deposits and obligations under repurchase agreements | 241,678,438 | 39,246,102 | 15,362,755 | 15,181,381 | 3,364,525 | 314,833,203 |
| Funds borrowed and debt securities in issue | 3,337,823 | 4,759,521 | 22,995,826 | 30,732,416 | 12,736,849 | 74,562,434 |
| Interbank money market deposits | 429,862 | - | - | - | - | 429,862 |
| **Total** | **245,446,123** | **44,005,623** | **38,358,581** | **45,913,797** | **16,101,374** | **389,825,499** |
| **Letter of guarantees (*)** | **1,704,272** | **1,110,275** | **11,024,630** | **13,213,186** | **24,383,289** | **51,435,652** |

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

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Undiscounted cash flows of derivative financial instruments of the Group are as follows:

| Current Period - 31 December 2021 | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | 5 Years and Over |
|---|---|---|---|---|---|
| **Derivatives held for trading** | | | | | |
| **Foreign exchange derivatives:** | | | | | |
| - Inflow | 107,022,530 | 99,545,807 | 61,606,380 | 30,012,745 | 6,393,372 |
| - Outflow | (111,683,915) | (111,758,980) | (61,321,153) | (30,032,637) | (5,920,722) |
| **Interest rate derivatives:** | | | | | |
| - Inflow | 382,027 | 936,181 | 2,355,465 | 4,248,089 | 1,235,062 |
| - Outflow | (391,660) | (848,877) | (2,102,182) | (3,718,938) | (1,093,669) |
| **Derivatives held for hedging:** | | | | | |
| Foreign exchange derivatives: | | | | | |
| - Inflow | 3,004,059 | 99,193 | 1,838,063 | 4,694,245 | 14,653,748 |
| - Outflow | (659,456) | (253,115) | (1,353,414) | (4,010,544) | (7,341,117) |
| **Interest rate derivatives**: | | | | | |
| - Inflow | 217,937 | 786,064 | 2,819,865 | 5,904,526 | 1,780,110 |
| - Outflow | (295,460) | (954,479) | (2,803,513) | (4,721,133) | (1,909,851) |
| **Total Inflow** | **110,626,553** | **101,367,245** | **68,619,773** | **44,859,605** | **24,062,292** |
| **Total Outflow** | **(113,030,491)** | **(113,815,451)** | **(67,580,262)** | **(42,483,252)** | **(16,265,359)** |

| Prior Period - 31 December 2020 | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | 5 Years and Over |
|---|---|---|---|---|---|
| **Derivatives held for trading** | | | | | |
| **Foreign exchange derivatives:** | | | | | |
| - Inflow | 62,640,216 | 50,476,489 | 27,675,738 | 28,388,285 | 4,961,750 |
| - Outflow | (68,099,978) | (60,590,019) | (28,843,219) | (27,877,974) | (4,659,973) |
| **Interest rate derivatives:** | | | | | |
| - Inflow | 152,797 | 553,036 | 1,069,659 | 1,895,247 | 907,310 |
| - Outflow | (136,947) | (577,404) | (979,965) | (1,689,159) | (814,875) |
| **Derivatives held for hedging** | | | | | |
| **Foreign exchange derivatives:** | | | | | |
| - Inflow | 2,306,351 | 3,907,725 | 4,524,790 | 4,922,960 | 8,231,710 |
| - Outflow | (2,221,126) | (2,676,210) | (3,107,033) | (5,641,826) | (6,923,534) |
| **Interest rate derivatives:** | | | | | |
| - Inflow | 104,751 | 253,873 | 650,767 | 1,678,808 | 745,341 |
| - Outflow | (119,225) | (347,027) | (962,957) | (2,417,487) | (1,009,045) |
| **Total Inflow** | **65,204,115** | **55,191,123** | **33,920,954** | **36,885,300** | **14,846,111** |
| **Total Outflow** | **(70,577,276)** | **(64,190,660)** | **(33,893,174)** | **(37,626,446)** | **(13,407,427)** |

### (30.7) Operational risk

The "Basic Indicator Method" that is mentioned in "Regulation on Measurement and Assessment of Capital Adequacy of Banks" Communiqué published in the Official Gazette No. 29511 on November 23, 2015 is used in the annual operational risk calculation of the Parent Bank. The amount subject to the operational risk is calculated by using the statutory gross income of the Parent Bank in 2015, 2016, and 2017.

In accordance with above Communiqué, deduction of profit/loss derived from the sale of financial assets at fair value through other comprehensive income and financial assets measured at amortised cost, extraordinary income and indemnity insurance gains from the total of net interest income and non-interest income.

(Amounts expressed in thousands of Turkish lira (“TL”) unless otherwise stated.)

**NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)**

| | 31.12.2018 | 31.12.2019 | 31.12.2020 | Total/ Positive GI year number | Ratio (%) | Total |
|---|---|---|---|---|---|---|
| Gross income | 20,172,377 | 20,708,463 | 24,461,462 | 3 | 15 | 3,267,115 |
| Amount subject to Operational Risk (Amount*12,5) | | | | | | 40,838,939 |

**(30.8) Fair value of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (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.

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

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| **Financial assets** | | | | |
| Loans and advances to customers | 393,116,702 | 404,168,415 | 275,189,478 | 290,086,611 |
| Financial assets at amortised cost (Net) | 52,566,569 | 58,387,931 | 41,872,677 | 41,951,293 |
| **Financial liabilities** | | | | |
| Customer deposits | 516,806,629 | 518,041,603 | 312,997,257 | 313,133,140 |
| Interbank money market deposits, funds borrowed and debt securities in issue | 110,363,046 | 111,808,617 | 66,716,339 | 71,339,278 |

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

*(i) Financial assets*

The fair values of certain financial assets carried at cost, including cash and balances with the Central Bank of Turkey, due from other banks and other financial assets are considered to approximate their respective carrying values due to their short-term nature.

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine the fair value. The credit risk is not considered when calculating the fair value of loans and advances to customers as in line with the pricing of such loans except loans and advances to customers with short maturity.

**NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)**

The fair value of listed held-to-maturity investments has been estimated based on quoted market prices at balance sheet dates.

*(ii) Financial liabilities*

The estimated fair value of deposits with no maturity is the repayable amount at demand.

The estimated fair value of interest-bearing deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

A discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads to calculate the estimated fair value of funds borrowed and debt securities in issue.

**(i) Fair value hierarchy:**

IFRS 7 sets a hierarchy of valuation techniques according to the observability of data used in valuation techniques which establish basis for fair value calculations.

Aforesaid fair value hierarchy is determined as follows.

a) Quoted market prices (non-adjusted) (1st level).
b) Directly (by way of prices) or indirectly (derived from prices) data for the assets or liabilities, other than quoted prices in the 1st level (2nd level).
c) Data not based on observable data regarding assets or liabilities (3rd level).

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Fair value hierarchy of the financial assets and liabilities of the Group carried at fair value and assets and liabilities carried at amortized cost for which fair value is disclosed in Note 30.8 , according to the foregoing principles is given in the table below:

| , | 31 December 2021 | | | |
|---|---|---|---|---|
| **Assets carried at fair value:** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets at fair value through profit or loss** | **2,011,623** | **1,454,842** | **-** | **3,466,465** |
| - Government debt securities | 172,998 | 68,564 | - | 241,562 |
| - Eurobonds | 337,168 | - | - | 337,168 |
| - Government debt securities denominated in foreign currency | - | - | - | - |
| - Treasury bills | - | - | - | - |
| - Share certificates | 1,073,896 | - | - | 1,073,896 |
| - Other financial assets | 427,561 | 1,386,278 | - | 1,813,839 |
| **Derivative Financial Assets at Fair Value Through Profit or Loss** | **-** | **36,354,311** | **-** | **36,354,311** |
| **Derivative Financial Assets at Fair Value Through Other Comprehensive Income(Net)** | **-** | **13,432,561** | **-** | **13,432,561** |
| **Financial Assets at Fair Value Through Other Comprehensive Income** | **97,182,246** | **3,113,297** | **-** | **100,295,543** |
| - Government debt securities | 34,746,069 | - | - | 34,746,069 |
| - Eurobonds | 43,909,234 | - | - | 43,909,234 |
| - Treasury bills | - | - | - | - |
| - Government debt securities denominated in foreign currency | - | - | - | - |
| - Mutual funds | 822,575 | - | - | 822,575 |
| - Equity Securities | - | - | - | - |
| - Other financial assets | 17,704,368 | 3,113,297 | - | 20,817,665 |
| **Loans and advances to customers (*)** | **-** | **396,825,505** | **7,342,910** | **404,168,415** |
| - Financial assets measured at amortised cost | - | 396,825,505 | - | 396,825,505 |
| - Financial assets measured at fair value through profit or loss | - | - | 7,342,910 | 7,342,910 |
| **Assets for which fair values are disclosed** | **58,387,931** | **-** | **-** | **58,387,931** |
| - Financial assets measured at amortised cost | 58,387,931 | - | - | 58,387,931 |
| - Government debt securities | 57,402,376 | - | - | 57,402,376 |
| - Other financial assets | 985,555 | - | - | 985,555 |
| **Total assets** | **157,581,800** | **451,180,516** | **7,342,910** | **616,105,226** |
| **Liabilities carried at fair value:** | | | | |
| **Trading derivative financial instruments** | **-** | **25,193,411** | **-** | **25,193,411** |
| **Hedging derivative financial instruments** | **-** | **489,271** | **-** | **489,271** |
| **Liabilities for which fair values are disclosed (**)** | **-** | **629,850,220** | **-** | **629,850,220** |
| - Customer Deposits | - | 518,041,603 | - | 518,041,603 |
| - Interbank money market deposits, funds borrowed and debt securities in issue | - | 111,808,617 | - | 111,808,617 |
| **Total liabilities** | **-** | **655,532,902** | **-** | **655,532,902** |

(*) Loans and advances measured at fair value present the loan granted to LYY as explained in Note 30 Fair value of this loan classified under level 3, has been determined based on the weighted average of the results of valuation work that include various valuation technics such as yearly average of market price, comparable trading multiples, comparable transactions and discounted cash flows ("DCF"). The potential changes in the fundamental estimations and assumptions included in the valuation work can affect the carrying fair value of the loan.

(**) Assets and liabilities carried at amortized cost for which fair value is disclosed in Note 30 8.

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

## NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Share certificates classified as financial assets measured at fair value through OCI are carried at cost less impairment since they are not traded in active markets and their fair values cannot be measured reliably.

| | 31 December 2020 | | | |
|---|---|---|---|---|
| **Assets carried at fair value:** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets at fair value through profit or loss** | **740,567** | **1,095,935** | **-** | **1,836,502** |
| - Government debt securities | 22,607 | - | - | 22,607 |
| - Eurobonds | 167,331 | - | - | 167,331 |
| - Government debt securities denominated in foreign currency | - | - | - | - |
| - Treasury bills | - | - | - | - |
| - Share certificates | 305,711 | - | - | 305,711 |
| - Other financial assets | 244,918 | 1,095,935 | - | 1,340,853 |
| **Derivative Financial Assets at Fair Value Through Profit or Loss** | **1,897** | **18,117,990** | **-** | **18,119,887** |
| **Derivative Financial Assets at Fair Value Through Other Comprehensive Income** | **-** | **4,738,479** | **-** | **4,738,479** |
| **Financial Assets at Fair Value Through Other Comprehensive Income** | **56,146,670** | **2,041,091** | **-** | **58,187,761** |
| - Government debt securities | 23,067,781 | - | - | 23,067,781 |
| - Eurobonds | 21,352,442 | - | - | 21,352,442 |
| - Treasury bills | - | - | - | - |
| - Government debt securities denominated in foreign currency | - | - | - | - |
| - Mutual funds | 400,652 | 89,677 | - | 490,329 |
| - Equity Securities | - | - | - | - |
| - Other financial assets | 11,325,795 | 1,951,414 | - | 13,277,209 |
| **Loans and advances to customers (*)** | **-** | **282,743,534** | **7,342,910** | **290,086,444** |
| - Financial assets measured at amortised cost | - | 282,743,534 | - | 282,743,534 |
| - Financial assets measured at fair value through profit or loss | - | - | 7,342,910 | 7,342,910 |
| **Assets for which fair values are disclosed** | **41,951,293** | **-** | **-** | **41,951,293** |
| - Financial assets measured at amortised cost | 41,951,293 | - | - | 41,951,293 |
| - Government debt securities | 41,444,027 | - | - | 41,444,027 |
| - Other financial assets | 507,266 | - | - | 507,266 |
| **Total assets** | **98,840,427** | **308,737,029** | **7,342,910** | **414,920,366** |
| **Liabilities carried at fair value:** | **-** | **-** | **-** | **-** |
| **Trading derivative financial instruments** | **54** | **14,162,050** | **-** | **14,162,104** |
| **Hedging derivative financial instruments** | **-** | **678,869** | **-** | **678,869** |
| **Liabilities for which fair values are disclosed (**)** | **-** | **384,472,417** | **-** | **384,472,417** |
| - Customer Deposits | - | 313,133,139 | - | 313,133,139 |
| - Interbank money market deposits, funds borrowed and debt securities in issue | - | 71,339,278 | - | 71,339,278 |
| **Total liabilities** | **54** | **399,313,336** | **-** | **399,313,390** |

(*) Loans and advances measured at fair value present the loan granted to LYY as explained in Note 30. Fair value of this loan classified under level 3, has been determined based on the weighted average of the results of valuation work that include various valuation technics such as yearly average of market price, comparable trading multiples, comparable transactions and discounted cash flows ("DCF"). The potential changes in the fundamental estimations and assumptions included in the valuation work can affect the carrying fair value of the loan.

(*) Assets and liabilities carried at amortized cost for which fair value is disclosed in Note 30.8.

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

**NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)**

As explained in the Note 3.1.4, share certificates, that are classified as fair value through other comprehensive income and are carried at cost less impairment since they are not traded in active markets and their fair values cannot be measured reliably, are not shown in the table above.

There are no transfers between the 1st and the 2nd levels in the current year.

As of 31 December 2021, the movement of Level 3 financial instruments is as follows:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Asset** | **Liability** | **Asset** | **Liability** |
| Balance at the beginning of period | 7,342,910 | - | 6,723,419 | - |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| Transfers, net | - | - | - | - |
| Effects of valuation differences | - | - | 619,491 | - |
| **Balance at the end of the period** | **7,342,910** | **-** | **7,342,910** | **-** |

**(30.9) Capital management**

Total capital amount and Capital adequacy ratio have been calculated in accordance with the "Regulation on Equity of Banks" and "Regulation on Measurement and Assessment of Capital Adequacy of Banks".

As of 31 December 2021, Group's total capital has been calculated as TL 100,459,590 (31 December 2020: TL 73,356,889), the capital adequacy ratio is 21.14% (31 December 2020: 20.70%). This ratio is well above the minimum ratio required by the legislation.

| | **31 December 2021** | **31 December 2020** |
|---|---|---|
| Tier I capital | 76,871,587 | 62,954,577 |
| Tier II capital | 23,611,327 | 10,402,770 |
| Deductions | 23,324 | (458) |
| **Total regulatory capital** | **100,459,590** | **73,356,889** |
| Risk-weighted assets (including market and operational risk) | **475,307,435** | 354,300,757 |
| **Capital adequacy ratio** | **21.14%** | **20.70%** |

**(30.10) Fiduciary activities**

The Group provides custody services to third parties which involve the Group in the making of allocation, purchase and sale decisions. Assets held in a fiduciary capacity are not included in these financial statements. At 31 December 2021, the Group has custody accounts amounting to TL 178,856,222 in nominal value (31 December 2020: TL 113,226,217).

## NOTE 31 - SUBSEQUENT EVENTS

"Retail Banking and Digital Solutions" and "SME Banking" business units were established at the Bank. In the new organizational structure, Strategy, Digital Banking and Payment Systems Assistant General Manager Burcu Civelek Yüce assumed the role of Retail Banking and Digital Solutions Assistant General Manager; Bülent Oğuz, Deputy General Manager of Retail Banking, assumed the role of Deputy General Manager of SME Banking.

It is decided to call the subordinated notes (Tier II) issued on 15 March 2017, amounting USD 500 million with 10 years maturity and having a call option at the end of 5 years. Accordingly, the application to the Banking Regulation and Supervision Agency to call subordinated notes has been approved. All Notes will be redeemed on 16 March 2022.

The Board of Directors of the Bank have decided to hold The Shareholders' Ordinary General Assembly on 28 March 2022. In the Shareholders' Ordinary General Assembly Meeting of the Bank, The Board of Directors of the Bank has resolved to propose the following for the appropriation of 2021 annual profit. The dividend to be distributed from 2021 net profit of TL 12,125,908 will be as follows; gross TL 260,000 equal to %5 of Bank's paid-in capital of TL 5,200,000 as of 31 December 2021 will be allocated as primary cash gross dividend; and gross TL 951,600 will be allocated as secondary cash gross dividend. Total gross dividend of TL 1,211,600 equal to %23.30 of the paid in capital, will be distributed to shareholders. Cash dividend payment will be started from 30th of March, 2022. In accordance with the first paragraph clause (e) of article 5 of the Corporate Tax Law, TL 654 which is exempt from corporate tax to be allocated to a "Special Fund Account" and after allocating TL 95,160 to Legal Reserves, the remaining profit will be retained under Extraordinary Reserves.

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