PASHA YATIRIM BANKASI A.Ş.

FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2021
TOGETHER WITH INDEPENDENT AUDITORS

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Independent auditor's report

To the Shareholders of PASHA Yatırım Bankası A.Ş.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PASHA Yatırım Bankası A.Ş. (the "Bank") which comprise the statement of financial position as of 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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Key Audit Matter	How the matter is addressed in our audit
Financial impact of IFRS 9 "Financial Instruments" standard and recognition of impairment on financial assets and related important disclosures	
We considered the impact of IFRS 9 to the financial Statements which outlines the expected credit loss calculations of financial assets as a key audit matter due to: - Balance sheet and off balance sheet items that are subject to expected credit loss calculation is material for the financial statements - Complex accounting requirements of IFRS 9 - The model that is established by the Bank management to calculate the expected credit losses has the compliance risk whether it is established based on the requirements of IFRS 9 and other practices - IFRS 9, have complex and intensive control environment - The new, significant and complex judgments and estimations needed for the calculation of expected credit losses and - The complex disclosure requirements of IFRS.	Our audit procedures included among others include: - Evaluating the appropriateness of management's selection of accounting policies based on the requirements of IFRS 9, our business understanding and industry practice. - Identifying and testing relevant controls by involving Process audit specialists - Evaluating the reasonableness of management's key judgements and estimates made in expected credit loss calculations, including selection of methods, models, assumptions and data sources and evaluating the appropriateness of management's selection of accounting policies based on the requirements of IFRS 9, our business understanding and industry practice - Involving Financial risk management specialists to challenge significant assumptions / judgements relating to credit risk grading, significant increase in credit risk, definition of default, probability of default, macro-economic variables, and recovery rates and significant estimates and judgements - Assessing the completeness, accuracy and relevance of the data used for the calculation of expected credit loss - Evaluating the appropriateness and testing the mathematical accuracy of Expected credit loss models applied. - Evaluating the impact of Covid-19 outbreak on staging of loans and macroeconomic parameters used in expected credit losses calculation together with forward-looking estimates and significant assumptions. - Evaluating the judgments and estimates used for the individually assessed financial assets. - Evaluating the reasonableness of and tested the post-model adjustments. - Auditing of IFRS 9 disclosures

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Responsibilities of the Management and those charged with governance for the financial statements

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

In preparing the financial statements, the management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the 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 Bank's internal control.

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

- Conclude on the appropriateness of the 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 Bank'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 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 Bank to cease to continue as a going concern.

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

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

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

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

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

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

Emre Çelik, SMMM
Partner

Istanbul, Turkey
15 February 2022

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STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

	Notes	31 December 2021	31 December 2020
Assets			
Cash and cash equivalents	4	174,988	163,343
Amounts due from credit institutions	5	318,210	135,946
Financial assets at fair value through profit and loss	6	20,956	7,405
Derivative financial assets	18	13,604	493
Investment securities	7	407,564	145,871
Loans to customers	8	2,351,519	1,450,745
Investment property	9	143,910	144,862
Property and equipment	10	87,482	88,717
Intangible assets	12	7,784	6,849
Right of use assets	11	500	161
Current tax asset	20	483	632
Deferred tax asset	20	13,020	13,746
Other assets	13	22,533	20,639
TOTAL ASSETS		**3,562,553**	**2,179,409**
Liabilities			
Amounts due to banks and financial institutions	14	1,376,206	803,334
Amounts due to customers	15	98,792	69,076
Money market deposits	16	205,523	53,263
Debt securities issued	17	1,222,459	647,016
Lease liabilities	11	538	178
Derivative financial liabilities	18	114	1,430
Provisions	19	15,969	17,597
Current tax liability	20	8,526	3,819
Other liabilities	13	27,446	21,026
Total Liabilities		**2,955,573**	**1,616,739**
Equity			
Share capital	21	500,000	500,000
Retained earnings		106,625	61,069
Other reserves	21	3,266	1,697
Net unrealised (loss) on investment securities		(2,911)	(96)
Total Equity		**606,980**	**562,670**
TOTAL LIABILITIES AND EQUITY		**3,562,553**	**2,179,409**

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

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

	Notes	31 December 2021	31 December 2020
Interest income on loans		194,002	114,297
Interest income on investment securities		18,027	11,027
Interest income on deposits at banks		4,861	4,108
Interest on amount due from credit institutions		2,410	313
Other interest income		9	-
Total interest income		**219,309**	**129,745**
Interest expense on amounts due to customers		(3,942)	(1,304)
Interest expense on amounts due to banks and financial institutions		(56,267)	(28,006)
Interest expense on debt securities issued		(39,854)	(22,706)
Interest expense on money market deposits		(6,277)	(1,813)
Other interest expense		(54)	(24)
Total interest expense		**(106,394)**	**(53,853)**
Net interest income		**112,915**	**75,892**
Provisions for loans and other credit risks, net	23	(28,846)	1,996
Net interest income after credit loss expense		**84,069**	**77,888**
Fees and commissions income		15,431	5,923
Fees and commissions expense		(5,146)	(1,737)
Net fees and commissions income	24	**10,285**	**4,186**
Net gains/(losses), from trading securities		3,158	(28)
Foreign exchange (losses)/gains, net		(12,904)	269
Net gains from derivative financial instruments		30,262	5,207
Other income		2,543	1,828
Total non-interest income		**23,059**	**7,276**
Total operating income		**117,413**	**89,350**
Personnel expenses	25	(28,442)	(24,151)
General and administrative expenses	25	(18,617)	(18,281)
Depreciation and amortisation	9,10,11,12	(6,164)	(4,830)
Total non-interest expenses		**(53,223)**	**(47,262)**
Profit before tax	20	**64,190**	**42,088**
Income tax expense	20	(17,065)	(10,712)
Net profit for the year		**47,125**	**31,376**
Other comprehensive income			
Net change in fair value of investment instruments at fair value through other comprehensive income		(3,519)	(403)
Income tax of other comprehensive income		704	86
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**(2,815)**	**(317)**
Total comprehensive income for the year		**44,310**	**31,059**

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

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

	Notes	Share capital	Fair value reserve of financial assets at FVOCI	Other reserves	Retained earnings	Total equity
1 January 2020		**500,000**	**221**	**591**	**30,799**	**531,611**
Profit for the year		-	-	-	31,376	**31,376**
Other comprehensive income for the year, net		-	(317)	-	-	**(317)**
Total comprehensive income for the year		**-**	**(317)**	**-**	**31,376**	**31,059**
Transfers to reserves		-	-	1,106	(1,106)	-
31 December 2020	**21**	**500,000**	**(96)**	**1,697**	**61,069**	**562,670**
1 January 2021		**500,000**	**(96)**	**1,697**	**61,069**	**562,670**
Profit for the year		-	-	-	47,125	**47,125**
Other comprehensive income for the year, net		-	(2,815)	-	-	**(2,815)**
Total comprehensive income for the year		**-**	**(2,815)**	**-**	**47,125**	**44,310**
Transfers to reserves		-	-	1,569	(1,569)	-
31 December 2021	**21**	**500,000**	**(2,911)**	**3,266**	**106,625**	**606,980**

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

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2021

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

	Notes	31 December 2021	31 December 2020
Interest received		190,940	125,864
Interest paid		(99,592)	(59,193)
Fees and commissions received		13,397	4,843
Fees and commissions paid		(1,661)	(1,241)
Other operating income received		20,840	10,964
Personnel expenses paid		(27,268)	(19,094)
General and administrative expenses paid		(18,869)	(17,268)
Cash flows from operating activities before changes in operating assets and liabilities		**77,787**	**44,875**
Net (increase)/decrease in operating assets			
Trading securities		(3,575)	(6,575)
Amounts due from credit institutions	5	(65,638)	12,094
Loans to customers	8	(213,542)	(169,626)
Other assets		(444)	953
Net increase/(decrease) in operating liabilities			
Amounts due to banks, money market deposit and financial institutions		161,463	(3,240)
Amounts due to customers		29,760	54,215
Other liabilities		5,019	(5,837)
Net cash flows (used in) operating activities before income tax		**(9,170)**	**(73,141)**
Income tax paid		(12,097)	(7,206)
Net cash flows (used in) operating activities		**(21,267)**	**(80,347)**
Cash flows from/(used in) investing activities			
Proceeds from sale and redemption of investment securities	7	28,597	47,219
Purchase of investment securities	7	(172,436)	(75,809)
Purchase and prepayments for property and equipment	10	(1,202)	(753)
Purchase and prepayments for intangible assets	12	(3,625)	(2,660)
Net cash (used in) investing activities		**(148,666)**	**(32,003)**
Cash flows from/(used in) financing activities			
Proceeds from debt securities issued	27	596,425	188,568
Payment of debt securities	27	(530,634)	(140,195)
Finance lease paid	11	(153)	(99)
Net cash flows from financing activities		**65,638**	**48,274**
Effect of net foreign exchange differences on cash and cash equivalents		115,356	36,806
Net increase/(decrease) in cash and cash equivalents		**11,061**	**(27,270)**
Cash and cash equivalents, beginning		163,361	190,631
Cash and cash equivalents in the statement of cash flows		**174,422**	**163,361**
Effect of expected losses on cash and cash equivalents	4	(66)	(152)
Effect of restricted balances and accruals		632	134
Cash and cash equivalents in the statement of financial position	**4**	**174,988**	**163,343**

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

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

1. Principal activities

PASHA Yatırım Bankası A.Ş. ("the Bank", "PASHA Bank"), set up in Istanbul on 25 December 1987 under the title of Yatırım Bank A.Ş., is the first foreign investment bank in Turkey. With the decision taken by the previous parent of the Bank regarding the sale of its shares in the Bank, a share purchase agreement was signed between the Aksoy Holding A.Ş. and previous parent of the Bank on 13 May 2013. Upon the Banking Regulation and Supervision Agency ("BRSA")'s approval dated 26 June 2013, Aksoy Holding A.Ş. acquired the 99.4689% of the shares of the Bank.

PASHA Bank OJSC and Aksoy Holding A.Ş. has agreed on transferring the majority shares of the Bank. Acquisition of TL 28,795 of the Bank's capital by PASHA Bank OJSC and increase in the paid-in capital from TL 80,000 to TL 255,000 upon the acquisition were approved by the BRSA's decision dated 26 December 2014 and numbered 6137. The capital increase from TL 80,000 to TL 175,000 has been completed as of 25 February 2015. Paid-in capital increase from TL 175,000 to TL 255,000, approval of the share transfer and changing the Bank's title as "PASHA Yatırım Bankası A.Ş." have been approved in the extra ordinary general assembly of the Bank dated 27 January 2015. The change of Bank's title as "PASHA Yatırım Bankası A.Ş." was registered on 2 March 2015 and announced at the Turkish Trade Registry Gazette dated 6 March 2015 and numbered 8773. Acquisition of remaining 51,000 shares of Aksoy Holding A.Ş. by PASHA Bank OJSC by increasing PASHA Bank OJSC shares from 79.9196% to 99.9196% has been approved by the BRSA's resolution dated 23 December 2015 and numbered 18038.

In the Extraordinary General Meeting held on 18 May 2018, it was decided that the outstanding TL 255,000 paid-in capital will be increased to TL 500,000 with cash injection of TL 245,000 committed by PASHA Holding LLC, and the Articles of Association of the Bank will be revised accordingly. In accordance with the BRSA decision dated 4 May 2018 and numbered 7803, it has been approved that the indirect shareholder PASHA Holding LLC has the right to participate directly by 49% in the Bank. The share capital increase and the total paid-in capital TL 500,000 has been registered by Istanbul Trade Registry Chamber on 6 June 2018. The amendments to the Articles of Association of the Bank has been published by Turkish Trade Registry Gazette's copy dated 12 June 2018 and numbered 9598.

The shareholder structure of the Bank as of 31 December 2021, is stated below:

	Capital	**%**
PASHA Bank OJSC	254,795	50.96%
PASHA Holding LLC	245,000	49.00%
Others	205	0.04%
	500,000	**100.00%**

As of 31 December 2021 and 2020, the Bank is ultimately owned by Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva and Mr. Arif Pashayev.

The financial statements were authorised for issue by the Board of Directors on 15 February 2022.

2. Basis of preparation

The financial statements for the year ended 31 December 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared under the historical cost convention except for financial assets measured at fair value such as derivative financial instruments, financial assets at fair value through profit or loss, fair value through other comprehensive income.

The financial statements are presented in Turkish Lira ("TL") and except as indicated, financial information presented in TL has been rounded to the nearest thousand.

Transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency differences arising on retranslation are recognised in profit or loss.

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No. 26333 dated 1 November 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by Public Oversight Accounting and Auditing Standards Authority "POAASA" and additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA") and other relevant rules promulgated by the Turkish Commercial Code, Capital Markets Board and Tax Regulations.

2. Basis of preparation *(continued)*

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over-the-counter ("OTC") derivatives, unlisted securities, retirement benefits obligation, impairment of loans and receivables, provisions for taxes and contingencies from litigation. Actual results in the future may differ from those reported.

Judgements and estimates used in the preparation of the financial statements

The COVID-19 epidemic, which has spread to various countries around the world, causing potentially fatal respiratory infections, affects both regional and global economic conditions negatively, as well as causing malfunctions in operations, especially in countries exposed to the epidemic. As a result of the spread of COVID-19 around the world, various measures have been taken in our country as well as in the world in order to prevent the transmission of the virus and it is still being taken. In addition to these measures, economic measures are also taken to minimize the economic impact of the virus outbreak on individuals and businesses in our country and worldwide.

While preparing the financial statements as of 31 December 2021, the Bank reflected the possible effects of the COVID-19 outbreak on the estimates ad judgments used in the preparation of the financial statements. The estimates and assumptions used in the calculation of expected loan losses are explained in the statements on impairment of financial assets.

Inflation accounting

In the announcement published by the Public Oversight Accounting and Auditing Standards Authority on January 20, 2022, it is stated that TAS 29 Financial Reporting in Hyperinflationary Economies does not apply to the Turkish Financial Reporting Standards (TFRS) financial statements as of December 31, 2021, since the cumulative change in the general purchasing power of the last three years according to Consumer Price Index (CPI) is 74.41%. In this respect, IFRS financial statements as of December 31, 2021 are not adjusted while taking explanations of Public Oversight Accounting and Auditing Standards Authority into account for inflation in accordance with TAS 29.

3. Summary of significant accounting policies

3.1 Interest income and expense

Interest income and expense are recognised in the profit or loss using the effective interest method. Interest income is recorded according to the effective interest rate method (rate equal to net present value of future cash flows or financial assets and liabilities) defined in the IFRS 9 "Financial Instruments" standard by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets.

If the financial asset is impaired and classified as a non-performing receivable, the Bank applies the effective interest rate on the amortized cost of the asset for subsequent reporting periods. Such interest income calculation is made on an individual contract basis for all financial assets subject to impairment calculation. Effective interest rate method is used during calculation of loss given default rate in expected credit loss models and accordingly, the calculation of expected credit losses includes an interest amount. If the credit risk of the financial instrument improves to the extent that the financial asset is no longer considered as impaired and the improvement can be attributed to an incident that eventually takes place (such as an increase in the loan's credit rating), interest income at subsequent reporting periods is calculated by applying the effective interest rate over gross amount.

Interest income and expense presented in the statement of comprehensive income statement include the interest income on financial assets and liabilities carried at amortized cost on an effective interest rate basis and the interest income on held for trading investments and fair value through other comprehensive income investments.

3.2 Fees and commissions

Except for fees and commissions that are integral part of the effective interest rates of financial instruments measured at amortized costs, the fees and commissions are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers. Except for certain fees related with certain banking transactions and recognized when the related service is given, fees and commissions received or paid, and other fees and commissions paid to financial institutions are accounted under accrual basis of accounting throughout the service period. Income from asset purchases to a third party or by natural or legal persons contracts are recognized in the period they occur.

3. Summary of significant accounting policies *(continued)*

3.3 Net trading income

Net trading income comprises gains less loss related to derivative financial and liabilities and includes all realised and unrealised fair value changes and interest. Any realised or unrealised fair value changes and interest of derivative financial assets and liabilities are recorded as trading income.

3.4 Taxation

The income tax charge is composed of the sum of current tax and deferred tax.

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. The corporate tax rate will be applied as 25% for the corporate income for the 2021 taxation period and 23% for the corporate income for the 2022 taxation period.

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset.

3.5 Financial instruments

The Bank categorises its financial assets as "Financial Assets at Fair Value Through Profit/Loss", "Financial Assets at Fair Value Through Other Comprehensive Income" and "Financial Assets Measured at Amortized Cost". Such financial assets are recognized or derecognized according to the principles defined in section three of "IFRS 9 Financial Instruments" standard, issued for classification and measurement of the financial instruments. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets at Fair Value Through Profit or Loss", transaction costs are added to fair value or deducted from fair value.

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.

Classification and measurement of financial assets

According to IFRS 9 requirements, classification and measurement of the financial assets depend on two fundamental criteria:

- The business model within financial assets are managed and
- The features of contractual cash flow; whether contractual cash flows are based on solely payments of principal and interest or not

Assessment for the business model:

The business model of the Bank represents how the Bank manages its financial assets for generating cash flows. The business model specifies whether cash flows arise from the collection of contractual cash flows or the sale of financial assets, or both. This assessment is based on scenarios the Bank expects to reasonably occur.

3. Summary of significant accounting policies *(continued)*

3.5 Financial instruments *(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 Bank considers the contractual terms of the instrument. This includes 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 such assessment, the Bank considers contingent events that would change the amount and timing of cash flows, conditions that limit the Bank’s claim to cash flows, prepayments and extension terms and features that modify consideration for the time value of money. Such assessments are also briefly defined as contractual cash flow characteristics test.

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

Financial assets at fair value through profit or loss

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

Financial assets at fair value through other comprehensive income

“Financial Assets at Fair Value through Other Comprehensive Income” are financial assets which are managed with business model that aims to hold to collect contractual cash flows and aims to hold to sell; and if the contractual terms of the financial assets lead to cash flows representing solely payments of principal and interest at certain dates.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost which reflects the fair value of the financial asset. After initial 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 securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value.

During initial recognition an entity can make an irrevocable choice as to record the changes of the fair value of 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 recognized in the financial statements as profit or loss.

Financial assets measured at amortised 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 (internal rate of return) method. Interest income obtained from financial assets measured at amortized cost is accounted in the income statement.

3. Summary of significant accounting policies *(continued)*

3.5 Financial instruments *(continued)*

Loans

Loans are financial assets that have fixed or determinable payment terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and subsequently measured at amortized cost using the effective interest rate (internal rate of return) method. Bank's loans are fully recorded under the "Measured at Amortised Cost" account.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities. Financial liabilities, including funds borrowed, securities issued, customer accounts and money market payables are initially measured at fair value, net of transaction costs. Such financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are recognised in profit or loss.

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

3.6 Expected credit losses

The Bank recognizes a loss allowance for expected credit losses on financial assets and loans measured at amortized cost and fair value through other comprehensive income and non-cash loans in accordance with IFRS 9. IFRS 9 introduces a forward-looking expected credit loss (ECL) approach, which is intended to result in an earlier recognition of credit losses based on an ECL impairment approach compared with the incurred-loss impairment approach for financial instruments under IAS 39, Financial Instruments: Recognition and Measurement and the loss-provisioning approach for financial guarantees and loan commitments.

At each reporting date, the Bank assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. The Bank considers the changes in the default risk of financial instrument, when making the assessment.

The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions. These financial assets are divided into three categories depending on increase in credit risk observed since their initial recognition:

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

Stage 2: As of the reporting date of the financial asset, in the event of a significant increase in credit risk since initial recognition or met criteria below 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: Financial assets considered as impaired at the reporting date are classified as stage 3. The probability of default is taken into account as 100% in the calculation of impairment provision and the Bank accounts lifetime expected credit losses. In determining the impairment, the Bank takes into consideration the following criteria:

Furthermore, individual assessment would be applied for stage 2 and stage 3 financial assets when it is necessary by considering various scenarios including discounting cash flows of financial assets.

The Bank measured expected credit losses with the reasonable, objective and supportable information based on a probability-weighted including estimations regarding time value of money, past events, current conditions and future economic conditions as of the reporting date, without undue cost or effort. The calculation of expected credit losses consists of three main parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD).

3. Summary of significant accounting policies *(continued)*

3.6 Expected credit losses *(continued)*

Prior to 1 January 2018, the Bank did not have any default history track and no historical data for assumptions of PD and LGD. The Bank uses Moody's global default rates corresponding to the ratings of external / internal rating of lenders when there are default probabilities (PDs) to be used to calculate ECLs. The recovery rates of collateralized loss (LGD) rates are calculated taking into account the specific coefficients. Credit risks carried outside of the statement of financial position is included in the ECL calculation using a specific credit conversion rate. Such ECL calculation is modelled taking into Basel criteria.

With the adoption of IFRS 9, the Bank calculates PD, LGD, EAD (Exposure at default) and ECL (expected credit losses) for each financial asset, rather than group or portfolio basis. PDs are determined by the bank based on internal rating scores calculated by in-house built up model for corporate loans and financial customers other than banks. For banks and sovereign risk, ratings given by the internationally accepted independent rating institutions are used as basis for ECL calculation. The Bank's policy is to use standard PDs published by international rating agencies as Through the Cycle PDs and calibrate them to obtain 1 year Point in Time by considering forward looking approach. The PDs in Stage 1 and Stage 2 are considered using the linear projection method (interpolation) for the remaining period of existence of quarters. The Bank would use the same model for stage 2 loans when exists with using life-time PDs. Further; PDs will be %100 for stage 3 loans when there will be non-performing loans. For non-cash loans, prior to calculating EAD, cash equivalent risk exposures are calculated by a credit conversion factor (CCF). Credit Conversion Factors are determined based on the ratios specified in the "Capital Adequacy Regulation" set by BRSA, local regulator. The present value of the ECLs are then calculated using the effective interest rates of the related financial assets.

The PD represents the likelihood of a default over a specified time period. A 12-month PD represents the likelihood of default determined for the next 12 months and a lifetime PD represents the probability of default over the remaining lifetime of the instrument. The lifetime PD calculation is based on a series of 12-month PIT PDs that are derived from TTC PDs and scenario forecasts.

In the light of the macroeconomic indicators, which are updated every 6 months, forward-looking PD forecasts are updated periodically. In this context, according to the evaluations made in the first half of the year, there was a decrease of TL 1,480 in the provisions and was reflected in the June-end financials. As a result of the second evaluation made at the end of the year, the relative deterioration in Turkey's macroeconomic expectations was taken into account in PD calibrations. The provision increase amounting to TL 2,140 was reflected in the year-end financials.

Exposure at Default ("EAD")

The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial instrument. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals, discounted at the effective interest rate. Future drawdowns on facilities are considered through a credit conversion factor (CCF) that is reflective of historical drawdown and default patterns and the characteristics of the respective portfolios.

The Bank defines EAD with following terms while summing up to express the total exposure:

- Accrued interest and principal at reporting date;
- Possible interest costs during the post-default lifecycle, if interest calculations are not stopped at default date (normally, we accept one-year horizon);
- Contractual future penalties that might increase the value of the borrower's liability during the post-default year

Calculating the Expected Loss Period

Lifetime ECL is calculated by considering maturity extensions, repayment options and the period during which the Parent Bank will be exposed to credit risk. The time in financial guarantees and other irrevocable commitments represents the credit maturity for which the liabilities of the Bank.

Significant increase in credit risk

The Bank makes qualitative and quantitative assessments regarding assessment of significant increase in credit risk of financial assets to be classified as stage 2 (Significant Increase in Credit Risk).

Within the scope of quantitative assessment, the quantitative reason explaining the significant increase in the credit risk is based on a comparison of the probability of default calculated at the origination of the loan and the probability of default assigned for the same loan as of the reporting date. If there is a significant deterioration in PD, it is considered that there is a significant increase in credit risk and the financial asset is classified as stage 2.

3. Summary of significant accounting policies *(continued)*

3.6 Expected credit losses *(continued)*

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- Gross Domestic Product;
- Turkey Banking Sector NPL rates;

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Based on three-year expectations on NPL and gross domestic product, PD table is calibrated. Economic changes show its influence to the rating score and PD estimates across industries for the three years period forward at least. It will be an extensive channel to the rating factors and PD estimates from the forecasted indicators written sourced from the strategy.

Due to the fact that the Covid epidemic became a global problem in March 2020, studies reflecting forward-looking expectations on the financial statements and conducted every 6 months were brought forward. In this context, the effects of the economic slowdown caused by Covid were reflected in the April financials for the first time. After some measures taken and support packages announced, expectations were reviewed again. During the second half of the year, some studies were carried out to improve the Bank's rating model. After improvement studies, all customers in Stage-1 and Stage-2 were re-graded and macroeconomic expectations including Covid effects were considered during calibration. Additionally, individual assessments has been made for the loans that are classified as Stage-3. During individual assessment calculations, the provision includes, considers, the customers that are belonging to a sector that are negatively affected due to Covid. This approach will be continuously reviewed in the forthcoming reporting periods, considering the impact of the epidemic, and macroeconomic projections which may result to changes in the loan portfolio and provisions.

3.7 Derecognition of financial instruments

Derecognition of financial assets due to change in contractual terms

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset could lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. When the Bank assesses the characteristics of the new contractual terms of the financial asset, it evaluates the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognized a modification gain or loss in profit or loss.

Where all risks and rewards of ownership of the asset have not been transferred to another party and the Bank retains control of the asset, the Bank continues to recognize the remaining portion of the asset and liabilities arising from such asset. When the Bank retains substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognized in its entirety and the consideration received is recognized as a liability.

Derecognition of financial assets without any change in contractual terms

The Bank derecognizes the asset if the contractual rights to cash flows from the financial asset are expired or the related financial asset and all risks and rewards of ownership of the asset are transferred to another party. Except for equity instruments measured at fair value through other comprehensive income, the total amount consisting of the gain or loss arising from the difference between the book value and the amount obtained and any accumulated gain directly accounted in equity shall be recognized in profit/loss.

Derecognition of financial liabilities

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

3. Summary of significant accounting policies *(continued)*

3.8 Property and equipment

Property and equipment is measured at its cost when initially recognised 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 are carried at cost less accumulated depreciation and provision for value decrease, if any. Depreciation is calculated over the cost of property and equipment using the straight-line method. The useful lives are stated below:

	Useful Life
Buildings	50 years
Furniture and fixtures	5-10 years
Computer and Other Equipment	3-10 years
Other Equipment	3-15 years
Vehicles	5 years

The depreciation charge for items remaining in property and equipment for less than an accounting period at the balance sheet date is calculated in proportion to the period the item remained in property and equipment.

Where the carrying amount of an asset is greater than its estimated "recoverable amount", it is written down immediately to its "recoverable amount" and the provision for the diminution in value is charged to the income statement.

Property and equipment are not subject to valuation such that fair value is presented in the financial statements.

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 regular repair and maintenance of property and equipment are recognised as expense. The capital expenditures made in order to increase the capacity of the tangible asset or to increase its future benefits are capitalised on the cost of the tangible asset. The capital expenditures include the cost components which are used either to increase the useful life or the capacity of the asset, or the quality of the product or to decrease the costs.

There is no pledge, mortgage or commitment on the Bank's property and equipment.

The Bank expects no change with respect to accounting estimates that have significant impact on the current period or may have significant impact on the following periods.

3.9 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 amortization and the provision for value decreases, if any.

Intangibles are amortised over their estimated useful lives of three to five years using the straight-line method. The useful life of the asset is determined by assessing the expected useful life of the asset, technical, technological and other kinds of obsolescence and all required maintenance expenses necessary to utilise the economic benefit of the assets.

The Bank expects no change with respect to accounting estimates, amortization period, amortization method, or residual value that will have significant impact on the current or the following periods.

3.10 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less amortisation less any impairment losses.

The Bank's investment properties are valued by external, independent valuation companies on a periodic basis for disclosure and impairment assessment purposes. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction. In the absence of available current prices in an active market, the valuations are based on estimated cash flows expected to be received. Investment property held consists of land and building with a useful life of 50 years.

3. Summary of significant accounting policies *(continued)*

3.11 Leases

Assets acquired under finance lease agreements are capitalised at the inception of the lease at the "lower of the fair value of the leased asset or the present value of the amount of cash consideration given for the leased asset". Leased assets are included in the property and equipment and depreciation is charged on a straight-line basis over the useful life of these assets. If there is any diminution in value of the leased asset, a "Provision for value decrease" is recognised. Liabilities arising from the leasing transactions are included in "Financial Lease Payables" on the balance sheet. Interest and foreign exchange expenses regarding lease transactions are charged to the income statement.

The Bank can engage in financial lease transactions as the lessor. The Bank records the gross amount of minimum lease receivables comprising of principal and interest amounts as "financial lease receivables" under lease receivables account. The difference between the aggregate of lease receivables and the cost of the related leased assets, corresponding to interest, is recorded under "unearned income" item. The interest income is recognised in the income statement on an accrual basis.

The Bank records most leases on-balance sheet except its short term leases and its low value assets accordance with as IFRS 16 Leases.

3.12 Provisions

Provisions and contingent liabilities except for the financial instruments within the scope of the IFRS 9 or the provisions recognised in accordance with other standards such as IAS 12 and IAS 19 are accounted in accordance with the "IAS 37 Standard for Provisions, Contingent Liabilities and Contingent Assets".

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The provision for contingent liabilities arising from past events should be recognised in the same period of occurrence in accordance with the "Matching principle". When the amount of the obligation cannot be estimated and there is no possibility of an outflow of resources from the Bank, it is considered that a "Contingent" liability exists and it is disclosed in the related notes to the financial statements.

3.13 Employee benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Bank. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19"). The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation.

Profit-sharing and bonus plans

The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

The Bank has a bonus policy which depends on the profitability and each employee's performance. When certain performance criteria are met during the year, the Bank recognises a bonus provision for that year.

3.14 Fiduciary and trust activities

The Bank provides fiduciary and trust services to individuals and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Trust assets held by the Bank in a fiduciary, agency or custodian capacity for its customers are not recognized in the financial statements, since such items are not as assets of the Bank. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

3. Summary of significant accounting policies *(continued)*

3.15 The new standards, amendments and interpretations

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

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

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

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

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

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

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

Relief from discontinuing hedging relationships

- The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR.
- For the IAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero.
- The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued.
- As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform.

Separately identifiable risk components

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

Additional disclosures

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

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

The amendments did not have a significant impact on the financial position or performance of the Bank.

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

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

  The amendments did not have a significant impact on the financial position or performance of the Bank.

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

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

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

  In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Bank expects no significant impact on its balance sheet and equity.

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

  In May 2020, the IASB issued amendments to IFRS 3 Business combinations. The amendments are intended to replace to a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing requirements of IFRS 3. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments issued to IFRS 3 which are effective for periods beginning on or after 1 January 2022 and must be applied prospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS standards (March 2018). The Bank expects no significant impact on its balance sheet and equity.

- **Amendments to IAS 16 – Proceeds before intended use**

  In May 2020, the IASB issued amendments to IAS 16 Property, plant and equipment. The amendments prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and costs of producing those items, in profit or loss. The amendments issued to IAS 16 which are effective for periods beginning on or after 1 January 2022. Amendments must be applied retrospectively only to items of PP&E made available for use on or after beginning of the earliest period presented when the entity first applies the amendment. There is no transition relief for the first time adopters. The Bank expects no significant impact on its balance sheet and equity.

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

  In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent assets. The amendments issued to IAS 37 which are effective for periods beginning on or after 1 January 2022, to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making and also apply a "directly related cost approach". Amendments must be applied prospectively to contracts for which an entity has not fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed. The Bank expects no significant impact on its balance sheet and equity.

- **IFRS 17 - The new Standard for insurance contracts**

  The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023; early application is permitted. The Bank expects no significant impact on its balance sheet and equity.

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

  In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments issued to IAS 1 which are effective for periods beginning on or after 1 January 2023, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted. The Bank expects no significant impact on its balance sheet and equity.

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

  In February 2021, the Board issued amendments to IAS 8, in which it introduces a new definition of 'accounting estimates'. The amendments issued to IAS 8 are effective for annual periods beginning on or after 1 January 2023. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors. This aspect of the definition was retained by the Board. The amendments apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of the effective date. Earlier application is permitted. The Bank expects no significant impact on its balance sheet and equity.

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

  In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments issued to IAS 1 are effective for annual periods beginning on or after 1 January 2023. In the absence of a definition of the term 'significant' in IFRS, the Board decided to replace it with 'material' in the context of disclosing accounting policy information. 'Material' is a defined term in IFRS and is widely understood by the users of financial statements, according to the Board. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and the nature of them. Examples of circumstances in which an entity is likely to consider accounting policy information to be material have been added. The Bank expects no significant impact on its balance sheet and equity.

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

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

iii) Annual Improvements – 2018–2020 Cycle

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

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

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

(Currency - in Thousands of Turkish Lira (“TL”) unless otherwise indicated)

4. Cash and cash equivalents

	31 December 2021	31 December 2020
Current accounts with other credit institutions	100,356	14,580
Time deposits with credit institutions up to 3 months	66,646	104,635
Current accounts with the Central Bank of the Republic Turkey (CBRT)	8,028	21,255
Cash on hand	24	14
Reverse repurchase agreements with credit institutions up to 3 months	-	23,011
Less: allowance for impairment	(66)	(152)
	174,988	**163,343**

As of 31 December 2021 and 31 December 2020, all the cash and cash equivalents are allocated to Stage 1 in accordance with IFRS 9. An analysis of changes in the ECL allowances during the year is, as follows:

	31 December 2021	31 December 2020
ECL allowance as of 1 January	(152)	(54)
Changes in ECL	86	(98)
	(66)	**(152)**

As of 31 December 2021, the interest rates for time deposits are 0.3% - 0.5% for USD balances (31 December 2020: 18.0% for TRY balances and 0.2% - 2.0% for USD balances).

5. Amounts due from credit institutions

	31 December 2021	31 December 2020
Obligatory reserve with the Central Bank of the Republic Turkey (CBRT)	275,717	133,831
Restricted deposits	42,908	2,296
Less: allowance for impairment	(415)	(181)
	318,210	**135,946**

As of 31 December 2021 and 31 December 2020, all the reserve requirements are allocated to Stage 1 in accordance with IFRS 9.

The reserve rates for TL liabilities vary between 3% and 8% for TL deposits and other liabilities according to their maturities as of 31 December 2021 (31 December 2020: 1% and 6% for TL liabilities). The reserve rates for foreign currency liabilities vary between 5% and 25% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2021 (31 December 2020: 5% and 21% for foreign currency liabilities).

An analysis of changes in the gross carrying values from credit institutions as of 31 December 2021 and 31 December 2020 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as of 1 January 2021	**136,127**	**-**	**-**	**136,127**
New assets originated or purchased	114,387	-	-	114,387
Assets repaid	(48,749)	-	-	(48,749)
Foreign exchange adjustments	116,860	-	-	116,860
Gross carrying value as of 31 December 2021	**318,625**	**-**	**-**	**318,625**

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as of 1 January 2020	**123,007**	**-**	**-**	**123,007**
New assets originated or purchased	138,974	-	-	138,974
Assets repaid	(151,068)	-	-	(151,068)
Foreign exchange adjustments	25,214	-	-	25,214
Gross carrying value as of 31 December 2020	**136,127**	**-**	**-**	**136,127**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

5. Amounts due from credit institutions *(continued)*

An analysis of changes in ECL allowance on amounts from credit institutions as of 31 December 2021 and 31 December 2020 are as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2021	**(181)**	**-**	**-**	**(181)**
New assets originated or purchased	(587)	-	-	(587)
Assets repaid	353	-	-	353
ECL as of 31 December 2021	**(415)**	**-**	**-**	**(415)**

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2020	**(110)**	**-**	**-**	**(110)**
New assets originated or purchased	(107)	-	-	(107)
Assets repaid	36	-	-	36
ECL as of 31 December 2020	**(181)**	**-**	**-**	**(181)**

6. Financial assets at fair value through profit or loss

	31 December 2021	31 December 2020
Mutual funds participation certificates	20,956	7,405
	20,956	**7,405**

As of 31 December 2021, total remaining commitments amount for the mutual funds is TL 15,388 (31 December 2020 - TL 17,961).

7. Investment Securities

	31 December 2021	31 December 2020
Debt securities at FVOCI		
Turkish government bonds	39,205	14,039
Bonds of financial institutions	2,988	2,502
Corporate bonds	833	6,650
	43,026	**23,191**
Equity securities at FVOCI		
Investment in Kredi Garanti Fonu A.Ş.	7,659	7,659
	50,685	**30,850**

	31 December 2021	31 December 2020
Debt securities at amortized cost		
Turkish government bonds	189,860	45,092
Bonds of financial institutions	159,178	71,684
Corporate bonds	12,065	-
	361,103	**116,776**
Less: allowance for impairment	(4,224)	(1,755)
	356,879	**115,021**

The details of securities pledged under repurchase of investment securities of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021	31 December 2020
Debt securities at FVOCI		
Securities pledged under repurchase agreements	30,931	4,133
Debt securities at amortized cost		
Securities pledged under repurchase agreements	105,169	27,016
	136,100	**31,149**

All balances of investment securities are allocated to Stage 1.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

7. Investment Securities *(continued)*

The interest rate range and the latest maturity of investment securities as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021		31 December 2020	
	Interest Rate Range %	**Latest Maturity**	**Interest Rate Range %**	**Latest Maturity**
Debt securities at FVOCI				
Turkish government bonds in TRY	12.2%-20.1%	Sep 2026	20.9%	Apr 2021
Bonds of financial institutions in TRY	25.3%	Oct 2027	16.2%	Oct 2027
Corporate bonds in TRY	22.0%	Mar 2023	17.0%-18.0%	Nov 2021
Debt securities at amortized cost				
Turkish government bonds in USD	5.1%-7.4%	Oct 2025	5.1%-6.3%	Sep 2022
Bonds of financial institutions in USD	5.0%-6.0%	Jul 2026	5.0%-6.0%	Jan 2023
Corporate bonds in USD	5.0%	Nov 2024	-	-

An analysis of changes in the gross carrying values in relation to debt securities at FVOCI and at amortized cost are as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities and equity securities at FVOCI				
Gross carrying value as of 1 January 2021	**30,850**	**-**	**-**	**30,850**
New assets originated or purchased	52,561	-	-	52,561
Assets repaid	(28,597)	-	-	(28,597)
Unwinding of discount (recognised in interest revenue)[1]	(497)	-	-	(497)
Change at fair value	(3,632)	-	-	(3,632)
Gross carrying value as of 31 December 2021	**50,685**	**-**	**-**	**50,685**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities and equity securities at FVOCI				
Gross carrying value as of 1 January 2020	**14,785**	**2,039**	**-**	**16,824**
New assets originated or purchased	26,531	-	-	26,531
Assets repaid	(10,163)	(2,000)	-	(12,163)
Unwinding of discount (recognised in interest revenue)[1]	479	(39)	-	440
Change at fair value	(782)	-	-	(782)
Gross carrying value as of 31 December 2020	**30,850**	**-**	**-**	**30,850**

[1] The amounts represent for the change in interest accruals.

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities at amortized cost				
Gross carrying value as of 1 January 2021	**116,776**	**-**	**-**	**116,776**
New assets originated or purchased	119,875	-	-	119,875
Assets repaid	-	-	-	-
Unwinding of discount (recognised in interest revenue)[1]	3,740	-	-	3,740
Foreign exchange adjustments	120,712	-	-	120,712
Gross carrying value as of 31 December 2021	**361,103**	**-**	**-**	**361,103**

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities at amortized cost				
Gross carrying value as of 1 January 2020	**79,975**	**-**	**-**	**79,975**
New assets originated or purchased	49,278	-	-	49,278
Assets repaid	(35,056)	-	-	(35,056)
Unwinding of discount (recognised in interest revenue)[1]	224	-	-	224
Foreign exchange adjustments	22,355	-	-	22,355
Gross carrying value as of 31 December 2020	**116,776**	**-**	**-**	**116,776**

[1] The amounts represent for the change in interest accruals.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

7. Investment Securities *(continued)*

An analysis of changes in ECLs in relation to debt securities at FVOCI and at amortized cost are as follows:

	Stage 1	Stage 2	Stage 3	Total
Debt securities at FVOCI				
ECL as of 1 January 2021	**(466)**	**-**	**-**	**(466)**
New assets originated or purchased	(187)	-	-	(187)
Asset repaid	135	-	-	135
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	(61)	-	-	(61)
ECL as of 31 December 2021	**(579)**	**-**	**-**	**(579)**

	Stage 1	Stage 2	Stage 3	Total
Debt securities at amortized cost				
ECL as of 1 January 2020	**(70)**	**(18)**	**-**	**(88)**
New assets originated or purchased	(495)	-	-	(495)
Asset repaid	101	18	-	119
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	(2)	-	-	(2)
ECL as of 31 December 2020	**(466)**	**-**	**-**	**(466)**

	Stage 1	Stage 2	Stage 3	Total
Debt securities at amortized cost				
ECL as of 1 January 2021	**(1,755)**	**-**	**-**	**(1,755)**
New assets originated or purchased	(2,228)	-	-	(2,228)
Asset repaid	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	(241)	-	-	(241)
ECL as of 31 December 2021	**(4,224)**	**-**	**-**	**(4,224)**

	Stage 1	Stage 2	Stage 3	Total
Debt securities at amortized cost				
ECL as of 1 January 2020	**(666)**	**-**	**-**	**(666)**
New assets originated or purchased	(1,529)	-	-	(1,529)
Asset repaid	453	-	-	453
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	(13)	-	-	(13)
ECL as of 31 December 2020	**(1,755)**	**-**	**-**	**(1,755)**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

8. Loans to customers

	31 December 2021	31 December 2020
Corporate customers	2,422,452	1,492,935
Individuals	-	-
Gross loans to customers at amortised cost	**2,422,452**	**1,492,935**
Less: allowance for impairment	(70,933)	(42,190)
	2,351,519	**1,450,745**

Finance lease receivables included in corporate lending portfolio and the analysis of the gross finance lease receivables and the unearned future finance income are as follows:

	31 December 2021			31 December 2020		
	Gross	Unearned	Net	Gross	Unearned	Net
Up to 1 year	77,841	(19,182)	58,659	46,695	(9,443)	37,252
1 to 5 years	175,162	(27,819)	147,343	90,430	(19,513)	70,917
Over 5 years	-	-	-	-	-	-
	253,003	**(47,001)**	**206,002**	**137,125**	**(28,956)**	**108,169**

The breakdown of loans to customers is as follows:

	31 December 2021	31 December 2020
Construction	685,100	407,006
Non-banking credit organizations	494,050	321,902
Energy	400,326	262,684
Manufacturing	323,550	169,325
Transport and telecommunication	235,804	89,464
Trade and services	105,709	62,223
Rental services	98,160	29,689
Mining	-	29,753
Other	79,753	120,889
	2,422,452	**1,492,935**

An analysis of changes in the gross carrying value and corresponding ECL are as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as of 1 January 2021	**1,337,666**	**119,192**	**36,077**	**1,492,935**
New assets originated or purchased	2,051,961	98,470	1,671	2,152,102
Assets repaid (excluding write-offs)	(1,826,090)	(104,543)	(7,927)	(1,938,560)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(700)	(10,251)	10,951	-
Foreign exchange adjustments	651,853	59,070	5,052	715,975
Gross carrying value as of 31 December 2021	**2,214,690**	**161,938**	**45,824**	**2,422,452**

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2021	**(7,920)**	**(14,439)**	**(19,831)**	**(42,190)**
New assets originated or purchased	(11,825)	(22,761)	(1,026)	(35,612)
Assets repaid	3,749	1,200	2,586	7,535
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	7	6,085	(6,092)	-
Changes to models and inputs used for ECL calculations	(223)	88	-	(135)
Foreign exchange adjustments	-	-	(531)	(531)
ECL as of 31 December 2021	**(16,212)**	**(29,827)**	**(24,894)**	**(70,933)**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

8. Loans to customers *(continued)*

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as of 1 January 2020	**954,756**	**102,839**	**35,454**	**1,093,049**
New assets originated or purchased	1,725,535	67,517	53	1,793,105
Assets repaid (excluding write-offs)	(1,553,438)	(66,687)	(3,354)	(1,623,479)
Transfers to Stage 1	2,710	(2,710)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Foreign exchange adjustments	208,103	18,233	3,924	230,260
Gross carrying value as of 31 December 2020	**1,337,666**	**119,192**	**36,077**	**1,492,935**

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2020	**(7,625)**	**(18,085)**	**(22,279)**	**(47,989)**
New assets originated or purchased	(4,338)	(8,399)	(394)	(13,131)
Assets repaid	2,525	11,553	4,102	18,180
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	1,518	492	-	2,010
Foreign exchange adjustments	-	-	(1,260)	(1,260)
ECL as of 31 December 2020	**(7,920)**	**(14,439)**	**(19,831)**	**(42,190)**

9. Investment Property

	31 December 2021	31 December 2020
Opening balance at 1 January 2021	**144,862**	**145,599**
Additions	-	-
Amortisation for the year	(952)	(737)
Closing balance at 31 December 2021	**143,910**	**144,862**

The investment property is carried at cost less amortisation less impairment. As of 31 December 2021, the fair value of the investment property is TL 161 million according to reports of the accredited independent companies and no additional impairment loss recognized as of 31 December 2021.

(Currency - in Thousands of Turkish Lira (“TL”) unless otherwise indicated)

10. Property and equipment

	Land	Buildings	Furniture and fixtures	Computers and other equipment	Vehicles	Other equipment	Total
Cost							
1 January 2020	**58,718**	**39,050**	**3,509**	**2,693**	**1,628**	**1,421**	**107,019**
Additions	-	-	117	553	-	83	753
Disposals	-	-	-	(16)	-	-	(16)
Transfer	-	-	(573)	573	-	-	-
31 December 2020	**58,718**	**39,050**	**3,053**	**3,803**	**1,628**	**1,504**	**107,756**
Additions	-	139	40	1,006	-	17	1,202
Disposals	-	-	(45)	(439)	-	(129)	(613)
31 December 2021	**58,718**	**39,189**	**3,048**	**4,370**	**1,628**	**1,392**	**108,345**
Accumulated Depreciation							
1 January 2020	**(9,609)**	**(5,312)**	**(241)**	**(1,349)**	**(213)**	**(198)**	**(16,922)**
Additions	-	(575)	(520)	(549)	(310)	(164)	(2,118)
Disposals	-	-	-	1	-	-	1
31 December 2020	**(9,609)**	**(5,887)**	**(761)**	**(1,897)**	**(523)**	**(362)**	**(19,039)**
Additions	-	(696)	(546)	(657)	(325)	(179)	(2,403)
Disposals	-	-	36	416	-	127	579
31 December 2021	**(9,609)**	**(6,583)**	**(1,271)**	**(2,138)**	**(848)**	**(414)**	**(20,863)**
Net Book Value							
31 December 2020	**49,109**	**33,163**	**2,292**	**1,906**	**1,105**	**1,142**	**88,717**
31 December 2021	**49,109**	**32,606**	**1,777**	**2,232**	**780**	**978**	**87,482**

11. Right of use assets and lease liabilities

	Right of use assets	Lease liabilities
Opening balance at 1 January 2021	161	178
Additions	458	463
Disposals and write offs, net	-	-
Depreciation expense	(119)	-
Interest expense	-	50
Payments	-	(153)
Foreign exchange adjustments	-	-
Closing balance at 31 December 2021	**500**	**538**
Opening balance at 1 January 2020	141	147
Additions	107	107
Disposals and write offs, net	-	-
Depreciation expense	(87)	-
Interest expense	-	23
Payments	-	(99)
Foreign exchange adjustments	-	-
Closing balance at 31 December 2020	**161**	**178**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

12. Intangible assets

	Computer software	Total
Cost		
1 January 2020	**8,780**	**8,780**
Additions	2,660	2,660
Disposals	-	-
31 December 2020	**11,440**	**11,440**
Additions	3,625	3,625
Disposals	-	-
31 December 2021	**15,065**	**15,065**
Accumulated Depreciation		
1 January 2020	**(2,703)**	**(2,703)**
Additions	(1,888)	(1,888)
Disposals	-	-
31 December 2020	**(4,591)**	**(4,591)**
Additions	(2,690)	(2,690)
Disposals	-	-
31 December 2021	**(7,281)**	**(7,281)**
Net Book Value		
31 December 2020	**6,849**	**6,849**
31 December 2021	**7,784**	**7,784**

13. Other assets and liabilities

	31 December 2021	31 December 2020
Other financial assets		
Clearance cheque accounts[1]	20,279	18,836
Other receivables	73	12
	20,352	**18,848**
Less: allowance for impairment of other financial assets	-	-
Total other financial assets	**20,352**	**18,848**
Other non-financial assets		
Prepayments	2,103	1,621
Collaterals given	15	147
Other non-financial assets	63	23
Total other non-financial assets	**2,181**	**1,791**
Other assets	**22,533**	**20,639**

[1] Amount consists of collateral cheques received from customers and submitted to settlement and custody bank.

As of 31 December 2021 and 31 December 2020, all the financial assets are allocated to Stage 1 in accordance with IFRS 9.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

13. Other assets and liabilities *(continued)*

	31 December 2021	31 December 2020
Other financial liabilities		
Clearance cheque accounts[1]	20,279	18,836
Payable to suppliers	3,147	130
Accrued expenses	1,037	911
Other financial liabilities	398	-
Total other financial liabilities	**24,861**	**19,877**
Other non-financial liabilities		
Deferred income	2,585	1,149
Other non-financial liabilities	-	-
Total other non-financial liabilities	**2,585**	**1,149**
Other liabilities	**27,446**	**21,026**

[1] Amount consists of collateral cheques received from customers and submitted to settlement and custody bank.

14. Amounts due to banks and financial institutions

	31 December 2021	31 December 2020
Short Term		
Domestic banks and financial institutions	138,124	90,476
Foreign banks and financial institutions	488,146	284,525
	626,270	**375,001**
Long Term		
Domestic banks and financial institutions	-	-
Foreign banks and financial institutions	749,936	428,333
	749,936	**428,333**
	1,376,206	**803,334**

The interest rate range and the latest maturity of amounts due to banks and financial institutions of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021		31 December 2020	
	Interest Rate Range %	**Latest Maturity**	**Interest Rate Range %**	**Latest Maturity**
Domestic banks and financial institutions in TRY	16.5%-18.0%	Jan 2022	17.8%	Apr 2021
Domestic banks and financial institutions in EUR	0.01%-0.7%	Jan 2022	0.2%-1.4%	Feb 2021
Foreign banks and financial institutions in TRY	14.0%-19.0%	Jan 2022	12.0%-18.5%	Jan 2021
Foreign banks and financial institutions in USD	1.0%-4.3%	Mar 2023	0.1%-4.3%	Mar 2023
Foreign banks and financial institutions in EUR	0.9%-2.2%	Aug 2023	0.0%-2.2%	Aug 2023

15. Amounts due to customers

	31 December 2021	31 December 2020
Demand deposits	63,292	11,688
Time deposits	35,500	57,388
	98,792	**69,076**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

15. Amounts due to customers *(continued)*

An analysis of customers by economic sectors is as follows:

	31 December 2021	31 December 2020
Construction	27,760	1,569
Energy	24,361	22,393
Transport and telecommunication	22,475	1,298
Non-banking credit organizations	11,454	10,296
Individuals	10,024	12,613
Trade and services	2,224	1,367
Manufacturing	441	19,518
Other	53	22
	98,792	**69,076**

16. Money market deposits

	31 December 2021	31 December 2020
Through repo transaction	105,023	22,782
Through Takasbank	100,500	30,481
	205,523	**53,263**

The interest rate range and the latest maturity of money market as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021		31 December 2020	
	Interest Rate Range %	Latest Maturity	Interest Rate Range %	Latest Maturity
Money market deposits in TRY	14.0%-18.4%	Apr 2022	16.0%-16.5%	Jan 2021
Money market deposits in USD	1.0%-2.6%	Jul 2022	3.1%	Jan 2021
Money market deposits in EUR	0.2%-1.1%	Jan 2022	-	-

17. Debt securities issued

	31 December 2021	31 December 2020
Debt securities issued in FC	1,158,195	647,016
Debt securities issued in TL	64,264	-
	1,222,459	**647,016**

The interest rate range and the latest maturity of debt securities issued as of 31 December 2021 and 31 December 2020 are as follows:

	31 December 2021		31 December 2020	
	Interest Rate Range %	Latest Maturity	Interest Rate Range %	Latest Maturity
Debt securities issued in TRY	18.4%	Jan 2022	-	-
Debt securities issued in USD	2.7%-4.9%	Dec 2023	3.0%-4.9%	Dec 2022
Debt securities issued in EUR	1.8%	Feb 2023	1.8%	Feb 2023

18. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

	31 December 2021			31 December 2020		
	Notional amount	Fair Values		Notional amount	Fair Values	
		Asset	Liability		Asset	Liability
Forwards – domestic	-	-	-	4,472	16	-
Forwards – foreign	-	-	-	-	-	-
Swaps – domestic	278,708	13,604	(114)	190,171	477	(1,430)
Swaps – foreign	-	-	-	-	-	-
	278,708	**13,604**	**(114)**	**194,643**	**493**	**(1,430)**

The Bank's derivative financial instruments comprise of OTC derivatives.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

19. Provisions

The principal components of provisions are as follows:

	31 December 2021	31 December 2020
Bonus provision	7,700	7,200
Expected credit losses from non-cash loans	6,820	9,539
Vacation pay liability	1,094	582
Employee termination benefits	255	226
Other	100	50
	15,969	**17,597**

Expected credit losses from non-cash loans

An analysis of changes in the ECLs from non-cash loans as of 31 December 2021 and 31 December 2020 are as follows

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2021	**(1,744)**	**(7,795)**	**-**	**(9,539)**
New exposures	(4,351)	(43)	-	(4,394)
Exposures derecognised or matured (excluding write-offs)	588	6,762	-	7,350
Transfers to Stage 1	(256)	256	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to inputs used for ECL calculations	(205)	(32)	-	(237)
ECL as of 31 December 2021	**(5,968)**	**(852)**	**-**	**(6,820)**

	Stage 1	Stage 2	Stage 3	Total
ECL as of 1 January 2020	**(1,591)**	**(5,796)**	**-**	**(7,387)**
New exposures	(2,410)	(897)	-	(3,307)
Exposures derecognised or matured (excluding write-offs)	589	34	-	623
Transfers to Stage 1	(28)	28	-	-
Transfers to Stage 2	997	(997)	-	-
Transfers to Stage 3	-	-	-	-
Changes to inputs used for ECL calculations	699	(167)	-	532
ECL as of 31 December 2020	**(1,744)**	**(7,795)**	**-**	**(9,539)**

Reserve for employee termination benefits

In accordance with existing Turkish Labour Law, the Bank is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government.

The Bank reserved for employee severance indemnities in the accompanying financial statements using the projected unit credit method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement payment and discounted by using the current market yield on government bonds at the reporting date in compliance with the IAS 19 - Employee Benefits.

Other benefits to employees

The Bank has provided provision for undiscounted short-term employee benefits earned during the financial period as per services rendered in compliance with the IAS 19 - Employee Benefits in the accompanying financial statements.

20. Taxation

The income tax charge is composed of the sum of current tax and deferred tax.

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. The corporate tax rate will be applied as 25% for the corporate income for the 2021 taxation period and 23% for the corporate income for the 2022 taxation period.

With the "Law Amending the Tax Procedure Law and the Corporate Tax Law", which was accepted on the agenda of the Turkish Grand National Assembly on January 20, 2022, the application of inflation accounting was postponed starting from the balance sheet dated on December 31, 2023.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

20. Taxation *(continued)*

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset.

The current tax assets comprises:

	31 December 2021	31 December 2020
Withholding income tax	483	632
Current tax assets	-	-
	483	**632**

The current tax liabilities comprises:

	31 December 2021	31 December 2020
Current income tax liability	5,275	2,377
Banking insurance transactions tax liability	1,767	682
Social security premiums payable	374	284
Value added tax liability	329	78
Other taxes, duties and premiums payable	781	398
	8,526	**3,819**

The corporate income tax expense comprises:

	31 December 2021	31 December 2020
Current tax charge	(14,931)	(8,658)
Deferred tax (charge)/credit − origination and reversal of temporary differences	(1,430)	(1,968)
Less: current tax recognised in other comprehensive income	(704)	(86)
Income tax expense	**(17,065)**	**(10,712)**

Deferred tax related to items charged or credited to other comprehensive income is as follows:

	31 December 2021	31 December 2020
Net gain on investment securities FVOCI	704	86
Income tax credit to other comprehensive income	**704**	**86**

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	31 December 2021	31 December 2020
Profit before income tax expense	64,190	42,088
Statutory tax rate	25%	22%
Theoretical tax expense at the statutory rate	**(16,048)**	**(9,259)**
Tax effect of non-deductible expenses	(1,104)	(175)
Tax effect of tax-exempt income	27	-
Tax effects of deferred tax rate differences	60	(1,278)
Income tax expense	**(17,065)**	**(10,712)**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

20. Taxation (continued)

Deferred tax assets and liabilities and their movements are as follows:

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	31 December 2019	***In the statement of profit or loss***	***In other compre-hensive income***	***31 December 2020***	***In the statement of profit or loss***	***In other compre-hensive income***	***31 December 2021***
Loans to customers	5,720	(1,214)	-	4,506	4,753	-	9,259
Amount due from credit institutions	36	31	-	67	29	-	96
Investment securities	355	168	86	609	375	704	1,688
Provision for non-cash loans	1,625	283	-	1,908	(544)	-	1,364
Provision for employee benefits	649	384	-	1,033	(194)	-	839
Property, equipment and intangible assets	6,891	(1,610)	-	5,281	(1,315)	-	3,966
Other provisions	52	57	-	109	104	-	213
Other	345	157	-	502	46	-	548
Deferred tax assets	**15,673**	**(1,744)**	**86**	**14,015**	**3,254**	**704**	**17,973**
Amounts due to banks and financial institutions and debt securities issued	(16)	(154)	-	(170)	158	-	(12)
Investment securities	-	-	-	-	(2,220)	-	(2,220)
Other	(29)	(70)	-	(99)	(2,622)	-	(2,721)
Deferred tax liabilities	**(45)**	**(224)**	**-**	**(269)**	**(4,684)**	**-**	**(4,953)**
Net deferred tax assets	**15,628**	**(1,968)**	**86**	**13,746**	**(1,430)**	**704**	**13,020**

21. Equity

Share capital:

As of 31 December 2021, the authorised nominal share capital of PASHA Yatırım Bankası A.Ş. amounted to TL 500,000 (31 December 2020: TL 500,000), comprising 500 million (Full TL) registered shares of one TL 0.01 each.

The composition of shareholders and their respective percentage of ownership can be summarised as follows:

	31 December 2021		**31 December 2020**	
	Amount	**%**	**Amount**	**%**
PASHA Bank OJSC	254,795	50.96	254,795	50.96
PASHA Holding LLC	245,000	49.00	245,000	49.00
Others	205	0.04	205	0.04
	500,000	**100.00**	**500,000**	**100.00**

Other reserves

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

The other reserve is TL 3,266 and TL 1,697 as of 31 December 2021 and as of 31 December 2020, respectively.

22. Commitments and contingencies

Litigation

The Bank has provided TL 100 (31 December 2020: TL 50) of provision for the disputed legal cases filed by various persons and institutions, high probability of occurrence and requiring cash outflow. Although there are other ongoing lawsuits that against the Bank, do not expect high possibility of against result and cash outflows related to these cases.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

22. Commitments and contingencies *(continued)*

Financial commitments and contingencies:

The Bank enters into various contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk ("non-cash loans") to meet the financing needs of its customers. These contractual commitments consist of letters of guarantees, letters of credit and other guarantees. All these arrangements are related to the normal lending activities of the Bank. The exposure to credit loss in the event of non-performance of the other party is presented by the contractual notional amount of those instruments.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

	31 December 2021	31 December 2020
Letter of guarantee	305,087	291,819
Letter of credit	109,673	-
Other guarantees	317,729	40,807
Total non-cash loans	**732,489**	**332,626**
Other commitments	15,388	22,433
Total	**747,877**	**355,059**

23. Provisions for loans and other credit risks, net

31 December 2021	Note	Stage 1	Stage 2	Stage 3[1]	Total
Cash and cash equivalents	(4)	86	-	-	86
Amounts due from credit institutions	(5)	(234)	-	-	(234)
Investment securities at FVOCI	(7)	(113)	-	-	(113)
Investment securities at amortised cost	(7)	(2,469)	-	-	(2,469)
Loans to customers	(8)	(8,292)	(15,388)	(5,155)	(28,835)
Credit related commitments	(19)	(4,224)	6,943	-	2,719
Provisions for loans and other credit risks, net		**(15,246)**	**(8,445)**	**(5,155)**	**(28,846)**

[1] Includes TL 623 interest accruals and provision expense for Stage 3.

31 December 2020	Note	Stage 1	Stage 2	Stage 3[1]	Total
Cash and cash equivalents	(4)	(98)	-	-	(98)
Amounts due from credit institutions	(5)	(71)	-	-	(71)
Investment securities at FVOCI	(7)	(378)	-	-	(378)
Investment securities at amortised cost	(7)	(1,089)	-	-	(1,089)
Loans to customers	(8)	(295)	3,646	2,433	5,784
Credit related commitments	(19)	(153)	(1,999)	-	(2,152)
Provisions for loans and other credit risks, net		**(2,084)**	**1,647**	**2,433**	**1,996**

[1] Includes TL 15 interest accruals and provision expense for Stage 3.

Allowance for impairment of other assets is deducted from the carrying amounts of the related assets. Provision for ECL for credit related commitments are recorded in liabilities.

24. Net fees and commissions income

	31 December 2021	31 December 2020
Settlements operations	9,862	937
Guarantees and letters of credit	4,155	3,585
Money transfer operations	764	510
Other	650	891
Fees and commissions income	**15,431**	**5,923**
Settlements operations	(3,272)	(384)
Fee to correspondent banks and money transfer operations-expenses	(1,247)	(728)
Commissions for letter of guarantee obtained	(428)	(495)
Other	(199)	(130)
Fees and commissions expense	**(5,146)**	**(1,737)**
Net fees and commissions income	**10,285**	**4,186**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

25. Personnel, general and administrative expenses

	31 December 2021	31 December 2020
Salaries and bonuses	(23,438)	(20,173)
Social security costs	(2,198)	(1,847)
Other employee related expenses	(2,806)	(2,131)
Total personnel expenses	**(28,442)**	**(24,151)**

	31 December 2021	31 December 2020
Software cost	(4,208)	(2,670)
Professional services	(3,804)	(8,195)
Membership fees	(2,710)	(1,926)
Utilities	(1,571)	(1,270)
Communications	(1,458)	(1,186)
Taxes, other than income tax	(1,123)	(759)
Advertising costs	(900)	(701)
Transportation and business trip expenses	(862)	(298)
Insurance	(455)	(322)
Representation expenses	(315)	(109)
Repair and maintenance	(158)	(47)
Stationery	(129)	(96)
Operating leases	(116)	(63)
Security expenses	(111)	(94)
Other expenses	(697)	(545)
Total general and administrative expenses	**(18,617)**	**(18,281)**

26. Financial risk management

Introduction and overview

The Bank's risk approach is to achieve sound and sustainable low risk profile, through the identification, the measurement and the monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Bank is to manage the credit risk effectively and to eliminate the other types of risk by not carrying positions.

In the course of its normal operations, the Bank is exposed to a number of risks such as credit risk, market risk, liquidity risk, currency risk and operational risk. The Bank's risk policy can be summarised as:

- eliminating currency, interest rate and maturity risk
- minimizing market risk
- well managing the credit risk through a high standardized credit risk management

In accordance with the Bank's general risk management strategy; the Bank aims to eliminate its currency, interest rate and maturity positions that might create liquidity or market risk to Bank. Additionally, in order to minimize the market risk, marketable securities portfolio is limited proportional to the total assets.

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Bank implements all necessary risk management techniques in compliance with the related regulatory requirements in Turkey.

All risk levels are set and approved by the Board of Directors on a regularly basis, and it is announced to the organization.

The main functions and authority of the Board of Directors related to risk management activities are as follows;

- to define the policy of the Bank, regarding exposure to various risks (credit risks, market risks, operational risks, liquidity risks, legal risks, etc.)
- to manage, and guide all the activities of Internal Systems
- to approve new business lines, products or activities that would have a substantial effect on activities of the Bank

The Bank manages its exposure to all types of risks through the Asset and Liability Committee, comprising members of senior management, and a representative of main shareholder.

26. Financial risk management *(continued)*

In summary, in order not to be exposed to any liquidity, interest rate, market and foreign currency risk, the Bank always keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate). In addition to that, the Bank does not take any speculative positions on currency, interest rate and maturity that might create any liquidity or market risk to the Bank.

Strategy in using financial instruments

To maintain and improve the soundness of its operations, the Bank accords top management priority to upgrading its risk management systems and capabilities. According to the Bank's "Risk Management Policy", Financial Risks are composed of Market, Credit and Liquidity risks. Risk Management Policy includes details about the framework for defining, measuring, monitoring and managing the risks taken by the business units across the bank. Risk Management Policy covers sound and optimum capital allocation quantification of the actual risks establishment of dynamic risk limit.

The Bank determines risk-based limits, with respect to available economic capital and monitors actual risks against these limits. All risks (market, credit or liquidity), arising from any type financial instrument are subject to aforementioned risk based limits.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the component of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Internal rating and PD estimation process

The Bank's independent Credit Unit and Risk Management Unit operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are internally rated. Different rating assessment models to be used for different customer segments. Customer segments to be identified in accordance to internal segmentation rules. Each rating is tied to certain one-year probability of default rate (1-year PD). The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilize supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

Due to the fact that the Covid epidemic became a global problem in March 2020, studies reflecting forward-looking expectations on the financial statements and conducted every 6 months were brought forward. In this context, the effects of the economic slowdown caused by Covid were reflected in the April 2020 financials for the first time. After some measures taken and support packages announced, expectations were reviewed again. During the second half of 2020, some studies were carried out to improve the Bank's rating model. After improvement studies, all customers in Stage-1 and Stage-2 were re-graded and macroeconomic expectations including Covid effects were considered during calibration. Additionally, individual assessments has been made for the loans that are classified as Stage-3. During individual assessment calculations, the provision includes, considers, the customers that are belonging to a sector that are negatively affected due to Covid. This approach will be continuously reviewed in the forthcoming reporting periods, considering the impact of the epidemic, and macroeconomic projections which may result to changes in the loan portfolio and provisions.

26. Financial risk management *(continued)*

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's Risk Management Unit analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating, as shown in the table below.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments and 2 times within three years restructured loans that have been overdue (in principal amount and/or accrued interest and/or any of other payment) less than 30 days from the date specified in the contract at the moment of each particular restructuring. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.
- It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition

Corporate lending

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as: Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.

- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The Bank has formed an internal scoring and rating system, based on statistical methods to monitor the credibility of its clients. This system classifies the customers according to their default risk from highest to lowest score or rating. Internal scoring systems are used to improve the efficiency of the loan granting process, to monitor loan portfolio quality effectively and to assist in the determination of the actions required. By using the rating outputs derived from this internal scoring and rating system, the Bank has formed its ECL calculation methodology. According to this methodology, the internal ratings have been attributed to specific grade classes.

The table below shows the allocation of ratings according to the grade class of financial assets taking into account their probability of default behaviour. The Bank classifies its financial assets, having rating between Aaa and Ba2 as high grade, rating between Ba3 and B3 as standard grade, rating Caa1 and Ca as sub-standard grade. Lower ratings are considered as impaired. Where a loan has passed due but not impaired, regardless of its internal rating, it is classified as sub-standard grade.

Classes	**Ratings**
High Grade	Between Aaa & Ba2
Standard Grade	Between Ba3 & B3
Sub-standard Grade	Between Caa1 & Ca
Impaired	C

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

26. Financial risk management *(continued)*

The table below shows the credit quality by class of asset for loan-related lines in financial statement of financial position, based on Bank's credit rating system.

31 December 2021	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	4	Stage 1	98,393	76,637	-	-	175,030
Amounts due from credit institutions	5	Stage 1	-	318,625	-	-	318,625
		Stage 1	-	2,151,832	62,858	-	2,214,690
Loans to customers	8	Stage 2	-	-	161,938	-	161,938
		Stage 3	-	-	-	45,824	45,824
Investment Securities							
Measured at FVOCI	7	Stage 1	-	50,685	-	-	50,685
Measured at amortised cost		Stage 1	-	361,103	-	-	361,103
Other financial assets	13	Stage 1	-	20,352	-	-	20,352
Letter of guarantee	22	Stage 1	-	294,939	3,040	-	297,979
		Stage 2	-	1,100	6,008	-	7,108
Letter of credit	22	Stage 1	-	109,673	-	-	109,673
Other guarantee	22	Stage 1	-	317,729	-	-	317,729
Total			**98,393**	**3,702,675**	**233,844**	**45,824**	**4,080,736**

31 December 2020	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	4	Stage 1	27,487	135,994	-	-	163,481
Amounts due from credit institutions	5	Stage 1	-	136,127	-	-	136,127
		Stage 1	111,902	1,119,741	106,023	-	1,337,666
Loans to customers	8	Stage 2	-	11	119,181	-	119,192
		Stage 3	-	-	-	36,077	36,077
Investment Securities							
Measured at FVOCI	7	Stage 1	-	28,100	2,750	-	30,850
Measured at amortised cost		Stage 1	-	116,776	-	-	116,776
Other financial assets	13	Stage 1	-	18,848	-	-	18,848
Letter of guarantee	22	Stage 1	-	215,246	1,257	-	216,503
		Stage 2	-	10,000	65,316	-	75,316
Letter of credit	22	Stage 1	-	-	-	-	-
Other guarantee	22	Stage 1	-	40,807	-	-	40,807
Total			**139,389**	**1,821,650**	**294,527**	**36,077**	**2,291,643**

The geographical concentration of Bank's financial assets and liabilities is set out below:

	31 December 2021				31 December 2020			
	Turkey	**Azerbaijan**	**Others**	**Total**	**Turkey**	**Azerbaijan**	**Others**	**Total**
Cash and cash equivalents	48,077	26,932	99,979	174,988	134,142	1,003	28,198	163,343
Amounts due from credit institutions	318,210	-	-	318,210	135,946	-	-	135,946
Financial assets at FVTPL	2,679	-	18,277	20,956	1,472	-	5,933	7,405
Derivative financial assets	13,604	-	-	13,604	493	-	-	493
Investment securities	395,499	12,065	-	407,564	145,871	-	-	145,871
Loans to customers	1,862,299	25,071	464,149	2,351,519	1,060,869	-	389,876	1,450,745
Other financial assets	20,352	-	-	20,352	18,848	-	-	18,848
Total financial assets	**2,660,720**	**64,068**	**582,405**	**3,307,193**	**1,497,641**	**1,003**	**424,007**	**1,922,651**
Amounts due to banks and financial institutions	138,123	810,070	428,013	1,376,206	90,476	480,541	232,317	803,334
Amounts due to customers	94,118	32	4,642	98,792	68,252	-	824	69,076
Money market deposits	189,976	15,547	-	205,523	53,263	-	-	53,263
Debt securities issued	64,264	1,158,195	-	1,222,459	-	647,016	-	647,016
Lease liabilities	538	-	-	538	178	-	-	178
Derivative financial liabilities	114	-	-	114	1,430	-	-	1,430
Other financial liabilities	24,861	-	-	24,861	19,877	-	-	19,877
Total financial liabilities	**511,994**	**1,983,844**	**432,655**	**2,928,493**	**233,476**	**1,127,557**	**233,141**	**1,594,174**
Net financial assets and liabilities	**2,148,726**	**(1,919,776)**	**149,750**	**378,700**	**1,264,165**	**(1,126,554)**	**190,866**	**328,477**

26. Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the risk occurring as a result of non-availability of sufficient cash on hand or cash inflow to meet cash outflows in a timely manner completely as a result of imbalance in cash flows. Treasury department manages the liquidity of the Bank daily and informs assets and liabilities committee weekly about the liquidity level of the Bank. Treasury department is responsible for planning liquidity management, taking measures and informing the senior management of aforementioned issues.

The Bank forms its assets and liabilities in balance not to create a negative gap on cumulative basis in maturity segments.

In accordance with the "Regulation on Measurement and Evaluation of Liquidity Adequacy of Banks" entered into force after published on Official Gazette dated November 1, 2006 and numbered 26333 by BRSA, weekly simple average of total liquidity adequacy rates related to primary maturity segment and total liquidity adequacy rate related to secondary maturity segment cannot be less than 100% while weekly simple average of foreign currency liquidity ratio related to primary maturity segment and foreign currency adequacy rate related to secondary maturity segment cannot be less than 80%.

Treasury department manages the liquidity of the Bank daily and informs assets and liabilities committee weekly about the liquidity level of the Bank. Treasury department is responsible for planning liquidity management, taking measures and informing the senior management of aforementioned issues.

Financial planning, control and strategy department is responsible for reporting of liquidity risk. Stress test applied to liquidity position and calculation of liquidity coverage rate is performed by Risk Management Department and monitors related unit's activities and reports to the Senior Management monthly

The main funding sources of the Bank are provided by domestic and foreign banks and repo transactions and Money market transactions and diversification of aforementioned sources are made in order to minimize liquidity risk. Financial Institutions Department carries out studies which are required to relate supplying of long-term foreign source.

TL liquidity of the Bank is managed through funds provided from domestic and foreign banks via repo transactions using high quality (premium) securities. TL and foreign currency cash flow of the Bank in scope of Balance sheet management is monitored separately. Risk Management Unit reports to ALCO and Board of Directors on a monthly basis.

Liquidity limits are determined in order to keep the risk regarding liquidity risk in defined limits and to monitor liquidity position. The aforementioned limits have been determined in accordance with "Regulation on Measurement and Evaluation of Bank's Liquidity Adequacy" in Risk Limits document and approved by Board of Directors.

At least one of the following liquidity stress tests related to issues mentioned below is applied monthly and result of the related test is reported to top management by Risk Management Unit.

- Negative influence of economic crisis occurring in domestic finance markets on the liquidity of the bank.
- Negative influence of global crisis on the liquidity of the Bank.
- Negative influence of a problem occurred within the Bank (abuse, fraud, reputation risk etc.).

Threshold of weekly and monthly liquidity rate for stress tests which shall be applied for above mentioned scenarios is taken into consideration as 80% for foreign currency assets/liabilities and as 100% for total assets/liabilities.

"Emergency and unexpected situation plan for Liquidity" is approved by the Board of Directors and established in order to manage possible liquidity crisis and required actions for losses which can occur in extraordinary conditions are determined with preventing mechanisms and liquidity squeeze scenarios. The scope of the aforementioned plan is to pre-determine applicable scenarios, measurement of liquidity risk and the actions which shall be taken towards those risks.

Regarding the sectors affected by COVID-19, the analysis published by foreign rating agencies and shared with the public were used. The sectors that are expected to be affected the most are ranked from high risk to low risk, and all customers in our Bank were separated by risk groups, evaluated in monitoring activities, stress test analyzes, sectoral concentration analyzes and these evaluations will continue in the coming periods.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

26. Financial risk management *(continued)*

Liquidity risk *(continued)*

The table below shows the remaining maturities of financial assets and liabilities at the balance sheet date.

31 December 2021	Up to 1 month	1 to 3 months	3 to12 months	1 to 5 years	Over 5 year	Undistri-buted[1]	Total
Cash and cash equivalents	175,054	-	-	-	-	(66)	174,988
Amounts due from credit institutions	318,625	-	-	-	-	(415)	318,210
Financial assets at FVTPL	-	-	-	2,679	18,277	-	20,956
Derivative financial assets	13,604	-	-	-	-	-	13,604
Investment securities	1,954	29,634	184,161	185,872	2,508	3,435	407,564
Loans to customers	507,842	317,566	471,294	1,060,873	64,877	(70,933)	2,351,519
Other financial assets	20,289	63	-	-	-	-	20,352
Total financial assets	**1,037,368**	**347,263**	**655,455**	**1,249,424**	**85,662**	**(67,979)**	**3,307,193**
Amounts due to banks and financial institutions	258,133	266,133	181,242	670,698	-	-	1,376,206
Amounts due to customers	98,191	601	-	-	-	-	98,792
Money market deposits	194,227	5,845	5,451	-	-	-	205,523
Debt securities issued	66,372	1,503	773,082	381,502	-	-	1,222,459
Lease liabilities	16	34	158	330	-	-	538
Derivative financial liabilities	114	-	-	-	-	-	114
Other financial liabilities	24,861	-	-	-	-	-	24,861
Total financial liabilities	**641,914**	**274,116**	**959,933**	**1,052,530**	**-**	**-**	**2,928,493**
Net financial assets and liabilities	**395,454**	**73,147**	**(304,478)**	**196,894**	**85,662**	**(67,979)**	**378,700**

[1] Includes expected credit losses

31 December 2020	Up to 1 month	1 to 3 months	3 to12 months	1 to 5 years	Over 5 year	Undistri-buted[1]	Total
Cash and cash equivalents	163,495	-	-	-	-	(152)	163,343
Amounts due from credit institutions	136,127	-	-	-	-	(181)	135,946
Financial assets at FVTPL	-	-	-	-	7,405	-	7,405
Derivative financial assets	493	-	-	-	-	-	493
Investment securities	620	1,501	20,796	114,551	2,499	5,904	145,871
Loans to customers	353,688	160,378	486,835	430,039	61,995	(42,190)	1,450,745
Other financial assets	18,848	-	-	-	-	-	18,848
Total financial assets	**673,271**	**161,879**	**507,631**	**544,590**	**71,899**	**(36,619)**	**1,922,651**
Amounts due to banks and financial institutions	188,162	148,684	85,967	380,521	-	-	803,334
Amounts due to customers	59,758	9,318	-	-	-	-	69,076
Money market deposits	49,634	1,064	2,565	-	-	-	53,263
Debt securities issued	1,412	621	185,485	459,498	-	-	647,016
Lease liabilities	5	11	51	111	-	-	178
Derivative financial liabilities	360	1,070	-	-	-	-	1,430
Other financial liabilities	19,877	-	-	-	-	-	19,877
Total financial liabilities	**319,208**	**160,768**	**274,068**	**840,130**	**-**	**-**	**1,594,174**
Net financial assets and liabilities	**354,063**	**1,111**	**233,563**	**(295,540)**	**71,899**	**(36,619)**	**328,477**

[1] Includes expected credit losses

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

26. Financial risk management *(continued)*

Liquidity risk *(continued)*

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations.

31 December 2021	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Total
Amounts due to banks and financial inst.	258,843	269,066	203,507	679,112	-	1,410,528
Amounts due to customers	98,611	610	-	-	-	99,221
Money market deposits	194,552	5,879	5,492	-	-	205,923
Debt securities issued	67,108	7,550	796,746	391,443	-	1,262,847
Lease liabilities	24	49	213	382	-	668
Other financial liabilities	24,861	-	-	-	-	24,861
Total undiscounted financial liabilities	**643,999**	**283,154**	**1,005,958**	**1,070,937**	**-**	**3,004,048**

31 December 2020	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Total
Amounts due to banks and financial inst.	188,810	150,257	99,427	399,789	-	838,283
Amounts due to customers	59,764	9,442	-	-	-	69,206
Money market deposits	49,841	1,096	2,695	-	-	53,632
Debt securities issued	1,824	3,771	200,901	472,993	-	679,489
Lease liabilities	8	15	70	129	-	222
Other financial liabilities	19,877	-	-	-	-	19,877
Total undiscounted financial liabilities	**320,124**	**164,581**	**303,093**	**872,911**	**-**	**1,660,709**

The table below shows the contractual expiry by maturity of the Bank's credit related commitments.

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Maturity Undefined	Total
31 December 2021	66,645	12,069	224,779	191,354	-	237,642	732,489
31 December 2020	375	39,466	153,829	35,007	-	103,949	332,626

The table below shows nominal amounts of the remaining maturities of derivative financial instruments at the balance sheet date.

31 December 2021	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Total
Currency forward agreements – purchase	-	-	-	-	-	-
Currency forward agreements – sell	-	-	-	-	-	-
Swap agreements – purchase	145,999	-	-	-	-	145,999
Swap agreements – sell	(132,709)	-	-	-	-	(132,709)
Total	**13,290**	**-**	**-**	**-**	**-**	**13,290**

31 December 2020	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Total
Currency forward agreements – purchase	2,246	-	-	-	-	2,246
Currency forward agreements – sell	(2,226)	-	-	-	-	(2,226)
Swap agreements – purchase	36,653	57,797	-	-	-	94,450
Swap agreements – sell	(36,465)	(59,256)	-	-	-	(95,721)
Total	**208**	**(1,459)**	**-**	**-**	**-**	**(1,251)**

The below tables are prepared in accordance with BRSA regulations representing the ratio of liquid assets to liabilities within certain time intervals for the reporting periods.

	31 December 2021				31 December 2020			
	First Maturity Tranche (Weekly)		Second Maturity Tranche (Monthly)		First Maturity Tranche (Weekly)		Second Maturity Tranche (Monthly)	
	FC	FC+LC	FC	FC+LC	FC	FC+LC	FC	FC+LC
Average (%)	451	254	201	154	348	277	149	156
Maximum (%)	951	372	300	210	978	418	209	223
Minimum (%)	216	159	130	106	162	140	93	109

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

26. Financial risk management *(continued)*

Interest rate sensitivity risk

Interest rate risk is the risk that expresses the effects of fluctuations in the market interest rates on the value increase/decrease of the Bank's interest rate sensitive assets and liabilities.

The interest rate sensitivity of Assets, Liabilities and Off-balance sheet items is carefully followed up by the treasury department of the Bank. Assets and liabilities which are sensitive to interest are managed in such a way that minimizes the interest risk.

The interest rate risk of the banking items is measured legally in accordance with the "Regulation on Measurement and Assessment of Standard Shock Method on the interest rate risk arising from banking accounts", and this legal limit is monitored and reported monthly, based on this measurement.

Interest rate sensitivity of financial assets and liabilities based on repricing dates is as follows:

31 December 2021	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 year**	**Non-interest bearing[1]**	**Total**
Cash and cash equivalents	30,687	-	-	-	-	144,301	174,988
Amounts due from credit institutions	318,625	-	-	-	-	(415)	318,210
Financial assets at FVTPL	-	-	-	-	-	20,956	20,956
Derivative financial assets	13,604	-	-	-	-	-	13,604
Investment securities	4,462	29,634	184,161	185,872	-	3,435	407,564
Loans to customers	609,771	363,660	583,371	856,310	9,340	(70,933)	2,351,519
Other financial assets	-	-	-	-	-	20,352	20,352
Total financial assets	**977,149**	**393,294**	**767,532**	**1,042,182**	**9,340**	**117,696**	**3,307,193**
Amounts due to banks and financial institutions	257,743	266,133	181,242	670,698	-	390	1,376,206
Amounts due to customers	34,898	601	-	-	-	63,293	98,792
Money market deposits	194,227	5,845	5,451	-	-	-	205,523
Debt securities issued	66,372	1,503	773,082	381,502	-	-	1,222,459
Lease liabilities	-	-	-	-	-	538	538
Derivative financial liabilities	114	-	-	-	-	-	114
Other financial liabilities	-	-	-	-	-	24,861	24,861
Total financial liabilities	**553,354**	**274,082**	**959,775**	**1,052,200**	**-**	**89,082**	**2,928,493**
Net interest sensitivity gap	**423,795**	**119,212**	**(192,243)**	**(10,018)**	**9,340**	**28,614**	**378,700**

[1] Includes expected credit losses

31 December 2020	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 year**	**Non-interest bearing[1]**	**Total**
Cash and cash equivalents	125,350	-	-	-	-	37,993	163,343
Amounts due from credit institutions	136,127	-	-	-	-	(181)	135,946
Financial assets at FVTPL	-	-	-	-	-	7,405	7,405
Derivative financial assets	493	-	-	-	-	-	493
Investment securities	3,119	1,501	20,796	114,551	-	5,904	145,871
Loans to customers	405,573	297,427	443,776	334,140	12,019	(42,190)	1,450,745
Other financial assets	-	-	-	-	-	18,848	18,848
Total financial assets	**670,662**	**298,928**	**464,572**	**448,691**	**12,019**	**27,779**	**1,922,651**
Amounts due to banks and financial institutions	187,932	148,684	85,967	380,521	-	230	803,334
Amounts due to customers	2,369	9,318	-	-	-	57,389	69,076
Money market deposits	49,634	1,064	2,565	-	-	-	53,263
Debt securities issued	1,412	621	185,485	459,498	-	-	647,016
Lease liabilities	-	-	-	-	-	178	178
Derivative financial liabilities	360	1,070	-	-	-	-	1,430
Other financial liabilities	-	-	-	-	-	19,877	19,877
Total financial liabilities	**241,707**	**160,757**	**274,017**	**840,019**	**-**	**77,674**	**1,594,174**
Net interest sensitivity gap	**428,955**	**138,171**	**190,555**	**(391,328)**	**12,019**	**(49,895)**	**328,477**

[1] Includes expected credit losses

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

26. Financial risk management *(continued)*

Interest rate sensitivity risk *(continued)*

The following table indicates the average interest rates by major currencies for the major accounts

	31 December 2021			31 December 2020		
	EUR (%)	USD (%)	TRY (%)	EUR (%)	USD (%)	TRY (%)
Cash and cash equivalents	0.03	0.13	19.45	0.01	0.49	11.44
Amounts due from credit institutions	-	-	11.98	-	-	9.56
Financial assets at FVTPL	-	-	-	-	-	-
Investment securities	-	7.58	16.82	-	8.01	13.10
Loans to customers	4.64	5.53	20.83	4.50	5.76	14.55
Other financial assets	-	-	-	-	-	-
Amounts due to banks and financial inst.	1.48	3.85	18.05	1.15	4.03	10.63
Amounts due to customers	-	0.23	16.88	-	0.95	9.87
Money market deposits	1.21	3.55	18.96	0.89	2.31	10.30
Debt securities issued	1.75	3.55	18.96	1.75	3.60	11.02
Other financial liabilities	-	-	-	-	-	-

The table below shows the economic value differences resulted from interest rate volatilities calculated according to regulation on measurement and evaluation of interest rate risk resulted from financial assets and liabilities:

31 December 2021	Shocks Applied (+/- basis points)	Gains/(Losses)	Gains/Equity-(Losses)/Equity
1. TRY	(+) 500 bps	(15,651)	(2.42%)
2. TRY	(-) 400 bps	13,890	2.15%
3. USD	(+) 200 bps	6,967	1.08%
4. USD	(-) 200 bps	5,597	0.87%
5. EURO	(+) 200 bps	(12,501)	(1.93%)
6. EURO	(-) 200 bps	-	-
Total (For negative shocks)		**19,487**	**3.02%**
Total (For positive shocks)		**(21,185)**	**(3.27%)**

31 December 2020	Shocks Applied (+/- basis points)	Gains/(Losses)	Gains/Equity-(Losses)/Equity
1. TRY	(+) 500 bps	(9,718)	(1.66%)
2. TRY	(-) 400 bps	8,751	1.50%
3. USD	(+) 200 bps	21,398	3.66%
4. USD	(-) 200 bps	(5,869)	(1.00%)
5. EURO	(+) 200 bps	(2,875)	(0.49%)
6. EURO	(-) 200 bps	-	-
Total (For negative shocks)		**2,882**	**0.50%**
Total (For positive shocks)		**8,805**	**1.51%**

Currency risk

The Bank's foreign currency position is managed within the limits set by legislation and the Bank. The basic principle in foreign currency risk management is not to be exposed to currency risk. Accordingly, the exchange-trading risk positions are not allocated to the limit, banking accounts as of the currency by creating a matched asset-liability structure is aimed to provide natural protection. The Bank uses derivative financial instruments such as forward foreign exchange contracts and currency swaps for hedging purposes in foreign currency denominated transactions. Bank's methodology of digitising the foreign currency position includes the use of standard method when calculating the capital adequacy ratio and application of internal stress tests/ sensitivity analysis.

As of 31 December 2021, the Bank's USD bid rate is 13.3290 and EUR bid rate is 15.0867.

(Currency - in Thousands of Turkish Lira (“TL”) unless otherwise indicated)

26. Financial risk management *(continued)*

Currency risk *(continued)*

The Bank had the following exposure to foreign currency exchange rate risk:

31 December 2021	**TRY**	**USD**	**EUR**	**AZN**	**Other**	**Total**
Cash and cash equivalents[1]	7,572	149,357	17,947	110	2	174,988
Amounts due from credit institutions[1]	2,506	315,704	-	-	-	318,210
Financial assets at FVTPL	2,679	-	18,277	-	-	20,956
Derivative financial assets	13,604	-	-	-	-	13,604
Investment securities[1]	46,461	361,103	-	-	-	407,564
Loans to customers[1]	658,033	828,257	865,229	-	-	2,351,519
Other financial assets[1]	20,352	-	-	-	-	20,352
Total financial assets	**751,207**	**1,654,421**	**901,453**	**110**	**2**	**3,307,193**
The effect of derivatives	-	145,999	-	-	-	145,999
Amounts due to banks and financial inst.	91,077	596,548	688,581	-	-	1,376,206
Amounts due to customers	38,246	44,323	16,223	-	-	98,792
Money market deposits	141,143	25,296	39,084	-	-	205,523
Debt securities issued	64,264	1,109,811	48,384	-	-	1,222,459
Lease liabilities	538	-	-	-	-	538
Derivative financial liabilities	-	114	-	-	-	114
Other financial liabilities	24,725	136	-	-	-	24,861
Total financial liabilities	**359,993**	**1,776,228**	**792,272**	**-**	**-**	**2,928,493**
The effect of derivatives	79,906	-	52,803	-	-	132,709
Net position after the effect of derivatives	**311,308**	**24,192**	**56,378**	**110**	**2**	**391,990**

[1] Includes expected credit losses

31 December 2020	**TRY**	**USD**	**EUR**	**AZN**	**Other**	**Total**
Cash and cash equivalents[1]	29,168	128,470	5,626	78	1	163,343
Amounts due from credit institutions[1]	2,115	133,831	-	-	-	135,946
Financial assets at FVTPL	1,472	-	5,933	-	-	7,405
Derivative financial assets	493	-	-	-	-	493
Investment securities[1]	29,095	116,776	-	-	-	145,871
Loans to customers[1]	402,468	577,652	470,625	-	-	1,450,745
Other financial assets[1]	18,848	-	-	-	-	18,848
Total financial assets	**483,659**	**956,729**	**482,184**	**78**	**1**	**1,922,651**
The effect of derivatives	11,907	84,789	-	-	-	96,696
Amounts due to banks and financial inst.	92,620	354,905	355,809	-	-	803,334
Amounts due to customers	17,451	35,955	15,670	-	-	69,076
Money market deposits	48,168	5,095	-	-	-	53,263
Debt securities issued	-	617,779	29,237	-	-	647,016
Lease liabilities	178	-	-	-	-	178
Derivative financial liabilities	118	1,312	-	-	-	1,430
Other financial liabilities	19,877	-	-	-	-	19,877
Total financial liabilities	**178,412**	**1,015,046**	**400,716**	**-**	**-**	**1,594,174**
The effect of derivatives	22,790	2,226	72,931	-	-	97,947
Net position after the effect of derivatives	**294,364**	**24,246**	**8,537**	**78**	**1**	**327,226**

[1] Includes expected credit losses

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

26. Financial risk management *(continued)*

Currency risk *(continued)*

The following table details the Bank's sensitivity to increase and decrease in the USD, EUR and AZN against the TRY. The other variables, especially the interest rates, are assumed to be fixed in this analysis.

	USD/TRY		EUR/TRY		AZN/TRY	
Impact on profit before tax	**+10%**	**-10%**	**+10%**	**-10%**	**+10%**	**-10%**
31 December 2021	2,419	(2,419)	5,638	(5,638)	11	(11)
31 December 2020	2,425	(2,425)	854	(854)	8	(8)

Market risk

Market risk is followed under two headings: market risk arising from trading activities and market risk arising from banking transactions. The basic principle of market risk management is creating a compliant asset / liability structure and providing protection by averting differences with derivative instruments when necessary.

By the Board of Directors, market risk limits introduced by the minimization of the risks involved were targeted. Defined risk limits are reviewed by the Board of the Directors in 3 month period and updated if necessary. "Standard method" is used in the measurement of market risk in the extent of capital adequacy ratio. Value of the securities portfolio at risk is monitored and is reported to senior management on a monthly basis.

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

The below table represents the details of the market risk calculation in accordance with the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio", section three "Calculation of Market Risk with Standard Method" published by BRSA.

	31 December 2021			31 December 2020		
	Interest rate risk	**Currency risk**	**Total market risk**	**Interest rate risk**	**Currency risk**	**Total market risk**
Average	153	3,761	3,914	220	3,209	3,429
Maximum	440	5,600	6,040	529	3,925	4,454
Minimum	-	2,823	2,823	47	2,557	2,604

Counterparty risk

The Bank faces counterparty risk from the over-the-counter transactions and repurchase agreements in which it involves. Counterparty risk strategy has been defined according to counterparty's nature and product category. Counterparties may be sovereigns, banks, corporate and commercial customers. Products are grouped as derivative contracts such as currency forwards-futures-swaps, interest swaps and repurchase transactions.

Previous to the transactions regarding counterparty risk, the counterparty risk is analysed and subsequently the counterparty's credit risk is monitored periodically. In case the frequency of monitoring may be increased.

Except for the banks, the approvals related to loan granting are applied for the corporate counterparties. In case of worsened market conditions and credibility concerns of parties, limits may be revalued and revised. If needed approved limits may be blocked.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

27. Fair value measurements

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Group's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy:

	Fair value measurement using			
31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Financial assets at FVTPL	2,679	18,277	-	20,956
Investment securities at FVOCI	43,026	7,659	-	50,685
Derivative financial assets	-	13,604	-	13,604
Assets for which fair values are disclosed				
Cash and cash equivalents	174,988	-	-	174,988
Amounts due from credit institutions	-	318,210	-	318,210
Investment securities measured at amortised cost	358,553	-	-	358,553
Loans to customers	-	-	2,337,041	2,337,041
Other financial assets	-	-	20,352	20,352
Liabilities measured at fair value				
Derivative financial liabilities	-	114	-	114
Liabilities for which fair values are disclosed				
Amounts due to banks	-	-	1,382,154	1,382,154
Amounts due to customers	-	-	98,748	98,748
Money market deposits	-	-	205,465	205,465
Debt securities issued	-	-	1,225,068	1,225,068
Other financial liabilities	-	-	24,861	24,861

	Fair value measurement using			
31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value				
Financial assets at FVTPL	1,472	5,933	-	7,405
Investment securities at FVOCI	23,191	7,659	-	30,850
Derivative financial assets	-	493	-	493
Assets for which fair values are disclosed				
Cash and cash equivalents	163,343	-	-	163,343
Amounts due from credit institutions	-	135,946	-	135,946
Investment securities measured at amortised cost	121,652	-	-	121,652
Loans to customers	-	-	1,443,231	1,443,231
Other financial assets	-	-	18,848	18,848
Liabilities measured at fair value				
Derivative financial liabilities	-	1,430	-	1,430
Liabilities for which fair values are disclosed				
Amounts due to banks	-	-	808,095	808,095
Amounts due to customers	-	-	69,076	69,076
Money market deposits	-	-	53,252	53,252
Debt securities issued	-	-	650,635	650,635
Other financial liabilities	-	-	19,877	19,877

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

27. Fair value measurements (continued)

Fair value hierarchy *(continued)*

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the statement of financial position at fair value.

	31 December 2021			31 December 2020		
	Carrying value	**Fair value**	**Unrecognized gain/(loss)**	**Carrying value**	**Fair value**	**Unrecognized gain/(loss)**
Financial assets						
Cash and cash equivalents	174,988	174,988	-	163,343	163,343	-
Amounts due from credit institutions	318,210	318,210	-	135,946	135,946	-
Investment securities measured at amortised cost	356,879	358,553	1,674	115,021	121,652	6,631
Loans to customers	2,351,519	2,337,041	(14,478)	1,450,745	1,443,231	(7,514)
Other financial assets	20,352	20,352	-	18,848	18,848	-
Financial liabilities						
Amounts due to banks	1,376,206	1,382,154	(5,948)	803,334	808,095	(4,761)
Amounts due to customers	98,792	98,748	44	69,076	69,076	-
Money market deposits	205,523	205,465	58	53,263	53,252	11
Debt securities issued	1,222,459	1,225,068	(2,609)	647,016	650,635	(3,619)
Other financial liabilities	24,861	24,861	-	19,877	19,877	-
Total unrecognised change in unrealised fair value			**(21,259)**			**(9,252)**

The following methods and assumptions were used to estimate the fair values of above financial instruments:

The fair value of loans and receivables are determined by calculating the discounted cash flows using the current market interest rates for the fixed loans with fixed interest rates. For the loans with floating interest rates, it is assumed that the carrying value reflects the fair value.

The fair values of debt securities issued are determined based on market prices or when this price is not available, using a discounted cash flow analysis based on current market rates of similar maturity debt securities.

The fair value of funds borrowed are determined by using discounted cash flows based on the current Bank's borrowing interest rates for similar types of borrowing arrangements.

The fair value of remaining financial assets and liabilities such as cash and cash equivalents, amounts due from credit institutions, amounts due to banks and money market deposits and amounts due to customers are estimated to be same with carrying amount due to their short-term maturity profile and non-interest earning/bearing characteristics.

Movements in level 3 assets and liabilities at fair value

As of 31 December 2021, there are no movements in level 3 assets and liabilities at fair value (31 December 2020: None)

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

28. Changes in liabilities arising from financing activities

	Note	Bonds issued	Subordinated loans	Total liabilities from financing activities
Carrying amount at 31 December 2019		**475,964**	**-**	**475,964**
Proceeds from issue		188,568	-	188,568
Redemption		(140,195)	-	(140,195)
Foreign currency translation		122,380	-	122,380
Other[1]		299	-	299
Carrying amount at 31 December 2020	**16**	**647,016**	**-**	**647,016**
Proceeds from issue		596,425	-	596,425
Redemption		(530,634)	-	(530,634)
Foreign currency translation		507,321	-	507,321
Other[1]		2,331	-	2,331
Carrying amount at 31 December 2021	**16**	**1,222,459**	**-**	**1,222,459**

[1] Includes the change of interest accruals on bonds issued.

29. Segment Reporting

IFRS 8, Operating Segments, requires entities which issues securities, to disclose information about their operating segments, products and services. Operating segments are defined as activities which Bank earns revenue and incur expenses. The Bank's segmental reporting is based on the following operating segments: Corporate Banking and Treasury and Asset Liability Management.

Information on operational segments are as follows:

	Corporate banking	Treasury and asset liability management	Total
31 December 2021			
Total assets	2,371,798	1,190,755	3,562,553
Total liabilities	128,576	2,826,997	2,955,573
31 December 2021			
Net interest income	190,060	(77,145)	112,915
Provisions for loans and other credit risks, net	(26,197)	(2,649)	(28,846)
Net fee and commission income	3,499	6,786	10,285
Total non-interest income	317	22,742	23,059
Total non-interest expenses	-	(53,223)	(53,223)
Profit/(loss) before tax	**167,679**	**(103,489)**	**64,190**
Income tax expense	(44,578)	27,513	(17,065)
Net profit/loss for the year	**123,101**	**(75,976)**	**47,125**

	Corporate banking	Treasury and asset liability management	Total
31 December 2020			
Total assets	1,448,990	730,419	2,179,409
Total liabilities	78,725	1,538,014	1,616,739
31 December 2020			
Net interest income	112,993	(37,101)	75,892
Provisions for loans and other credit risks, net	3,632	(1,636)	1,996
Net fee and commission income	3,121	1,065	4,186
Total non-interest income	161	7,115	7,276
Total non-interest expenses	-	(47,262)	(47,262)
Profit/(loss) before tax	**119,907**	**(77,819)**	**42,088**
Income tax expense	(30,518)	19,806	(10,712)
Net profit/(loss) for the year	**89,389**	**(58,013)**	**31,376**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

30. Capital adequacy

The method used for risk measurement in determining capital adequacy standard ratio; Capital Adequacy Standard Ratio is calculated in accordance with Banking Regulation and Supervision Agency ("BRSA")'s "Communiqué on Measurement and Assessment of Capital Adequacy of Banks", "Communiqué on Credit Risk Mitigation Techniques", "Communiqué on Calculation of Risk Weighted Amounts for Securitizations" published on 6 September 2014 and Official Gazette numbered 29111 and "Communiqué on Equities of Banks" published on 5 September 2013 in the Official Gazette numbered 28756. The Bank's capital adequacy ratio is 17.39% (31 December 2020 - 26.34%) in accordance with the related Communiqué as of 31 December 2021. The Bank has complied with the capital requirements throughout the year and previous year.

	31 December 2021	31 December 2020
Tier 1 capital	599,704	556,836
Tier 2 capital	46,431	27,738
Less: deductions from capital	-	-
Total regulatory capital	**646,135**	**584,574**
Risk-weighted assets	**3,714,502**	**2,219,041**
Capital adequacy ratio	**17.39%**	**26.34%**

31. Related party disclosures

In accordance with IAS 24 Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	31 December 2021					31 December 2020				
	Parent	Entities under common control	Key manage-ment personnel	Other	Total	Parent	Entities under common control	Key manage-ment personnel	Other	Total
Cash and cash equivalents	167	109	-	-	**276**	243	761	-	-	**1,004**
Loans at 1 January, gross	**-**	**277,974**	**-**	**-**	**277,974**	**-**	**202,650**	**-**	**-**	**202,650**
Loans issued	-	-	-	-	-	-	-	-	-	-
Loan repayments	-	-	-	-	-	-	-	-	-	-
Interest accrual	-	4,131	-	-	4,131	-	668	-	-	668
Foreign currency translation	-	182,044	-	-	182,044	-	74,656	-	-	74,656
Loans at balance sheet date, gross	**-**	**464,149**	**-**	**-**	**464,149**	**-**	**277,974**	**-**	**-**	**277,974**
Allowance for impairment	-	(5,669)	-	-	(5,669)	-	(3,916)	-	-	(3,916)
Loans at 31 December, net	**-**	**458,480**	**-**	**-**	**458,480**	**-**	**274,058**	**-**	**-**	**274,058**
Interest income on loans	-	19,435	-	-	**19,435**	-	11,730	-	-	**11,730**
Other assets	-	-	-	-	-	-	-	-	-	-
Amounts due to banks and financial institutions	96	14,065	-	-	**14,161**	92	532	-	-	**624**
Amounts due to customers	-	3,631	-	-	**3,631**	-	824	-	-	**824**
Money market deposits	-	-	377	10,458	**10,835**	-	-	-	-	-
Debt securities issued	592,540	390,280	-	-	**982,820**	432,048	164,097	-	-	**596,145**
Other liabilities	-	-	-	-	-	-	-	-	-	-
Guarantees issued	187,981	268	-	-	**188,249**	44,479	83	-	-	**44,562**
Letters of credit issued	-	-	-	-	-	-	-	-	-	-

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated)

31. Related party disclosures *(continued)*

	31 December 2021					31 December 2020				
	Parent	Entities under common control	Key manage-ment personnel	Other	Total	Parent	Entities under common control	Key manage-ment personnel	Other	Total
Interest income except loans	-	3	-	-	**3**	-	35	-	-	**35**
Interest expense	(15,268)	(9,527)	(77)	(1,066)	**(25,938)**	(9,942)	(8,369)	-	-	**(18,311)**
Fees and commissions income	703	501	-	5,709	**6,913**	366	328	-	-	**694**
Fees and commissions expense	(1)	(113)	-	(3,062)	**(3,176)**	-	(28)	-	-	**(28)**
Non-Interest Income	-	2,280	-	-	**2,280**	-	1,777	-	-	**1,777**
Non-Interest Expenses	-	(1,084)	-	-	**(1,084)**	-	(845)	-	-	**(845)**

As of December 31, 2020, the Bank's other income from the risk group includes operating lease income amounting to TL 2,280 (31 December 2020 - TL 1,777).

Compensation to members of key management personnel was comprised of the following:

	31 December 2021	31 December 2020
Salaries and other benefits	11,091	5,766
Social security costs	216	185
Total key management personnel compensation	**11,307**	**5,951**

32. Other Explanations

a. Explanations on ratings of the Bank

FITCH	**December 2021**
National Long Term (tur)	A- Stable

b. Explanations on ratings of the Bank's compliance score of corporate governance principles

JCR Eurasia Rating has assigned PASHA Bank an overall compliance score of (9.23) with Capital Markets Board of Turkey Corporate Governance Principles by revising it upwards along with a (Stable) outlook on 8 June 2021.

33. Subsequent Event

In accordance with the BRSA announcement dated 11 January 2022 and numbered 38083, the profits obtained in 2021 and the profits and reserves obtained before 2021 be not subject to distribution and be not subject to distribution to shareholders in a way that causes cash outflow.

The Bank issued a debt security a total amount of TL 120,000. The debt security's issuance date was on 13 January 2022 with 70 days to maturity and has a yearly fixed rate as 22.25% with redemption date as 24 March 2022.