Türkiye Finans Katılım Bankası Anonim Şirketi

Financial statements as at and for the year ended December 31, 2021 with independent auditors’ report thereon

Türkiye Finans Katılım Bankası Anonim Şirketi

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Report on the Audit of the Consolidated Financial Statements

To the Shareholders of Türkiye Finans Katılım Bankası A.Ş.

Opinion

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

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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Key Audit Matter	How the Key Audit Matter is addressed in our audit
Financial impact of IFRS 9 "Financial Instruments" standard and recognition of impairment on financial assets and related important disclosures	
As disclosed in footnote 3.9 of Section 3; the Group measures expected credit losses for financial instruments by IFRS 9 "Financial Instruments Standards". The rationale reasons for selecting IFRS 9 implementation and impairment of financial assets as key audit subject are as follows; ▪ Financial assets within balance-sheet and off-balance-sheet subject to IFRS 9 expected credit losses measurement have significant balance in the financial statements ▪ The applications of IFRS 9 are complex and comprehensive ▪ The classification of financial instruments based on the Group's business models and the characteristics of contractual cash flows in line with IFRS 9 and requirement of important judgments to determine this business model and the characteristics of contractual cash flows ▪ Risks related to the policies established by the management with the compliance and requirements of the legislation and other applications for the calculation of expected credit losses ▪ The complexity and intensity of the control environment in the processes designed or reorganized for IFRS 9 ▪ Estimations and assumptions used in expected credit losses are new, important and complex ▪ Complex and comprehensive disclosure requirements of IFRS 9.	Our audit procedures in addition to our current audit procedures: ▪ Evaluation of the compliance of the accounting policies adopted with regard to IFRS 9, the Group's past performance, local and global practices and evaluation of compliance with the notifications of regulatory bodies ▪ Analysis and testing of processes, systems, and controls originated or re-designed in order to calculate expected credit losses by the Information Systems and Process Audit specialists ▪ Evaluation of the impact of Covid-19 outbreak on the staging of loans and macroeconomic variables used in the expected loan loss allowance calculations, together with its effect on the fair value calculations, important forecasts and assumptions. ▪ Evaluation of the key judgments, assumptions, methods used for calculation of expected credit loss determined by the management, and whether the data source is reasonable or not, and their compliance and standard requirements in light of industry and global practices ▪ Testing criteria used for determining the contractual cash flows including profit share payments with regard to solely principal and principal balance of financial assets on a sample basis and evaluation of Group's business model ▪ Evaluation of significant increase in credit risk, definition of default, definition of restructuring, probability of default, loss given default, exposure at default and macro-economic variables, and related basic and significant estimates and assumptions determined for calculation process of expected credit loss and whether these assumptions determined by financial risk management are in line with the Group's historical performance, legislation, and reasonableness of the estimation process regarding future performance and investigation of credit risk portfolio on a sample basis ▪ Evaluation of the accuracy and completeness of attributes of the data used for the calculation process of expected credit losses ▪ Detailed testing of mathematical verification of expected credit losses' calculation on a sample basis ▪ Evaluating the judgments and estimates used for the individually assessed financial assets. ▪ Evaluating the necessity and accuracy of the updates made or required updates after the modeling process ▪ Auditing of disclosures related to IFRS 9.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Emre Çelik, SMMM
Partner

İstanbul, Türkiye
March 22, 2022

Türkiye Finans Katılım Bankası Anonim Şirketi

Consolidated statement of financial position
as at 31 December 2021
(Currency - In thousands of Turkish Lira unless otherwise stated)

	Notes	December 31, 2021 (audited)	December 31, 2020 (audited)
Assets			
Cash and balances with Central Bank	*17*	6,441,486	3,033,408
Reserve Deposit	*18*	16,695,027	9,413,447
Loans and advances to banks	*19*	6,870,554	7,142,822
Loans, lease receivables and advances to customers	*20*	58,860,183	45,340,677
Derivative financial assets valued at fair value through profit or loss	*21*	742,448	233,458
Financial Assets at Fair Value through Profit or Loss (Net)	*22*	3,740,658	1,903,386
Financial assets valued at fair value through other comprehensive income	*22*	14,002,409	8,022,448
Financial assets valued at amortised cost	*22*	918,434	2,943,195
Property and equipment	*23*	1,396,096	1,201,775
Intangible assets	*23*	172,447	135,605
Deferred tax assets	*15*	139,121	74,309
Other assets	*24*	2,500,071	1,582,215
Total assets		**112,478,934**	**81,026,745**
Liabilities			
Derivative financial liabilities valued at fair value through profit or loss	*21*	369,299	326,902
Derivative financial liabilities for hedging purposes	*21*	-	-
Funds collected from banks	*25*	27,956	33,714
Funds collected from customers	*26*	84,471,617	57,375,011
Funds borrowed	*27*	12,280,986	9,497,478
Debt securities issued	*27*	981,446	3,516,043
Subordinated liabilities	*28*	3,246,755	1,836,471
Current tax liabilities	*15*	203,478	22,529
Other liabilities	*30*	3,534,535	2,227,160
Lease liabilities	*30*	372,189	341,098
Provisions	*29*	423,610	345,516
Total liabilities		**105,911,871**	**75,521,922**
Equity			
Share capital	*31*	2,600,000	2,600,000
Reserves		539,474	360,038
Retained earnings		3,427,589	2,544,785
Total shareholders' equity		**6,567,063**	**5,504,823**
Total liabilities and shareholders' equity		**112,478,934**	**81,026,745**

The notes on pages 10 to 91 are an integral part of these consolidated financial statements.

Türkiye Finans Katılım Bankası Anonim Şirketi

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 (Currency - In thousands of Turkish Lira unless otherwise stated)

	Notes	January 1 – December 31, 2021 (audited)	January 1 – December 31, 2020 (audited)
Profit share income:			
Income on loans	*7*	4,783,273	3,655,234
Income on investment securities	*7*	1,137,198	700,756
Income on funds collected at banks	*7*	1,320	9,433
Income on financial leases	*7*	45,823	53,111
Other	*7*	117,454	30,360
		6,085,068	**4,448,894**
Profit share expense:			
Expense on funds collected	*8*	(1,853,267)	(1,144,632)
Expense on borrowings	*8*	(942,027)	(449,784)
Expense on securities issued	*8*	(554,693)	(161,019)
Other	*8*	(301,623)	(206,888)
		(3,651,610)	**(1,962,323)**
Net profit share income		**2,433,458**	**2,486,571**
Fee and commission income	*9*	530,479	304,124
Fee and commission expense	*9*	(272,847)	(232,426)
Net fee and commission income		**257,632**	**71,698**
Net trading income/(loss)	*10*	1,477,138	(474,883)
Foreign exchange gain/(loss), net	*10*	(853,333)	937,230
Other operating income	*11*	267,153	156,367
Other operating income		**890,958**	**618,714**
Total operating income		**3,582,048**	**3,176,983**
Personnel expenses	*12*	(829,079)	(699,394)
Administrative expenses	*13*	(262,748)	(253,841)
Net impairment loss on financial assets	*16*	(738,954)	(849,487)
Depreciation and amortisation	*13*	(213,389)	(183,149)
Taxes and duties other than on income	*13*	(89,414)	(84,513)
Other operating expenses	*14*	(237,773)	(233,676)
Total operating expenses		**(2,371,357)**	**(2,304,060)**
Profit before tax		**1,210,691**	**872,923**
Income tax expense		**(288,091)**	**(197,111)**
Corporate tax expense	*15*	(368,232)	(186,956)
Deferred tax income	*15*	80,141	(10,155)
Net Profit		**922,600**	**675,812**
Other comprehensive income			
Cash flow hedges:			
Effective portion of changes in fair value		-	2,187
Net change in fair values of financial assets measured at fair value through other comprehensive income		7,935	(871)
Net amount transferred to profit or loss		-	-
Other		-	-
Items that will never be reclassified to profit or loss			
Changes in the re-measurements of defined benefit liability	*29*	(7,710)	(13,109)
Change in revaluation of tangible assets		152,832	47
Related tax	*15*	(15,329)	2,311
Other comprehensive income for the period, net of tax		**137,728**	**(9,435)**
Total comprehensive income		**1,060,328**	**666,377**

The notes on pages 10 to 91 are an integral part of these consolidated financial statements.

Türkiye Finans Katılım Bankası Anonim Şirketi

Consolidated statement of changes in equity
for the year ended 31 December 2021
(Currency - In thousands of Turkish Lira unless otherwise stated)

	Notes	Share capital	Fair value reserve	Revaluation reserve	Other reserves	Hedging reserves	Retained earnings	Total
Balances at January 1, 2020		**2,600,000**	**30,076**	**136,811**	**172,896**	**(1,706)**	**1,898,991**	**4,837,068**
Total comprehensive income for the period								
Net profit of the period		**-**	**-**	**-**	**-**	**-**	**675,812**	**675,812**
Net change in fair value of financial assets measured at fair value through other comprehensive income, net of tax		-	(696)	-	-	-	-	**(696)**
Net change in actuarial gain/(loss) related to employee benefits, net of tax		-	-	-	-	-	(10,487)	**(10,487)**
Effective portion of changes in fair value		-	-	-	-	1,706	-	**1,706**
Net amount transferred to profit or loss		-	-	-	-	-	-	**-**
Net change in revaluation of tangible assets,net of tax		-	-	42	-	-	-	**42**
Total other comprehensive income		**-**	**(696)**	**42**	**-**	**1,706**	**665,325**	**666,377**
Other		**-**	**674**	**-**	**-**	**-**	**704**	**1,378**
Total equity		**2,600,000**	**30,054**	**136,853**	**172,896**	**-**	**2,565,020**	**5,504,823**
Transactions with the owners, recorded directly in equity								
Transfers to other reserves		-	-	-	20,235	-	(20,235)	**-**
Balances at December 31, 2020(audited)		**2,600,000**	**30,054**	**136,853**	**193,131**	**-**	**2,544,785**	**5,504,823**
Balances at January 1, 2021		**2,600,000**	**30,054**	**136,853**	**193,131**	**-**	**2,544,785**	**5,504,823**
Total comprehensive income for the period								
Net profit of the period		**-**	**-**	**-**	**-**	**-**	**922,600**	**922,600**
Net change in fair value of financial assets measured at fair value through other comprehensive income, net of tax		-	6,348	-	-	-	-	**6,348**
Net change in actuarial gain/(loss) related to employee benefits, net of tax		-	-	-	-	-	(6,168)	**(6,168)**
Effective portion of changes in fair value		-	-	-	-	-	-	**-**
Net amount transferred to profit or loss		-	-	-	-	-	-	**-**
Net change in revaluation of tangible assets,net of tax		-	-	137,548	-	-	-	**137,548**
Total other comprehensive income		**-**	**6,348**	**137,548**	**-**	**-**	**916,432**	**1,060,328**
Other		**-**	**1,248**	**-**	**-**	**-**	**664**	**1,912**
Total equity		**2,600,000**	**37,650**	**274,401**	**193,131**	**-**	**3,461,881**	**6,567,063**
Transactions with the owners, recorded directly in equity								
Transfers to other reserves		-	-	-	34,292	-	(34,292)	**-**
Balances at December 31, 2021(audited)		**2,600,000**	**37,650**	**274,401**	**227,423**	**-**	**3,427,589**	**6,567,063**

Türkiye Finans Katılım Bankası Anonim Şirketi

Consolidated statement of cash flows
for the year ended 31 December 2021
(Currency - In thousands of Turkish Lira unless otherwise stated)

	Notes	December 31, 2021 (audited)	December 31, 2020 (audited)
Cash flows from operating activities:			
Profit for the period		922,600	675,812
Adjustments for:			
Depreciation and amortisation		140,981	154,516
Net impairment loss on financial assets	*16, 29*	730,561	845,615
Net change in fair value of derivative instruments held for trading	*21*	(450,708)	(20,761)
Provision for employee benefits	*29*	99,058	69,710
Provision for litigation and claims	*29*	16,011	7,127
Other provision expenses	*29*	(1,224,874)	(877,541)
Net profit share accrual income/expense		(604,224)	(388,030)
Income tax expense	*15*	288,091	197,111
		(82,503)	**663,559**
Change in loans, leasing receivables and advances to customers		(4,864,601)	(10,748,352)
Change in other assets		(2,023,667)	(2,079,715)
Change in funds collected from banks		(5,631)	(18,446)
Change in funds collected from customers		5,179,025	10,266,717
Change in other liabilities		7,400,068	641,877
		5,602,691	**(1,274,360)**
Income tax paid		(335,454)	(320,264)
Net cash used in operating activities		**5,267,237**	**(1,594,624)**
Cash flows from investing activities:			
Acquisition of financial assets valued at fair value through other comprehensive income		(3,576,526)	(4,699,502)
Acquisition of financial assets valued at amortised cost		-	(3,067,085)
Proceeds from financial assets valued at fair value through other comprehensive income		2,014,613	2,606,802
Proceeds from of financial assets valued at amortised cost		2,318,883	300,000
Acquisition of property and equipment	*23*	(48,775)	(53,213)
Proceeds from the sale of property and equipment		3,054	678
Acquisition of intangible assets	*23*	(101,857)	(77,720)
Net cash provided from / (used) in investing activities		**609,392**	**(4,990,040)**
Cash flows from financing activities:			
Proceeds from funds borrowed	*27*	39,205,361	47,379,378
Repayment of funds borrowed	*27*	(44,002,479)	(40,137,421)
Re-payment of debt securities	*27*	(17,708,385)	(7,570,287)
Proceeds from issue of debt securities	*27*	15,150,001	9,437,925
Lease payments		(132,767)	(118,052)
Other		664	702
Net cash provided from financing activities		**(7,487,605)**	**8,992,245**
Net (decrease) / increase in cash and cash equivalents		**(1,610,976)**	**2,407,581**
Cash and cash equivalents at 1 January	*17*	10,163,242	5,897,856
Effect of exchange rate fluctuations on cash held		4,727,574	1,857,803
Cash and cash equivalents at December 31,	*17*	**13,279,839**	**10,163,242**

The notes on pages 10 to 91 are an integral part of these consolidated financial statements.

1. Activities of the Participation Bank

Türkiye Finans Katılım Bankası AŞ (“TFKB” or the “Participation Bank”) was established in accordance with the Provision on Establishment of Participation Banks of Decree No. 83/7506 dated December 16, 1983. The Participation Bank (formerly; Anadolu Finans Kurumu AŞ) obtained permission from the Central Bank of Turkey on 24 October 1991 and commenced operations on November 4, 1991.

In accordance with the resolution in the board meeting of Anadolu Finans Kurumu AŞ numbered 1047, on May 31, 2005 a merger between the Participation Bank and Family Finans Kurumu AŞ was decided.

All the assets, liabilities and also off-balance sheet liabilities of Family Finans Kurumu AŞ were transferred to Anadolu Finans Kurumu AŞ during the merger. With the resolution dated 20 October 2005 and numbered 1726 by Banking Regulation and Supervision Agency (“BRSA”), the transfer agreement, signed by the boards of directors’ of Anadolu Finans Kurumu AŞ and Family Finans Kurumu AŞ and modified draft of main contract of Anadolu Finans Kurumu AŞ were approved. The registry on the decision regarding the merger which was concluded in the general assemblies of both participation banks on 23 December 2005 was approved by BRSA’s resolution dated 28 December 2005, and numbered 1764.

In accordance with BRSA’s resolution dated 30 November 2005, and numbered 1747 related to the merger of both participation banks, the title was changed into Türkiye Finans Katılım Bankası AŞ providing that required permission be given by the Council of Ministers within the framework of the 48th article of the Turkish Commercial Law. The new title was registered by the Turkish Trade Registry of Istanbul on 30 December 2005 in compliance with the Turkish Commercial Law numbered 6762.

The Participation Bank operates in accordance with the principles of interest-free banking and Islamic rules as a participation bank, by collecting funds through current accounts and profit sharing accounts and lending such funds through 316 branches with 3,566 employees as at December 31, 2021.

TF Varlık Kiralama AŞ, which was established on February 11, 2013 and the subsidiary of the Parent Participation Bank with 100% ownership is fully consolidated in the consolidated financial statements of the Participation Bank starting from June 30, 2013.

TFKB Varlık Kiralama AŞ, which was established on July 8, 2014 and the subsidiary of the Parent Participation Bank with 100% ownership is fully consolidated in the consolidated financial statements of the Participation Bank from December 31, 2014

The Participation Bank’s head office is located at Saray Mahallesi, Sokullu Caddesi No:6 17. Ümraniye-İstanbul

With the authorization of BRSA, numbered 2489 and dated 28 February 2008, 60% of the Parent Participation Bank was acquired by the The Saudi National Bank. The Parent Participation Bank increased its capital from TL 292,047 to TL 800,000 with the capital increase in 2008 and from TL 800,000 to TL 1,775,000 with the capital increase in 2012. As per decision has taken by the Extraordinary General Assembly on 29 August 2014, the Parent Participation Bank’s share capital increased by TL 825,000 from TL 1,775,000 to 2,600,000. The part of this increase amounting to TL 600,000 was transferred from general reserve and the remaining part amounting to TL 225,000 was paid in cash. Cash commitment amounting to TL 100,000 recorded into capital accounts on 24 October 2014, and remaining part amounting to TL 125,000 recorded into capital accounts on 19 November 2014 with the approval of Banking Regulation and Supervision Agency.

1. Activities of the Participation Bank (continued)

As of December 31, 2021, the Parent Participation Bank's paid-in-capital consists of 2,600,000,000 shares of TL 1 nominal each. Ultimate parent of the Bank is The Saudi National Bank.

As of December 31, 2021, the shares are held as follows; The Saudi National Bank 67.03%, Other 22.4%, Gözde Girişim Sermayesi Yatırım Ortaklığı 10.57% as parent shares. The Participation Bank is controlled by the The Saudi National Bank.

All financial statements of Group and the Participation Bank as at and for end of the period December 31, 2021 are available at www.turkiyefinans.com.tr.

The financial statements of the Bank were authorized for issue by the management on March 22, 2022. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2. Basis of presentation of financial statements

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS"). The principal accounting policies adopted in the preparation of these financial statements are set out below.

The Bank maintains its books of account and prepares its financial statements in Turkish Lira, which is the currency of the primary economic environment in which the Bank operates, in accordance with the Banking Act, based on accounting principles regulated by the "BRSA", which refers to "Turkish Accounting Standards" ("TAS") and "Turkish Financial Reporting Standards ("TFRS") issued by the Public Oversight Accounting and Auditing Standards Authority and other decrees, notes and explanations related to the accounting and financial reporting principles published by the BRSA, and the other relevant rules and regulations regulated by the Turkish Commercial Code and Turkish Tax Legislation.

The accompanying financial statements are based on the statutory records which are maintained under the historical cost convention, except for derivative assets and liabilities held for trading and financial assets valued at fair value through other comprehensive income which are measured at fair value of fair presentation in accordance with IFRS. These financial statements are presented in Turkish Lira since that is the currency in which the majority of the Bank's transactions are denominated.

2.1. Accounting in hyperinflationary countries

Financial statements of the entities located in Turkey have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 – Financial Reporting in Hyperinflationary Economies as at December 31, 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at December 31, 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute. This, together with the sustained positive trend in quantitative factors, such as the stabilisation in capital and money markets, decrease in profit share rates and the appreciation of TL against the US Dollar and other hard currencies have been taken into consideration to categorise Turkey as a non-hyperinflationary economy under IAS 29 effective from January 1, 2006. In the announcement published by the Public Oversight Accounting and Auditing Standards Authority on January 20, 2022, it is stated that IAS 29 Financial Reporting in Hyperinflationary Economies does not apply to the IFRS 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, consolidated financial statements as of December 31, 2021 are not adjusted for inflation in accordance with IAS 29.

2. Basis of preparation (continued)

2.2. Use of estimates and judgments

In preparing these consolidated financial statements, the Bank management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The COVID-19 epidemic, which has emerged in China, 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 December 31, 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.

Assumptions and estimation uncertainties

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is set out below.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment as at December 31, 2021 is set out below in relation to the impairment of financial instruments and in the following notes:

- Note 5– determining fair values of financial instruments and hedge accounting
- Note 15– recognition of deferred tax assets
- Note 20- loans, lease receivables and advances to customers (IFRS 9 Impairment)
- Note 29– recognition and measurement of provisions
- Note 29 – measurement of defined benefit obligations: key actuarial assumptions

Impairment of financial instruments

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

2.4. Changes in accounting policies

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

(Currency - In thousands of Turkish Lira unless otherwise stated)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1. Basis of consolidation

(i) Subsidiaries

"Subsidiaries" are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases. The subsidiaries are presented in Note 34.

(ii) Loss of control

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

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency, TL, of the Participation Bank at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognised in profit or loss and other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The official TL exchange rates used by the Participation Bank for foreign currency translation are as follows:

	EUR / TL	USD / TL
December 31, 2021	14.6823	12.9775
December 31, 2020	9.0079	7.3405

3. Significant accounting policies (continued)

3.3. Profit share

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

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

Profit share income and expense presented in the profit or loss includes:

- profit share on financial assets and liabilities at amortised cost on an effective rate basis,
- profit share on financial assets valued at fair value through other comprehensive income on an effective rate basis.

3.4. Fees and commission

Fees and commission income and expenses that are integral to the effective rate on a financial asset or liability are included in the measurement of the effective rate.Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received. Fees and commissions other than those that are an integral part of the effective interest rate of financial instruments measured at amortized cost are accounted in accordance with the IFRS 15 “Revenue from Contracts with Customers” standard.

3.5. Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes, except for the unrealised gains of financial assets valued at fair value through othe comprehensive income.

3.6. Dividend income

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

3.7. Lease payments made

The Group as a Lessor;

The Group acts as a Lessor in leasing transactions. Assets subject to leasing are accounted in the Parent Participation Bank’s financials as receivables that equal to net leasing investment amount. Total of rental payments including profit shares and principals are recorded under “finance lease receivables” as gross. The difference, i.e., the profit share, between the total of rental payments and the cost of the related tangible asset is recorded under “unearned income”. When the rent payment incurs, the rent amount is deducted from “finance lease receivables”; and the profit share is recorded as finance lease income in the income statement.2

3. Significant accounting policies (continued)

IFRS 16” Leases Standard” has been issued on April 2018. The new standard eliminates the leasing of operating leases and leasing, and requires many leases for leasing companies to be included in the balance sheet under a single model.

For leasing companies, the recognition has not changed substantially and the difference between operating leases and financial leasing continues. IFRS 16 replaces IAS 17 and IAS 17 and is effective for annual periods beginning on or after 1 January 2019.

The Parent Bank has not reassessed whether a contract is a lease or not a lease at the date of initial application for leases previously classified as operating leases in accordance with IAS 17 by preferring simplified transition approach. For the leases previously classified as operational leases in accordance with IAS 17, the lease liability calculated on the present value of the remaining lease payments, discounted using the alternative borrowing interest rate of the lessee at the initial application date is reflected to the financial statements. A right of use is also reflected in the financial statements at an amount equal to the lease obligation, which is reflected in the statement of financial position immediately prior to the initial application date, adjusted for the amount of all prepayment or accrued lease payments. Lessees have the exception of not applying this standard to short-term rentals (leases with a rental period of 12 months or less) or to leases where the underlying asset is of low value (eg personal computers, some office equipment, etc.). At the date when the leasing is actually started, the lessee measures the leasing liability on the present value of the lease payments that were not paid at that date (leasing liability) and depreciates the existence of the right of use related to the same date as the same date. Lease payments are discounted using this rate if the implied profit share rate in the lease can be easily determined. If the ratio is not easily determined, the lessee shall use the lessee's alternative borrowing profit share rate. The lessee should record the profit share expense on the lease liability and the depreciation expense of the right to use separately.

The lessee shall re-measure the lease obligation if certain events occur (for example, changes in the lease term, future rental payments vary due to changes in a certain index or rate, etc.). In this case, the lessee shall record the restatement effect of the lease obligation as a correction on the right to use.

3.8. Income and Deferred tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in profit or loss and other comprehensive income.Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted on the balance sheet date, and any adjustment to tax payable in respect of prior years.As of 31 December 2021, the corporate tax rate has been applied as 25% in the financial statements. In accordance with the Law No. 7316 published in the Official Gazette dated April 22, 2021, the corporate tax rate has been increased to 25% for the taxation period of 2021, starting from the declarations that must be submitted as of July 1, 2021 and being effective for the taxation period starting from January 1, 2021, this rate will be applied as 23% for the taxation period of 2022 and 20% for the taxation periods of 2023 and beyond. Advance corporate taxes paid are followed under “Current Tax Liability” or “Current Tax Asset” account and are deducted from the corporate taxes of the current year.Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. Significant accounting policies (continued)

With the "Law on the Collection Procedure of Public Receivables" published in the Official Gazette dated April 22, 2021 and numbered 31462, and the 11th article of the "Law on Amending Certain Laws", the corporate tax rate, which is currently 20%, has been decided to be 25% for 2021 corporate earnings. For the year 2022, it has been decided to apply 23% of the corporate earnings. While preparing the financial statements as of 31 December 2021, the Bank has used a tax rate of 23% for the temporary differences expected to be realized or closed in 2022, and 20% for the temporary differences expected to be realized or closed in 2023 and after. (31 December 2020: 22%).

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.

3.9. Financial assets and liabilities

Recognition
The Participation Bank initially recognises loans, lease receivables and advances, funds collected, funds borrowed, and subordinated liabilities on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date on which the Participation Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value profit or loss) are initially recognised on the trade date at which the Participation Bank becomes a party to the contractual provisions of the instrument.
Classification
See accounting policies 3.10, 3.11, 3.12, 3.13, 3.14, 3.15 and 3.21.

Derecognition

The Participation Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Participation Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any profit share in transferred financial assets that is created or retained by the Participation Bank is recognised as a separate asset or liability. On derecognition of a financial asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including the new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.The Participation Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.Financial assets valued at fair value through other comprehensive income and financial assets at fair value through profit or loss that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as at the date the Participation Bank commits to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Participation Bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Participation Bank’s trading activity.

3. Significant accounting policies (continued)

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.
When available, the Participation Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Participation Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same and discounted cash flow analyses. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Participation Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Participation Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Initial recognition of financial instruments

The Parent Participation Bank shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are accounted at the settlement date.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. Except for the assets in the scope of IFRS 15 Revenue from contracts with customers, at initial recognition, The Parent Participation Bank measures financial asset or financial liabilities at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit/loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification of financial instruments

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

Assessment of business model

As per IFRS 9, the business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Parent Participation Bank's business models consist of three categories.

3. Significant accounting policies (continued)

Business model aimed to hold assets in order to collect contractual cash flows:

This is a model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount outstanding. Reserve deposit, loans and advances to banks, financial assets valued at amortized cost, loans, leasing receivables and advances to customers and other receivables are assessed within this business model.

Business model aimed to collect contractual cash flows and sell financial assets:

This is a model whose objective is achieved by both collecting contractual cash flows and selling financial assets: the Parent Participation Bank may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount outstanding. Financial Assets Measured at Fair Value through Other Comprehensive Income are assessed in this business model.

Other business models:

Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Financial assets measured at fair value through profit/loss and derivative financial assets are assessed in this business model.

Measurement categories of financial assets and liabilities

In accordance with IFRS 9 of the Parent Participation Bank, financial assets are as follows on three main classes:

- Financial assets measured at fair value through profit/loss,
- Financial assets measured at fair value through other comprehensive income and
- Financial assets measured at amortized cost.

Financial assets at the 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 profit share 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 measured at fair value through other comprehensive income:

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

3. Significant accounting policies (continued)

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Profit share income calculated with initial rate of return 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.

For the first time on an entity's financial statements, an entity may choose a non-reversible option to present subsequent amendments to fair value of an investment in an equity instrument that are not held for trading purposes in other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

Financial Assets Measured at Amortized Cost:

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

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

Explanations on Expected Credit Losses

The Group recognises a loss allowance for expected credit losses on financial assets and loans measured at amortised cost, financial assets measured at fair value through other comprehensive income , loan commitments and financial guarantee contracts not measured at fair value through profit/loss based on IFRS 9 and the regulation published in the Official Gazette no. 29750 dated June 22, 2016 in connection with “Procedures and Principals regarding Classification of Loans and Allowances Allocated for Such Loans” effective from January 1, 2018. At each reporting date, the Group shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group considers the changes in the default risk of financial instrument.

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 the gradual increase in credit risk observed since their initial recognition:

Stage 1:

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses. Calculation is made for each for Loss Given Default (LGD) and twelve LGD is detected, LGD amount to be used at this stage is determined by taking average of them. The twelve-month expected credit loss is calculated on the basis of a default estimate of twelve months following the reporting date. These expected twelve-month Probability of Defaults (PD) are applied to an estimated amount of default. This expected twelve-month default is discounted to the present day with the original effective interest rate of the loan multiplied by the LGD.

3. Significant accounting policies (continued)

Stage 2:

As of the reporting date of the financial asset, in the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument's lifetime expected credit losses. There is no difference for products with a remaining one year or less as in Stage 1. The calculation method is similar to Stage 1, but Probability of Default (PD) and Loss Given Default (LGD) rates estimated throughout the life of the instrument. Loss Given Default is calculated monthly and a single LGD is determined for each year by taking averages. Loss Given Default (LGD) rates are determined as the number of months remaining for the loans with the remaining maturities less than 1 year and the amount of LGD is determined by taking averages of them.

The following criteria are used in the determination of loans as Stage 2,
- Loans with a delay of 30 and over 30 days,
- Restructured Loans,
- Loans followed closely and internally by the Bank,
- Loans resulting in a significant decline in rating as a result of the model are classified as model 2.

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 Parent Participation Bank accounts lifetime expected credit losses.

For the customers whose total risk amount is higher than the threshold value, the provision is calculated based on the collection estimates of the relevant expert team. In this direction, it is calculated by discounted the related cash flows under two scenarios. The first scenario is the continuation of the activities of the company and the second scenario is the discounting of the cash flows to be obtained as a result of the sale of the assets. They are calculated according to Loss Given Default (LGD) for the customers who are below the threshold value. The expected loss rates in the calculation reach 100% according to the result of the model.

Group considers the following criteria in determining the impairment:
- Delay of over 90 days,
- Impairment of credit ratings,
- Collateral and / or equiy of debitor is inadequate to cover the payment of receivables regarding on its maturity,
- To be convinced that the receivables will be delayed more than 90 days due to macroeconomic, sector specific or customer specific reasons.

As it is mentioned in the important estimates and judgments note used in the preparation of the financial statements, the Bank reflected the possible effects of the COVID-19 outbreak as of December 31, 2021 with the best estimation method for the estimates and judgments used in calculating the expected loan losses. In this context, the Participation Bank has made an individual assessment to 19 customers under COVID-19 and allocated additional provisions for the sector and customers which are considered to be affected the most. This approach, which is preferred in provision calculations for the year 2020 and 2021, will be revised by taking into consideration the impact of the epidemic, credit portfolio and changes in future expectations for the following reporting periods.

3. Significant accounting policies (continued)

Calculation of expected credit losses

Group measured expected credit losses with the reasonable, objective and supportable informations based on a probability-weighted including estimations about 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). The PD and LGD parameters used in calculating the expected credit loss are calculated as point in time PD (PIT), including both current and expected cycle changes. Certain portion of the loans followed by the Remedial Department is evaluated individually according to internal policies for calculation of Expected Credit Loss (ECL). This calculation is made by discounting the expected cash flows of the loans with their current profit share rate.

Probability of Default (PD)

The PD represents the likelihood of a default over a specified time period. When calculating the expected credit loss in accordance with IFRS 9, two different PD values are used:

- 12-month Probability of Default (PD): Estimation of the probability of default within 12 months after the reporting date.
- Lifetime Probability of Default (PD): Estimation of probability to occur during the expected life of the borrower.

The lifetime PD calculation is based on a series of 12-month instant (PIT) PDs that are derived from TTC PDs and scenario forecasts.

Commercial portfolio customers with ratings produced by internal rating systems are grouped at different risk levels by taking into account rating notes ın order to determine the Probability of Default (PD). Internal ratings models used in the commercial portfolio-party customers contains several elements such as behavior of the incorporated registration information in the Parent Participation Bank and Central Bank of the Republic of Turkey (CBRT), financial information, qualitative characteristics and industry. The retail portfolio has been decomposed on the basis of product group and the Probability of Default (PD) calculations for both the commercial and retail portfolio have been realized by taking into consideration the default data in the past, current conditions and prospective macroeconomic expectations.

Future macroeconomic information is included in the credit risk parameters in the expected credit loss calculation. Specification and estimation of econometric models that reveal the past relationships between credit risk parameters and macroeconomic variables are made ın order to produce predictions based on macroeconomic reflections. Various macroeconomic indicators such as the GDP, unemployment rate, inflation, exchange rate, bond profit share rates and the effect of legal changes are used in the context of these forecasts. Macroeconomic models have been established by identifying the variables that best explain the PDs of the Parent Participation Bank customers.

While creating macroeconomic expectations, the scenarios used within the scope of Internal Capital Adequacy Assessment Process (ISEDES) are taken into consideration. In this context, three scenarios are used (Bank base scenario, Bank bad scenario, BRSA base scenario) and the scenarios are weighted with the determined probability and the final expectations.

Loss Given Default (LGD)

The LGD represents an estimate of the loss at the time of a potential default occurring during the life of a financial instrument. The LGD is calculated taking into account expected future cash flows from collateral and other credit enhancements by considering time value of money.

3. Significant accounting policies (continued)

LGD calculation has been performed according to the segments that are consisted of segregated risk parameters by using the past data that reflects best the current conditions. In LGD modelling, all the non-performing loan procedures/cases which are resulted according to the period that loans are granted are taken into consideration.

LGD takes into account all cash flows from customers after default. It includes all the relevant costs and collections incurred during the collection cycle including collections provided with collaterals and also includes ''time value of the money'' that calculated with reducing the cost and additional losses from the current value of the collections.

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, profit share 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.

Calculating the Expected Loss Period

Lifetime ECL is calculated by taking into account maturity extensions, repayment options and the period during which the Parent Participation 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 Group. Behavioral maturity analysis has been performed on credit cards and overdraft funds collected.

Significant increase in credit risk

The Group 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. In this context, the Group has calculated thresholds at which point the relative change is a significant deterioration. When determining the significant increase in bank credit risk, The Group also assessed the absolute change in the PD date on the transaction date and on the reporting date. If the absolute change in the PD ratio is above the threshold values, the related financial asset is classified as stage 2.

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

- Loans overdue more than 30 days as of the reporting date,
- Loans classified as watchlist,
- When there is a change in the payment plan due to restructuring.

3.10. Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash at bank, cash on transit and loans and advances to banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.11. Fair value through profit or loss

The Group designates some financial assets at fair value, with fair value changes recognised immediately in profit or loss and other comprehensive income statement as described in accounting policy 3.9.

3. Significant accounting policies (continued)

3.12. Loans, lease receivables and advances

Loans, lease receivables and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Participation Bank does not intend to sell immediately or in the near term. When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans, lease receivables and advances. Loans, lease receivables and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective rate method.

3.13. Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses except for buildings owned which are measured at fair value. Change in fair value is reflected into “revaluation reserve” account in other comprehensive income.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised net within the other operating income or other operating expense in profit or loss.

Subsequent costs

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Participation Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated
.
The estimated useful lives for the current and comparative periods are as follows:

▪ Buildings	50 years
▪ Office equipment, furniture and fixtures	3-10 years
▪ Motor vehicles	5 years
▪ Leased assets	1-10 years

Leasehold improvements are amortised over the shorter of periods of the respective leases and their useful lives, also on a straight-line basis.

A right of use is also reflected in the financial statements at an amount equal to the lease obligation, which is reflected in the statement of financial position immediately prior to the initial application date, adjusted for the amount of all prepayment or accrued lease payments.

Depreciation methods, useful lives and residual values are reassessed at the each financial period-ended and adjusted if appropriate.

3. Significant accounting policies (continued)

3.14. Derivative financial instruments and estimations

Derivatives are initially recorded in off-balance sheet accounts at their contract values. Immediately after contract date, the derivative transactions are valued at their fair values and the changes in their fair values are recorded on balance sheet under "derivative financial assets" or "derivative financial liabilities", whichever is relevant. Subsequent fair value changes for trading derivatives are recorded under profit or loss.

3.15. Intangible assets

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three to five years.

Amortisation methods, useful lives and residual values are reassessed at the each financial period-ended and adjusted if appropriate.

3.16. Assets Held for Sale

Assets held for sale are not amortized or depreciated and presented in the financial statements separately. In order to classify a tangible fixed asset as held for sale, the asset should be available for an immediate sale in its present condition subject to the terms of any regular sales of such assets and the sale should be highly probable. For a highly probable sale, the appropriate level of management must be committed to a plan to sell the asset and ac active programme to complete the plan should be initiated to locate a customer. Also, the asset should have an active market sale value, which is a reasonable value in relation to its current fair value.

3.17. Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. Significant accounting policies (continued)

An impairment loss in respect of other assets, impairment losses recognised in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.18. Funds collected, debt securities issued, funds borrowed, and subordinated liabilities

Funds collected are the Participation Bank's main source of debt funding. Funds collected of the Participation Bank comprised of the customers' current and profit sharing accounts.

Customers' current and profit sharing accounts are initially recognised at cost. Subsequent to the initial recognition, all profit share accounts are recognised considering the attribute profits or any losses incurred on the respective loan balances. In all cases, profit/loss sharing accounts receive a proportion of the profit or bear a share of loss based on the results of the respective loan balances.

Debt securities issued, funds borrowed, and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

3.19. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Participation Bank recognises any impairment loss on the assets associated with that contract.

3.20. Employee benefits

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Group arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. Employment termination benefit is not a funded liability and there is no requirement to fund it. Employment termination benefit is calculated based on the estimation of the present value of the employee's probable future liability arising from the retirement. IAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the bank's obligation under defined employee plans. IAS 19 ("Employee Benefits") has been revised effective from the annual period beginning after January 1, 2013. In accordance with the revised standard, actuarial gain / loss related to employee benefits shall be recognised in other comprehensive income.

3. Significant accounting policies (continued)

Short-term employee benefits

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

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

The Group does not have any internally set defined contribution plan.

3.21. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Participation Bank's Management Committee (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Board of Directors include items directly attributable to that segment as well as those that can be allocated on a reasonable basis. The Group has restated previous term statement of cash flow, relating segment reporting in order to provide comparativeness to the statements of current term financial statements.

3.22. Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the reporting dates (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

3.23. The new standards, amendments and interpretations

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

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

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

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

3. Significant accounting policies (continued)

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 group.

3. Significant accounting policies (continued)

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 standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

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

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

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

Amendments to IFRS 3 – Reference to the Conceptual Framework

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

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.

3. Significant accounting policies (continued)

The group is in the process of assessing the impact of the amendments on financial position or performance of the group.

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

IFRS 17 - The new Standard for insurance contracts

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

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

In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments issued to IAS 1 which are effective for periods beginning on or after 1 January 2023, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Early application is permitted. The Group and will not have an impact on the financial position or performance of the Group.

3. Significant accounting policies (continued)

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 group is in the process of assessing the impact of the amendments on financial position or performance of the group.

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 group is in the process of assessing the impact of the amendments on financial position or performance of the group.

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 Group is in the process of assessing the impact of the amendments on financial position or performance of the group.

3. Significant accounting policies (continued)

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.The Group is in the process of assessing the impact of the amendments on financial position or performance the group.

4. Financial risk management

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risks
- operational risks

This note presents information about the Participation Bank's exposure to each of the above risks, the Participation Bank's objectives, policies and processes for measuring and managing risk, and the Participation Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Participation Bank's risk management framework. The Board has established the Participation Bank's Asset and Liability ("ALCO") committee, Credit committee and Risk Management Department, which are responsible for monitoring the Participation Bank risk management policies in their specified areas.All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.The Participation Bank's risk management policies are established to identify and analyse the risks faced by the Participation Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Participation Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.The Participation Bank's Audit Committee is responsible for monitoring compliance with the Participation Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Participation Bank's. The Participation Bank's Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Participation Bank's Audit Committee.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Credit risk

Credit risk is defined as the current or prospective threat to the Participation Bank's earnings and capital as a result of counterparty's failure to comply with a financial or other contractual obligation in respect of the institution, including the possibility of restrictions on or impediments to the transfer of payments from abroad and arises principally from the Participation Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Participation Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

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

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

Regular audits of business units and Participation Bank's credit processes are undertaken by internal audit.

The Bank's internal credit rating grades in the application of IFRS 9 is as follows:

Internal rating Grade	Internal rating description	12 month PD
AAA to A-	High Grade	0,23%
BBB+	High Grade	0,23%
BBB	High Grade	0,51%
BBB-	High Grade	0,51%
BB+	High Grade	0,51%
BB1	High Grade	0,51%
BB2	Standart	1,04%
BB-	Standart	1,70%
B+	Sub-Standart	3,22%
B1	Sub-Standart	6,12%
B2	Past due but not impaired	14,36%
B-	Past due but not impaired	14,36%
CCC+	Past due but not impaired	14,36%
CCC	Past due but not impaired	14,36%
CCC-	Past due but not impaired	14,36%
CC to C	Past due but not impaired	14,36%

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

		Assigned Weights	2021	2022
REAL GDP GROWTH				
	TFKB Base	30%	3.80%	4.50%
	TFKB Negative	30%	0.00%	1.50%
	BDDK Base	40%	3.80%	4.00%
FX BASKET(*)				
	TFKB Base	30%	9.52	10.29
	TFKB Negative	30%	9.40	11.18
	BDDK Base	40%	9.14	9.77
FX_BASKET_GRW(**)				
	TFKB Base	30%	16.5%	8.1%
	TFKB Negative	30%	15.0%	18.9%
	BDDK Base	40%	11.9%	6.8%
LOG(LOAN TO ASSESTS)				
	TFKB Base	30%	-0.57	-0.57
	TFKB Negative	30%	-0.63	-0.64
	BDDK Base	40%	-0.60	-0.59
LOAN TO ASSESTS				
	TFKB Base	30%	0.57	0.57
	TFKB Negative	30%	0.53	0.53
	BDDK Base	40%	0.55	0.55

(*)Represents the currency basket
(**) Represents the currency basket&growth rate

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Exposure to credit risk

	Due from banks	Financial Assets Valued at Amortised Cost	Loans and advances to customers
	31 December 2021	31 December 2021	31 December 2021
Carrying amount (net)	**6,870,554**	**918,434**	**58,860,183**
Performing financial assets	6,872,753	918,533	58,873,707
Non-performing financial assets	-	-	2,818,159
Gross amount			**2,818,159**
Total ECL	**(2,199)**	**(99)**	**(2,831,683)**
ECL provision for Stage 3	-	-	(2,086,163)
ECL provision for Stage 2	-	-	(569,223)
ECL provision for Stage 1	(2,199)	(99)	(176,297)
Gross amount before ECL	**6,872,753**	**918,533**	**61,691,866**

	Due from banks	Financial Assets Valued at Amortised Cost	Loans and advances to customers
	31 December 2020	31 December 2020	31 December 2020
Carrying amount (net)	**7,142,822**	**2,943,195**	**45,340,677**
Performing financial assets	7,146,052	2,943,684	45,037,943
Non-performing financial assets	-	-	2,701,996
Gross amount	**-**	**-**	**2,701,996**
Total ECL	**(3,230)**	**(489)**	**(2,399,262)**
ECL provision for Stage 3	-	-	(1,904,086)
ECL provision for Stage 2			(377,400)
ECL provision for Stage 1	(3,230)	(489)	(117,776)
Gross amount before ECL	**7,146,052**	**2,943,684**	**47,739,939**

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Credit risk by risk groups

	Individual	Corporate	Total
31 December 2021			
Performing loans	10,710,106	43,665,821	54,375,927
Loans under close monitoring	160,112	4,337,668	4,497,780
Non-performing loans	252,387	2,565,772	2,818,159
Gross	**11,122,605**	**50,569,261**	**61,691,866**
Specific provisions for Stage 1	41,428	134,869	176,297
Specific provisions for Stage 2	2,242	566,981	569,223
Specific provisions for Stage 3	216,338	1,869,825	2,086,163
Total	**10,862,597**	**47,997,586**	**58,860,183**
31 December 2020			
Performing loans	8,485,322	32,358,730	40,844,052
Loans under close monitoring	173,822	4,020,069	4,193,891
Non-performing loans	298,088	2,403,908	2,701,996
Gross	**8,957,232**	**38,782,707**	**47,739,939**
Specific provisions for Stage 1	23,885	93,891	117,776
Specific provisions for Stage 2	1,395	376,005	377,400
Specific provisions for Stage 3	222,684	1,681,402	1,904,086
Total	**8,709,268**	**36,631,409**	**45,340,677**

Required management environment for credit risk, establishment of credit risk strategies and policies, determination of acceptable risk level and risk limits, avoidance of risk concentration, establishment of review processes related to credit risk in new product and service presentations, arrangement of delegation of authorization, ensuring of accountability are ensured through determination of qualifications requested for the personnel which shall be assigned.

Credit policies are determined in-written, approved by Board of Directors and updated in the framework of financial position of the Bank, market conditions and trends and equity level, if required.

Principles applied in evaluation, allocation and monitoring phases of credits are determined through credit policies and it is aimed to meet requirements of clients both in a precautionary and also competitive approach in line with policies. One of the main targets is the controlled growth of credit portfolio and risks taken during the credit relation with customers are determined through specific standards. Credit policies reveal main review criteria and risk parameters taking renewal of current credits or enhancing new credits in line with established standards.

Credit proposals are evaluated considering financial power and morality of the debtor and finally approved accordingly in credit management. It is evaluated whether debtors have repayment capacity or not through taking estimated cash flow of debtor, debt service level (repayment capacity) and expected return-risk relation into consideration as well as financial data. If it is difficult to obtain comprehensive financial data, credit review is made through analysis performed with available data receiving further information about purpose of the credit used.

Credit risk is measured through:
Customer Pre-selection Criteria
Risk grading systems (Rating and Scoring Models)
NBSM Decision Support System at banks.

Credit risk measurement in SME, Commercial and Corporate segments is performed through “Customer Preselection Criteria” policies and “Rating Models”. The customer pre-selection criteria is determined by taking into account the Bank's risk appetite and best practices and other performance variables in the sector and applied in the credit approval process. In the determination of the criteria, the analysis is used for the probable customers who are likely to become problematic or problematic in the bank's loan portfolio.

4. Financial risk management (continued)

In the rating models, the current portfolio data of the relevant segment is modeled by taking into account the expert opinions with statistical methods. The model assumptions and limitations used to measure risks the basic assumptions used, the adequacy and appropriateness of data sources and application procedures will be coordinated. Rating grade is a risk indicator summarizing cash flow, profitability and indebtedness, industry and activity history, management capability and other information of the credit debtor.The rating models are passed through the validation process annually unless otherwise requested. Depending on the results of the validation, the model can continue to be used as it is, updates can be made in the current model, or a new model can be created. These rating models are kept up-to-date to reflect changing market conditions. Rating grade and Default Rate value of a customer demonstrates possibility of default in 1 year period and used in order to determine creditability of the related customer.

Business, Entrepreneur, Credit Cards, Individual Loans and Micro Segment Scoring Models are models produced by using statistical methods and data mining / modeling tools for related segments and products over the customer data of the Bank's portfolio. At the time of application, they measure the risk grades of the customers and generate a risk score and a TO value. Model development work is carried out in coordination with the relevant business units. Scoring models are passed through the validation process annually unless otherwise requested.

In this process, the predictive power of the model is evaluated by comparing the actual performance with the predicted performance over the customer data that has passed the application scoring model in the past and the performance of a certain period has occurred. Updates can be made in the model or a new model can be created if necessary at the end of the validation.

The cut-off for customers is determined by Rating and Scoring Models, in-bank procedures.

Maximum risk amount which can be accepted by the Bank in a certain jurisdiction is determined by limits of related jurisdiction. This limit covers all risks of credit, market, counterparty and exchange risks undertaken by the Bank. Principles regarding country risk and limits are determined through related intra-bank procedures.

Limits regarding credit risk are determined within the risk appetite structure in order to manage credit risk in an effective and proactive manner at the Bank.

Main purpose of Credit Risk Committee is to monitor credit portfolio, activities having credit risk and related processes end to end. It also makes evaluations on determination/recommendation and follow-up of improvement and risk mitigation actions in scope of its authorization depending upon the decision of the Committee. In addition, Credit Committee, holding meetings at Board of Directors level, evaluates risk appetite reports (with respect to credit risk and related aspects of risk concentration) and internal performance indicator levels, policies, regulations, processes of credits, collections and provisions and course of credit activities and makes decisions, if required.

Except for the reporting made in line with Basel principles, Risk Management Center Directorate shares results of analysis and evaluation results performed in scope of credit risk management with senior management of the Bank on a monthly basis. Detailed analysis related to key risk indicators related to credit portfolio, evaluation results based on product related to commercial and individual credits, evaluation results related to concentration risk and collections through the performed study. In addition, results of analysis and evaluation results related to credit portfolio are presented to Audit Committee, Credit Committee and Credit Risk Committee. Results of risk appetite monitoring and action plans regarding overflows are shared.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

In scope of credit risk, Supervisory Board Directorate and Internal Control Directorate carry out audits/controls towards whether appropriate transactions are made or not regarding credits provided in line with legal and bank legislation. Branch audits/controls are performed in the framework of annual audit/control program established based on risk

Write-off policy

The Group writes off a loan balance (and any related allowances for impairment losses) when it is concluded that the loans are uncollectible after all the necessary legal procedures have been completed, and the final loss has been determined. This conclusion is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral policy

The Group holds collateral against loans, lease receivables and advances to customers in the form of mortgage profit shares over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks and financial assets valued at fair value through other comprehensive income, and no such collateral was held at December 31, 2021 and 2020.

The breakdown of performing loans, lease receivables and advances to customers by type of collateral are as follows:

Loans, lease receivables and advances to customers	**December 31, 2021**	**December 31, 2020**
Secured loans:		
Secured by mortgages	10,871,275	9,749,992
Secured by promissory notes	13,207,949	8,063,121
Secured by pledge on assets	5,770,743	4,138,394
Secured by cash collateral	1,995,957	2,677,264
Other collateral	248,505	222,364
Unsecured loans	26,779,278	20,186,808
Total performing and close monitoring loans, lease receivables and advances to customers	**58,873,707**	**45,037,943**

Collaterals received for close monitoring loans:

	Current Period	**Prior Period**
Loans Collateralized by Cash	182,442	257,307
Loans Collateralized by Mortgages	2,442,104	2,050,485
Loans Collateralized by Pledged Assets	556,492	484,104
Loans Collateralized by Cheques and Notes	788,717	863,358
Loans Collateralized by Collaterals	10,207	829
Unsecured Loans	517,818	538,576
Total	**4,497,780**	**4,194,659**

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Breakdown of receivables by geographical area, sector and outstanding maturity

Curremt Period	Non-performing Loans	Specific Provisions	Write-Offs
Domestic	2,716,393	2,014,729	236,219
European Union(EU) Countries	44,331	44,045	101
OECD Countries	14	14	-
Off-Shore Banking Regions	-	-	-
USA, Canada	-	-	-
Other Countries	57,421	27,375	2
Total	**2,818,159**	**2,086,163**	**236,322**

Prior Period	Non-performing Loans	Specific Provisions	Write-Offs
Domestic	2,668,763	1,882,987	98,438
European Union(EU) Countries	27,106	19,404	-
OECD Countries	244	244	-
Off-Shore Banking Regions	-	-	-
USA, Canada	-	-	-
Other Countries	5,883	1,451	-
Total	**2,701,996**	**1,904,086**	**98,438**

Current Period	Non-performing Loans	Specific Provisions	Write-Offs
Agricultural	**23,384**	**15,203**	**3,232**
Farming and raising livestock	23,384	15,203	3,232
Forestry	-	-	-
Fishing	-	-	-
Manufacturing	**731,312**	**561,287**	**37,323**
Mining	95,147	87,889	160
Production	585,847	424,062	36,782
Electricity, Gas, Water	50,318	49,336	381
Construction	**756,455**	**485,623**	**72,538**
Services	**1,215,838**	**954,146**	**103,164**
Wholesale and Retail Trade	744,692	605,767	77,466
Hotel,Food,Beverage Services	54,038	33,054	17,688
Transportation and Telecommunication	187,355	146,311	1,571
Financial Institutions	15,071	11,861	14
Real Estate and Lending Services	171,373	124,178	3,161
Self employment Service	-	-	-
Education Service	36,243	27,428	1,830
Health and social Services	7,066	5,547	1,434
Other	**91,170**	**69,904**	**20,065**
Total	**2,818,159**	**2,086,163**	**236,322**

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Prior Period	Non-performing Loans	Specific Provisions	Write-Offs
Agricultural	**30,657**	**22,816**	**13,096**
Farming and raising livestock	30,657	22,816	13,096
Forestry	-	-	-
Fishing	-	-	-
Manufacturing	**689,309**	**500,483**	**28,601**
Mining	46,143	40,919	-
Production	582,396	408,531	28,601
Electricity, Gas, Water	60,770	51,033	-
Construction	**762,290**	**513,594**	**1,732**
Services	**1,111,524**	**791,193**	**51,454**
Wholesale and Retail Trade	746,861	555,592	9,032
Hotel,Food,Beverage Services	78,160	33,265	-
Transportation and Telecommunication	144,893	97,516	3,355
Financial Institutions	209	173	-
Real Estate and Lending Services	79,764	64,481	38,081
Self employment Service	-	-	-
Education Service	49,485	32,632	749
Health and social Services	12,152	7,534	237
Other	**108,216**	**76,000**	**3,555**
Total	**2,701,996**	**1,904,086**	**98,438**

December 31, 2021	Maximum exposure to credit risk	Cash	Mortgages	Promissory notes	Pledge on assets	Other	Total Collateral	Net Exposure
Financial Assets								
Cash and balances with central banks	6,441,486	-	-	-	-	-	-	6,441,486
Loans and advances to banks	6,870,554	-	-	-	-	-	-	6,870,554
Derivative financial instruments	742,448	-	-	-	-	-	-	742,448
Loans, lease receivables and advances to customers	58,860,183	1,995,957	10,871,275	13,207,949	5,770,743	248,505	32,094,429	26,765,754
Financial assets valued at fair value through other comprehensive income	14,002,409	-	-	-	-	-	-	14,002,409
Financial Assets at Fair Value through Profit or Loss (Net)	3,740,658	-	-	-	-	-	-	3,740,658
Financial assets valued at amortised cost	918,434	-	-	-	-	-	-	918,434
Reserve deposit	16,695,027	-	-	-	-	-	-	16,695,027
Total	**108,271,199**	**1,995,957**	**10,871,275**	**13,207,949**	**5,770,743**	**248,505**	**32,094,429**	**76,176,770**

December 31, 2020	Maximum exposure to credit risk	Cash	Mortgages	Promissory notes	Pledge on assets	Other	Total Collateral	Net Exposure
Financial Assets								
Cash and balances with central banks	3,033,408	-	-	-	-	-	-	3,033,408
Loans and advances to banks	7,142,822	-	-	-	-	-	-	7,142,822
Derivative financial instruments	233,458	-	-	-	-	-	-	233,458
Loans, lease receivables and advances to customers	45,340,677	8,063,121	2,677,264	9,749,992	4,138,394	222,364	24,851,135	20,489,542
Financial assets valued at fair value through other comprehensive income	8,022,448	-	-	-	-	-	-	8,022,448
Financial Assets at Fair Value through Profit or Loss (Net)	1,903,386	-	-	-	-	-	-	1,903,386
Financial assets valued at amortised cost	2,943,195	-	-	-	-	-	-	2,943,195
Reserve deposit	9,413,447	-	-	-	-	-	-	9,413,447
Total	**78,032,841**	**8,063,121**	**2,677,264**	**9,749,992**	**4,138,394**	**222,364**	**24,851,135**	**53,181,706**

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Sectorial analysis

The Participation Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of loan risk at the reporting date is shown below:

	December 31, 2021		December 31, 2020	
Sector	**Carrying amount**	**%**	**Carrying amount**	**%**
Trade and commerce	12,665,137	22	8,680,333	19
Manufacturing	19,870,324	34	15,557,530	34
Retail	7,647,266	13	6,829,160	15
Construction	4,165,567	7	3,398,112	7
Services	3,799,764	6	3,422,439	8
Electricity, water, gas and health services	3,537,685	6	2,344,472	5
Transportation and communication	2,392,943	4	1,760,584	4
Financial institutions	1,822,043	3	327,911	1
Agriculture and fishing	581,174	1	834,410	2
Other	2,378,280	4	2,185,726	5
Total	**58,860,183**	100	**45,340,677**	100

Geographical concentration	**December 31, 2021**	**December 31, 2020**
Turkey	58,662,713	44,781,610
European Union countries	178,888	101,856
OECD countries	5,667,854	6,501,285
Off-shore banking regions	47,021	23,886
USA, Canada	931,069	449,168
Other countries	256,716	322,960
Total performing and close monitoring loans, lease receivables and advances to banks and customers (*)	**65,744,261**	**52,180,765**

(*) Does not include stage 3 group

Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements. Similar financial instruments include derivatives. Financial instruments such as loans and funds collected are not disclosed in the tables below unless they are offset in the statement of financial position.

Such collateral is subject to each agreement terms. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

4. Financial risk management (continued)

(Currency - In thousands of Turkish Lira unless otherwise stated)

The Group receives and gives collateral in the form of cash in respect of the derivative transactions.

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

					Related amounts not offset in the statement of financial position		
	Types of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
December 31, 2021	Derivatives - trading assets	742,448	-	742,448	-	742,448	-
December 31, 2020	Derivatives - trading assets	233,458	-	233,458	-	233,458	-

					Related amounts not offset in the statement of financial position		
	Types of financial liabilities	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
December 31, 2021	Derivatives - trading liabilities	(369,299)	-	(369,299)	-	(369,299)	-
December 31, 2020	Derivatives - trading liabilities	(326,902)	-	(326,902)	-	(326,902)	-

Liquidity risk

Liquidity risk is the possibility of failing of partly or completely covers to participation bank's liquid liabilities with liquid assets and receivables. Liquidity risk is one of the main risk which is undertaken by Participation Bank to fulfill its primary banking services. To manage the mentioned risk in a conservative manner, indicators related to liquidity risk are determined in structure of Participation Bank's risk appetite. Existing risk appetite structure includes Benchmark Funds Collected Rate and Total Liquidity Coverage Ratio. Participation Bank's risk appetite is approved by Board of Directors, monitored by Risk Management Division and reported to senior management. In case of overdraft of limits, the mentioned matters are informed to Audit Committee.

In addition, on monthly basis, measurement and assessment is performed related to target and stimulant indicator has been determined by Asset Liability Management Committee. Target, alert, and trigger levels related to indicators of liquidity is determined in order to limit liquidity risk are determined and monitored by Asset Liability Management Committee.

Participation Bank implements strategies aimed at diversification of fund sources, procuring of fund sources with longer maturities, and conformance on maturity between assets and liability in order to avoid liquidity risk.
All balance sheet items which have an impact on liquidity, are decomposed on the basis of maturity and analyzed the liquidity situation. “The Liquidity Coverage Ratio” and “Net Stable Funding Ratio” reports are prepared according to Basel III principles. The liquidity coverage ratio report is presented to BRSA according to the regulations, and Net Stable Funding Ratio report is prepared at present for information purposes.

In the case of liquidity squeeze which is sourced by Participation Bank or Market, the actions to be implemented with order of priority and where the precautions to be taken is formed as Liquidity Risk

Management-Emergency Action Plan; the roles and responsibilities are established according to this action plan. The liquidity contingency funding plan which is a part of Participation Bank’s Liquidity Risk Management Policy is approved by Board of Directors and in the case of liquidity problem, BOD identify the precaution and actions to be taken.

Participation Bank apply stress testing within the scope of liquidity risk, as well as the other significant risk types. In stress testings related to liquidity risk, power of resistance to determinated scenarios is tested with regard to liquidity structure.

To measure the capital requirement to cover imposed or possible risk and sustain its activities with adequate capital, Participation Bank’s Risk Management Group prepare ICAAP report at least once a year by analysing Participation Bank’s current and future capital requirements along with strategical goals and macroeconomic variables and the report is transmitted to BRSA.

Under the ICAAP report, Participation Bank’s possible losses and the capital adequacy level which will cover the losses are estimated with the help of stress test and scenario analysis which identify possible changes in market conditions and possible events that can affect negatively the Participation Bank.

Other than scenario analysis and stress tests realized by ICAAP additional stress tests are performed in monthly and quarterly periods. Market and counterparty credit risk and the Participation Bank’s total liquidity risk are performed monthly within the “Framework of Internal Systems of Banks and Internal Capital Adequacy Assessment Processes.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

The liquidity coverage ratios of the year 2021 are as follows:

Current Period		Total Unweighted Value (average) (*)		Total Weighted Value (average) (*)	
		TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUIDITY ASSETS					
1	**High Quality Liquidity Assets**			**29,678,857**	**25,048,422**
CASH OUTFLOWS					
2	**Retail and Small Business Customers' Deposits**	**57,671,067**	**41,139,864**	**5,688,763**	**4,226,983**
3	Stable Deposits	6,996,511	-	349,826	-
4	Less Stable Deposits	50,674,556	41,139,864	5,338,937	4,226,983
5	**Unsecured fundings besides retail and small business customers' deposits**	**23,079,569**	**17,001,863**	**10,413,754**	**7,445,370**
6	Operational Deposits	-	-	-	-
7	Non-Operational Deposits	17,884,050	14,466,122	7,369,569	5,846,784
8	Other unsecured fundings	5,195,519	2,535,741	3,044,185	1,598,586
9	**Secured Fundings**			**-**	**-**
10	**Other Cash Outflows**	**18,097,635**	**13,723,875**	**16,727,463**	**13,605,041**
11	Derivatives cash outflows and collateral outflows	15,842,147	13,551,428	15,842,147	13,551,428
12	Obligation related to structured financial products	-	-	-	-
13	Commitments related to debts to financial markets and other off-balance sheet obligations	2,255,488	172,447	885,316	53,613
14	**Other revocable off-balance sheet commitments and contractualobligations**	**-**	**-**	**-**	**-**
15	**Other irrevocable or conditionally revocable off-balance sheetobligations**	**7,725,758**	**2,650,005**	**870,912**	**402,815**
16	**TOTAL CASH OUTFLOWS**			**33,700,892**	**25,680,209**
CASH INFLOWS					
17	**Secured Lending**	**-**	**-**	**-**	**-**
18	**Unsecured Lending**	**8,259,868**	**6,679,638**	**8,259,868**	**6,679,638**
19	**Other Cash Inflows**	**16,099,797**	**14,629,393**	**16,099,797**	**14,629,393**
20	**TOTAL CASH INFLOWS**	**24,359,665**	**21,309,031**	**24,359,665**	**21,309,031**
				Total Adjusted Value	
21	**TOTAL HQLA STOCK**			**29,678,857**	**25,048,422**
22	**TOTAL NET CASH OUTFLOW**			**10,006,994**	**6,454,921**
23	**LIQUIDITY COVERAGE RATIO (%)**			**296.58**	**388.05**

(*) The average of consolidated liquidity coverage ratio calculated by monthly simple arithmetic average The average of three months is the average of the last three months' averages, separately.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

The liquidity coverage ratios of the year 2020 are as follows:

Prior Period		**Total Unweighted Value (average) (*)**		**Total Weighted Value (average) (*)**	
		TL+FC	**FC**	**TL+FC**	**FC**
HIGH QUALITY LIQUIDITY ASSETS					
1	**High Quality Liquidity Assets**			**19,566,384**	**16,111,008**
CASH OUTFLOWS		-	-	-	-
2	**Retail and Small Business Customers' Deposits**	**46,849,046**	**34,079,342**	**4,646,829**	**3,540,695**
3	Stable Deposits	5,948,705	-	297,435	-
4	Less Stable Deposits	40,900,341	34,079,342	4,349,394	3,540,695
5	**Unsecured fundings besides retail and small business customers' deposits**	**17,281,097**	**10,156,587**	**7,368,373**	**4,182,028**
6	Operational Deposits	-	-	-	-
7	Non-Operational Deposits	13,900,296	8,614,584	5,758,568	3,498,000
8	Other unsecured fundings	3,380,801	1,542,003	1,609,805	684,028
9	**Secured Fundings**			**-**	**-**
10	**Other Cash Outflows**	**19,316,016**	**12,137,032**	**18,425,152**	**12,025,779**
11	Derivatives cash outflows and collateral outflows	17,859,693	11,977,522	17,859,693	11,977,522
12	Obligation related to structured financial products	-	-	-	-
13	Commitments related to debts to financial markets and other off-balance sheet obligations	1,456,323	159,510	565,459	48,257
14	**Other revocable off-balance sheet commitments and contractualobligations**	-	**-**	**-**	**-**
15	**Other irrevocable or conditionally revocable off-balance sheetobligations**	**6,476,055**	**1,944,423**	**657,772**	**245,329**
16	**TOTAL CASH OUTFLOWS**			**31,098,126**	**19,993,831**
CASH INFLOWS					
17	**Secured Lending**	**-**	**-**	**-**	**-**
18	**Unsecured Lending**	**5,596,152**	**4,304,658**	**5,596,152**	**4,304,658**
19	**Other Cash Inflows**	**17,879,718**	**16,965,470**	**17,879,719**	**16,965,470**
20	**TOTAL CASH INFLOWS**	**23,475,870**	**21,270,128**	**23,475,871**	**21,270,128**
				Total Adjusted Value	
21	**TOTAL HQLA STOCK**			**19,566,384**	**16,111,008**
22	**TOTAL NET CASH OUTFLOW**			**8,379,900**	**4,998,458**
23	**LIQUIDITY COVERAGE RATIO (%)**			**233.49**	**322.32**

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Profit Share Sensitivity

Participation banks distribute profit share to participation accounts' owners based on the profit share income that the bank receives from its Loan portfolio issued from Participation accounts. That is why participation banks profit share sensitivity depend on lending rates rather than funds collected profit share rates in the market. Conventional banks might react rapidly to interest rate changes in the market, however, Participation banks, as they do not guarantee any profit share rate at the opening date to the depositors they could not react very rapidly to profit share rate changes in the market.

Core funds collected calculation based on TL, USD and EUR currencies is made for demand funds collected on a monthly basis. Calculation is made through using Monte-Carlo Simulation and based on daily current funds collected changes. The lowest value of current funds collected on 99% trust level for the following month using historical daily change date during simulation phase. Core funds collected rates are calculated through dividing calculated amount to funds collected amount realized at the end of the month and aforementioned rates are used in the calculation of profit share rate risk sourcing from banking accounts.

Current Period				
Currency		**Applied Shock (+/- x basis points)***	**Gains /Losses**	**Gains / Shareholders' Equity - Losses/ Shareholders' Equity**
1	TRY	500	(388,253)	-%3.85
2	TRY	(400)	345,399	%3.42
3	EURO	200	816,880	%8.09
4	EURO	(200)	(963,648)	-%9.55
5	USD	200	(288,955)	-%2.86
6	USD	(200)	317,071	%3.14
-	**Total (for negative shocks)**	**-**	**(301,178)**	**-%2.98**
-	**Total (for positive shocks)**	**-**	**139,672**	**%1.38**

Prior Period				
Currency		**Applied Shock (+/- x basis points)***	**Gains /Losses**	**Gains / Shareholders' Equity - Losses/ Shareholders' Equity**
1	TRY	500	(861,108)	-%11.55
2	TRY	(400)	787,791	%10.57
3	EURO	200	34,728	%0.47
4	EURO	(200)	(28,133)	-%0.38
5	USD	200	429,686	%5.77
6	USD	(200)	(539,243)	-%7.23
-	**Total (for negative shocks)**	**-**	**220,414**	**%2.96**
-	**Total (for positive shocks)**	**-**	**(396,694)**	**-%5.32**

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

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

December 31, 2021	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unallocated	Total
Cash and balances with Central Bank	6,441,486	-	-	-	-	-	-	6,441,486
Loans and advances to banks	6,870,554	-	-	-	-	-	-	6,870,554
Loans, lease receivables and advances to customers	-	5,370,840	10,933,594	24,333,803	16,171,205	2,064,265	(13,524)	58,860,183
Financial assets at fair value through profit or loss	-	459,891	16,426	144,407	3,119,934	-	-	3,740,658
Financial assets valued at fair value through other comprehensive income	12,768	1,678	3,847,211	878,318	9,162,264	100,170	-	14,002,409
Financial assets valued at amortised cost	-	9,287	-	909,246	-	-	(99)	918,434
Other assets(1)	17,585,451	546,534	-	-	-	-	1,063,113	19,195,098
Total assets(*)	**30,910,259**	**6,388,230**	**14,797,231**	**26,265,774**	**28,453,403**	**2,164,435**	**1,049,490**	**110,028,822**
Funds collected from banks	13,969	13,961	26	-	-	-	-	27,956
Funds collected from customers	39,477,478	34,768,540	8,719,113	1,497,151	9,335	-	-	84,471,617
Funds borrowed	-	9,753,262	440,287	2,049,106	38,332	(1)	-	12,280,986
Debt securities issued	-	761,432	155,006	65,008	-	-	-	981,446
Subordinated liabilities	-	-	-	2,380	-	3,244,375	-	3,246,755
Current tax liabilities	-	-	-	203,478	-	-	-	203,478
Other liabilities	3,087,653	457,101	223,733	(128,804)	203,464	63,577	-	3,906,724
Total liabilities(**)	**42,579,100**	**45,754,296**	**9,538,165**	**3,688,319**	**251,131**	**3,307,951**	**-**	**105,118,962**
Net	**(11,668,841)**	**(39,366,066)**	**5,259,066**	**22,577,455**	**28,202,272**	**(1,143,516)**	**1,049,490**	**4,909,860**

(*) Total assets does not include derivative financial assets valued at fair value through profit or loss amounting TL 742,488; property and equipment for TL 1,396,096; intangible assets for TL 172,447 and deferred tax asset for TL 139,121.
(**) Total liabilities does not include derivative financial liabilities valued at fair value through profit or loss amounting TL 369,299 and provisions amounting TL 423,610.
(1) Reserve deposits at Central Bank of Turkey amounting to TL 16,695,027 are presented under "demand" column

December 31, 2020	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unallocated	Total
Cash and balances with Central Bank	3,033,408	-	-	-	-	-	-	3,033,408
Loans and advances to banks	7,142,822	-	-	-	-	-	-	7,142,822
Loans, lease receivables and advances to customers	-	3,317,771	5,788,665	19,752,480	14,612,171	1,566,856	302,734	45,340,677
Financial assets at fair value through profit or loss	-	1,951	490,233	1,146,033	265,169	-	-	1,903,386
Financial assets valued at fair value through other comprehensive income	8,505	11,748	1,084,552	1,180,973	5,736,670	-	-	8,022,448
Financial assets valued at amortised cost	-	9,234	-	2,034,450	900,000	-	(489)	2,943,195
Other assets(1)	993,252	9,791,694	-	-	-	-	210,716	10,995,662
Total assets(*)	**11,177,987**	**13,132,398**	**7,363,450**	**24,113,936**	**21,514,010**	**1,566,856**	**512,961**	**79,381,598**
Funds collected from banks	8,527	25,163	24	-	-	-	-	33,714
Funds collected from customers	28,803,765	23,222,488	4,459,982	877,160	11,616	-	-	57,375,011
Funds borrowed	-	8,128,854	40,397	1,328,227	-	-	-	9,497,478
Debt securities issued	-	374,941	1,054,593	2,086,509	-	-	-	3,516,043
Subordinated liabilities	-	-	-	1,346	-	1,835,125	-	1,836,471
Current tax liabilities	-	-	-	22,529	-	-	-	22,529
Other liabilities	1,933,024	302,228	39,003	37,466	189,017	67,520	-	2,568,258
Total liabilities(**)	**30,745,316**	**32,053,674**	**5,593,999**	**4,353,237**	**200,633**	**1,902,645**	**-**	**74,849,504**
Net	**(19,567,329)**	**(18,921,276)**	**1,769,451**	**19,760,699**	**21,313,377**	**(335,789)**	**512,961**	**4,532,094**

(*) Total assets does not include derivative financial assets valued at fair value through profit or loss amounting TL 233,458; property and equipment for TL 1,201,775; intangible assets for TL 135,605 and deferred tax asset for TL 74,309.
(**) Total liabilities does not include derivative financial liabilities valued at fair value through profit or loss amounting TL 326,902 and provisions amounting TL 345,516.
(1) Reserve deposits at Central Bank of Turkey amounting to TL 9,413,447 are presented under "Less than one month" column

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Maturity analysis of conditioned liabilities and commitments is as follows:

December 31, 2021	**Demand**	**Up to 1 Month**	**1-3 Months**	**3-12 Months**	**1-5 Years**	**5 Years and Over**	**Total**
Guarantees and Sureties	3,210,209	1,273,405	2,425,828	5,342,142	1,194,757	515,293	13,961,634
Irrevocable commitments	2,886,163	4,654,923	615	104,671	19,188	307	7,665,867
Forward asset purchase and sale commitments	-	4,641,167	-	-	-	-	4,641,167
Share capital commitments to associates and subsidiaries	-	76	-	-	-	-	76
Commitments for cheque payments	801,707	-	-	-	-	-	801,707
Tax and fund obligations on export commitments	-	8,112	615	7,585	19,188	307	35,807
Commitments for credit card limits	2,080,538	-	-	-	-	-	2,080,538
Commitments for credit cards and banking services promotions	3,918	-	-	-	-	-	3,918
Other irrevocable commitments	-	5,568	-	97,086	-	-	102,654
Revocable commitments	-	-	-	-	-	-	-
Revocable loan granting commitments	-	-	-	-	-	-	-
Derivative financial instruments held for risk management	-	-	-	-	-	-	-
Fair value hedges	-	-	-	-	-	-	-
Cash flow hedges	-	-	-	-	-	-	-
Forward foreign currency buy/sell transactions	-	27,853,717	18,095,522	11,234,408	-	-	57,183,647
Forward foreign currency transactions-buy	-	10,951,998	9,053,020	5,679,079	-	-	25,684,097
Forward foreign currency transactions-sell	-	13,094,657	9,042,502	5,555,329	-	-	27,692,488
Other forward buy/sell transactions	-	3,807,062	-	-	-	-	3,807,062
Total	**6,096,372**	**33,782,045**	**20,521,965**	**16,681,221**	**1,213,945**	**515,600**	**78,811,148**

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

December 31, 2020	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Guarantees and Sureties	2,626,699	459,639	1,181,057	3,388,264	1,016,471	312,911	8,985,041
Irrevocable commitments	1,910,536	3,194,724	328	1,989	49,860	-	5,157,437
Forward asset purchase and sale commitments	-	3,172,715	-	-	-	-	3,172,715
Share capital commitments to associates and subsidiaries	-	106	-	-	-	-	106
Commitments for cheque payments	644,855	-	-	-	-	-	644,855
Tax and fund obligations on export commitments	-	19,488	252	1,939	390	-	22,069
Commitments for credit card limits	1,262,679	-	-	-	-	-	1,262,679
Commitments for credit cards and banking services promotions	3,002	-	-	-	-	-	3,002
Other irrevocable commitments	-	2,415	76	50	49,470	-	52,011
Revocable commitments	-	-	-	-	-	-	-
Revocable loan granting commitments	-	-	-	-	-	-	-
Derivative financial instruments held for risk management	-	-	-	-	-	-	-
Fair value hedges	-	-	-	-	-	-	-
Cash flow hedges	-	-	-	-	-	-	-
Forward foreign currency buy/sell transactions	-	21,229,332	9,136,332	1,975,330	-	-	32,340,994
Forward foreign currency transactions-buy	-	6,187,388	3,502,475	1,026,120	-	-	10,715,983
Forward foreign currency transactions-sell	-	10,702,599	4,595,340	949,210	-	-	16,247,149
Other forward buy/sell transactions	-	4,339,345	1,038,517	-	-	-	5,377,862
Total	**4,537,235**	**24,883,695**	**10,317,717**	**5,365,583**	**1,066,331**	**312,911**	**46,483,472**

Residual contractual maturities of the financial liabilities

December 31, 2021	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years
Funds collected from banks	27,956	27,956	13,969	13,961	26	-	-	-
Funds collected from customers	84,471,617	84,471,617	39,477,478	34,768,540	8,719,113	1,497,151	9,335	-
Funds borrowed &subordinated debt	15,527,741	27,149,908	-	18,699,685	444,276	2,415,642	1,071,756	4,518,549
Debt securities issued	981,446	1,064,706	-	782,089	193,272	89,345	-	-
Total	**101,008,760**	**112,714,187**	**39,491,447**	**54,264,275**	**9,356,687**	**4,002,138**	**1,081,091**	**4,518,549**
Non-cash loans	**13,961,634**	**13,961,634**	**3,210,209**	**1,273,405**	**2,425,828**	**5,342,142**	**1,194,757**	**515,293**

December 31, 2020	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years
Funds collected from banks	33,714	33,714	8,527	25,163	24	-	-	-
Funds collected from customers	57,375,011	57,375,011	28,803,765	23,222,488	4,459,982	877,160	11,616	-
Funds borrowed&subordinated debt	11,333,949	13,895,988	-	8,931,636	43,491	1,522,371	670,279	2,728,211
Debt securities issued	3,516,043	3,657,514	-	378,887	1,084,977	2,193,650	-	-
Total	**72,258,717**	**74,962,227**	**28,812,292**	**32,558,174**	**5,588,474**	**4,593,181**	**681,895**	**2,728,211**
Non-cash loans	**8,985,041**	**8,985,041**	**2,626,699**	**459,639**	**1,181,057**	**3,388,265**	**1,016,471**	**312,910**

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Current Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Funds Collected from Banks via Current and Profit Sharing Accounts	13,969	13,961	26	-	-	-	27,956
Other Current and Profit Sharing Accounts	39,477,478	34,746,355	8,719,113	1,497,151	9,335	-	84,449,432
Funds Provided from Other Financial Institutions	-	3,191,150	444,276	2,415,642	1,071,756	4,518,549	11,641,373
Money Market Deposits	-	6,528,730	-	-	-	-	6,528,730
Securities İssued	-	782,089	193,272	89,345	-	-	1,064,706
Miscellaneous Payables	1,663,799	292,738	-	-	-	-	1,956,537
Other Liabilities	-	-	-	-	-	-	-
Total	**41,155,246**	**45,555,023**	**9,356,687**	**4,002,138**	**1,081,091**	**4,518,549**	**105,668,734**

Prior Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Funds Collected from Banks via Current and Profit Sharing Accounts	8,527	25,163	24	-	-	-	33,714
Other Current and Profit Sharing Accounts	28,803,765	23,204,195	4,459,982	877,160	11,616	-	57,356,718
Funds Provided from Other Financial Institutions	-	1,643,494	43,491	1,522,371	670,279	2,728,211	6,607,846
Money Market Deposits	-	-	-	-	-	-	-
Securities İssued	-	378,887	1,084,977	2,193,650	-	-	3,657,514
Miscellaneous Payables	1,007,510	215,476	-	-	-	-	1,222,986
Other Liabilities	-	-	-	-	-	-	-
Total	**29,819,802**	**25,467,215**	**5,588,474**	**4,593,181**	**681,895**	**2,728,211**	**68,878,778**

Profit rate risk

Profit rate risk arises from the possibility that changes in the conventional profit share rate will affect the future profitability or the fair value of financial instruments. The Participation Bank is exposed to profit rate risk as a result of mismatches or gaps in the amount of assets and liabilities and off-balance sheet instruments that mature or re-price during a given period. The impact of possible changes in the profit rates in measured and the profit rate gaps are reviewed to initiate corrective action in the Participation Bank's funding profile to ensure that the overall profit rate risk remains within acceptable tolerances. The principal objective of the Participation Bank's management activities for profit share rate risk is to enhance profitability by limiting the effect of adverse profit share rate movements in the sector and increasing profit share income by managing profit share rate exposure. The Participation Bank's monitors profit share sensitivity by analysing the composition of its assets and liabilities and off-balance sheet financial instruments.The major portion of the customers' current and profit sharing accounts are short term. Accordingly, profit share rates are in line with the prevailing profit share rates in the market. Therefore, the management believes that the fair value of such financing activities do not materially differ from their respective book values.

4. Financial risk management (continued)

Market risk

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates and credit spreads will affect the Participation Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

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

Overall authority for market risk is vested in Risk Management Department and ALCO.

Exposure to market risk

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

Value at Risk ("VaR") is also used to measure and control market risk exposure within the Participation Bank's trading and financial assets valued at fair value through other comprehensive income portfolios. The VaR of these portfolios is the estimated loss that will arise on the portfolios over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

Average, highest and lowest values of market risks as at December 31, 2021 and 2020 calculated and reported with using the Standardised Approach as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 29111 dated 6 September 2014 which is complaint to Basel II.

Currency risk

The Participation Bank is exposed to currency risk through transactions in foreign currencies.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

Management of currency risk

Risk policy of the Participation Bank is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Participation Bank has established a foreign currency risk management policy that enables the Participation Bank to take a position between lower and upper limits which are determined.
The table below summarizes the Group's assets and liabilities at carrying amounts, categorized by currency. The off-balance sheet gap represents the difference between the notional amounts of purchased and sold foreign currency derivative financial instruments.

	Euro	**USD**	**Other(*)**	**Total**
December 31, 2021				
Cash and balances with Central Bank	1,575,746	1,738,853	1,839,951	5,154,550
Loans and advances to banks	304,054	1,175,963	5,519,612	6,999,629
Loans, lease receivables and advances to customers	19,360,152	7,841,857	-	27,202,009
Financial assets valued at fair value through profit or loss(Net)	-	-	3,715,868	3,715,868
Financial assets valued at fair value through other comprehensive income	3,177,921	6,903,000	-	10,080,921
Financial assets valued at amortised cost	-	-	-	-
Other assets	5,135,987	8,057,205	3,667,710	16,860,902
Funds collected from banks	813,966)	(10,639)	(2,276)	(26,881)
Funds collected from customers	(14,714,686)	(32,073,888)	(16,405,392)	(63,193,966)
Funds borrowed	(1,479,642)	(1,545,130)	-	(3,024,772)
Subordinated liabilities	-	(3,246,755)	-	(3,246,755)
Debt securities issued	-	-	-	-
Other liabilities	(574,601)	(790,639)	(181,312)	(1,546,552)
Net on balance sheet position	**12,770,965**	**(11,950,173)**	**(1,845,839)**	**(1,025,047)**
Net off balance sheet position (derivatives)	**(12,676,361)**	**11,889,868**	**1,882,718**	**1,096,225**
Net position	**94,604**	**(60,305)**	**36,879**	**71,178**

(*) Under "Other" column "Other Assets" include TL 1,063,113 and "Customer funds collected" included TL 15,690,848 precious metal funds collected accounts.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)

	Euro	USD	Other(*)	Total
December 31, 2020				
Cash and balances with Central Bank	1,227,283	571,171	517,508	2,315,962
Loans and advances to banks	91,004	457,079	6,595,282	7,143,365
Loans, lease receivables and advances to customers	9,569,236	5,824,562	-	15,393,798
Financial assets valued at fair value through profit or loss (Net)	-	-	1,894,190	1,894,190
Financial assets valued at fair value through other comprehensive income	912,106	3,867,569	-	4,779,675
Financial assets valued at amortised cost	-	2,025,384	-	2,025,384
Other assets	3,450,259	3,631,882	2,507,306	9,589,447
Funds collected from banks	(3)	(165)	(4)	(172)
Funds collected from customers	(8,431,919)	(17,308,903)	(16,164,403)	(41,905,225)
Funds borrowed	(731,727)	(1,141,543)	-	(1,873,270)
Subordinated liabilities	-	(1,836,471)	-	(1,836,471)
Debt securities issued	-	-	-	-
Other liabilities	(188,627)	(431,709)	(168,938)	(789,274)
Net on balance sheet position	**5,897,612**	**(4,341,144)**	**(4,819,059)**	**(3,262,591)**
Net off balance sheet position (derivatives)	**(5,925,741)**	**4,335,356**	**4,863,448**	**3,273,063**
Net position	**(28,129)**	**(5,788)**	**44,389**	**10,472**

(*) Under "Other" column "Other Assets" include TL 210,716 and "Customer funds collected" included TL 15,743,974 precious metal funds collected accounts.

Exposure to currency risk

A 10 percent devaluation of the TL against the following currencies as at December 31, 2021 and 2020 would change the profit or loss and other comprehensive income (without tax effects) by the amounts shown below.

	December 31, 2021		December 31, 2020	
Time	**Profit or (loss)**	**Total comprehensive income**	**Profit or (loss)**	**Total comprehensive income**
Usd	(6,031)	(2,731)	(579)	(4,266)
Euro	9,460	9,460	(2,813)	(2,813)
Other currencies	3,688	3,688	4,439	4,439
Total, net	**7,117**	**10,417**	**1,047**	**(2,640)**

This analysis assumes that all other variables remain constant.

4. Financial risk management (continued)

Operational risk

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

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

The Participation Bank adopts a risk terminology which is in accordance with Basel II in order to create an international approach on Operational Risk Management. This common risk language provides a consistent view and communication about operational risk throughout the Participation Bank. Software is used in order to support the standard framework for the management of operational risk by creating the data house for risk losses and reporting of the mentioned data.

The Risk Control Evaluation (“RCE”) is performed periodically in the Participation Bank as a basic principle of the Basel II Operational Risk implementations. It is aimed with RCE to restrict the operational risk effects by investigating the business processes subject to operational risk and performing controls by the process owners. In the departments where RCC study is implemented, ‘Key Risk Indicators’ and the threshold value for the mentioned risk points are determined.

Besides, within the Capital Adequacy Measurement and Reporting Project, the software solutions are started to be used since June 2012 in order to build a flexible parametric model to create a reporting system that is complaint with Basel II, to apply stress tests to the capital adequacy related risks and to be in compliance with the legal framework changes.

The Participation Bank calculated the value of operational risk in accordance with “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” published in Official Gazette no. 29111 dated 6 September 2014, which is complaint to Basel II, using the basic indicator approach with the data of last three years 2020, 2019 and 2018. The amount, calculated as TL 4,638,526 (December 31, 2020: TL 3,823,921) represents the operational risk that the Participation Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk.

(Currency - In thousands of Turkish Lira unless otherwise stated)

4. Financial risk management (continued)
Capital management – regulatory capital

The BRSA sets and monitors capital requirements for the Bank as a whole. The Bank is directly supervised by local regulators. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 12% of total capital to total value at credit, market and operational risks. The Bank regulatory capital is analysed into two tiers:

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

-Tier 2 capital, which includes qualifying subordinated liabilities and general provisions. The BRSA also requires the banks to maintain prescribed ratios of minimum 6% and 4.5% of Tier 1 and Tier 2 capital, respectively, to total value at credit, market and operational risks starting from 1 January 2014.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

Fluctuations in financial markets are experienced mainly as a result of the COVID-19 epidemic, mainly in the press statement made by the BRSA on March 23, 2020. For this reason, in accordance with the BRSA's Decision No. 9312 dated 08.12.2020; In the calculation of the amount subject to credit risk in accordance with the Regulation on Measurement and Evaluation of Capital Adequacy; Monetary assets from assets that are not monetary, the history of excluding the items in foreign currencies are measured at cost Turkey Accounting Standards valued in accordance with the amounts and calculating specific provisions regarding, the calculation date of the last 252 business days belonging to the Central Bank foreign exchange buying rates to be used by the simple arithmetic average, (It has been extended until a contrary decision is taken pursuant to the BRSA's Decision dated 16.09.2021 and numbered 9795.)

Also in accordance with the BRSA 04.16.2020 date and 8999 numbered decision of the Bank of which the Administration Republic of Turkey and Central and FC Banks to receivables denominated Measurement of Capital Adequacy and the 0% risk weight is applied on the amount subject to credit risk under the Standardized Approach calculation of the Assessment of facility provided.

As of 31 December 2021, the Participation Bank used the opportunities in its Capital Adequacy calculations.

The Participation Bank's regulatory capital position as at December 31, 2021 and 2020 was as follows:

	December 31, 2021	December 31, 2020
Tier 1 capital	6,381,070	5,258,104
Tier 2 capital	3,723,959	2,204,725
Deductions from capital	-	-
Total regulatory capital	**10,105,029**	**7,462,829**
Amount subject to credit risk	45,309,821	37,020,267
Amount subject to market risk	3,430,250	3,658,525
Amount subject to operational risk	4,638,526	3,823,921
Capital adequacy ratios (%)	**18.93**	**16.77**

5. Use of estimates and judgements

Determining fair values of financial instruments

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

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation models

Management has estimated that the fair value of certain financial assets and liabilities recorded at amortised cost are not materially different than their recorded values except for those of loans, lease receivables and advances to customers, funds borrowed and debt securities issued. These financial assets and liabilities include cash and balances with Central Bank, loans and advances to banks, funds collected and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values.

For the financial assets and liabilities such as loan, lease receivables and advances to customers, funds borrowed, debt securities issued; valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include benchmark market rates used in estimating discount rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair values of the performing loans, leasing receivables and advances to customers are determined as Level 2 and calculated by using valuation techniques including net present value and discounted cash flow models.

Fair values of held-to-maturity investments are determined as Level 2 and derived from prices which are announced by CBRT.

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

The fair value of other financial assets is also considered to approximate their respective carrying values due to their nature.

Carrying value of the funds collected from banks and funds collected from customers equal to their fair values as they are revalued with the year-end unit value.

(Currency - In thousands of Turkish Lira unless otherwise stated)

5. Use of estimates and judgements (continued)

The estimated fair values of financial assets and financial liabilities are as follows:

	Carrying Amount		Fair Value	
	December 31, 2021	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**
Financial Assets				
Cash and balances with Central Bank	6,441,486	3,033,408	6,441,486	3,033,408
Loans, leasing receivables and advances to customers (Stage 1 & 2)	58,873,707	45,037,943	57,248,064	43,012,654
Financial assets valued at amortised cost	918,434	2,943,195	880,855	2,883,752
Loans and advances to banks	6,870,554	7,142,822	6,870,554	7,142,822
Derivative financial assets valued at fair value through profit or loss	742,448	233,458	742,448	233,458
Reserve deposits	16,695,027	9,413,447	16,695,027	9,413,447
Total	**90,541,656**	**67,804,273**	**88,878,434**	**65,719,541**
Financial Liabilities				
Funds collected from customers(*)	84,471,617	57,375,011	84,471,617	57,375,011
Funds borrowed	12,280,986	9,497,478	12,253,954	9,491,589
Subordinated Loans	3,246,755	1,836,471	3,246,514	1,835,214
Debt securities issued	981,446	3,516,043	962,132	3,709,165
Funds collected from banks	27,956	33,714	27,956	33,714
Derivative liabilities	369,299	326,902	369,299	326,902
Total	**101,378,059**	**72,585,619**	**101,331,472**	**72,771,595**

(*) Since the maturities are short, there is no difference between the carrying amount and fair value

Classification of fair value measurement

IFRS 7 – Financial Instruments: Disclosures requires the measurements of fair value of financial instruments to be classified in a hierarchy that reflects the significance of the valuation inputs used. This classification prioritises observable data, using market data obtained from independent sources, in preference to unobservable data that relies, for example on the use of predictions and assumptions about market prices by the Participation Bank. This sort of categorisation generally results in the classifications below:

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

(Currency - In thousands of Turkish Lira unless otherwise stated)

5. Use of estimates and judgements (continued)

Valuation Principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market conditions, regardless of whether that price is directly observable or estimated using a valuation technique.

Valuation Governance

The Bank's fair value methodology and the governance over its models includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. All new product initiatives are subject to approvals by various functions of the Bank including risk and finance functions.

Valuation Techniques

Government debt securities & Debts securities issued by financial instutions

Government debt securities are financial instruments issued by sovereign governments. Debts securities issued by financial institutions include the rent sertificates that are issued by TF Varlık Kiralama A.Ş. When market prices are not available, observable market prices such as the marketable security prices which are announced by CBRT and the prices obtained from foreign capital markets are used for fair value determination of financial assets and liabilities measured at fair value.

Performing loans, leasing receivables and advances to customers

In order to calculate the fair value of loans, current profit-sharing rates are used as of the balance sheet date. Loan balance also includes finance lease receivables.

There are no transfers between Level 1 and Level 2 and Level 3.

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

December 31, 2021	Level 1	Level 2	Level 3	Total
Financial asset at fair value through profit or loss (Net)	-	3,740,658	-	3,740,658
Derivative financial assets valued at fair value through profit or loss	-	742,448	-	742,448
Financial assets valued at fair value through other comprehensive income[(1)]	-	13,989,641	-	13,989,641
Financial assets at fair value		**18,472,747**		**18,472,747**
Derivative financial liabilities valued at fair value through profit or loss	-	369,299	-	369,299
Financial liabilities at fair value	**-**	**369,299**	**-**	**369,299**

(1) Not quoted share certificates amount to TL 12,768 are excluded from the table above

5. Use of estimates and judgements (continued)

(Currency - In thousands of Turkish Lira unless otherwise stated)

December 31, 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial asset at fair value through profit or loss (Net)	-	1,903,386	-	1,903,386
Derivative financial assets valued at fair value through profit or loss	-	233,458	-	233,458
Financial assets valued at fair value through other comprehensive income[1]	-	8,013,943	-	8,013,943
Financial assets at fair value	**-**	**10,150,787**	**-**	**10,150,787**
Derivative financial liabilities valued at fair value through profit or loss	-	326,902	-	326,902
Financial liabilities at fair value	**-**	**326,902**	**-**	**326,902**

(2) Not quoted share certificates amount to TL 5,532 are excluded from the table above

Observable market prices such as the marketable security prices which are announced by CBRT and the prices obtained from foreign capital markets are used for fair value determination of financial assets and liabilities measured at fair value except derivative assets and derivative liabilities held for trading. The similar ratios announced in the capital markets are used for discounting the contractual prices of derivative financial assets and derivative financial liabilities for fair value determination.

6. Operating segments

The Participation Bank has three reportable segments, as described below, which are the Participation Bank’s strategic business units. These strategic business units offer different products and services, and are managed separately based on the Participation Bank’s management and internal reporting structure. For each of the strategic business units, the Board of Directors, as the chief operating decision maker reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Participation Bank’s reportable segments:

Consumer banking

This segment includes consumer lending, current accounts and consumer products which are in accordance with Islamic rules for individuals and small sized businesses.

(Currency - In thousands of Turkish Lira unless otherwise stated)

6. Operating segments (continued)

Corporate banking

This segment provides banking services including all conventional credit-related products and financing products in compliance with Islamic rules for medium and large establishments and companies. It also includes international banking services.

Treasury

This segment provides a different range of treasury products and services, including money market and foreign exchange, to the Participation Bank's customers, in addition to carrying out investment and trading activities (local and international) and managing liquidity and market risk in compliance with Islamic rules.

Others

Others are comprised of head office accounts, particularly management of a portfolio of equity holdings, other real estate and the bank premises.

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

Measurement of segment assets and liabilities and operating segment results is based on the accounting policies set out in the accounting policy notes. Since a segment can use the funds collected of the other segment, there is a fund transfer between the segments. Those kinds of income and expenses generated from fund transfers are recalculated based on the average rates and average amounts.

Prior period	**Consumer banking**	**Corporate banking**	**Treasury**	**Others**	**Total**
December 31, 2021					
Operating income[1]	1,809,183	1,315,631	494,048	(335,716)	3,283,146
Net profit of segment[2]	**792,203**	**528,681**	**279,066**	**(389,259)**	**1,210,691**
Profit before tax	792,203	528,681	279,066	(389,259)	1,210,691
Tax provision	-	-	-	(288,091)	(288,091)
Net period profit after tax	**792,203**	**528,681**	**279,066**	**(677,350)**	**922,600**
Assets of the segment	10,465,966	45,820,668	43,966,033	12,226,267	112,478,934
Total assets	**10,465,966**	**45,820,668**	**43,966,033**	**12,226,267**	**112,478,934**
Liabilities of segment	66,013,105	21,080,878	16,102,637	2,715,251	105,911,871
Shareholders' equity	-	-	-	6,567,063	6,567,063
Total liabilities and equity	**66,013,105**	**21,080,878**	**16,102,637**	**9,282,314**	**112,478,934**

(1) Operating income includes net profit share income, net fee and commission income, net trading income and other operating income.

(2) Personnel and operational expenses are allocated based on the asset amount of the each segment.

(Currency - In thousands of Turkish Lira unless otherwise stated)

6. Operating segments (continued)

Prior period	Consumer banking	Corporate banking	Treasury	Others	Total
December 31, 2020					
Operating income[1]	1,684,931	1,103,129	766,102	(512,282)	3,041,880
Net profit of segment[2]	**768,665**	**194,969**	**493,658**	**(584,369)**	**872,923**
Profit before tax	768,665	194,969	493,658	(584,369)	872,923
Tax provision	-	-	-	(197,111)	(197,111)
Net period profit after tax	**768,665**	**194,969**	**493,658**	**(781,480)**	**675,812**
Assets of the segment	9,094,591	39,413,319	25,456,072	6,872,763	81,026,745
Total assets	**9,094,591**	**39,413,319**	**25,456,072**	**6,872,763**	**81,026,745**
Liabilities of segment	48,419,141	15,476,463	9,614,276	2,012,042	75,521,922
Shareholders' equity	-	-	-	5,504,823	5,504,823
Total liabilities and equity	**48,419,141**	**15,476,463**	**9,614,276**	**7,516,865**	**81,026,745**

(1) Operating income includes net profit share income, net fee and commission income, net trading income and other operating income.
(2) Personnel and operational expenses are allocated based on the asset amount of the each segment.

7. Profit share income

	January 1 – December 31, 2021	January 1 – December 31, 2020
Income on loans	4,783,273	3,655,234
Income on investment securities	1,137,198	700,756
Income on funds collected at banks	1,320	9,433
Income on financial leases	45,823	53,111
Other	117,454	30,360
Total	**6,085,068**	**4,448,894**

8. Profit share expense

	January 1 – December 31, 2021	January 1 – December 31, 2020
Expense on funds collected	1,853,267	1,144,632
Expense on borrowings	942,027	449,784
Expense on securities issued	554,693	161,019
Other	301,623	206,888
Total	**3,651,610**	**1,962,323**

(Currency - In thousands of Turkish Lira unless otherwise stated)

9. Net fee and commission income

	January 1 – December 31, 2021	January 1 – December 31, 2020
Fee and commission income		
Insurance commissions	113,450	39,465
Commissions from non-cash loans	106,982	92,029
Credit card fees and commissions	100,312	42,653
Intelligence fee	74,855	38,638
POS commissions from members	49,247	25,471
Expense package income	33,958	358
Commissions on remittance	8,693	6,808
Expert Fees	5,150	14,706
Others	37,832	43,996
Total fee and commission income	**530,479**	**304,124**
Fee and commission expense		
POS transactions commission expenses	89,237	50,910
Cash transfer expenses	67,517	24,237
Credit card service and usage expenses	22,600	18,538
Foreign correspondent fee	10,027	8,060
Capital Market Transaction fees	9,570	5,536
Licence comissions	8,980	4,903
Commissions and fees given for remittance	8,237	8,116
Expert Fees	6,707	17,583
7/24 Card domestic ATM commission given	4,179	2,264
Loan allocation inquiry expenses	3,048	2,587
Required Reserve Commissions	2,897	59,209
Mortgage expenses	19	1,901
Others	39,829	28,582
Total fee and commission expense	**272,847**	**232,426**
Net fee and commission income	**257,632**	**71,698**

Net fee and commission income above excludes amounts included in determining the profit share rate on financial assets and liabilities that are not at fair value through profit or loss.

(Currency - In thousands of Turkish Lira unless otherwise stated)

10. Net trading gain/(loss) and Foreign exchange gain, net

	January 1 – December 31, 2021	January 1 – December 31, 2020
(Gain/Loss) from derivative financial instruments	1,479,309	(483,492)
Foreign exchange gain, net	(853,333)	937,230
Other	(2,171)	8,609
Total	**623,805**	**462,347**

11. Other operating income

	January 1 – December 31, 2021	January 1 – December 31, 2020
Gain on sale of assets held for resale and property and equipment	166,403	92,230
Communication expenses charged to customers	6,283	4,646
Income from cheque book	2,760	2,042
Others(*)	91,707	57,449
Total	**267,153**	**156,367**

(*) Includes, banking transactions and services fees.

12. Personnel expenses

	January 1 – December 31, 2021	January 1 – December 31, 2020
Wages and salaries	517,228	423,979
Short-term employee benefits	83,353	58,462
Compulsory social security obligations	81,416	68,464
Health expenses of personnel	27,878	26,099
Provision expense for employee severance indemnity	27,490	20,510
Termination payments	18,437	16,554
Social assistance payments	8,770	11,837
Others(*)	64,507	73,489
Total	**829,079**	**699,394**

(*) Includes overtime expenses, training expenses, travel allowences and disability payments.

(Currency - In thousands of Turkish Lira unless otherwise stated)

13. Administrative expenses & Depreciation and amortisation & Taxes and duties other than on income

	January 1 – December 31, 2021	January 1 – December 31, 2020
Administrative expenses	262,748	253,841
Depreciation and amortisation	213,389	183,149
Taxes and duties other than on income	89,414	84,513
Total	**565,551**	**521,503**

14. Other operating expenses

	January 1 – December 31, 2021	January 1 – December 31, 2020
Premium expenses paid for saving deposit insurance fund	148,263	142,239
Audit and advisory expenses	26,290	21,487
Impairment loss on asset held for resale	19,208	3,881
Provision expense for ongoing suits	16,011	7,127
Impairment loss on tangible assets	-	38,117
Others (*)	28,001	20,825
Total	**237,773**	**233,676**

(*) Includes loss from sales of asset and movables.

15. Income taxes

Components of income tax expense in the statement of profit or loss and other comprehensive income are as follows:

	January 1 – December 31, 2021	January 1 – December 31, 2020
Income tax recognised in profit for the period		
Current income tax related to income from operations	(368,232)	(186,956)
Deferred income tax related to income from operations	80,141	(10,155)
	(288,091)	**(197,111)**
Income tax recognised in other comprehensive income		
Deferred income tax recognised in other comprehensive income	(15,329)	2,311
Total income tax	**(303,420)**	**(194,800)**

(Currency - In thousands of Turkish Lira unless otherwise stated)

15. Income taxes (continued)

The movement of current tax liabilities is as follows:

	January 1 – December 31, 2021	January 1 – December 31, 2020
At the beginning of the period	22,529	74,254
Current income tax charge	368,232	186,956
Taxes paid during the period	(187,283)	(238,681)
Current tax liabilities	**203,478**	**22,529**

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

As of 31 December 2021, the corporate tax rate has been applied as 25% in the financial statements. In accordance with the Law No. 7316 published in the Official Gazette dated April 22, 2021, the corporate tax rate has been increased to 25% for the taxation period of 2021, starting from the declarations that must be submitted as of July 1, 2021 and being effective for the taxation period starting from January 1, 2021, this rate will be applied as 23% for the taxation period of 2022 and 20% for the taxation periods of 2023 and beyond. Advance corporate taxes paid are followed under “Current Tax Liability” or “Current Tax Asset” account and are deducted from the corporate taxes of the current year.

The Parent Participation Bank calculates and accounts for deferred income taxes for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with “Turkish Accounting Standard for Income Taxes” (“TAS 12”) and the related decrees of the BRSA concerning income taxes. As of 30 June 2021, the enacted tax rates, which are valid in accordance with the current tax legislation, have been started to be used for the items subject to deferred tax calculation in accordance with their lives. With the "Law on the Collection Procedure of Public Receivables" published in the Official Gazette dated April 22, 2021 and numbered 31462, and the 11th article of the "Law on Amending Certain Laws", the corporate tax rate, which is currently 20%, has been decided to be 25% for 2021 corporate earnings. For the year 2022, it has been decided to apply 23% of the corporate earnings. While preparing the financial statements as of 31 December 2021, the Bank has used a tax rate of 23% for the temporary differences expected to be realized or closed in 2022, and 20% for the temporary differences expected to be realized or closed in 2023 and after. (31 December 2020: 22%).

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 unless otherwise stated)

15. Income taxes (continued)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate, to income tax expense at the Participation Bank's effective income tax rate as at and for the years ended December 31, 2021 and 2020 are as follows:

	2021	Tax rate (%)	2020	Tax rate (%)
Profit from ordinary activities before income tax	**1,210,691**		**872,923**	
Taxes on income per statutory tax rate	266,352	22.00	192,043	22.00
Disallowable expenses	365,942	30.23	244,266	27.98
Tax exempt income	(344,203)	(28.43)	(239,198)	(27.40)
Income tax expense	**288,091**	**23.80**	**197,111**	**22.58**

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

	December 31, 2021	December 31, 2020	01.01.2021-31.12.2021	01.01.2020-31.12.2020
Commission accruals	31,368	17,986	13,382	5,943
Portfolio basis allowance for loans and leasing receivables and advances	115,658	74,380	41,278	37,354
Short-term employee benefits	4,631	5,734	(1,103)	1,591
Reserve for employee severance indemnity	28,364	23,348	5,016	4,707
Provision expense for law suits	11,334	9,268	2,066	(2,495)
Credit card promotion provision	761	512	249	236
Loan accrual differences	1,142	481	661	19
Fair value differences of derivative financial instruments	(83,244)	19,744	(102,988)	(6,354)
Revaluation surplus on tangible assets	(24,213)	(8,930)	(15,283)	(5)
Fixed asset depreciation difference	(44,592)	(37,112)	(7,480)	(6,310)
Fair value valuation differences	(2,580)	(1,055)	(1,525)	(894)
Other	27,894	(3,641)	31,535	(12,006)
Hedging Funds	-	-	-	(481)
Impairment on tangible assets	3,160	6,028	(2,868)	6,028
Valuation Differences of Precious Metals	69,438	(32,434)	101,872	(35,177)
Net deferred tax assets	**139,121**	**74,309**	**64,812**	**(7,844)**

	December 31, 2021	December 31, 2020
Balance on January 1,	74,309	82,153
Current Period Gain/Loss	80,141	(10,155)
Deferred Tax Asset Acccounted Under Equity	(15,329)	2,311
Balance on December 31,	**139,121**	**74,309**

(Currency - In thousands of Turkish Lira unless otherwise stated)

16. Net Impairment Loss on Financial Assets

	January 1 – December 31, 2021	January 1 – December 31, 2020
Loan loss provision	724,962	845,438
Marketable Securities	13,986	4,042
Other	6	7
Total	**738,954**	**849,487**

17. Cash and cash equivalents

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

	December 31, 2021	December 31, 2020
Cash on hand	905,021	570,162
Balances with the Central Bank excluding reserve deposits	2,178,713	648,426
Cash in transit	3,357,752	1,814,820
Cash and balances with Central Bank	**6,441,486**	**3,033,408**
Loans and advances to banks	6,870,554	7,142,822
ECL Allowance	2,199	3,230
-Accrued income	(34,400)	(16,218)
Total cash and cash equivalents in the statement of cash flows	**13,279,839**	**10,163,242**

18. Reserve deposits

	December 31, 2021	December 31, 2020
Reserve deposits	16,700,554	9,416,442
Total	**16,700,554**	**9,416,442**

As of December 31, 2021, Reserve Deposit amount is TL 16,700,554 (December 31, 2020:9,416,442). Reserve deposits that are kept as blockage in CBTR for foreign currency liabilities. As per the Communiqué no.2005/1 “Reserve Deposits” of the Central Bank of Turkey. The banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency liabilities in TL and USD or EUR between the rates of 3% and 25% respectively according to the maturity of the liabilities and it has been taken into consideration as of the report date.

(Currency - In thousands of Turkish Lira unless otherwise stated)

18. Reserve deposits (continued)

ECL Movement-Reserve deposits	**December 31, 2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL at January 1, 2021	**2,995**	**-**	**-**	**2,995**
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Additions/(Disposals)	3,232	-	-	3,232
ECL at December 31, 2021	**5,527**	**-**	**-**	**5,527**

ECL Movement-Reserve deposits	**December 31, 2020**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL at January 1, 2020	**1,845**	**-**	**-**	**1,845**
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Additions/(Disposals)	1,150	-	-	1,150
ECL at December 31, 2020	**2,995**	**-**	**-**	**2,995**

Impairment allowance for Central Bank	**December 31, 2021**				
	12 month Basel III PD Range	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Internal rating grade					
Performing					
High grade	-	-	-	-	-
Standard grade	1.04%-1.70%	5,527	-	-	5,527
Sub-standard grade	-	-	-	-	-
Past due but not impaired	-	-	-	-	-
Other	-	-	-	-	-
Non-performing					
Individually impaired	-	-	-	-	-
		5,527	**-**	**-**	**5,527**

Impairment allowance for Central Bank	**December 31, 2020**				
	12 month Basel III PD Range	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Internal rating grade					
Performing					
High grade	-	-	-	-	-
Standard grade	1.32%-4.35%	2,995	-	-	2,995
Sub-standard grade	-	-	-	-	-
Past due but not impaired	-	-	-	-	-
Other	-	-	-	-	-
Non-performing					
Individually impaired	-	-	-	-	-
		2,995	**-**	**-**	**2,995**

(Currency - In thousands of Turkish Lira unless otherwise stated)

19. Loans and advances to banks

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

	December 31, 2021			December 31, 2020		
	TL	**FC**	**Total**	**TL**	**FC**	**Total**
Loans and advances to banks – demand:						
Domestic banks	340	47,885	**48,225**	2,586	29,447	**32,033**
Foreign banks	81	6,824,447	**6,824,528**	101	7,113,918	**7,114,019**
Total loans and advances to banks	**421**	**6,872,332**	**6,872,753**	**2,687**	**7,143,365**	**7,146,052**

ECL Movement- Loans and advances to banks	**31 December 2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL at 1 January 2021	**3,230**	**-**	**-**	**3,230**
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Additions/(Disposals)	(1,031)	-	-	(1,031)
ECL at 31 December 2021	**2,199**	**-**	**-**	**2,199**

ECL Movement- Loans and advances to banks	**31 December 2020**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL at 1 January 2020	**1,924**	**-**	**-**	**1,924**
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Additions/(Disposals)	1,306	-	-	1,306
ECL at 31 December 2020	**3,230**	**-**	**-**	**3,230**

Impairment allowance for loans and advances to banks	**December 31, 2021**				
	12 month Basel III PD Range	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Internal rating grade					
Performing					
High grade	0.23%-0.51%	2,139	-	-	2,139
Standard grade	1.04%-1.70%	26	-	-	26
Sub-standard grade	-	34	-	-	34
Past due but not impaired	-	-	-	-	-
Other	-	-	-	-	-
Non-performing					
Individually impaired	-	-	-	-	-
		2,199	**-**	**-**	**2,199**

(Currency - In thousands of Turkish Lira unless otherwise stated)

19. Loans and advances to banks (continued)

Impairment allowance for loans and advances to banks		**December 31, 2020**			
	12 month Basel III PD Range	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Internal rating grade					
Performing					
High grade	0.03%-0.32%	3,058	-	-	3,058
Standard grade	1.32%-4.35%	85	-	-	85
Sub-standard grade	-	87	-	-	87
Past due but not impaired	-	-	-	-	-
Other	-	-	-	-	-
Non-performing					
Individually impaired	-	-	-	-	-
		3,230	**-**	**-**	**3,230**

20. Loans, lease receivables and advances to customers

As at December 31, 2021 and 2020, all the loans, lease receivables and advances to customers are at amortised cost.

	December 31, 2021	**December 31, 2020**
Performing loans	57,445,239	44,408,648
Performing lease receivables	1,428,468	629,295
Non-performing loans and lease receivables	2,818,159	2,701,996
Gross amount	**61,691,866**	**47,739,939**
ECL amount for stage 3 loans	(2,086,163)	(1,904,086)
ECL amount for stage 1&2 loans	(745,520)	(495,176)
Carrying amount	**58,860,183**	**45,340,677**

(Currency - In thousands of Turkish Lira unless otherwise stated)

20. Loans, lease receivables and advances to customers (continued)

Lending structure of the Group for performing loans and lease receivables:

	31 December 2021	31 December 2020
Export loans	8,646,601	6,069,671
Import Loan	419,487	-
Business loans	40,509,154	31,197,158
Consumer loans	6,380,097	6,058,419
Credit cards	1,346,430	659,669
Loans given to financial sector	1,567,448	1,050,145
Other	4,490	2,881
Total	**58,873,707**	**45,037,943**

Provision movement of the Group as of 31 December 2021 and 31 December 2020:

	December 31, 2021	**December 31, 2020**
Balance on 1 January 2020	2,399,262	1,651,180
Impairment loss for the year:		
-Charge for the year	1,347,700	1,212,916
-Recoveries and reversals	(640,535)	(358,277)
-Write-offs and loans sold[1]	(274,744)	(106,557)
Balance at end of the year	**2,831,683**	**2,399,262**

[1] The Group, TL 34,290 (31 December 2020: TL 78,168) has been transferred to asset management companies and third parties, while the loan written off is TL 236,322 excluding rediscount (31 December 2020: TL 20,270).

(Currency - In thousands of Turkish Lira unless otherwise stated)

20. Loans, lease receivables and advances to customers (continued)

Lending structure of the Group:

Expected Credit Loss Measurement of On-Balance Sheet Financial Assets:

	31 December 2021							
	Gross Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank)	6,441,486	-	-	6,441,486	5,527	-	-	5,527
Loans and advances to Banks	6,870,554	-	-	6,870,554	2,199	-	-	2,199
Securities	14,920,942	-	-	14,920,942	3,178	-	-	3,178
Loans and advances to customers(*)	54,375,927	4,497,780	2,818,159	61,691,866	176,297	569,223	2,086,163	2,831,683
Other financial assets	13,919	2,839	-	16,757	192	128	-	320
Total on-balance sheet financial assets in scope of ECL requirements	82,622,827	4,500,619	2,818,159	89,941,605	187,393	569,351	2,086,163	2,842,907

	December 31, 2020							
	Gross Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank)	12,871,282	-	-	12,871,282	2,995	-	-	2,995
Loans and advances to Banks	7,142,822	-	-	7,142,822	3,230	-	-	3,230
Securities	11,199,101	-	-	11,199,101	2,321	-	-	2,321
Loans and advances to customers (*)	40,843,284	4,194,659	2,701,996	47,739,939	117,776	377,400	1,904,086	2,399,262
Other financial assets	7,678	1,986	-	9,664	106	168	-	274
Total on-balance sheet financial assets in scope of ECL requirements	72,064,167	4,196,645	2,701,996	78,962,808	126,428	377,568	1,904,086	2,408,082

(*) Leasing receivables amounted as TL 1,428,468 is not included in Credit risk by risk groups table (31 December 2020: TL 629,295).

Impairment allowance for loans and advances to customers	31 December 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	34,655	95	-	34,750
Standard grade	38,690	441	-	39,132
Sub-standard grade	45,680	44,755	-	90,435
Past due but not impaired	28,853	522,494	-	551,348
Other	28,419	1,437	-	29,856
Non-performing				
Individually impaired	-	-	2,086,163	2,086,163
	176,297	**569,223**	**2,086,163**	**2,831,683**

(Currency - In thousands of Turkish Lira unless otherwise stated)

20. Loans, lease receivables and advances to customers (continued)

Impairment allowance for loans and advances to customers	**31 December 2020**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	32,818	186	-	33,004
Standard grade	21,042	72	-	21,114
Sub-standard grade	15,137	84,455	-	99,592
Past due but not impaired	29,914	289,342	-	319,256
Other	18,865	3,345	-	22,210
Non-performing				
Individually impaired	-	-	1,904,086	1,904,086
	117,776	**377,400**	**1,904,086**	**2,399,262**

Non cash allowances	**31 December 2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL at 31 December 2021	**10,648**	**2,058**	**79,441**	**92,147**
Net ECL Change	**4,855**	**143**	**18,398**	**23,396**
Transfers to stage 1	729	(164)	(565)	-
Transfers to stage 2	(138)	138		-
Transfers to stage 3	(12)	(46)	58	-
ECL at 31 December 2021	**16,082**	**2,129**	**97,332**	**115,543**

Non cash allowances	**31 December 2020**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL at 31 December 2020	**11,179**	**1,574**	**88,418**	**101,171**
Net ECL Change	**(566)**	**445**	**(8,903)**	**(9,024)**
Transfers to stage 1	168	(165)	(3)	-
Transfers to stage 2	(128)	234	(106)	-
Transfers to stage 3	(6)	(29)	35	-
ECL at 31 December 2020	**10,647**	**2,059**	**79,441**	**92,147**

Loans, lease receivables and advances to customers include the following finance lease receivables for leases of certain property and equipment where the Participation Bank is the lessor:

	December 31, 2021	**December 31, 2020**
Gross investment in finance leases, receivable:		
Less than one year	849,231	328,848
Between one and four years	644,380	315,111
More than four years	55,592	41,193
Total	**1,549,203**	**685,152**
Unearned finance income	(120,735)	(55,857)
Net investment in finance leases	**1,428,468**	**629,295**

(Currency - In thousands of Turkish Lira unless otherwise stated)

20. Loans, lease receivables and advances to customers (continued)

The net investment in finance leases comprises:

	December 31, 2021	December 31, 2020
Less than one year	783,046	302,011
Between one and four years	594,162	289,446
More than four years	51,260	37,838
Net investment in finance leases	**1,428,468**	**629,295**

Impacts of Covid-19 Pandemia

As it is mentioned in the significant estimates and judgments note used in the preparation of the financial statements, the Group reflected the possible effects of the COVID-19 outbreak as of December 31, 2021.

After Covid pandemic, the Group has provided additional TL 348,138 provision which is represented under "Additional ECL" column.

	ECL Before Covid	ECL After Covid	Additional ECL
Corporate	155,855	155,855	-
Commercial	197,312	545,450	348,138
Retail	13,827	13,827	-
ME	15,484	15,484	-
Small Business	1,398	1,398	-
Micro	26,788	26,788	-
			-
Total	**410,663**	**758,801**	**348,138**

Sectoral details of the additional provision allocated resulting from Covid-19 is as follows:

	ECL Before Covid	ECL After Covid	Additional ECL
Services	21,223	232,105	210,882
Building and construction	17,151	47,443	30,292
Transportation and communication	264	20,738	20,474
Electricity, water, gas and health serv.	8,911	78,327	69,416
Commerce	5,191	22,265	17,074
Total	**52,741**	**400,879**	**348,138**

(Currency - In thousands of Turkish Lira unless otherwise stated)

20. Loans, lease receivables and advances to customers (continued)

In addition to above, the group has revised weights of its forward-looking scenarios used in the calculation of expected credit losses as follows:

Scenarios	Before Covid-19	After Covid-19
Base	60%	40%
Negative	40%	60%

Effect of Covid-19 Pandemia on restructured loans:

Details of restructured loans after Covid-19 is as follows:

	Restructured Loans Before Covid	**Restructured Loans After Covid**
Corporate	669,673	912,682
Commercial	1,907,081	2,816,860
Retail	395,557	12,685
ME	116,935	201,577
Small Business	22,861	50,600
Micro	24,909	9,381
Total	**3,137,016**	**4,003,785**

21. Derivative financial instruments held for trading and hedging purposes

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

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

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date. When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

(Currency - In thousands of Turkish Lira unless otherwise stated)

21. Derivative financial instruments held for trading and hedging purposes (continued)

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

	December 31, 2021			December 31, 2020		
	Fair value assets	Fair value liabilities	Notional amount	Fair value assets	Fair value liabilities	Notional amount
Forward contracts	324,040	245,526	**12,176,958**	225,533	17,082	**10,275,832**
Currency swap contracts	335,651	25,763	**35,321,686**	7,447	309,450	**24,873,408**
Options	82,757	98,010	**14,326,170**	478	370	**364,469**
Derivatives Held for Trading	**742,448**	**369,299**	**61,824,814**	**233,458**	**326,902**	**35,513,709**
Cross Currency Swap	-	-	-	-	-	-
Total Derivatives for Hedging Purposes	**-**	**-**	**-**	**-**	**-**	**-**

	December 31, 2021					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Forward contracts	7,623,638	2,268,780	2,284,540	-	-	**12,176,958**
Currency swap contracts	23,279,657	12,042,029	-	-	-	**35,321,686**
Cross currency swaps	-	-	-	-	-	**-**
Options	1,591,590	3,784,712	8,949,868	-	-	**14,326,170**
Total of transactions	**32,494,885**	**18,095,521**	**11,234,408**	**-**	**-**	**61,824,814**

	December 31, 2020					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Forward contracts	6,807,941	1,505,902	1,961,989	-	-	**10,275,832**
Currency swap contracts	17,296,344	7,577,064	-	-	-	**24,873,408**
Cross currency swaps	-	-	-	-	-	**-**
Options	297,763	53,365	13,341	-	-	**364,469**
Total of transactions	**24,402,048**	**9,136,331**	**1,975,330**	**-**	**-**	**35,513,709**

Cash flow hedge accounting

Group enters into hedge relationships to manage exposures to fixed profit shares and foreign currency risks and applies hedge accounting. The Group implements cash flow hedge accounting in order to avoid the financial risk of securities issued together with assets that are profit-sharing yielded respectively.

(Currency - In thousands of Turkish Lira unless otherwise stated)

21. Derivative financial instruments held for trading and hedging purposes (continued)

The Group does not have any cash flow hedges as of December 31, 2021(December 31,2020: None)

22. Investment securities

Financial assets measured at fair value through other comprehensive income investment securities

	December 31, 2021	December 31, 2020
Government sukuks	13,989,641	8,013,943
Unquoted equity securities at cost	12,768	8,505
Total	**14,002,409**	**8,022,448**

As of December 31, 2021, the Group's "financial assets measured at fair value through other comprehensive income investment securities" portfolio includes the rent certificate at a total face value of TL 13,125,724 (December 31, 2020: TL 7,564,512), a total carrying value amounting to TL 13,989,641 (December 31, 2020: TL 8,013,943) which is issued by Republic of Turkey Under secretariat of Treasury.

All investment securities are issued in Turkey.

Unquoted equity securities at cost is mainly comprised of the equity participation to Kredi Garanti Fonu AŞ amounting to TL 4,897 and JCR amounting to TL 2,753 (31 December 2020: TL 4,897 and JCR amounting to TL 2,753).

ECL Movement				
	31 December 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL at 1 January 2021				
Transfers to stage 1	1,832	-	-	1,832
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Additions/(Disposals)	1,247	-	-	1,247
ECL at 31 December 2021	**3,079**	**-**	**-**	**3,079**

ECL Movement				
	31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL at 1 January 2020	1,065	-	-	1,065
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Additions/(Disposals)	767	-	-	767
ECL at 31 December 2020	**1,832**	**-**	**-**	**1,832**

(Currency - In thousands of Turkish Lira unless otherwise stated)

22. Investment securities (continued)

Impairment allowance for financial assets measured at fair value through other comprehensive income investment securities	**31 December 2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	-	-	-	-
Standard grade(*)	3,079	-	-	3,079
Sub-standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Other	-	-	-	-
Non-performing				
Individually impaired	-	-	-	-
	3,079	**-**	**-**	**3,079**

(*)12 month Basel III PD range is 1.04%-1.70%.

Impairment allowance for financial assets measured at fair value through other comprehensive income investment securities	**31 December 2020**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	-	-	-	-
Standard grade(*)	1,832	-	-	1,832
Sub-standard grade	-	-	-	-
Past due but not impaired	-	-	-	-
Other	-	-	-	-
Non-performing				
Individually impaired	-	-	-	-
	1,832	**-**	**-**	**1,832**

(*)12 month Basel III PD range is 1.32%-4.35%.

(Currency - In thousands of Turkish Lira unless otherwise stated)

22. Investment securities (continued)

Financial Assets valued at amortised cost

As at December 31, 2021, the Group has TL 918,434 amounted financial assets valued at amortised cost securities (December 31, 2020: 2,943,195).

	Current Period	Prior Period
Opening Balance	**2,943,195**	**-**
Foreign Exchange Gain/Loss	300,245	151,553
Purchases During the Year	-	3,067,085
Disposals Through Sales and Redemptions	(2,318,883)	(300,000)
Impairment Provision(-)	-	-
ECL Provision	390	(489)
Income Accruals and Rediscounts	(6,513)	25,046
Ending Balance	**918,434**	**2,943,195**

ECL Movement				
	31 December 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL at 1 January 2021	**489**	**-**	**-**	**489**
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Additions/(Disposals)	(390)	-	-	(390)
ECL at 31 December 2021	**99**	**-**	**-**	**99**

ECL Movement				
	31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL at 1 January 2020	**-**	**-**	**-**	**-**
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Additions/(Disposals)	489	-	-	489
ECL at 31 December 2020	**489**	**-**	**-**	**489**

The carrying amount and fair value of securities pledged under agreement to repurchase (repo) are as follows:

	December 31, 2021		**December 31, 2020**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets valued at fair value through OCI	14,002,409	14,002,409	8,022,448	8,022,448
Financial Assets at Fair Value through Profit or Loss (Net)	3,740,658	3,740,658	1,903,386	1,903,386
Financial assets valued at amortised cost	918,434	880,855	2,943,195	2,883,752
Total	**18,661,501**	**18,623,922**	**12,869,029**	**12,809,586**

(Currency - In thousands of Turkish Lira unless otherwise stated)

23. Property and equipment and intangible assets

Movements in property and equipment and intangible assets for the years ended 2021 and 2020 are as follows:

Property and equipment	January 1, 2021	Additions	Disposals	Value increase	Value decrease	December 31, 2021
Cost:						
Land and buildings	737,549	12,329	-	152,832	39,539	**942,249**
Right of Use Assets	411,702	162,858	(82,400)	-	-	**492,160**
Other tangible assets(1)	526,456	36,446	(2,677)	-	-	**560,225**
	1,675,707	**211,633**	**(85,077)**	**152,832**	**39,539**	**1,994,634**
Accumulated depreciation:						
Land and buildings	(35,641)	(9,437)	-	-	-	**(45,078)**
Right of Use Assets	(102,081)	(79,384)	24,146	-	-	**(157,319)**
Other tangible assets(1)	(336,210)	(62,093)	2,162	-	-	**(396,141)**
Net book value	**1,201,775**					**1,396,096**

(1) Other tangible assets are mainly comprised of leasehold improvements and fixtures and furniture.

Property and equipment	January 1, 2020	Additions	Disposals	Value increase	Transfers	December 31, 2020
Cost:						
Land and buildings	774,336	672	-	46	(37,505)	**737,549**
Right of Use Assets	341,712	143,030	(73,040)	-	-	**411,702**
Other tangible assets(1)	479,023	52,541	(5,108)	-	-	**526,456**
	1,595,071	**196,243**	**(78,148)**	**46**	**(37,505)**	**1,675,707**
Accumulated depreciation:						
Land and buildings	(26,916)	(8,725)	-	-	-	**(35,641)**
Right of Use Assets	(55,055)	(67,533)	20,507	-	-	**(102,081)**
Other tangible assets(1)	(282,003)	(58,715)	4,508	-	-	**(336,210)**
Net book value	**1,231,097**					**1,201,775**

(2) Other tangible assets are mainly comprised of leasehold improvements and fixtures and furniture.

The fair value measurement for land and buildings has been categorised as a level 2 fair value based on the inputs to the valuation techniques used. This category includes assets valued using: observable market prices in markets for similar assets; observable prices for identical or similar assets in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

(Currency - In thousands of Turkish Lira unless otherwise stated)

23. Property and equipment and intangible assets (continued)

Intangible assets	January 1, 2021	Additions	Disposals	Transfers	December 31, 2021
Cost:					
Software programmes	431,644	101,857	(2,534)	(221)	**530,746**
Accumulated amortisation:					
Software programmes	(296,039)	(62,475)	160	55	**(358,299)**
Net book value	**135,605**				**172,447**

Intangible assets	January 1, 2020	Additions	Disposals	Transfers	December 31, 2020
Cost:					
Software programmes	354,258	77,720	(334)	-	**431,644**
Accumulated amortisation:					
Software programmes	(248,119)	(48,176)	256	-	**(296,039)**
Net book value	**106,139**				**135,605**

There were no capitalised borrowing costs related to the acquisition of plant and equipment and to the internal development of software during the period (December 31, 2020: None).

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

During 2021 and 2020, the Group identified no events or circumstances that would indicate that the Group's intangible assets may be impaired.

24. Other assets

	December 31, 2021	December 31, 2020
Receivables from cheque clearing and credit card POS machines	546,534	378,247
Assets held for resale (net)	509,261	751,355
Others(*)	1,444,276	452,613
Total other assets	**2,500,071**	**1,582,215**

(*) Includes miscellaneous receivables, deferred expenses and nostro account differences.

As at December 31, 2021, TL 439,909 (December 31, 2020: TL 498,480) of the other assets is comprised of foreclosed real estate acquired by the Participation Bank against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from BRSA. Impairment losses of foreclosed real estate acquired is TL 15,413 as at December 31, 2021 (December 31, 2020: TL 7,867).

(Currency - In thousands of Turkish Lira unless otherwise stated)

25. Funds collected from banks

As at December 31, 2021 and 2020, funds collected from banks comprise of current accounts amounting to TL 27,956 and TL 33,714.

26. Funds collected from customers

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

	December 31, 2021		December 31, 2020	
	Current account	**Profit sharing funds collected**	**Current account**	**Profit sharing funds collected**
Saving funds collected-TL	5,792,887	10,299,985	2,766,659	7,047,196
Saving funds collected-FC	24,014,632	21,639,414	18,740,419	13,895,178
Public, commercial and other enterprises-TL	2,408,830	2,763,231	1,684,407	3,959,795
Public, commercial and other enterprises-FC	7,261,129	10,291,509	5,612,280	3,669,077
Total funds collected from customers	**39,477,478**	**44,994,139**	**28,803,765**	**28,571,246**

(Currency - In thousands of Turkish Lira unless otherwise stated)

27. Funds borrowed and debt securities issued

As at December 31, 2021 and 2020, funds borrowed are detailed as follows:

	December 31, 2021	December 31, 2020
Short-term	5,713,925	9,497,478
Long-term	38,331	-
	5,752,256	**9,497,478**
TCMB repo transaction	6,528,730	**-**
Total	**12,280,986**	**9,497,478**

As of December 31, 2021, the Participation Bank did not borrow syndication loans.

Debt securities issued	December 31, 2021		December 31, 2020	
	TL	FC	TL	FC
Total	**981,446**	**-**	**3,516,043**	**-**

The financial terms of fix rate debt securities in issue as of December 31, 2021, are as follows:

Issue date	Maturity date	Currency	Nominal amount in thousand (TL)	Profit share rate
July 26,2021	Jan.14,2022	TL	500,000	Paid at maturity 18.25%
Aug. 9,2021	Jan 14,2022	TL	500,000	Paid at maturity 18.25%
Aug.27,2021	March.22,2022	TL	600,000	Paid at maturity 18.25%
Oct.19,2021	Apr.8,2022	TL	500,000	Paid at maturity 18.00%
Nov.22,2021	Jan. 26,2022	TL	1,300,000	Paid at maturity 15.50%
Dec.20,2021	Feb. 23,2022	TL	600,000	Paid at maturity 15.50%

(Currency - In thousands of Turkish Lira unless otherwise stated)

27. Funds borrowed and debt securities issued (continued)

Major fixed rate debt securities in issue redeemed or repurchased in 2020, are as follows:

Issue date	Maturity date	Currency	Nominal amount in thousand (TL)	Profit share rate
June 12,2020	Jan.8, 2021	TL	450,000	Paid at maturity 7.90%
Sep. 2,2020	March 31,2021	TL	500,000	Paid at maturity 12.50%
Sep. 9,2020	Apr.9,2021	TL	450,000	Paid at maturity 12.50%
Oct.9,2020	Apr.21,2021	TL	500,000	Paid at maturity 13.00%
Oct.15,2020	May 25,2021	TL	800,000	Paid at maturity 13.25%
Dec. 4,2020	Feb. 17,2021	TL	200,000	Paid at maturity 16.50%
Dec.11,2020	March 17,2021	TL	400,000	Paid at maturity 17.10%
Dec. 16, 2020	May 5, 2021	TL	500,000	Paid at maturity 17.30%

Changes in liabilities arising from financing activities

December 31, 2021	1 January 2021	Cash flow	Foreign exchange differences	Expense accrual	31 December 2021
Debts securities	5,352,514	(2,558,384)	1,346,644	87,427	4,228,201
Funds Borrowed	9,497,478	(4,797,118)	7,563,318	17,308	12,280,986
Total liabilities from financing activities	**14,849,992**	**(7,355,502)**	**8,909,962**	**104,735**	**16,509,187**

December 31, 2020	1 January 2020	Cash flow	Foreign exchange differences	Expense accrual	31 December 2020
Debts securities	3,111,692	1,867,638	350,157	23,027	5,532,514
Funds Borrowed	1,908,063	7,241,957	321,327	26,131	9,497,478
Total liabilities from financing activities	**5,019,755**	**9,109,595**	**671,484**	**49,158**	**14,849,992**

(Currency - In thousands of Turkish Lira unless otherwise stated)

28. Subordinated liabilities

As at December 31, 2021 and 2020, subordinated liabilities are all in foreign currency denominated and detailed as follows:

	Profit share rate	Years of maturity	December 31, 2021
USD 250 million coupon fixed profit share rate	9%	December 2030	3,246,755
Total			**3,246,755**

	Profit share rate	Years of maturity	December 31, 2020
USD 250 million coupon fixed profit share rate	9%	December 2030	1,836,471
Total			**1,836,471**

The Group paid the existing loans on December 29, 2020 and provided a subordinated murabaha loan with a maturity of 30 December 2030 and a profit share of 9% from the The Saudi National Bank in the amount of USD 250 million.

29. Provisions

	December 31, 2021	December 31, 2020
Provision for non-cash loans and cheques	115,543	92,147
Reserve for employee severance indemnity	140,152	116,738
Short-term employee benefits	105,304	78,385
Provision for law suits against the Participation Bank	56,672	46,339
Provision for credit card promotions	3,309	2,561
Other	2,630	9,346
Total	**423,610**	**345,516**

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

(Currency - In thousands of Turkish Lira unless otherwise stated)

29. Provisions *(continued)*

Reserve for retirement pay is computed and reflected in the financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Participation Bank arising from the retirement of the employees. IAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the bank’s obligation under defined employee plans. IAS 19 (“Employee Benefits”) has been revised effective from the annual period beginning after January 1, 2014. In accordance with the revised standard, actuarial gain / loss related to employee benefits shall be recognised in other comprehensive income. The average inflation rate is 15.63% and profit share rate is 19.10% at the respective balance sheet date (December 31, 2020: is 9.50% and profit share rate is 12.80%).

The calculation was based upon the retirement pay ceiling announced by the Government. Movement in the reserve for employee severance indemnity is as follows:

	December 31, 2021	December 31, 2020
Balance on 1 January	116,738	92,381
Current service cost	13,137	9,959
Profit share cost	14,352	10,551
Actuarial profit/loss(1)	7,710	13,109
Accounted profit/loss	2,553	2,049
Indemnity paid during the period	(14,338)	(11,311)
Balance on December 31,	**140,152**	**116,738**

(1) Actuarial losses/gain, calculated as TL 7,710 in relation to the reserve for employee termination benefits, are shown as TL 6,168 under shareholders’ equity offsetting deferred tax of TL 1,542. (December 2020, 31 Actuarial losses/gain, calculated as TL 13,109 in relation to the reserve for employee termination benefits, are shown as TL 10,487 under shareholders’ equity offsetting deferred tax of TL 2,622.).

Expected credit loss measurement of off-balance sheet financial assets:

	31 December 2021							
Expected credit loss measurement		**Carrying Amount**				**ECL Allowance**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Guarantees	13,209,147	417,633	328,119	13,954,899	9,410	1,991	87,930	99,331
Others	2,818,525	26,123	44,332	2,888,980	6,671	140	9,401	16,212
Total	**16,027,672**	**443,756**	**372,451**	**16,843,879**	**16,081**	**2,131**	**97,331**	**115,543**

	31 December 2020							
Expected credit loss measurement		**Carrying Amount**				**ECL Allowance**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Guarantees	8,247,031	461,634	276,376	8,985,041	5,963	1,941	70,122	78,026
Others	1,841,469	21,494	44,571	1,907,534	4,685	117	9,319	14,121
Total	**10,088,500**	**483,128**	**320,947**	**10,892,575**	**10,648**	**2,058**	**79,441**	**92,147**

(Currency - In thousands of Turkish Lira unless otherwise stated)

29. Provisions *(continued)*

Impairment allowance for off-balance sheet financial assets:

	31 December 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	4,713	23	-	4,736
Standard grade	3,974	102	-	4,076
Sub-standard grade	1,640	493	-	2,133
Past due but not impaired	673	1,508	-	2,181
Other	5,081	4	-	5,085
Non-performing				
Individually impaired	-	-	97,332	97,332
Total	**16,081**	**2,130**	**97,332**	**115,543**

	31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	2,940	27	-	2,967
Standard grade	2,298	81	-	2,379
Sub-standard grade	1,347	391	-	1,738
Past due but not impaired	263	1,552	-	1,815
Other	3,800	7	-	3,807
Non-performing				
Individually impaired	-	-	79,441	79,441
Total	**10,648**	**2,058**	**79,441**	**92,147**

Movement for impairment allowance for off-balance sheet financial assets:

	31 December 2021
Reserve at beginning of period (1 January 2021)	92,147
Provision for possible loan losses	32,548
Recoveries	(9,152)
Provision, net of recoveries	115,543
Disposal of non-performing loans	-
Reserve at end of period	**115,543**

	31 December 2020
Reserve at beginning of period (1 January 2020)	101,171
Provision for possible loan losses	26,955
Recoveries	(35,979)
Provision, net of recoveries	92,147
Disposal of non-performing loans	-
Reserve at end of period	**92,147**

(Currency - In thousands of Turkish Lira unless otherwise stated)

30. Other liabilities

	December 31, 2021	December 31, 2020
Payable to cheque clearing account	1,125,625	698,259
Cash guarantees received	1,216,906	737,848
Blocked accounts	160,132	137,618
Unearned income	143,367	91,547
Blocked accounts against expenditures of credit card holders	287,646	208,869
IFRS 16/Lease liabilities	372,189	341,098
Taxes payable other than income tax	154,143	78,659
Others(*)	446,716	274,360
Total	**3,906,724**	**2,568,258**

(*) Includes debts to vendors, payment orders and credit cart clearances.

31. Capital and reserves

Share capital

	December 31, 2021	December 31, 2020
Number of common shares, TL 1 (in full TL), par value Authorised, fully paid, issued and outstanding as thousands	2,600,000,000	2,600,000,000
Total	**2,600,000,000**	**2,600,000,000**

The authorized nominal share capital of the Participation Bank is TL 2,600,000 as at December 31, 2021 (December 31, 2020: TL 2,600,000).

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

	December 31, 2021		December 31, 2020	
	Amount	**%**	**Amount**	**%**
The Saudi National Bank	1,742,676	67.03	1,742,676	67.03
Gözde Girişim Sermayesi Yatırım Ortaklığı AŞ	274,838	10.57	274,838	10.57
Other shareholders	582,486	22.40	582,486	22.40
Total	**2,600,000**	**100**	**2,600,000**	**100**

The Group has purchased 30,719 shares from its shareholders for TL 92 on 21 October 2020.

(Currency - In thousands of Turkish Lira unless otherwise stated)

31. Capital and reserves (continued)

Fair value reserve – Financial assets measured at fair value through other comprehensive income

	2021	2020
Balance at the beginning of the year	**30,054**	**30,076**
Change in fair value of financial assets measured at fair value through other comprehensive income	7,935	(871)
Related deferred income taxes	(1,587)	175
Net amount transferred to profit or loss	-	-
Other(*)	1,248	674
Balance at the end of the period/year	**37,650**	**30,054**

(*) Consists of ECL provision

Revaluation reserve – buildings

Revaluation of buildings is detailed as follows:

	2021	2020
Balance at the beginning of the year	**136,853**	**136,811**
Net change in revaluation of tangible assets	152,832	47
Related tax	(15,284)	(5)
Balance at the end of the period/year	**274,401**	**136,853**

Hedging reserves

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

Other reserves

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

(Currency - In thousands of Turkish Lira unless otherwise stated)

32. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The major shareholders of the Participation Bank namely the The Saudi National Bank and Ülker Group and all their subsidiaries, and their ultimate owners, directors and executive officers are referred to as related parties. During the course of the business, the Participation Bank has granted loans, advances and lease receivables to related parties and also received funds collected from these related parties at various terms. These are all commercial transactions and realised on an arms-length basis. Related party transactions are as follow:

In addition to the transactions and balances explained in the note above, the total remuneration of directors and other key members of key management as at for the year ended December 31, 2021 and 2020 are as follow:

Balances with the related parties:

December 31, 2021	**Parent**	**Other(*)**	**Total**
Loans and advances to customers	166	1,412	1,578
Lease receivables	-	-	-
Funds borrowed	3,246,755	-	3,246,755
Funds collected	2,163	57,315	59,478
Non-cash loans	-	15,497	15,497
Total	**3,249,084**	**74,224**	**3,323,308**

December 31, 2020	**Parent**	**Other(*)**	**Total**
Loans and advances to customers	103	25,360	25,463
Lease receivables	-	-	-
Funds borrowed	1,836,471	-	1,836,471
Funds collected	9,208	70,801	80,009
Non-cash loans	-	15,354	15,354
Total	**1,845,782**	**111,515**	**1,957,297**

(*) Group Companies of shareholders-VKŞ

Transaction with the related parties:

December 31, 2021	**Parent**	**Other(*)**	**Total**
Profit share income	14	1,044	1,058
Profit share expense on funds collected	(22)	(1,722)	(1,744)
Profit share expense on borrowings	(238,514)	-	(238,514)

December 31, 2020	**Parent**	**Other(*)**	**Total**
Profit share income	-	1,045	1,045
Profit share expense on deposits	-	(1,242)	(1,242)
Profit share expense on borrowings	(142,599)	-	(142,599)

(*) Group Companies of shareholders

(Currency - In thousands of Turkish Lira unless otherwise stated)

32. Related party transactions (continued)

	2021	2020
Short-term compensation of key management personnel	23,619	16,670
Other benefits	647	537
Total	**24,266**	**17,207**

No impairment losses have been recorded against balances outstanding during the year with related parties and no specific allowance has been made for impairment losses on balances with the related parties as at December 31, 2021 and 2020.

33. Commitments and contingencies

	December 31, 2021	December 31, 2020
Letters of guarantee	10,054,297	7,544,256
Commitments	3,024,700	1,984,722
Letters of credit	3,095,720	1,062,907
Acceptances	811,617	377,878
Other guarantees	-	-
Total	**16,986,334**	**10,969,763**

Commitments mainly consist of Commitments for credit card limits and Commitments for cheque payments.

Litigations

A liability is recognized as a contingent liability where a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of more than one events not wholly within the control of the Bank; or a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability and disclosed in the footnotes. Contingent liabilities are assessed continually to determine whether or not there is probable outflow of that economic benefits from the entity.
The Group set TL 56,672 provision for ongoing suits filed against to the Participation Bank for which cash outflow is probable and measurable (December 31, 2020: TL 46,339).

34. Group subsidiaries

The table below provides details of the significant subsidiaries of the Group.

		Ownership interest	
	Principal place of business	December 31, 2021	December 31, 2020
TF Varlık Kiralama AŞ	Istanbul/Turkey	100%	100%
TFKB Varlık Kiralama AŞ	Istanbul/Turkey	100%	100%

TF Varlık Kiralama AŞ, which was established on 11 February 2013 and the subsidiary of the Parent Participation Bank with 100% ownership is fully consolidated in the consolidated financial statements of the Participation Bank starting from 30 June 2013.

34. Group subsidiaries (continued)

TFKB Varlık Kiralama AŞ, which was established on 08 July 2014 and the subsidiary of the Parent Participation Bank with 100% ownership is fully consolidated in the consolidated financial statements of the Participation Bank from 31 December 2014.

TF Varlık Kiralama AŞ and TFKB Varlık Kiralama AŞ which are wholly owned by the Parent Participation Bank were established to generate (leasing/rental) income by leasing assets back to the originating company which were taken over from the originating company; by issuing leasing certificate related to aforementioned leasing (rental) income and then transferring the related assets back to the originating company.

35. Subsequent event

The tension between Russia and Ukraine since January 2022 has turned into a crisis and an armed conflict as of the date of the report. The Bank does not carry out any activities in these two countries that are subject to the crisis. Considering the geographies in which the Bank operates, no direct impact is expected on Bank operations. However, as of the date of this report, it is not possible to reasonably estimate the effects of the global developments and their potential impact on the global and regional economy, on the Bank’s operations because of the uncertainty about how the crisis will evolve.