

Fiba Holding Anonim Şirketi and its Subsidiaries

**Consolidated Financial Statements as at and for the
Year Ended 31 December 2021 With Independent
Auditor's Report**



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Independent Auditor's Report

To the Shareholders of Fiba Holding Anonim Şirketi

Report on the Audit of the Consolidated Financial Statements

Opinion

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

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for 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 International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") including International Independence Standards together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Turkey and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 auditors' 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 auditors' 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.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi



Hakan Ölekli
Engagement Partner

10 June 2022
Istanbul, Turkey

Fiba Holding Anonim Őirketi and its Subsidiaries

Table of Contents

Independent Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

Fiba Holding Anonim Şirketi and its Subsidiaries

Consolidated Statement of Financial Position

As at 31 December 2021

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

	<i>Notes</i>	31 December 2021	Restated (*) 31 December 2020
Assets			
Cash and balances at central banks	6	28,045,557	9,679,137
Financial assets at fair value through profit or loss	7	1,588,416	1,050,633
Investment securities	8	17,475,342	9,767,584
Loans and receivables from banks	9	8,229,846	4,687,957
Loans and receivables from customers	10	82,380,868	51,268,300
Factoring receivables	12	1,480,982	1,080,697
Derivative financial instruments	13	2,339,831	2,427,028
Investments in equity accounted investees	14	34,398	56,921
Property and equipment	15	2,716,316	1,668,781
Intangible assets	16	338,083	226,556
Investment property	17	199,934	178,496
Deferred tax assets	36	1,489,070	698,012
Other assets	18	9,659,975	6,373,196
Total assets		155,978,618	89,163,298
Liabilities			
Due to banks	19	17,730,620	6,001,737
Due to customers	20	92,185,054	53,693,494
Derivative financial instruments	13	3,332,688	2,764,811
Issued debt securities	21	3,824,209	1,983,517
Funds borrowed	22	6,352,420	6,161,319
Provisions	23	287,370	206,224
Deferred tax liabilities	36	501,989	329,785
Income taxes payable	36	236,955	182,394
Other liabilities	24	7,753,272	4,539,640
Total liabilities (excluding subordinated liabilities)		132,204,577	75,862,921
Subordinated liabilities	25	6,681,710	3,720,790
Total liabilities		138,886,287	79,583,711
Equity			
Share capital	26	2,000,000	2,000,000
Reserve for own shares (-)	26	(488,218)	(488,218)
Adjustment to share capital		5,495	5,495
Share premium		202,279	92,125
Notional capital contribution by shareholders		2,181	2,181
Other comprehensive income that is or may be reclassified to profit or loss		8,586,286	3,642,076
Legal reserves	26	1,241,554	1,163,533
Retained earnings and other reserves		1,894,146	1,210,901
Total equity attributable to owners of the Company		13,443,723	7,628,093
Non-controlling interests	26	3,648,608	1,951,494
Total equity	26	17,092,331	9,579,587
Total equity and liabilities		155,978,618	89,163,298

(*) See Note 2 (d) and 2 (f).

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

Fiba Holding Anonim Şirketi and its Subsidiaries
Consolidated Statement of Profit or Loss and
Other Comprehensive Income for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

	<i>Notes</i>	2021	Restated (*) 2020
Continuing operations			
Interest and similar income	27	7,729,043	5,371,039
Interest expense and similar charges	27	(4,450,089)	(2,852,843)
Net interest income	27	3,278,954	2,518,196
Fees and commission income	28	1,678,979	1,040,838
Fees and commission expense	28	(1,244,643)	(825,800)
Net fee and commission income	28	434,336	215,038
Net trading income / (expenses)	29	167,171	207,192
Results from financial transactions	30	726,893	176,488
Other operating income	31	1,572,957	1,180,407
Operating income		2,467,021	1,564,087
Credit loss charges, net	11	(876,540)	(1,186,973)
Net operating income		5,303,771	3,110,348
Personnel expenses	32	(1,567,785)	(1,186,899)
General and administrative expenses	33	(921,460)	(697,395)
Depreciation and amortisation		(355,892)	(305,690)
Other operating expenses	34	(1,028,264)	(524,747)
Other impairment (losses) / reversal of impairment	35	(63,998)	761
Total operating expenses		(3,937,399)	(2,713,970)
Share of profit / (loss) of equity accounted investees	14	(59,700)	(35,037)
Profit before income tax		1,306,672	361,341
Income tax expense	36	(114,270)	(144,058)
Profit from continuing operations		1,192,402	217,283
Profit for the year		1,192,402	217,283

(*) See Note 2 (d) and 2 (f).

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

Fiba Holding Anonim Şirketi and its Subsidiaries
Consolidated Statement of Profit or Loss and
Other Comprehensive Income for the Year Ended 31 December 2021 (continued)
(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

	<i>Notes</i>	2021	Restated (*) 2020
Profit for the year		1,192,402	217,283
Other comprehensive income			
<i>Items that are or may be reclassified to profit or loss</i>			
Foreign currency translation differences for foreign operations		5,030,455	1,196,721
Net change in fair value of financial assets at FVTOCI		1,130,313	183,117
Net gain on hedges of net investments in foreign operations and effective portion of changes in fair value of cash flow hedges		53,596	5,081
Income tax on other comprehensive income	36	(43,151)	(19,922)
Other comprehensive income for the year, net off income tax		6,171,213	1,364,997
Total comprehensive income for the year		7,363,615	1,582,280
Profit attributable to:			
Owners of the Company		836,206	143,671
Non-controlling interests	26	356,196	73,612
Profit for the year		1,192,402	217,283
Total comprehensive income attributable to:			
Owners of the Company		5,780,795	1,370,795
Non-controlling interests		1,582,820	211,485
Total comprehensive income for the year		7,363,615	1,582,280

(*) See Note 2 (d) and 2 (f).

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

Fiba Holding Anonim Şirketi and its Subsidiaries
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2021

Attributable to owners of the Company

	Attributable to owners of the Company					Other comprehensive income that is or may be reclassified to profit or loss						Non-controlling interests	Total equity
	Share capital	Adjustment to share capital	Share premium	Notional capital contribution by shareholders	Reserve for own share	Fair value reserve	Hedging reserve	Translation reserve	Legal reserves	Retained earnings	Total		
Balance at 1 January 2020	2,000,000	5,495	92,093	2,181	(488,218)	74,070	(140,474)	2,481,392	1,148,620	1,083,469	6,258,628	1,742,335	8,000,963
Total comprehensive income for the year													
Profit for the year	--	--	--	--	--	--	--	--	--	143,671	143,671	73,612	217,283
Other comprehensive income													
Change in net investment hedge reserve	--	--	--	--	--	--	4,596	--	--	--	4,596	485	5,081
Net change in fair value reserve for financial assets at FVTOCI, net of tax	--	--	--	--	--	161,753	--	--	--	--	161,753	1,442	163,195
Foreign currency translation differences for foreign operations	--	--	--	--	--	--	--	1,060,775	--	--	1,060,775	135,946	1,196,721
Total other comprehensive income	--	--	--	--	--	161,753	4,596	1,060,775	--	--	1,227,124	137,873	1,364,997
Total comprehensive income for the year	--	--	--	--	--	161,753	4,596	1,060,775	--	143,671	1,370,795	211,485	1,582,280
Transactions with owners, recorded directly in equity													
Dividend distribution to non-controlling interests in consolidated subsidiaries	--	--	--	--	--	--	--	--	--	--	--	(3,243)	(3,243)
Change in non-controlling interests in consolidated subsidiaries (Note 5.1)	--	--	32	--	--	(36)	--	--	--	(1,326)	(1,330)	917	(413)
Transfers	--	--	--	--	--	--	--	--	14,913	(14,913)	--	--	--
Total transactions with owners	--	--	32	--	--	(36)	--	--	14,913	(16,239)	(1,330)	(2,326)	(3,656)
Balance at 31 December 2020	2,000,000	5,495	92,125	2,181	(488,218)	235,787	(135,878)	3,542,167	1,163,533	1,210,901	7,628,093	1,951,494	9,579,587

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

Fiba Holding Anonim Şirketi and its Subsidiaries
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2021

	Attributable to owners of the Company					Other comprehensive income that is or may be reclassified to profit or loss			Legal reserves	Retained earnings	Total	Non-controlling interests	Total equity
	Share capital	Adjustment to share capital	Share premium	Notional capital contribution by shareholders	Reserve for own share	Fair value reserve	Hedging reserve	Translation reserve					
Balance at 1 January 2021	2,000,000	5,495	92,125	2,181	(488,218)	235,787	(135,878)	3,542,167	1,163,533	1,210,901	7,628,093	1,951,494	9,579,587
Total comprehensive income for the year													
Profit for the year	--	--	--	--	--	--	--	--	--	836,206	836,206	356,196	1,192,402
Other comprehensive income													
Change in net investment hedge reserve	--	--	--	--	--	--	59,916	--	--	--	59,916	(6,320)	53,596
Net change in fair value reserve for financial assets at FVTOCI, net of tax	--	--	--	--	--	803,172	--	--	--	--	803,172	283,990	1,087,162
Foreign currency translation differences for foreign operations	--	--	--	--	--	--	--	4,081,501	--	--	4,081,501	948,954	5,030,455
Total other comprehensive income	--	--	--	--	--	803,172	59,916	4,081,501	--	--	4,944,589	1,226,624	6,171,213
Total comprehensive income for the year	--	--	--	--	--	803,172	59,916	4,081,501	--	836,206	5,780,795	1,582,820	7,363,615
Transactions with owners, recorded directly in equity													
Dividend distribution to non-controlling interests in consolidated subsidiaries	--	--	--	--	--	--	--	--	--	--	--	(47,717)	(47,717)
Non-controlling interest portion of share issuance premium due to share capital increase in consolidated subsidiary	--	--	112,889	--	--	--	--	--	--	--	112,889	48,605	161,494
Change in non-controlling interests in consolidated subsidiaries (Note 5.1)	--	--	(2,735)	--	--	(379)	--	--	--	(74,940)	(78,054)	113,406	35,352
Transfers	--	--	--	--	--	--	--	--	78,021	(78,021)	--	--	--
Total transactions with owners	--	--	110,154	--	--	(379)	--	--	78,021	(152,961)	34,835	114,294	149,129
Balance at 31 December 2021	2,000,000	5,495	202,279	2,181	(488,218)	1,038,580	(75,962)	7,623,668	1,241,554	1,894,146	13,443,723	3,648,608	17,092,331

(*) See Note 2 (d) and 2 (f).

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

Fiba Holding Anonim Şirketi and its Subsidiaries

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2021

(Currency: Thousands of Turkish Lira (“TL”) unless otherwise stated)

	Notes	2021	2020 (*)
Cash flows from / (used in) operating activities:		21,933,121	2,757,211
Net profit for the year		1,192,402	217,283
Components of net profit not generating or using cash:			
Exchange differences on property and equipment	15,16	(1,086,413)	(219,214)
Provision for severance payment	4	23,959	12,027
Depreciation and amortisation	15,16,17	355,892	305,690
Technical reserves relating to foreign insurance operations	4	22,265	24,186
Gain on sale of property and equipment	31	125	130,896
Provision for loans and doubtful receivables	4	1,821,847	1,504,163
Recoveries of loan losses and receivables	4	944,736	320,420
Derivative financial instruments		128,292	(166,155)
Other impairment losses	35	63,998	(761)
Financial assets at fair value through profit or loss		(1,181,204)	(116,650)
Gain on sale of asset held for sale	31	66,934	16,843
Impairment / (recoveries) in value of financial assets at FVTOCI	11	--	(3,012)
Share of loss / (profit) of equity accounted investees	14	59,700	35,037
Changes in other accrued expenses and provisions		761,138	44,843
Interest (income)/expense, net		1,698,313	(2,724,769)
Current tax expense	36	(93,468)	35,399
Deferred tax expense/(credit)	36	207,738	108,659
Net loss on sale/disposal of investment securities	30	704,840	157,306
Unrealised exchange differences		(4,250,526)	267,374
Changes in operating assets and liabilities:			
Loans and receivables from banks		(4,486,625)	(489,739)
Derivative financial instruments		439,585	372,189
Loans and receivables from customers		(32,934,415)	(9,113,573)
Factoring receivables		(400,285)	(121,071)
Other assets		3,219,845	(2,013,369)
Due to banks		11,728,883	1,952,932
Due to customers		38,427,562	8,436,745
Other liabilities and provisions		1,515,319	863,930
Employee severance paid	23	(7,797)	(6,454)
Interest received		7,469,348	5,103,774
Interest paid		(4,182,473)	(2,132,859)
Taxes paid		(296,394)	(44,859)
Cash flows provided by / (used in) operating activities		20,740,719	2,539,928
Investing activities			
Changes in investment securities		(8,412,598)	(1,138,490)
Acquisition of/capital contribution to the equity accounted investees	14	(14,346)	--
Acquisition of property and equipment	15	(542,396)	(492,159)
Acquisition of intangible assets	16	(130,207)	(104,905)
Acquisition of investment property	17	(80)	(249)
Proceeds from sale of property and equipment and intangible assets		246,716	379,707
Proceeds from sale of equity accounted investees		(12,460)	2,738
Cash flows provided by / (used in) investing activities		(8,865,371)	(1,353,358)
Financing activities			
Increase/(decrease) in funds borrowed		7,000,796	719,183
Increase/(decrease) in issued debt securities		(1,840,692)	(344,014)
Acquisition of non-controlling interests		--	(413)
Dividends paid	26	(47,717)	(3,243)
Cash flows provided by financing activities		5,112,387	371,513
Net decrease in cash and cash equivalents		18,180,137	1,775,366
Change in restricted cash		(426,568)	(357,438)
Cash and cash equivalents at 1 January	6	8,818,187	7,400,259
Cash and cash equivalents at 31 December	6	26,571,756	8,818,187

(*) See Note 2 (d) and 2 (f).

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

Notes to the consolidated financial statements

<u>Notes</u>	<u>Description</u>	<u>Pages</u>
1	Reporting entity	8
2	Basis of preparation	8-10
3	Significant accounting policies	10-40
4	Segment information	40-43
5	Acquisitions of subsidiaries and non-controlling interests	43
6	Cash and balances at central banks	44
7	Financial assets at fair value through profit or loss	44-45
8	Investment securities	45-46
9	Loans and receivables from banks	46
10	Loans and receivables from customers	47-48
11	Loan impairment charges and allowances	48-50
12	Factoring receivables	51
13	Derivative financial instruments	51-58
14	Investments in equity accounted investees	59
15	Property and equipment	60
16	Intangible assets	61
17	Investment property	62
18	Other assets	63
19	Due to banks	64
20	Due to customers	64
21	Issued debt securities	64
22	Funds borrowed	65
23	Provisions	66
24	Other liabilities	66
25	Subordinated liabilities	67
26	Capital and reserves	68-69
27	Net interest income	70
28	Net fee and commission income	71
29	Net trading income / (expense)	71
30	Results from financial transactions	72
31	Other operating income	72
32	Personnel expenses	72
33	General and administrative expenses	73
34	Other operating expenses	73
35	Other impairment losses	73
36	Taxation	74-80
37	Fair value information	80-86
38	Commitments and contingencies	87-88
39	Related parties	88
40	Financial risk management	89-108
41	Group enterprises	109-113
42	Subsequent events	113

Fiba Holding Anonim Şirketi and its Subsidiaries

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2021

(Currency: Thousands of Turkish Lira (“TL”) unless otherwise stated)

1 Reporting entity

Fiba Holding Anonim Şirketi (“Fiba Holding”) was established in 1989 to invest in and coordinate the activities of companies operating in different industries including banking, leasing, factoring, insurance, non-performing loan (“NPL”) management and office management.

Fiba Holding is owned and managed by Özyeğin Family members. As at 31 December 2021, Fiba Holding has 36 (31 December 2020: 36) subsidiaries (“Subsidiaries”), and 2 (31 December 2020: 2) joint ventures (“Joint ventures”). As at 31 December 2021, Fiba Holding has no associates “Associates” (31 December 2020: 1) (together referred to as “the Group” herein and after). As explained in more detail in Note 41, Fiba Holding holds controlling interest directly or indirectly via other companies owned, in all its subsidiaries included in the Group.

The address of the registered office of Fiba Holding is as follows:

Esentepe Mahallesi Büyükdere Caddesi Ferkoo Apt. No: 175/22 Şişli / İstanbul - Turkey

The number of employees of the Group at 31 December 2021 is 5,948 (31 December 2020: 6,021).

The Group’s main operations consist of banking and finance activities.

2 Basis of preparation

a) Statement of compliance

Fiba Holding entities operating in Turkey maintain their books of account and prepare their statutory financial statements in Turkish Lira (“TL”) in accordance with the Accounting Practice Regulations as promulgated by the Banking Regulatory and Supervision Agency (“BRSA”) applicable to the financial institutions, and by the Turkish Treasury applicable to the insurance business, Turkish Uniform Chart of Accounts, the Turkish Commercial Code (“TCC”) and Tax Legislation.

Fiba Holding’s foreign entities maintain their books of account and prepare their statutory financial statements in accordance with the related legislation and generally accepted accounting principles applicable in the countries they operate.

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by International Accounting Standards Board (“IASB”).

The consolidated financial statements were authorised for issue by the Group management on 8 June 2022. The Fiba Holding’s General Assembly and the other regulatory bodies have the power to amend the statutory financial statements after their issue.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis and for the Turkish entities as adjusted for the effects of inflation that lasted by 31 December 2005, except for the following:

- derivative financial instruments are measured at fair value,
- financial assets at fair value through other comprehensive income,
- assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell
- non-derivative financial assets and liabilities at fair value through profit or loss are measured at fair value.

The basis for measuring fair value is disclosed in Note 37.

2 Basis of preparation (continued)

c) Functional and presentation currency

The accompanying consolidated financial statements are presented in TL which is Fiba Holding’s functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

d) Comparative information

The consolidated financial statements of the Group have been prepared comparatively with the previous period in order to enable the determination of the changes in the consolidated financial position and performance. In order to comply with the presentation of the current period financial statements, comparative information is reclassified when deemed necessary and significant differences are disclosed. The Group has made some reclassifications in the previous period’s consolidated financial statements in order to comply with the current period presentation. The nature and amounts of the reclassifications are explained below:

As of 31 December 2020, a net-off was made amounting to TL 137,430 between “Commercial loans” and “Allowances for impairment” within loans and receivables from customers in the consolidated statement of financial position. In this regard, in the consolidated statement of profit or loss for the accounting period ending on 31 December 2020, a net-off was made amounting to TL 98,462 between “Income from loans and receivables from customers” in interest and similar income and “Allowances for impairment in commercial loans” in credit loss charges.

e) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas at estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in the following notes:

- Note 3 (k) and (l) – Useful lives of property and equipment, and other intangible assets
- Note 5 – Acquisitions of subsidiaries and non-controlling interests
- Note 11 – Loan impairment charges and allowances
- Note 13 – Derivative financial instruments
- Note 17 – Investment property
- Note 23 – Provisions
- Note 24 – Other liabilities
- Note 35 – Other impairment losses
- Note 36 – Taxation
- Note 37 – Fair value information
- Note 40 – Financial risk management

f) Changes in accounting policies, estimates and error

The valuation principles and accounting policies have been applied consistently to all periods presented in these consolidated financial statements. Material changes in accounting policies and material accounting errors are adjusted retrospectively and prior periods’ financial statements are restated. If the changes in accounting estimates are related with a period, they are applied in the period they are related with and if the changes are related with the future periods, they are applied both in the period the change is made and prospectively in the future periods.

2 Basis of preparation *(continued)*

f) *Changes in accounting policies, estimates and error (continued)*

Corrections

The Group’s financial statements are prepared in comparison with the previous period to enable clarification of changes in financial position and performance. The comparable information is reclassified and material differences are explained when required to provide conformity with current year’s financial information. The Group has made certain reclassifications among the consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position that do not result in any change in the total amount of the consolidated profit for the year, total equity and liabilities.

In the previous period, the fair value of some investment securities disclosed in Note 37 and measured at fair value through other comprehensive income were estimated lower amounting to TL 112,662. The effect of the correction on the previous period is as follows:

	Previous period reported	Current period reported	Corrections
	(1 January 2020- 31 December 2020)	(1 January 2020- 31 December 2020)	
Investment securities	4,460,686	4,573,348	112,662
Deferred tax assets	698,657	698,012	(645)
Deferred tax liabilities	(324,797)	(329,785)	(4,988)
<i>Other comprehensive income items that are or may be reclassified to profit or loss</i>	<i>3,535,047</i>	<i>3,642,076</i>	<i>107,029</i>
Net change in fair value of financial assets at FVTOCI	70,455	183,117	112,662
Income tax on other comprehensive income	(14,289)	(19,922)	(5,633)

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these accompanying consolidated financial statements, and have been applied consistently by Fiba Holding’s entities.

a) *Basis of consolidation*

The accompanying consolidated financial statements include the accounts of the parent company, Fiba Holding, its subsidiaries, and associates on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as at the date of the consolidated financial statements.

i) *Business combinations*

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The Group has control over an entity when the group has power over the entity, exposure, or rights, to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of the Group’s returns. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

3 Significant accounting policies (continued)

a) *Basis of consolidation (continued)*

i) *Business combinations (continued)*

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

ii) *Non-controlling interests*

The Group measures any non-controlling interests in the acquiree at their proportionate share of the acquiree’s identifiable net assets, which are generally at fair value.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss.

iii) *Subsidiaries*

Subsidiaries are entities controlled by Fiba Holding. Control exists when Fiba Holding has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group’s controlling shareholder’s consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity, and any gain/loss arising is recognised directly in equity under “Notional capital contribution by shareholders”.

iv) *Loss of control*

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or as a financial asset at FVTOCI depending on the level of influence retained.

3 Significant accounting policies (continued)

a) *Basis of consolidation (continued)*

v) *Investments in associates and jointly controlled entities (equity-accounted investments)*

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method (equity-accounted investments) and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investment, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

vi) *Transactions eliminated during consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investments are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) *Accounting in hyperinflationary economies*

Until 31 December 2005, the financial statements of the Group's Turkish entities have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 "Financial Reporting in Hyperinflationary Economies".

Beginning from 1 January 2006, it was concluded that Turkey should be considered a nonhyperinflationary economy under IAS 29. Therefore, IAS 29 has not been applied to the accompanying consolidated financial statements since 1 January 2006.

3 Significant accounting policies (continued)

c) Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group’s entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

However, foreign currency differences arising from the retranslation of the following items are recognised in other comprehensive income:

- equity investments at FVTOCI (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent the hedge is effective.

Foreign currency differences arising on retranslation are recognised in profit or loss under “net trading income”. Translation differences related to the disposal of securities at FVTOCI are considered an inherent part of the capital gains or losses recognised in “results from financial transactions”.

ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to TL at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to TL at the weighted average exchange rates for the year.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control the relevant proportion of the cumulative amount is reclassified to profit or loss.

3 Significant accounting policies (continued)

c) Foreign currency (continued)

ii) Foreign operations (continued)

When the settlement of a monetary item receivable from or payable to a foreign operations is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

iii) Hedges of net investments in foreign operations

See Note 3 g) (ii).

d) Financial instruments

i) Recognition

Date of recognition

The Group initially recognises financial assets and liabilities on the date that they are originated. Regular way of purchases or sales of financial assets are at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including derivatives and assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade-date basis. Forward purchases and sales other than those requiring delivery within the timeframe established by regulation or market convention are recognised as forward transactions until settlement.

A financial asset or financial liability is measured initially at fair value plus or less, for an item not classified at “fair value through profit or loss”, transaction costs, respectively, that are directly attributable to its acquisition or issue.

ii) Classification

Financial assets

The Group classifies its financial assets in one of the following categories:

- Loans and receivables
- Financial assets measured at amortised cost
- Financial assets measured at fair value through other comprehensive income
- At fair value through profit or loss and within the two categories as:
 - Held for trading
 - Designated at fair value through profit or loss.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as other financial liabilities measured at amortised cost or fair value through profit or loss.

3 Significant accounting policies (continued)

d) *Financial instruments (continued)*

iii) *Derecognition*

Financial assets

The Group derecognises a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- the rights to receive cash flows from the financial asset have expired;
- the Group retains the contractual rights to receive cash flows of the financial asset, but assumes a contractual obligation (‘pass-through’ arrangement) to pay the cash flows in full without material delay to a third party; or
- it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred asset, or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the consolidated statement of financial position. Transfers of assets with retention of all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing servicing.

The Group securitises various loans and advances to customers, which generally result in the sale of these assets to special-purpose entities, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are primarily recorded in investment securities at FVTOCI and carried at fair value. Gains or losses on securitisation depend in part on the carrying amount of the transferred financial asset, allocated between the financial assets derecognised and the retained interests based on their relative fair value at the date of the transfer. Gains or losses on securitisation are recorded under result financial transactions.

3 Significant accounting policies (continued)

d) *Financial instruments (continued)*

iii) *Derecognition (continued)*

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

iv) *Offsetting and collateral*

The Group enters into master netting arrangements with counterparties wherever possible, and when appropriate, obtains collateral. Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right and intends to settle them on a net basis or to realise the asset and settle the liability simultaneously. Due to differences in the timing of actual cash flows, derivatives with positive and negative fair values are generally not netted, even if they are held with the same counterparty. 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 Group’s trading activity position.

v) *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 principle repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The amortisation is recognised in the profit and loss under interest income.

vi) *Fair value measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group 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 Group 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, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, 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 Group 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.

3 Significant accounting policies (continued)

d) *Financial instruments (continued)*

vi) *Fair value measurement (continued)*

Assets and long positions are measured at a bid price, liabilities and short positions are measured at an ask price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument i.e. without modification or repackaging or based on a valuation technique whose variables only include data from observable markets, then the difference is recognised in profit or loss under the net trading income on initial recognition of the instrument. In other cases the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

The principal methods and assumptions used by the Group in determining the fair value of financial instruments are:

- Fair values for trading and investment securities are determined using market prices from active markets. If no quoted prices are available from an active market, the fair value is determined using discounted cash flow models. Discount factors are based on the swap curve observable in the market, plus a spread reflecting the characteristics of the instrument.
- Fair values for derivative financial instruments are obtained from active markets or determined using, as appropriate, discounted cash flow models. Discount factors are based on the swap curve observable in the market, plus a spread reflecting the characteristics of the instrument.
- Fair values for loans and receivables and factoring receivables and deposits due to banks and customers are determined using discounted cash flow models based upon the Group’s current incremental lending rates for similar type loans. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are approximated by the carrying amount.
- The fair value of loans that are quoted in active markets is determined using the quoted prices. The Group uses valuation method to establish the fair value of instruments where prices quoted in active markets are not available. Parameter inputs to the valuation method are based on observable data derived from prices of relevant instruments traded in an active market. These valuation methods involve discounting future cash flows of loan with related yield curve plus spread on similar transactions and using recent offers if available.
- The carrying amounts are considered to approximate fair values for other financial assets and liabilities, such as short-term payables and receivables.

3 Significant accounting policies (continued)

d) *Financial instruments (continued)*

vii) *Identification and measurement of impairment*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, restructuring of loans or advances by the Group on terms that the Group would not otherwise consider, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Loans and receivables from customers and banks

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 will be recorded in the amount of 12-month expected credit losses.

Stage 2

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

Stage 3

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

3 Significant accounting policies (continued)

d) *Financial instruments (continued)*

vii) *Identification and measurement of impairment (continued)*

Loans and receivables from customers and banks (continued)

As part of IFRS 9, expected credit loss models are improved in process of exposure at default, probability of default and loss given default. These models are formed by taking into consideration internal ratings systems, past data and prospective expectations and considering below factors;

- Customer type (individual, corporate, commercial and SME)
- Product type
- Ratings used as part of internal ratings systems
- Collaterals
- Collection period
- Exposure at default
- Time passed from loan disbursement
- Time to maturity

Exposure at default: Expresses the exposure amount when debtor defaults. It accounts along with the maturity of the borrower.

The amount of additional risk that may occur in case of default is added to the amount of risk and included in the calculations by using the credit conversion rates (CCR) for irrevocable commitments.

Probability of default: Refers to the probability of default due to the inability of the debtor to fulfill its obligations. 12-month or lifetime estimation is performed according to whether there is an increase in credit risk or not.

Loss given default: In the default of the borrower, it is calculated as the expected credit loss to exposure at default. Loss given default models include inputs such as product type, customer segment, collateral structure, customer payment performance.

Macroeconomic factors: Macroeconomic indicators are taken into account in determining the probability of default component in the expected credit loss calculation. Future macroeconomic forecasts are reflected in the expected credit loss calculations using more than one scenario.

While macroeconomic information is included, models and estimates reflecting the relationships between model risk parameters and macroeconomic variables are taken into consideration. The main macroeconomic indicators that make up these estimation models are the Gross Domestic Product (GDP) and the unemployment rate.

Macroeconomic estimation models include more than one scenario and the related scenarios are taken into account in the expected credit loss calculations.

Future expectations are determined based on 2 scenarios, base and negative. Each scenario has predetermined weights, and the final provisions are calculated by weighting on these probabilities.

Calculation of expected loss period: In determining the lifetime expected credit loss, the period in which the Group will be exposed to credit risk is taken into consideration. Behavioral maturity analysis was performed on credit cards and overdraft accounts. The maximum period for which credit losses are to be recognized, except for credit cards and other rotative loans, is the contractual life of the financial instrument unless a legal right is required to recall the loan.

3 Significant accounting policies (continued)

d) *Financial instruments (continued)*

vii) *Identification and measurement of impairment (continued)*

Loans and receivables from customers and banks (continued)

Significant increase in credit risk: Due to the significant increase in credit risk, the Group performs quantitative and qualitative assessments to determine the financial assets to be classified as Stage 2 (Significant increase in credit risk).

Within the scope of the quantitative assessments made for the corporate segment, the Group compares the change between the starting date and the date of the report by taking into account the time passed since the opening date. In order to make this comparison, the Group specifies threshold values to determine which changes are accepted as significant change. The decision to classify financial assets as Stage 2 due to a significant increase in credit risk by exceeding these threshold values is taken by the opinion of the Credit Department.

Within the scope of qualitative evaluations, financial assets included in the scope of close monitoring as of the reporting date are classified as Stage 2.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than take possession of collateral. If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower then an assessment is made whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. A substantial difference is defined, if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounting using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the financial asset. In this case the original financial asset is derecognised and the new financial asset is recognised at fair value.

The impairment loss is measured as follows:

- If the expected restructuring does not result in derecognition of the existing asset, the estimated cash flows arising from the modified financial assets are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

Factoring receivables

A factoring receivable is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that factoring receivable.

An impairment loss in respect of a factoring receivables measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Factoring receivables are tested for impairment on an individual basis.

3 Significant accounting policies (continued)

d) *Financial instruments (continued)*

vii) *Identification and measurement of impairment (continued)*

Factoring receivables (continued)

All impairment losses are recognised in profit or loss in “Credit loss charges, net”. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For factoring receivables, the reversal is recognised in profit or loss in “Credit loss charges, net”.

Financial assets measured at amortised cost

For financial assets measured at amortised cost the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are reversed to the “Credit loss charges, net” in the profit or loss.

Financial assets at FVTOCI

For financial assets at FVTOCI, the Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as financial assets at FVTOCI, objective evidence would include a significant or prolonged decline in the fair value of the investment below cost. Where there is evidence of impairment, impairment losses on investment securities at FVTOCI are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

In the case of unquoted debt instruments classified as financial assets at FVTOCI the impairment loss is calculated as difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets. Whether an impairment event has occurred is assessed for each debt instrument individually based on the impairment indicators relevant for that instrument.

Interest based on market rates is accrued at the effective interest rate on the reduced carrying amount of the asset and is recorded as part of “Interest and similar income”.

If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss. However, any subsequent recovery in the fair value of an impaired equity security at FVTOCI is recognised in other comprehensive income in equity.

For an investment in unquoted equity instruments carried at cost because their fair value cannot be measured reliably, impairment losses are not reversed.

3 Significant accounting policies (continued)

e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks, demand deposits at domestic and foreign banks and short-term highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

f) Trading assets and liabilities (excluding trading derivatives)

Assets and liabilities held for trading are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near future, or holds as part of portfolio that is managed together for short-term profit or position taking. These trading assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated statement of financial position with transaction costs taken directly to profit or loss. Interest income or expense is recorded in “Net interest income” in the profit or loss according to the terms of the contract. All changes in fair value except for the interest accruals are recognised as part of “Net trading income” in the profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

g) Derivatives

i) Derivatives held for trading

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, references, rates or indices. Derivatives include currency and cross currency swaps, forward foreign exchange contracts, interest rate swaps, currency options, equity options, bonds options and credit default swaps. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivative financial instruments are subsequently re-measured at fair value. Changes in the fair value of derivatives are included in “Net trading income” in the profit or loss. Interest income or expense generated with derivative financial instruments used for asset liability management is recorded in “Interest income” and “Interest expense” in the profit or loss. Interest income or expense generated with derivative financial instruments not used for asset and liability management are recorded in “Net trading income” in the profit or loss.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the profit or loss under “Net trading income”.

ii) Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk asset-liability management purposes i.e. asset and liability management include all derivatives assets and liabilities that are not classified as trading assets and liabilities.

Derivatives held for risk management purpose are measured at fair value in the consolidated statement of financial position. Interest component of derivative financial instruments used for asset-liability management are recorded in profit or loss under the interest income and interest expense.

3 Significant accounting policies (continued)

g) Derivatives (continued)

ii) Derivatives held for risk management purposes and hedge accounting (continued)

The Group designates certain derivatives held for risk-management purposes and certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk-management objective and strategy in undertaking the hedge transaction, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as an ongoing basis, whether the hedging instrument(s) is (are) expected to be 'highly effective' in offsetting in the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

Net investment hedges

When a derivative (or a non-derivative financial liability) is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in equity is removed and included in profit or loss on disposal of the foreign operations.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the profit or loss. If the derivative expires; is sold, terminated or exercised; no longer meets the criteria for cash flow-hedge accounting; or its designation is revoked, then the hedge accounting is prospectively discontinued. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

The accumulated gains or losses recognised in other comprehensive income previously and presented in the hedging reserve in equity are remained until the expected transaction occur. If the forecast transaction is no longer expected to occur, then the balance in equity is recognised immediately in profit or loss.

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in profit or loss as the hedged item). If the hedging derivative expires or sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated. Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

3 Significant accounting policies (continued)

h) Loans and receivables and factoring receivables

Loans and receivables from banks and customers and factoring receivables (excluding the trading loans) are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "Financial assets held for trading", designated as "Financial assets at FVTOCI", or "Financial assets designated at fair value through profit or loss". After initial measurement, amounts from loans and receivables from banks and customers and factoring receivables are subsequently measured at amortised cost using the effective interest method, less allowance for impairment (See Note 3 d) (v) and (vii)).

i) Investment securities

Investment securities comprise debt securities which are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either measured at amortised cost, at fair value through profit or loss, or at FVTOCI.

i) Financial assets measured at amortised cost

Financial assets measured at amortised cost are those which carry fixed or determinable payments and which the Group has the intention and ability to hold to maturity and which are not designated as at fair value through profit or loss or as financial assets measured at fair value through other comprehensive income. After initial measurement, financial assets measured at amortised cost are subsequently measured at amortised cost using the effective interest method, less provision for impairment (See Note 3 d) (v) and (vii)).

Any sale or reclassification of a more than insignificant amount of financial assets measured at amortised cost not close to their maturity would result in the reclassification of all financial assets measured at amortised cost as financial assets at FVTOCI, and prevent the Group from classifying investment securities as measured at amortised cost for the current and the following two financial years.

ii) Fair value through profit or loss

The Group designates some investment securities at fair value, with fair value changes recognised immediately in profit or loss.

An instrument is classified at fair value through profit or loss if it is held for trading (See Note 3 f)) or is designated as such upon initial recognition.

iii) Financial assets at FVTOCI

Financial assets at FVTOCI are those which are designated as such or do not qualify to be classified as recorded at fair value through profit or loss, or measured at amortised cost. They may be sold in response to liquidity needs or changes in market conditions.

After initial measurement, financial assets at FVTOCI are subsequently measured at fair value.

Unrealised gains and losses are recognised in other comprehensive income, and presented within equity in the fair value reserve. When the security is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the profit or loss in "Results from financial transactions". Interest earned while holding investment securities at FVTOCI is reported as interest income using the effective interest rate.

3 Significant accounting policies (continued)

j) Repo contracts

Transactions where financial instruments such as loans are sold under a commitment to repurchase (repos) at a predetermined price or purchased under a commitment to resell (reverse repo) are treated as collateralised borrowing and lending transactions. The legal title of the financial instrument subject to resale or repurchase commitments is transferred to the lender. Financial instruments transferred under a repurchase commitment are henceforth included in the relevant items of the Group’s consolidated statement of financial position, while the borrowing is recorded in “Due to banks”. Financial instruments received under a resale commitment are recorded in the off-balance sheet accounts, unless they are sold.

Income and expenses arising from repurchase and resale commitments, being the difference between the selling and the purchase price, are accrued over the period of the transaction and recorded in the profit or loss as “Interest and similar income” or “Interest expense and similar charges”.

k) Property and equipment

i) Recognition and measurement

The costs of items of property and equipment of the Group’s Turkish entities purchased before 1 January 2006 are carried at cost restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29. Accordingly, property and equipment of the Group are carried at costs, less accumulated depreciation and impairment losses, if any (See accounting policy 3 o)), except as explained below:

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

ii) Subsequent costs

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

iii) Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the assets are complete and ready for use.

Items of property and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. The depreciation amount is recognised in profit or loss unless it is added to the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful lives for the current and comparative periods are as follows:

<u>Description</u>	<u>Years</u>
Buildings	40-60
Furniture and equipment	2-50
Vehicles and vessels	2-25

3 Significant accounting policies (continued)

k) Property and equipment (continued)

iii) Depreciation (continued)

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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in “Other operating income” or “Other operating expenses” in the profit or loss in the period the asset is derecognised.

l) Intangible assets

i) Goodwill

Goodwill (negative goodwill) arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement goodwill at initial recognition, (See Note 3 a) (i)).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses, if any (See accounting policy 3 o)). In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment and impairment loss on such an investment is not allocated to any asset, including goodwill that forms part of the carrying amount of the equity accounted investee.

ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses, if any (See accounting policy 3 o)).

iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

iv) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for intangible assets are between 3 and 10 years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

m) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently is accounted for under the cost model. Accordingly, investment properties of the Group are carried at costs, less accumulated depreciation and impairment losses (See accounting policy 3 o)).

3 Significant accounting policies (continued)

m) Investment property (continued)

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

The Group uses straight-line depreciation method and the estimated useful lives of the investment properties are between 40-50 years.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised under “Other operating income” or “Other operating expenses” in profit or loss. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

n) Leases

i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group’s incremental borrowing rate.

ii) Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in “Property and equipment” with the corresponding liability to the lessor included in “Other liabilities”.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss in “Interest expense”. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are not recognised on the consolidated statement of financial position. Any rentals payable are accounted for on a straight-line basis over the lease term and included in “General and administrative expenses”.

iii) Group as a lessor

Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are included on the consolidated statement of financial position in “Loans and receivables from customers”. A receivable is recognised over the leasing period of an amount equaling the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included in “Interest and similar income” in the profit or loss.

3 Significant accounting policies (continued)

o) Impairment of non-financial assets

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. 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.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses for goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

p) Due to banks and customers, issued debt securities, subordinated liabilities and funds borrowed

Issued financial instruments or their components, which are not designated at fair value through profit or loss, are classified as liabilities under “Issued debt securities” or “Funds borrowed” where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by exchange of a fixed amount of cash.

Deposits (due to banks and customers), debt securities issued, subordinated liabilities and funds borrowed are initially measured at fair value less directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

3 Significant accounting policies (continued)

q) Asset held for sale

The Group takes possession of collateral it holds as security and recognises these assets as “held for sale”. These assets are not used for the daily transactions and the management intends to sell these assets in the future. They are initially measured at the lower of their carrying amount and fair value less costs to sell. After initial measurement, non-current assets for sale are subsequently measured at fair value. Changes in the fair value of the assets are recognised in the profit or loss in “Other operating expenses”. These assets have not been disclosed separately in the statement of consolidated financial position, but are disclosed separately as component of other assets in the notes.

r) Financial guarantees and loan commitments

In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantee, and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in “Other liabilities”, being the premium received. Subsequent to initial recognition, the Group’s liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantee is taken to the profit or loss in “Credit loss charges, net”. The premium received is recognised in the profit or loss in “Fees and commission income” on a straight line basis over the life of the guarantee.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

s) Provisions, contingent assets and liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the specified criteria are not met, the Group discloses the related issue in the accompanying notes. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent assets are disclosed in the notes and not recognised unless it is realised.

Onerous contracts

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 Group realises any impairment loss on the assets associated with that contract.

3 Significant accounting policies (continued)

t) *Employee benefits*

i) *Reserve for employee severance indemnity for Turkish entities*

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. It is computed and reflected in the consolidated financial statements on an accrual basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts applicable for each year of employment are TL 8,284.51 and TL 7,117.17 at 31 December 2021 and 2020, respectively. IFRSs require actuarial valuation methods to be developed to estimate the entity’s obligation under defined benefit plans. The principal statistical assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 31 December 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
	<u>%</u>	<u>%</u>
Discount rate	18.10	12.75
Estimated inflation/salary increase rate	8.50	8.50

The above rate for salary/limit increase was determined based on the Government’s future targets for annual inflation.

All changes in reserve for employee severance indemnity except for actuarial differences are recognised in profit or loss. Actuarial differences on reserve for employee severance indemnity are recognised immediately in other comprehensive income as an item that will never be reclassified to profit or loss and presented directly under equity. However, since the actuarial differences are not material to the consolidated financial statements, the Group recognizes actuarial differences in profit or loss.

Provision for employment termination indemnity are not subject to any statutory funding.

ii) *Share-based payment transactions for foreign entities*

The Group granted share-based incentives to certain members of the management of its subsidiaries through share purchase agreements. These equity settled share base payments are in accordance with IFRS 2 an Employee Share Purchase Plan (“ESPP”). Relating this plan there are no vesting conditions. The purchase price of the shares is equal to their fair market value of the shares of the company-considered on a consolidated basis, i.e. including the value of its subsidiaries. The fair market value is calculated by multiplying the carrying value of the shares by a “multiplier” that has been determined by independent auditor based on historical data and trends. The difference between the purchase price of the shares and the net asset value of the subsidiary is included in the profit or loss.

iii) *Vacation pay liability*

Short-term employee benefit obligations are consisting of reserve for the vacation pay liability due to the earned and unused vacation rights of its employees and measured on an undiscounted basis and are recognised in profit or loss as the related service is provided.

3 Significant accounting policies (continued)

u) Share capital and reserves

i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

ii) Translation reserve

The translation reserve is comprised of all currency differences arising from the translation of the financial statements of foreign operations into TL.

iii) Hedging reserve

The Group uses forward foreign exchange contracts to hedge the foreign currency translation risk on its net investment in foreign subsidiaries.

When a derivative is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised directly in other comprehensive income and presented in the hedging reserve in the equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. The amount recognised in other comprehensive income is removed and included in profit or loss on disposal of the foreign operation.

iv) Fair value reserve

In this component, gains and losses arising from a change in the fair value of financial assets at FVTOCI are recognised, net of taxes. When the relevant assets are sold, impaired or otherwise disposed of, the related cumulative gain or loss recognised in other comprehensive income is transferred to the profit or loss.

v) Notional capital contribution by shareholders

The assets and liabilities acquired in business combination arising from transfers of interests in entities that are under common control of the shareholders that control the Group are recognized at their carrying amounts based on the book value accounting. The excess part of the consideration paid for the net asset value of the entity under common control over the consideration paid are recognised as notional capital contribution by shareholders. Please see Note 3 a) (iv).

vi) Treasury shares (Reserve for own shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and resulting surplus or deficit on the transaction is transferred to the share premium or from retained earnings, respectively.

3 Significant accounting policies (continued)

v) *Recognition of income and expenses*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

i) *Interest income and expenses*

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as financial assets at FVTOCI, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets or financial liability. The calculation takes into account all contractual terms of the financial instrument including any fees or incremental costs that are directly attributable to the instrument, but not future credit losses.

Interest income or expenses on trading assets and liabilities excluding the non asset-liability management purpose derivative financial instruments are included within interest income and expense.

ii) *Fees and commission income*

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fees and commissions for the provision of services over a period of time are generally recognised on an accrual basis. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate of the loan.

Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Management and service fees are recognised based on the applicable service contracts. Fee for bank transfers and other banking transaction services are recorded as income when collected.

Commission incomes from insurance activities are classified as "Insurance related commissions from insurance activities" under the "Fee and commission income", whereas commission expenses as "Insurance related commissions from insurance activities" under the "Fee and commission expense".

Factoring fees and commission income are recognised in profit or loss as the related services are performed. Factoring fees and commission expense are expensed in profit or loss as the services are received.

iii) *Net trading income/(loss)*

Net trading income/(loss) includes gains and losses arising from changes in the fair value and disposal of financial assets and liabilities held for trading and includes dividends received from trading instruments. Interest income or expenses on trading derivatives excluding the asset liability management purpose derivative financial instruments are included within "Net trading income".

iv) *Results from financial transactions*

Results from financial transactions include gains and loss on the sale of non-trading financial assets and liabilities. Dividend income from non-trading equity investments is recognised when entitlement is established.

3 Significant accounting policies (continued)

w) *Income 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 it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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 or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to 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 and 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.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3 Significant accounting policies (continued)

x) Fiduciary activities

Assets held in fiduciary capacity, if any, are not reported in the consolidated financial statements, as they are not the assets of the Group.

y) Segment reporting

Segment information is presented in respect of the Group's operating segments.

An operating segment is an operating segment that engages in business activities from which the Group can generate revenues and incur expenditures, whose operating results are regularly reviewed by the Group's chief operating decision maker in order to make decisions about resources to be allocated to the segment and to evaluate the segment's performance, and separate financial information about it. part of it is available.

z) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale of distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

aa) Amendments published but not yet effective and not early adopted as of 31 December 2021

Changes that have been published but not yet effective and not early implemented

Some of the new standards, interpretations and amendments that have been issued but not yet effective and early application is permitted but not early adopted by the Group as of the reporting date are as follows.

3 Significant accounting policies (continued)

aa) *Amendments published but not yet effective and not early adopted as of 31 December 2021 (continued)*

Continuing Concessions in Rent Payments Related to COVID-19 After 30 June 2021- Amendments to TFRS 16

The International Accounting Standards Board (IASB) has extended the application scope of the facilitating provision for 12 months, including the privileges that cause a decrease in lease payments due on or before 30 June 2022. The first amendment made in this regard was published by the IASB in May 2020 to make it easier for tenants to account for rental concessions related to Covid-19, such as discounts or non-payment of rent for a certain period, and to continue to provide investors with useful information about lease agreements. The relevant amendments were also published by KGK on 5 June 2020 as the Amendments to TFRS 16.

This change is valid for annual accounting periods beginning on or after 1 April 2021. Early application is also permitted if lessees have not yet approved the financial statements for issue as of 31 March 2021, the date of issue of this amendment. In other words, if the financial statements for the accounting periods before the date of publication of the amendment have not yet been published, it is possible to apply this amendment for the relevant financial statements. 2021 changes are applied retrospectively, with the cumulative effect resulting from the first application of the change being reflected in the financial statements as an adjustment to the opening balance of retained earnings at the beginning of the annual accounting period in which the change is applied for the first time.

The first version of the facilitator application is being implemented on demand and will continue to be implemented on demand at present. However, the implementation of the 2021 changes is not optional. This is because a tenant who chooses to apply the facilitating provision of the 2020 changes must continue to consistently apply the extension to eligible contracts with similar characteristics and similar terms.

This means that if a lease concession is ineligible for the initial facilitating application under the 2020 amendments but becomes eligible for the exemption as a result of the new extension, lessees will need to reverse their accounting for the change to the previous lease.

Amendment to References to Conceptual Framework in TFRS 3

In May 2020, IASB published an amendment regarding the references to the Conceptual Framework in IFRS 3. replaced by references. Then, TFRS 3 amendment was published on 27 July 2020 by KGK to reflect these changes.

The Group is required to apply these changes from reporting periods beginning on or after 1 January 2022, but early application is permitted.

Tangible Assets — Making them fit for their intended use (Amendment to TAS 16)

In May 2020, IASB published the "Tangible Fixed Assets - Making them fit for purpose", amending the IAS 16 Tangible Fixed Assets standard. TMS 16 amendment was published on 27 July 2020 by the KGK to reflect these changes.

The amendment increases transparency and consistency by clarifying the accounting requirements in this regard - in particular, with the amendment, it no longer allows the proceeds from the sale of products produced to fit the asset for its intended use, to be deducted from the cost of the item of property, plant and equipment. Instead, a company will now recognize such sales revenues and related costs in profit or loss.

3 Significant accounting policies (continued)

aa) *Amendments published but not yet effective and not early adopted as of 31 December 2021 (continued)*

Tangible Assets — Making them fit for their intended use (Amendment to TAS 16) (continued)

In May 2020, IASB published the "Tangible Fixed Assets - Making them fit for purpose", amending the IAS 16 Tangible Fixed Assets standard. TMS 16 amendment was published on 27 July 2020 by the KGK to reflect these changes.

The amendment increases transparency and consistency by clarifying the accounting requirements in this regard - in particular, with the amendment, it no longer allows the proceeds from the sale of products produced to fit the asset for its intended use, to be deducted from the cost of the item of property, plant and equipment. Instead, a company will now recognize such sales revenues and related costs in profit or loss.

The Group is required to apply these changes from reporting periods beginning on or after 1 January 2022, but early application is permitted. These changes are retrospective; however, it applies only to items of property, plant and equipment that have been brought to the location and condition required by management to operate in the conditions intended, at the beginning of the earliest period presented in the financial statements in which the changes are applied for the first time. The cumulative effect of applying the changes for the first time is recognized as an adjustment to the opening balance of retained earnings at the beginning of the earliest period presented or another appropriate component of equity.

Economically disadvantageous contracts-Costs of fulfilling the contract (Amendment to TAS 37)

In May 2020, IASB published the amendment “Economically disadvantageous contracts - Costs of fulfilling the contract” amending IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

IASB has published this amendment to IAS 37 to clarify whether the cost of fulfilling the contract includes both mandatory additional costs to be incurred and costs related to the distribution of other direct costs, in order to assess whether a contract is economically disadvantageous. Then, TAS 37 amendment was published on 27 July 2020 by the KGK to reflect these changes.

The amendments have determined what costs an entity may include in determining the cost of fulfilling a contract in order to evaluate whether a contract has been fulfilled.

The Group is required to apply these changes from reporting periods beginning on or after 1 January 2022, but early application is permitted. The cumulative effect of initial application of the changes is recognized as an adjustment to the opening balance of retained earnings or another appropriate component of equity at the date of initial application. Comparative information is not rearranged.

TFRS 17 Insurance Contracts

On February 16, 2019, TFRS 17 Insurance Contracts standard was published by KGK. TFRS 17, the first internationally recognized standard for insurance contracts, will facilitate investors and other interested parties to better understand the risks, profitability and financial position of insurers. TFRS 17 replaced TFRS 4, which was introduced as an interim standard. Since TFRS 4 allows companies to account for insurance contracts using local accounting standards, it has led to the use of a wide variety of accounting approaches in practice. As a result, it has become difficult for investors to compare the financial performance of similar companies. TFRS 17 solves the consistent accounting of all insurance contracts and the comparability problem posed by TFRS 4 for both investors and insurance companies. According to the new standard, insurance liabilities will be accounted for using current values rather than historical costs. As this information will be updated regularly, it will provide more useful information to financial statement users. TFRS 17 is effective for reporting periods beginning on or after 1 January 2023, but early application is permitted.

3 Significant accounting policies (continued)

aa) *Amendments published but not yet effective and not early adopted as of 31 December 2021 (continued)*

TFRS 17 Insurance Contracts (continued)

The Group is evaluating the possible effects of the application of TFRS 17 on its consolidated financial statements.

Initial Application of TFRS 17 and TFRS 9—Comparative Information (Amendments to TFRS 17)

In December 2021, IASB published IFRS 17 and Initial Application of IFRS 9 —Comparative Information (Amendments to IFRS 17). The relevant amendments were also published by KGK on 31 December 2021 as the Amendments to TFRS 17. The amendment is related to the transitional provisions in terms of comparative information on financial assets presented in the financial statements in the first application of TFRS 17. The amendment increases the temporary accounting inconsistencies between financial assets and insurance contract liabilities of enterprises and thus increases the usefulness of comparative information for users of financial statements. Amendments to TFRS 17 are valid for annual reporting periods beginning on or after 1 January 2023.

The Group is evaluating the possible effects of the implementation of the TFRS 17 amendment on its consolidated financial statements.

Amendments to TFRS 4 - Amendment to TFRS 4 Insurance Contracts and implementation of TFRS 9

TFRS 4 has also been amended by the POA within the framework of the amendment made by the IASB in order to reduce the effects of the new insurance contracts standard and the different effective dates of TFRS 9. The amendments to TFRS 4 provide two optional solutions for insurers to reduce enforcement concerns.

i) In applying TFRS 9, Insurers will be allowed to reclassify their financial assets as the difference between the insurer's profit or loss and other comprehensive income and the amounts recognized in profit or loss in accordance with TFRS 9 and those reported in accordance with IAS 39; or ii) an optional temporary exemption from applying TFRS 9 for companies whose operations were predominantly insurance dependent before 1 January 2023. These companies will be allowed to continue to apply the provisions available for financial instruments in TAS 39.

The Group is evaluating the possible effects of the implementation of the TFRS 4 amendment on its consolidated financial statements.

Classification of Liabilities as Short or Long Term (Amendments to TAS 1)

The amendments regarding the "Short or Long Term Classification of Liabilities" published by IASB on 23 January 2020 in order to make the presentation in the statement of financial position regarding the short-term or long-term classification of liabilities according to IAS 1 more explanatory, and by the POA on 12 March 2020. It has been published with the title "Amendments Made in TAS 1 - Classification of Liabilities as Short-Term or Long-Term".

This amendment clarifies the additional explanations regarding the long-term classification of liabilities that the entity can postpone for at least twelve months, and other matters related to the classification of liabilities.

Amendments to TAS 1 address the following:

- a. Explicitly mention in the classification of liabilities that the entity's right to defer the liability must exist at the end of the reporting period.
- b. Include that management's expectations and objectives of the entity's exercise of the right to defer the obligation do not affect the classification of the liability as long-term.
- c. Disclose how the entity's borrowing conditions will affect that classification.
- d. An explanation of the requirements for the classification of liabilities that the entity may settle with its own equity instruments.

3 Significant accounting policies (continued)

aa) *Amendments published but not yet effective and not early adopted as of 31 December 2021 (continued)*

Classification of Liabilities as Short or Long Term (Amendments to TAS 1) (continued)

The Group is required to apply these changes retrospectively from reporting periods beginning on or after 1 January 2022. However, early application is permitted. Finally, with the amendment published by the IASB on 15 July 2020, it was decided to postpone the effective date of the IAS 1 amendment until 1 January 2023, and the said amendment was also published by the POA on 15 January 2021.

The Group is evaluating the possible effects of the implementation of the TAS 1 amendment on its consolidated financial statements.

Deferred Tax on Assets and Liabilities Arising from a Single Transaction –Amendments to TAS 12 Income Taxes

In May 2021, the “Deferred Tax on Assets and Liabilities Arising from a Single Transaction” amendment in TAS 12 Income Taxes was published by the IASB. The relevant changes were also published by the KGK on 27 August 2021 as the Amendments to TAS 12.

These changes made in TAS 12 Income Taxes, certain transactions of companies, for example; It clarifies how it should account for deferred tax on provisions for leases and decommissioning (dismantling, reinstatement, restoration, etc.).

With the amendment, it is foreseen that the scope of the initial recognition exemption will not be applied to transactions whose equal and temporary differences are offset. As a result, companies will be required to recognize deferred tax assets and deferred tax liabilities for temporary differences and decommissioning provisions arising from initial recognition of a lease.

The amendments clarify that the exemption does not apply to transactions such as lease and decommissioning obligations. These operations will produce equal and compensating temporary differences.

For leases and retirement obligations, the relevant deferred tax assets and liabilities will need to be recognized from the beginning of the earliest comparatively presented period, and any cumulative effects will be recognized as an adjustment to prior period retained earnings or other equity components. If a company has previously accounted for deferred tax on leases and decommissioning obligations under the net approach, the impact on the transition will likely be limited to the separate presentation of the deferred tax asset and deferred tax liability.

These amendments are valid for reporting periods beginning on or after January 1, 2023, with earlier application permitted.

The Group is evaluating the possible effects of these amendments regarding TAS 12 on its consolidated financial statements.

Definition of Accounting Estimates (Amendments to TAS 8)

These amendments, published by the IASB on 12 February 2021, introduce a new definition for accounting estimates: it is aimed to clarify that these are monetary amounts that cause measurement uncertainty in the financial statements. The relevant amendments were also published by the KGK on 11 August 2021 as the Amendments to TMS 8.

The amendments also clarified the relationship between accounting policies and accounting estimates by stating that a company develops an accounting estimate to achieve the purpose set by an accounting policy.

Developing an accounting estimate includes both:

3 Significant accounting policies (continued)

aa) *Amendments published but not yet effective and not early adopted as of 31 December 2021 (continued)*

Definition of Accounting Estimates (Amendments to TAS 8) (continued)

- Choosing a measurement method (estimate or valuation method) – for example, an estimation technique used to measure the allowance for expected credit losses when applying TFRS 9 Financial Instruments; and
- Choosing the inputs to be used when applying the selected measurement method - eg. Expected cash outflows to determine a provision for warranty obligations when applying TAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The effects of changes in such inputs or valuation techniques are changes in accounting estimates. No change was made in the definition of accounting policies and remained the same.

These amendments are effective for reporting periods beginning on or after 1 January 2023, early application is permitted and will be applied prospectively to changes in accounting estimates and accounting policies that occur at the beginning of the first annual reporting period in which the Company applies these changes.

The Group is evaluating the possible effects of these amendments regarding TAS 8 on its consolidated financial statements.

Disclosure of Accounting Policies (Amendments to TAS 1)

On 12 February 2021, IASB published an update on IAS 1 Presentation of Financial Statements and IFRS Implementation Standard 2 Making Materiality Decisions to help companies make disclosures about accounting policies useful. Among these amendments, the ones related to IAS 1 were published by the KGK as the Amendments to TMS 1 on 11 August 2021.

Key changes in TMS 1 include:

- Requiring companies to disclose their accounting policies based on materiality rather than significant accounting policies;
- Clarify that accounting policies for transactions, other events or conditions that are below materiality are immaterial and therefore do not need to be disclosed; and
- Clarify that not all accounting policies regarding transactions, other events or conditions exceeding the materiality level are material to a company's financial statements.

The changes are effective from 1 January 2023, but companies can apply earlier.

The Group is evaluating the possible effects of the implementation of the amendments in TAS 1 Presentation of Financial Statements on its consolidated financial statements.

Annual Improvements /2018-2020 Period

Improvements in IFRS

The "Annual Improvements in TFRS / 2018-2020 Period" published by the POA on 27 July 2020 for the standards in force is presented below. These changes are effective from 1 January 2022, with early application permitted. The application of these changes in TFRS is not expected to have a significant impact on the Group's consolidated financial statements.

TFRS 1- First Application of Turkish Financial Reporting Standards

This amendment simplifies the application of TFRS 1 if a subsidiary begins to apply TFRSs later than the parent; e.g; if a subsidiary subsequently adopts TFRSs from the parent, the accumulated foreign currency translation differences for all foreign currency transactions, taking advantage of the exemption in paragraph 1.D16(a) of TFRS, are included in the parent's consolidated financial statements based on the parent's transition date to IFRS Standards. You can choose to measure over. With this change, this optional exemption for subsidiaries will facilitate the transition to TFRS by i) reducing unnecessary costs and ii) eliminating the need to keep similar simultaneous accounting records.

3 Significant accounting policies (continued)

aa) *Amendments published but not yet effective and not early adopted as of 31 December 2021 (continued)*

Annual Improvements /2018-2020 Period (continued)

Improvements in IFRS (continued)

TFRS 9 Financial Instruments

This amendment requires that fees to be taken into account only for the purpose of performing the '10% test' for derecognition of financial liabilities – in determining fees charged on a net amount less fees paid for those transactions – and those paid reciprocally between or on behalf of the debtor and lender. or clarifies that it includes fees received.

TAS 41 Agricultural Activities

This amendment has harmonized the fair value measurement provisions in TAS 41 with the transaction costs required to be taken into account in determining the fair value in TFRS 13 Fair Value Measurement by removing the provision for not taking into account the payments made for taxes in the determination of fair value. This amendment provides flexibility in using TFRS 13 where appropriate.

Changes that have entered into force

The changes that have entered into force for accounting periods beginning on or after 1 January 2021 are as follows:

1) Benchmark Interest Rate Reform – Phase 2 (TFRS 9 Financial Instruments, TAS 39 Financial Instruments: Recognition and Measurement, TFRS 7 Financial Instruments: Disclosures, TFRS 4 Insurance Contracts and TFRS 16 Leases Amendments).

4 Segment information

Segment information is presented in respect of the Group’s operating business segments and geographical segments. The operating business segments are based on the Group’s management and internal reporting structure.

A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments. An operating business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Measurement of segment assets and liabilities and segment income and results is based on the Group’s accounting policies. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, investment property and intangible assets. The Group has three reportable operating segments as described below:

i) *Foreign segments*

Subsidiaries operating in the foreign financial institutions segment mainly involve in banking business in foreign countries, mortgage financing, leasing, financial services, brokerage, insurance, real estate management and NPL management businesses. Subsidiaries operating in other segment mainly involve in ship management business.

ii) *Domestic segments*

Subsidiaries operating in the domestic financial institutions segment mainly involve in banking business, portfolio management, NPL management and insurance businesses. Fibabanka Anonim Şirketi (“Fibabanka”), Fiba Emeklilik ve Hayat Anonim Şirketi (“Fiba Pension and Life”), and Gelecek Varlık Yönetimi Anonim Şirketi (“Gelecek NPL Management”) are included in the domestic financial institutions segment.

Fiba Holding Anonim Şirketi and its Subsidiaries

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2021

(Currency: Thousands of Turkish Lira (“TL”) unless otherwise stated)

4 Segment information (continued)

Factoring segment mainly involves in factoring services to industrial and commercial firms. Other operations segment mainly involves in holding, service and ship building businesses. Fiba Holding, Ofishane Ofis Yatırımları ve Kiralama Hizmetleri Anonim Şirketi (“Ofishane”) and Atlas Tersanecilik Sanayi ve Ticaret Anonim Şirketi (“Atlas Shipyard”) are included in the other segment. Details of reportable segment information are presented in the following pages.

4.1 Information about reportable segments

31 December 2021	Foreign segments		Domestic segments			Eliminations	Total
	Financial institutions	Other	Financial institutions	Factoring	Other		
Interest and similar income	3,041,366	1,761	4,219,401	261,247	218,138	(12,870)	7,729,043
Interest expense and similar charges	(978,440)	(55,836)	(2,976,927)	(174,761)	(278,648)	14,523	(4,450,089)
Fees and commission income	1,204,433	--	460,605	15,120	--	(1,179)	1,678,979
Fees and commission expense	(765,019)	--	(457,691)	(5,731)	(19,084)	2,882	(1,244,643)
Net trading income/(expense)	(83,390)	(5,478)	647,640	22,633	(414,286)	52	167,171
Result from financial transactions	65,923	--	477,911	--	311,934	(128,875)	726,893
Other operating income	480,349	1,280	650,970	735	452,162	(12,539)	1,572,957
Credit loss charges, net	(351,722)	248	(700,452)	(8,014)	--	183,400	(876,540)
Total operating expenses	(1,939,954)	(273,949)	(1,274,434)	(65,073)	(393,092)	9,103	(3,937,399)
Share of profit/(loss) of equity accounted investees	(59,700)	--	--	--	--	--	(59,700)
Operating profit before taxes	613,846	(331,974)	1,047,023	46,156	(122,876)	54,497	1,306,672
Income tax expense	59,664	(2,572)	(180,822)	(12,140)	21,600	--	(114,270)
Profit for the year	673,510	(334,546)	866,201	34,016	(101,276)	54,497	1,192,402
Total assets	98,986,794	841,360	51,984,431	1,722,651	7,218,561	(4,775,179)	155,978,618
Total liabilities	86,828,556	900,896	47,646,611	1,405,571	3,456,724	(1,352,071)	138,886,287
Capital expenditure	306,641	--	374,110	2,803	412	(11,283)	672,683
Depreciation and amortisation	215,304	21,012	100,527	1,976	23,419	(6,346)	355,892
Non-cash expenses/(income) other than depreciation and amortisation	418,789	--	599,758	15,621	161	--	1,034,329

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

4 Segment information (continued)

4.1 Information about reportable segments (continued)

31 December 2020	Foreign segments		Domestic segments			Eliminations	Total
	Financial institutions	Other	Financial institutions	Factoring	Other		
Interest and similar income	2,450,864	1,901	2,763,666	148,305	57,863	(51,560)	5,371,039
Interest expense and similar charges	(943,588)	(46,795)	(1,637,635)	(91,574)	(182,235)	48,984	(2,852,843)
Fees and commission income	772,071	--	260,031	9,442	--	(706)	1,040,838
Fees and commission expense	(505,936)	--	(319,697)	--	(2,352)	2,185	(825,800)
Net trading income/(expense)	(47,437)	(1,901)	268,465	14,586	(29,266)	2,745	207,192
Result from financial transactions	107,540	--	40,107	--	51,336	(22,495)	176,488
Other operating income	492,150	2,650	462,157	355	232,216	(9,121)	1,180,407
Credit loss charges, net	(916,376)	139	(380,078)	1,197	--	108,145	(1,186,973)
Total operating expenses	(1,417,416)	(89,046)	(989,844)	(41,456)	(175,083)	(1,125)	(2,713,970)
Share of profit/(loss) of equity accounted investees	(35,037)	--	--	--	--	--	(35,037)
Operating profit before taxes	(43,165)	(133,052)	467,172	40,855	(47,521)	77,052	361,341
Income tax expense	6,312	(7,307)	(140,985)	(9,163)	7,085	--	(144,058)
Profit for the year	(36,853)	(140,359)	326,187	31,692	(40,436)	77,052	217,283
Total assets	54,552,965	562,048	31,623,789	1,113,883	5,783,507	(4,472,894)	89,163,298
Total liabilities	47,646,537	499,652	29,190,418	862,170	2,357,350	(972,416)	79,583,711
Capital expenditure	258,130	160,160	179,950	541	352	(1,820)	597,313
Depreciation and amortisation	194,379	5,945	92,535	1,798	18,147	(7,114)	305,690
Non-cash expenses/(income) other than depreciation and amortisation	889,492	--	382,028	(318)	(12,901)	--	1,258,301

Non-cash expenses/ (income) other than depreciation

Non-cash expenses/ (income) other than depreciation and amortisation for the year ended 31 December 2021 were as follows:

31 December 2021	Foreign segments		Domestic segments			Total
	Financial institutions	Other	Financial institutions	Factoring	Other	
Provision for loans and doubtful receivables	1,297,181	--	512,948	11,718	--	1,821,847
Insurance technical reserves and provisions	(38,437)	--	60,702	--	--	22,265
Provision for severance payment	9,871	--	11,847	2,080	161	23,959
Recoveries of loan losses and receivables	(941,032)	--	--	(3,704)	--	(944,736)
Changes in other accrued expenses and provisions	28,013	--	13,456	5,527	--	46,996
Other impairment loss	63,193	--	805	--	--	63,998
Total	418,789	--	599,758	15,621	161	1,034,329

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira (“TL”) unless otherwise stated)

4 Segment information (continued)

4.1 Information about reportable segments (continued)

Non-cash expenses/ (income) other than depreciation (continued)

Non-cash expenses / (income) other than depreciation and amortisation for the year ended 31 December 2020 were as follows:

31 December 2020	Foreign segments		Domestic segments			Total
	Financial institutions	Other	Financial institutions	Factoring	Other	
Provision for loans and doubtful receivables	1,223,142	--	276,671	4,350	--	1,504,163
Insurance technical reserves and provisions	(43,569)	--	67,755	--	--	24,186
Provision for severance payment	37	--	11,175	815	--	12,027
Recoveries of loan losses and receivables	(314,873)	--	--	(5,547)	--	(320,420)
Changes in other accrued expenses and provisions	18,298	--	22,744	64	--	41,106
Provision for impairment of property and equipment	(507)	--	--	--	(15,384)	(15,891)
Provision for impairment of intangible assets	--	--	6,776	--	2,483	9,259
Provision for impairment of assets held for sale	6,883	--	--	--	--	6,883
Recoveries in value of financial assets measured at FVTOCI	81	--	(3,093)	--	--	(3,012)
Total	889,492	--	382,028	(318)	(12,901)	1,258,301

5 Acquisitions of subsidiaries and non-controlling interests

5.1 Acquisitions/disposal of non-controlling interests without change in control during 2021

5.1.1 Fibabanka

On 9 November 2021, Fiba Holding reduced its share in Fibabanka from 71.59% to 69.47% by selling 2,000,000 thousand shares, corresponding to 2.13% of Fibabanka shares, for TL 20,000.

5.1.2 Gelecek NPL Management

Along with its public offering, on 21 October 2021, Fiba Holding sold 13,200,000 thousand shares, corresponding to 17.73% of Gelecek NPL Management shares, for TL 180,180, reducing its share in Gelecek NPL Management from 87.63% to 69.90%.

The public offering application of Gelecek NPL Management was approved by the Capital Markets Board on 7 October 2021, its shares with a nominal value of TL 26,400 were offered to the public, and its shares began to be traded on the Borsa Istanbul on 21 October 2021. The remaining balance after the public offering expenses, TL 161,494, was recognized as share premium. In line with Fiba Holding's effective ownership ratio, share premium of TL 112,889 was recognized.

5.1.3 Fiba Pension and Life

On 30 July 2021, Fiba Holding increased its share in Fiba Pension and Life from 93.25% to 94.25% by purchasing 200 thousand shares, corresponding to 1.00% of Fiba Pension and Life shares, for TL 2,460.

5.2 Acquisitions/disposal of non-controlling interests without change in control during 2020

5.2.1 Fibabanka

On 6 May 2020, Fiba Holding increased its share in Fibabanka from 71.57% to 71.59% by purchasing 23,452 thousand shares, corresponding to 0.02% of Fibabanka shares, for TL 413.

6 Cash and balances at central banks

This item includes cash on hand and deposits with central banks in countries where the Group has operations. As at 31 December, cash and balances at central banks comprise the following:

	<u>2021</u>	<u>2020</u>
Balances at central bank	26,420,786	8,971,319
Cash on hand	1,624,771	707,818
Total	28,045,557	9,679,137
<i>Other cash and cash equivalent items</i>		
<i>included loans and receivables from banks</i>		
Bank placement with		
original maturity periods of less than three months	3,989,088	1,802,882
Reverse repo transaction	800	170,260
Other receivables from money markets	1,203,845	703,172
Other cash and cash equivalents	25,146	20,670
Total cash and cash equivalents	33,264,436	12,376,121
Restricted cash	(6,692,680)	(3,557,934)
Cash and cash equivalents in the cash flow statement	26,571,756	8,818,187

As at 31 December 2021, restricted cash consist of balances at central banks include reserve deposits amounting to TL 6,692,680 (31 December 2020: TL 3,557,934), which represents the mandatory deposit and is not available in the Group's day-to-day operations. Most of the remaining restricted cash amount consists of placements with other banks that serve as collateral for derivative transactions and not freely disposable.

7 Financial assets at fair value through profit or loss

As at December 31, financial assets at fair value through profit or loss comprised the following:

	<u>2021</u>	<u>2020</u>
<i>Financial assets held for trading</i>		
Trading loans	987,530	582,610
Investment funds	213,981	111,433
Equity Instruments – listed	77,908	--
Corporate bonds	13,397	--
Government bonds and T-Bills	1,025	26,775
Bank bonds	--	2,225
Total financial assets held for trading (*)	1,293,841	723,043
Loans to customers	294,575	327,590
Total non-trading financial assets mandatorily at FVTPL	294,575	327,590
Total	1,588,416	1,050,633

(*) As at 31 December 2021, financial assets held for trading amounting to TL 352,416 (31 December 2020: TL 162,052) are listed securities. As at 31 December 2021, there are non-listed securities amounting to TL 1,236,000 (31 December 2020: TL 888,581).

7 Financial assets at fair value through profit or loss (continued)

The movements in financial assets at fair value through profit or loss during the years ended 31 December 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
1 January	1,050,633	1,829,373
Currency translation difference	576,318	407,398
Additions	8,404,852	8,608,619
Disposals (sale and redemption)	(8,491,014)	(9,835,774)
Gain from changes in fair value	47,627	41,017
31 December	1,588,416	1,050,633

As at 31 December 2021, there are financial assets that may be pledged or resold amounting to TL 94 (31 December 2020: TL 2,796).

Gains and losses on changes in fair value of trading instruments are recognised in “Net trading income”. The Group’s exposure to credit, currency and interest rate risks related to financial assets at fair value through profit or loss is disclosed in Note 40.

8 Investment securities

As at 31 December, investment securities comprised the following:

	<u>2021</u>	<u>2020</u>
Financial assets measured at FVTOCI	13,986,306	8,559,682
Financial assets measured at amortized cost	3,489,036	1,207,902
Total	17,475,342	9,767,584

As at 31 December 2021, TL 1,966,069 of the financial investments have been pledged or resold (31 December 2020: TL 462,565). These transactions are conducted under terms that are normal and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Group acts as an intermediary.

<i>Financial assets measured at FVTOCI portfolio</i>	<u>2021</u>	<u>2020</u>
Government bonds and T-Bills	8,136,335	4,787,378
Equities-listed bonds	1,168,136	738,392
Bank bonds	1,011,573	746,472
Corporate bonds	311,121	1,230,568
Other financial assets	3,359,141	1,056,872
Total (*)	13,986,306	8,559,682

(*) TL 11,628,954 (31 December 2020: TL 7,091,769) of the total is listed securities and TL 2,357,352 (31 December 2020: TL 1,467,913) is non-listed securities.

<i>Financial assets measured at amortized cost portfolio</i>	<u>2021</u>	<u>2020</u>
Government bonds and T-Bills	3,464,217	1,194,589
Corporate bonds	24,819	13,313
Total	3,489,036	1,207,902

8 Investment securities (continued)

Financial assets measured at cost that are not traded in an active market

As at 31 December 2021 investments in equity securities amounting to TL 620 (31 December 2020: TL 2,439) are measured at cost, as these equity securities are not traded in stock exchange and have no quoted market price, and therefore their fair value cannot be reliably estimated.

The movements in investment securities during the year ended 31 December 2021 were as follows:

	<u>Financial assets measured at FVTOCI portfolio</u>	<u>Financial assets measured at amortized cost portfolio</u>
At 1 January 2021	8,559,682	1,207,902
Currency translation difference	4,635,209	696,325
Amortisation	(16,820)	--
Transfers from / (into) other financial asset classes	(19,681)	--
Additions	11,635,852	1,856,746
Disposals (sale and redemption)	(11,977,294)	(283,783)
Gains / (losses) from changes in fair value	1,169,358	11,846
At 31 December 2021	13,986,306	3,489,036

The movements in investment securities during the year ended 31 December 2020 were as follows:

	<u>Financial assets measured at FVTOCI portfolio</u>	<u>Financial assets measured at amortized cost portfolio</u>
At 1 January 2020	4,633,558	575,103
Currency translation difference	1,654,648	132,935
Amortisation	13,391	--
Additions	11,362,253	493,934
Disposals (sale and redemption)	(9,289,545)	--
Impairment losses	3,012	--
Gains / (losses) from changes in fair value	182,365	5,930
At 31 December 2020	8,559,682	1,207,902

The Group's exposure to credit, currency and interest rate risks related to investment securities is disclosed in Note 40.

9 Loans and receivables from banks

As at 31 December, loans and receivables from banks comprised the following:

	<u>2021</u>	<u>2020</u>
Placement with other banks	7,416,469	4,184,991
Loans and advances	818,936	507,118
Subtotal	8,235,405	4,692,109
Allowances for impairment (Note 11)	(5,559)	(4,152)
Total	8,229,846	4,687,957

Placement with other banks that are not available in the Group's day-to-day operations amount to TL 958,109 (31 December 2020: TL 531,541).

The Group's exposure to credit, currency and interest rate risks related to loans and receivables from banks is disclosed in Note 40.

10 Loans and receivables from customers

As at 31 December, loans and receivables from customers comprised the following:

	<u>2021</u>	<u>2020</u>
Commercial	57,685,240	39,847,085
Consumer	24,025,359	11,238,971
Credit cards	3,297,275	2,382,327
Public sector loans	1,305,588	28,663
Finance lease receivables, net of unearned interest income	922,299	454,561
Private customers	--	653
Other	266,271	1,206,516
Subtotal	87,502,032	55,158,776
Allowances for impairment	(5,121,164)	(3,890,476)
Total (*)	82,380,868	51,268,300

(*) None of these loans are subordinated.

No individual loan or receivable has terms and conditions that materially affect the amount, timing or certainty of the consolidated cash flows of the Group.

31 December 2021

	Banks	NPL management companies	Total
Loans and receivables from customers	84,098,068	3,403,964	87,502,032
Allowances for impairment	(2,888,415)	(2,232,749)	(5,121,164)
Total (*)	81,209,653	1,171,215	82,380,868

31 December 2020

	Banks	NPL management companies	Total
Loans and receivables from customers	52,435,683	2,723,093	55,158,776
Allowances for impairment	(2,472,310)	(1,418,166)	(3,890,476)
Total (*)	49,963,373	1,304,927	51,268,300

(*) NPL management companies have allocated 65.6 % of the total loans and advances they purchased as allowances for impairment (2020: 52.1%). NPL management companies are engaged in the acquisition of overdue receivables and other assets of financial institutions and other debtors, or to provide collection services to financial institutions.

The Group's exposure to credit, currency and interest rate risks related to loans and receivables from customers is disclosed in Note 40.

10 Loans and receivables from customers *(continued)*

As at 31 December, details of finance lease receivables are summarised below:

	<u>2021</u>	<u>2020</u>
Not later than 1 year	123,422	58,681
Later than 1 year and not later than 5 years	931,328	464,382
Later than 5 years	9,882	14,944
Gross lease receivables	1,064,632	538,007
Not later than 1 year	(7,889)	(4,271)
Later than 1 year and not later than 5 years	(134,338)	(78,598)
Later than 5 years	(106)	(577)
Unearned interest income	(142,333)	(83,446)
Finance lease receivables net of unearned interest income	922,299	454,561

During the years ended 31 December, movements in the allowance for impairment in finance lease receivables included in the amount of allowance for impairment were as follows:

	<u>2021</u>	<u>2020</u>
Allowance at the beginning of year	7,435	7,665
Provision for impairment	19,836	4,780
Reversal of impairment allowances no longer required	(5,687)	(2,725)
Written-off	--	(2,796)
Currency translation differences	12,566	511
Allowance at the end of year (Note 11)	34,150	7,435

11 Loan impairment charges and allowances

As at 31 December, allowance for impairment was attributable to the followings:

	<u>2021</u>	<u>2020</u>
Commercial loans	3,279,873	2,374,885
Consumer loans	1,401,652	1,151,562
Credit cards	405,489	356,594
Finance lease receivables (Note 10)	34,150	7,435
Loans to banks (Note 9)	5,559	4,152
Total of loans and receivables from banks and customers	5,126,723	3,894,628
Factoring receivables (Note 12)	27,539	74,999
Financial assets measured at FVTOCI (Note 8)	--	(3,012)
Total	5,154,262	3,966,615

11 Loan impairment charges and allowances (continued)

During the years ended 31 December, movements in allowance for impairment for loans and receivables including factoring, insurance and other receivables were as follows:

2021	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	391,520	649,178	2,925,917	3,966,615
Assets derecognised or matured (excluding written-offs)	(109,856)	(92,555)	(117,642)	(320,053)
Transfers to Stage 1	164,024	(157,285)	(6,739)	--
Transfers to Stage 2	(24,651)	34,547	(9,896)	--
Transfers to Stage 3	(5,761)	(184,812)	190,573	--
Currency translation differences	153,437	189,318	1,263,045	1,605,800
Provision for the year	33,850	471,888	1,636,162	2,141,900
Recoveries of amounts previously impaired (-)	(5,406)	(3,323)	(3,704)	(12,433)
Reversal of impairment allowances no longer required (-)	(88,184)	(91,300)	(709,729)	(889,213)
Amounts written off	(355)	(59,259)	(1,278,740)	(1,338,354)
Balance at 31 December	508,618	756,397	3,889,247	5,154,262

2021	Stage 1	Stage 2	Stage 3	Total
Consumer loans	213,371	149,841	1,038,440	1,401,652
Credit cards	20,797	25,249	359,443	405,489
Commercial loans	261,626	580,511	2,437,736	3,279,873
Finance lease receivables	7,265	796	26,089	34,150
Loans to banks	5,559	--	--	5,559
Total of loans and receivables from banks and customers (Note 9, 10)	508,618	756,397	3,861,708	5,126,723
Factoring receivables (Note 12)	--	--	27,539	27,539
Financial assets measured at FVTOCI (Note 8)	--	--	--	--
Total	508,618	756,397	3,889,247	5,154,262

2020	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	330,331	368,799	2,422,861	3,121,991
Assets derecognised or matured (excluding written-offs)	(26,096)	(11,127)	(78,184)	(115,407)
Transfers to Stage 1	56,955	(54,397)	(2,558)	--
Transfers to Stage 2	(93,163)	96,941	(3,778)	--
Transfers to Stage 3	(9,232)	(104,904)	114,136	--
Currency translation differences	41,888	54,457	217,560	313,905
Provision for the year	150,712	322,123	1,143,723	1,616,558
Recoveries of amounts previously impaired (-)	(1,810)	(1,534)	(5,547)	(8,891)
Reversal of impairment allowances no longer required (-)	(58,050)	(20,191)	(233,288)	(311,529)
Amounts written off	(15)	(989)	(649,008)	(650,012)
Balance at 31 December	391,520	649,178	2,925,917	3,966,615

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

11 Loan impairment charges and allowances (continued)

2020	Stage 1	Stage 2	Stage 3	Total
Consumer loans	114,436	80,433	956,693	1,151,562
Credit cards	15,857	10,094	330,643	356,594
Commercial loans	255,154	557,917	1,561,814	2,374,885
Finance lease receivables	1,840	734	4,861	7,435
Loans to banks	4,152	--	--	4,152
Total of loans and receivables from banks and customers (Note 9, 10)	391,439	649,178	2,854,011	3,894,628
Factoring receivables (Note 12)	--	--	74,999	74,999
Financial assets measured at FVTOCI (Note 8)	81	--	(3,093)	(3,012)
Total	391,520	649,178	2,925,917	3,966,615

During the years ended 31 December, credit loss charges comprised the followings:

	<u>2021</u>	<u>2020</u>
Provision for the year	2,141,900	1,616,558
Reversal of impairment allowances no longer required (-)	(889,213)	(311,529)
Recoveries of amounts previously written-off (-)	(43,090)	--
Recoveries of amounts previously impaired (-)	(12,433)	(8,891)
Other credit related charges	(571)	3,230
Assets derecognised or matured (excluding written-offs)	(320,053)	(115,407)
Impairment losses for financial assets measured at FVTOCI	--	3,012
Credit loss charge, net	876,540	1,186,973

In 2021, there is no credit loss charge recognised in profit or loss related to financial investments measured at FVTOCI (2020: TL 3,012)).

2021	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost	(236,383)	287,458	825,661	876,736
Loans to banks at amortized cost	(752)	--	--	(752)
Debt securities measured at FVTOCI	2,589	--	--	2,589
Credit related commitments (non-cash loans)	(420)	(1,597)	(16)	(2,033)
Credit loss charge	(234,966)	285,861	825,645	876,540

2020	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost	14,954	425,609	752,006	1,192,569
Loans to banks at amortized cost	98	--	--	98
Debt securities measured at FVTOCI	(2,524)	--	--	(2,524)
Debt securities measured at amortized cost	(144)	--	--	(144)
Credit related commitments (non-cash loans)	489	(1,621)	(1,894)	(3,026)
Credit loss charge	12,873	423,988	750,112	1,186,973

12 Factoring receivables

As at 31 December, factoring receivables comprised the following:

	<u>2021</u>	<u>2020</u>
Domestic factoring receivables	1,484,284	1,109,023
Export factoring receivables	54,143	11,181
Doubtful receivables	40,407	74,999
Factoring receivables, gross	1,578,834	1,195,203
Allowance for doubtful factoring receivables (Note 11)	(27,539)	(74,999)
Unearned income on factoring transactions	(70,313)	(39,507)
Factoring receivables, net	1,480,982	1,080,697

As at 31 December 2021, factoring receivables amounting to TL 57,994 mature over one year (31 December 2020: TL 19,117).

The Group has obtained the following collaterals for its factoring receivables at 31 December:

	<u>2021</u>	<u>2020</u>
Factoring agreement sureties	13,572,235	11,335,161
Pledged assets	1,488,544	1,333,787
Sureties	410,000	314,528
Mortgages	82,575	82,575
Commercial pledge	17,690	17,690
Securities pledge	6,000	6,000
Vehicle pledge	5,113	6,613
Other assets	1,159,482	1,210,947
Total	16,741,639	14,307,301

Movements in the allowance for doubtful factoring receivables during the years ended 31 December were as follows:

	<u>2021</u>	<u>2020</u>
Balance at 1 January	74,999	76,196
Written-off	(55,474)	--
Allowance for the year	11,718	4,350
Recoveries of amounts previously provided	(3,704)	(5,547)
Balance at 31 December	27,539	74,999

13 Derivative financial instruments

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

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

13 Derivative financial instruments *(continued)*

As at 31 December, trading and hedging portfolio derivative financial instruments were as follows:

Derivatives held for trading

	<u>2021</u>			<u>2020</u>		
	<u>Nominal amounts</u>	<u>Fair values</u>		<u>Notional amounts</u>	<u>Fair values</u>	
		<u>Assets</u>	<u>Liabilities</u>		<u>Assets</u>	<u>Liabilities</u>
<i>Interest rate derivatives</i>						
Swaps	4,791,323	44,264	(44,264)	540,474	243,789	(239,887)
Subtotal	4,791,323	44,264	(44,264)	540,474	243,789	(239,887)
<i>Currency derivatives</i>						
Swaps	20,484,251	1,071,690	(1,215,339)	17,594,045	1,374,264	(1,959,021)
Forwards	7,397,724	294,842	(887,880)	2,541,324	103,541	(117,029)
Options (purchased)	1,985,889	1,767	(250,687)	3,651,465	38,086	(223,397)
Options (sold)	(2,227,024)	269,215	(726)	(3,683,099)	230,566	(43,237)
Subtotal	27,640,840	1,637,514	(2,354,632)	20,103,735	1,746,457	(2,342,684)
Total derivatives	32,432,163	1,681,778	(2,398,896)	20,644,209	1,990,246	(2,582,571)

Derivative financial instruments held or issued for trading purpose

Most of the Group’s derivative trading activities relate to asset and liability management of the Group and deals with customers which are normally laid off with counterparties. The Group may also take positions with the expectation of profiting from favorable movements in prices, rates on indices.

Forwards and futures:

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts that transacted in the over-the-counter market. Future contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps:

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates or equity indices based on specified notional amounts.

Credit default swap:

A credit default swap (“CDS”) is a swap designed to transfer the credit risk of fixed income products from one party to the other. It is an agreement between a protection buyer and a protection seller whereby the buyer pays a periodic fee in return for a contingent payment by the seller upon a credit event (such as a certain default) happening in the reference entity.

Options:

Options are contractual agreements that convey the right, but not the obligation for the purchaser, either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

13 Derivative financial instruments *(continued)*

Derivatives held for risk management

Derivatives in economic hedge relationship

The Group uses swaps to hedge the economic risk. As at 31 December, the fair value of derivatives in economic hedge relationship are as follows:

	Fair values			Fair values		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	2021			2020		
Instrument type:						
Interest rate swaps	105,697	2,429	(2,429)	63,344	--	--
Foreign currency swaps	19,037,273	588,609	(803,200)	14,785,969	344,203	(70,714)
Forwards	4,344,200	13,910	(10,983)	860,159	581	(7,818)
Subtotal	23,487,170	604,948	(816,612)	15,709,472	344,784	(78,532)

Fair value hedges

The Group uses forwards and swaps to hedge the interest rate risk. As at 31 December, the fair value of derivatives designated as fair value hedges are as follows:

	Fair values			Fair values		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	2021			2020		
Instrument type:						
Interest rate forwards and swaps	6,900,853	4,119	(513)	5,243,796	83,605	(79,486)
Foreign exchange forwards and swaps	265,933	1,946	(1)	222,396	1,693	--
Subtotal	7,166,786	6,065	(514)	5,466,192	85,298	(79,486)

During 2021, no loss relating to the ineffective portion of fair value hedges was recognised in profit or loss (2020: None).

The Group uses forwards and swaps to hedge the foreign currency translation risk on its net investment in foreign subsidiaries. The fair value of derivatives designated as fair value hedges are as follows:

	<u>2021</u>		
	<u>Notional</u>	<u>Asset</u>	<u>Liabilities</u>
Used for micro hedge			
Interest rate swaps	6,900,853	4,119	(513)
Foreign currency swaps	265,933	1,946	(1)
Total	7,166,786	6,065	(514)

	<u>2020</u>		
	<u>Notional</u>	<u>Asset</u>	<u>Liabilities</u>
Used for micro hedge			
Interest rate swaps	5,243,796	83,605	(79,486)
Foreign currency swaps	222,396	1,693	--
Total	5,466,192	85,298	(79,486)

13 Derivative financial instruments *(continued)*

Net investment hedges

The Group uses forwards and swaps to hedge the foreign currency translation risk on its net investment in foreign subsidiaries. The fair value of derivatives designated as net investment hedges are as follows:

	Fair values			Fair values		
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	2021			2020		
Instrument type:						
Currency swaps	5,225,520	47,040	(116,666)	2,850,955	6,700	(24,222)
Subtotal	5,225,520	47,040	(116,666)	2,850,955	6,700	(24,222)

Cash flow hedges

The Group uses cross-currency swaps to hedge the exposure to variability in the foreign currency risk arising from foreign currency denominated borrowing and debt securities issued.

The fair value of derivatives designated as cash flow hedge is as follows:

The table below shows the fair value of derivative financial instruments recorded as assets and liabilities.

	2021		2020	
	Assets	Liabilities	Assets	Liabilities
Derivatives designed as				
Held for trading	1,681,778	(2,398,896)	1,990,246	(2,582,571)
Derivatives in economic hedge relationship	604,948	(816,612)	344,784	(78,532)
Net investment hedges	47,040	(116,666)	6,700	(24,222)
Fair value hedges	6,065	(514)	85,298	(79,486)
Total	2,339,831	(3,332,688)	2,427,028	(2,764,811)

13 Derivative financial instruments *(continued)*

The tables below shows carrying amount of and accumulated amount of fair value adjustments on hedged items;

	<i>2021</i>			
	<u>Carrying amount of hedged items</u>		<u>Accumulated amount of fair value adjustments on hedged items</u>	
	<u>Asset</u>	<u>Liability</u>	<u>Asset</u>	<u>Liability</u>
Fixed rate corporate loans	168,081	--	--	(88,861)
Fixed rate FVOCI debt instruments	1,817,947	--	--	(44,249)
Fixed rate subordinated liabilities	--	(2,407,596)	--	(44,807)
Total micro fair value hedge	1,986,028	(2,407,596)	--	(177,917)
Fixed rate customer deposits	--	(2,397,231)	--	(5,009)
Total portfolio fair value hedge	--	(2,397,231)	--	(5,009)
Total fair value hedge	1,986,028	(4,804,827)	--	(182,926)

	<i>2020</i>			
	<u>Carrying amount of hedged items</u>		<u>Accumulated amount of fair value adjustments on hedged items</u>	
	<u>Asset</u>	<u>Liability</u>	<u>Asset</u>	<u>Liability</u>
Fixed rate corporate loans	263,364	--	--	(39,121)
Fixed rate FVOCI debt instruments	1,523,353	--	20,664	--
Fixed rate subordinated liabilities	--	(1,327,828)	--	(57,948)
Total micro fair value hedge	1,786,717	(1,327,828)	20,664	(97,069)
Fixed rate customer deposits	--	(1,448,191)	--	--
Total portfolio fair value hedge	--	(1,448,191)	--	--
Total fair value hedge	1,786,717	(2,776,019)	20,664	(97,069)

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

13 Derivative financial instruments (continued)

The tables below show changes in the fair value of the hedged items and hedging instruments;

31 December 2021		Gains /(losses) attributable to the hedged risk		
		Hedged items	Hedging instruments	Hedge ineffectiveness
Micro fair value hedge relationships				
Hedged items		Hedging instruments		
	Interest rate swaps	(619)	634	15
Fixed rate corporate loans	Foreign currency contracts	(22,721)	21,846	(875)
Fixed rate FVOCI debt instruments	Interest rate swaps	(79,069)	80,382	1,313
Fixed rate subordinated liabilities	Interest rate swaps	45,547	(57,088)	(11,541)
Total		(56,862)	45,774	(11,088)
Portfolio fair value hedge relationships				
Hedged items		Hedging instruments		
Fixed rate customer deposits	Interest rate swaps	10,455	(12,537)	(2,082)
Total		10,455	(12,537)	(2,082)
Total fair value hedge relationships		(46,407)	33,237	(13,170)
31 December 2020		Gains /(losses) attributable to the hedged risk		
		Hedged items	Hedging instruments	Hedge ineffectiveness
Micro fair value hedge relationships				
Hedged items		Hedging instruments		
	Interest rate swaps	(685)	721	36
Fixed rate corporate loans	Foreign currency contracts	(24,547)	20,484	(4,063)
Fixed rate FVOCI debt instruments	Interest rate swaps	13,106	(20,169)	(7,063)
Fixed rate subordinated liabilities	Interest rate swaps	(24,556)	21,466	(3,090)
Total		(36,682)	22,502	(14,180)
Portfolio fair value hedge relationships				
Hedged items		Hedging instruments		
Fixed rate customer deposits	Interest rate swaps	(2,180)	2,045	(135)
Total		(2,180)	2,045	(135)
Total fair value hedge relationships		(38,862)	24,547	(14,315)

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

13 Derivative financial instruments (continued)

The tables below show fair value hedge - remaining contractual maturities of hedging instruments - notional amounts;

31 December 2021							
Hedged items	Hedging instruments	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Fixed rate corporate loans	Interest rate swaps	--	--	--	--	--	--
	Foreign currency contracts	--	--	218,259	47,674	--	265,933
Fixed rate FVOCI debt instruments	Interest rate swaps	--	--	--	--	1,971,817	1,971,817
Fixed rate subordinated liabilities	Interest rate swaps	--	--	--	2,392,705	--	2,392,705
Fixed rate customer deposits	Interest rate swaps	--	--	--	2,536,331	--	2,536,331
Total		--	--	218,259	4,976,710	1,971,817	7,166,786

31 December 2020							
Hedged items	Hedging instruments	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Fixed rate corporate loans	Interest rate swaps	--	--	81,071	--	--	81,071
	Foreign currency contracts	--	--	86,188	136,208	--	222,396
Fixed rate FVOCI debt instruments	Interest rate swaps	--	--	--	104,402	2,223,942	2,328,344
Fixed rate subordinated liabilities	Interest rate swaps	--	--	--	1,320,000	--	1,320,000
Fixed rate customer deposits	Interest rate swaps	--	--	--	1,514,381	--	1,514,381
Total		--	--	167,259	3,074,991	2,223,942	5,466,192

The tables below show net investment hedge - hedged item;

31 December 2021			
Investments in subsidiaries functional currency of which is	Change in fair value of hedged item for ineffectiveness assessment	Translation reserve	Balances remaining in the translation reserve for hedge accounting is no longer applied
USD	25,104	29,208	--
RON	10,696	(46,618)	--
UAH	483	18,376	--
TRY	(16,294)	(73,336)	--
CHF	82,554	87,699	--
Total	102,543	15,329	--

31 December 2020			
Investments in subsidiaries functional currency of which is	Change in fair value of hedged item for ineffectiveness assessment	Translation reserve	Balances remaining in the translation reserve for hedge accounting is no longer applied
USD	(71,586)	(39,554)	--
RON	27,024	(28,843)	--
UAH	22,150	(27,096)	--
TRY	(6,936)	(7,585)	--
CHF	22,277	5,270	--
Total	(7,071)	(97,808)	--

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

13 Derivative financial instruments (continued)

The tables below show net investment hedge - hedging instruments and hedge effectiveness;

31 December 2021							
Macro net investment hedges	Notional amount	Assets	Liabilities	Effective portion recognized in OCI	Hedge ineffectiveness recognized in income statement	Reclassified into income statement	Total
USD	305,506	678	31	--	--	--	--
RON	2,699,659	21,363	23,128	--	--	--	--
UAH	60,347	287	603	--	--	--	--
TRY	193,215	29,298	18,753	--	--	--	--
CHF	1,966,793	(4,586)	74,151	--	--	--	--
Total	5,225,520	47,040	116,666	--	--	--	--

31 December 2020							
Macro net investment hedges	Notional amount	Assets	Liabilities	Effective portion recognized in OCI	Hedge ineffectiveness recognized in income statement	Reclassified into income statement	Total
USD	203,028	2,691	126	--	--	--	--
RON	1,518,426	4,369	25,447	--	--	--	--
CHF	1,129,501	(360)	(1,351)	--	--	--	--
Total	2,850,955	6,700	24,222	--	--	--	--

31 December 2021						
Hedging instruments	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
USD	305,506	--	--	--	--	305,506
RON	776,995	1,234,228	688,436	--	--	2,699,659
UAH	60,347	--	--	--	--	60,347
TRY	14,815	122,277	56,123	--	--	193,215
CHF	677,529	843,769	445,495	--	--	1,966,793
Total	1,835,192	2,200,274	1,190,054	--	--	5,225,520

31 December 2020						
Hedging instruments	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
USD	--	--	203,028	--	--	203,028
RON	232,016	608,916	677,494	--	--	1,518,426
CHF	453,692	341,480	334,329	--	--	1,129,501
Total	685,708	950,396	1,214,851	--	--	2,850,955

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

14 Investments in equity accounted investees

At 31 December, the Group holds equity investments in the following companies:

	2021		2020	
<i>Investments in equity accounted investees</i>	<i>% of ownership</i>	<i>Carrying amount</i>	<i>% of ownership</i>	<i>Carrying amount</i>
Cirus Holding B.V. ("Cirus Holding") (*)	50.00	34,398	50.00	37,095
Ikano Finance Holding B.V. ("Ikano") (**)	50.00	--	50.00	18,700
Other		--		1,126
<i>Investments in equity accounted investees</i>		34,398		56,921

(*) Cirus Holding is a joint venture entity, in which both the Group and Ikano S.A. holds 50% of the shares. The company is established as parent company of a separate bank in Russia.

(**) Ikano is a holding company which through its wholly owned Russian based subsidiary cooperates with CEB Russia in providing financial services and co-branded cards to the retail customers of IKEA and MEGA in Russia.

Summary financial information for the main equity accounted investees, not adjusted for the percentage ownership held by the Group:

31 December 2021	Country	Reporting date	Total assets	Total liabilities	Income	Expenses	Profit/(loss)
Cirus Holding	The Netherlands	31 December	777,286	697,882	66,763	142,563	(75,800)
Ikano	The Netherlands	31 December	8,692	5,783	3,602	47,203	(43,601)
Total			785,978	703,665	70,365	189,766	(119,401)

31 December 2020	Country	Reporting date	Total assets	Total liabilities	Income	Expenses	Profit/(loss)
Cirus Holding	The Netherlands	31 December	273,693	210,701	52,226	66,362	(14,136)
Ikano	The Netherlands	31 December	9,137	5,176	2,748	4,896	(2,148)
Gefirus (*)	France	31 December	--	--	--	--	(67,237)
Total			282,830	215,877	54,974	71,258	(83,521)

(*) Gefirus is sold to third party on 30 December 2020.

For 2021 and 2020, the movements of participating interests of the Group in the equity accounted investees were as follows:

	1 January 2021	Foreign currency translation differences	Profit / (loss) for the year	Capital increase	Disposals	31 December 2021
Cirus Holding	37,095	20,857	(37,900)	14,346	--	34,398
Ikano	18,700	3,100	(21,800)	--	--	--
Gefirus	--	--	--	--	--	--
Other	1,126	760	--	--	(1,886)	--
Total	56,921	24,717	(59,700)	14,346	(1,886)	34,398

	1 January 2020	Foreign currency translation differences	Profit / (loss) for the year	Capital increase	Disposal	31 December 2020
Cirus Holding	42,883	1,280	(7,068)	--	--	37,095
Ikano	15,137	4,637	(1,074)	--	--	18,700
Gefirus	24,175	5,233	(26,895)	--	(2,513)	--
Other	997	354	--	--	(225)	1,126
Total	83,192	11,504	(35,037)	--	(2,738)	56,921

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

15 Property and equipment

Movements in property and equipment and related depreciation during the year ended 31 December 2021 were as follows:

	<u>Lands</u>	<u>Buildings</u>	<u>Furniture & fixture</u>	<u>Vehicles and vessels</u>	<u>Leasehold improvements</u>	<u>Total</u>
Balance at 1 January 2021	212,956	627,368	247,295	552,037	29,125	1,668,781
Additions	--	152,379	109,323	147,149	133,545	542,396
Disposals	--	(124,098)	(70,723)	(48,293)	(1,953)	(245,067)
Depreciation	--	(108,895)	(73,726)	(66,508)	(10,685)	(259,814)
Currency translation differences	143,709	295,790	131,217	426,224	13,080	1,010,020
Balance at 31 December 2021	356,665	842,544	343,386	1,010,609	163,112	2,716,316
Cost	356,665	1,926,398	1,656,129	1,303,377	354,030	5,596,599
Accumulated depreciation and impairment	--	(1,083,854)	(1,312,743)	(292,768)	(190,918)	(2,880,283)
Balance at 31 December 2021	356,665	842,544	343,386	1,010,609	163,112	2,716,316

Movements in property and equipment and related depreciation during the year ended 31 December 2020 were as follows:

	<u>Lands</u>	<u>Buildings</u>	<u>Furniture & fixture</u>	<u>Vehicles and vessels</u>	<u>Leasehold improvements</u>	<u>Total</u>
Balance at 1 January 2020	200,099	673,284	200,612	330,564	22,064	1,426,623
Additions	--	123,337	88,348	261,331	19,143	492,159
Disposals	(49,294)	(122,571)	(4,353)	(36,517)	(5,729)	(218,464)
Reversal of impairment losses	--	15,891	--	--	--	15,891
Depreciation	--	(121,593)	(74,502)	(49,223)	(8,486)	(253,804)
Currency translation differences	62,151	59,020	37,190	45,882	2,133	206,376
Balance at 31 December 2020	212,956	627,368	247,295	552,037	29,125	1,668,781
Cost	212,956	1,037,567	1,022,735	689,650	178,526	3,141,434
Accumulated depreciation and impairment	--	(410,199)	(775,440)	(137,613)	(149,401)	(1,472,653)
Balance at 31 December 2020	212,956	627,368	247,295	552,037	29,125	1,668,781

As at 31 December 2021, the Group's net right of use in the consolidated financial statements is TL 443,760 (31 December 2020: TL 357,692) and the net lease liability is TL 487,176 (31 December 2020: TL 319,785).

The Group does not have any restrictions on title, and property and equipment pledged as security for liabilities (31 December 2020: None).

As at 31 December 2021 and 2020, furniture and fixture acquired through finance lease contracts are fully depreciated and the net carrying amount of buildings acquired through finance lease contracts is 1,687 TL (31 December 2020: TL 1,738).

The Group does not have any contractual commitments for the acquisition of property and equipment.

16 Intangible assets

Movements in the intangible assets and related amortisation during the year ended 31 December 2021 were as follows:

	<u>Goodwill</u>	<u>Patent & Licenses</u>	<u>Other intangibles</u>	<u>Total</u>
Balance at 1 January 2021	--	180,016	46,540	226,556
Additions	--	114,368	15,839	130,207
Disposals	--	(1,508)	(16)	(1,524)
Amortisation	--	(75,403)	(18,146)	(93,549)
Currency translation differences	--	40,470	35,923	76,393
Impairment losses	--	--	--	--
Balance at 31 December 2021	--	257,943	80,140	338,083
Cost	--	962,036	352,640	1,314,676
Accumulated amortisation	--	(704,093)	(272,500)	(976,593)
Balance at 31 December 2021	--	257,943	80,140	338,083

Movements in the intangible assets and related amortisation during the year ended 31 December 2020 were as follows:

	<u>Goodwill</u>	<u>Patent & Licenses</u>	<u>Other intangibles</u>	<u>Total</u>
Balance at 1 January 2020	9,259	142,728	45,787	197,774
Additions	--	87,522	17,383	104,905
Disposals	--	(30,251)	(96)	(30,347)
Amortisation	--	(31,370)	(17,985)	(49,355)
Currency translation differences	--	11,387	1,451	12,838
Impairment losses	(9,259)	--	--	(9,259)
Balance at 31 December 2020	--	180,016	46,540	226,556
Cost	--	602,764	192,359	795,123
Accumulated amortisation	--	(422,748)	(145,819)	(568,567)
Balance at 31 December 2020	--	180,016	46,540	226,556

The Group does not have any intangible assets whose title is restricted (31 December 2020: None).

There are no intangible assets pledged as security for liabilities (31 December 2020: None). During 2021 and 2020, there were no contractual commitments for the acquisition of intangible assets.

17 Investment property

Movements in the investment property during the years ended 31 December were as follows:

	<u>2021</u>	<u>2020</u>
Balance at 1 January	178,496	173,636
Additions	80	249
Depreciation	(2,529)	(2,531)
Currency translation differences	23,887	7,142
Balance at 31 December	199,934	178,496

There is a pledge on the investment property amounting to TL 225,000 (31 December 2020: TL 225,000).

As at 31 December 2021 and 2020, the Group obtained independent appraisal reports for each item of investment property and measured them at their fair values. Fair value of the investment properties is calculated by using the discounted cash flow method and a peer comparison by independent appraisal.

Peer comparison method determines recently listed or sold properties in market and takes into consideration of other factors for the adjustment of value based on size of land of property with current condition and location. For current market outlook the appraisers contact with the property sale intermediaries.

Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary), tenant credit quality and lease terms.

In accordance with the independent appraisal report obtained by the Group, the average value (the average of the values determined by using peer comparison method and discounted cash flows method, respectively) of the building of Ofishane is TL 414,385 (31 December 2020: TL 373,385) in accordance with the valuation performed by the independent appraisal. The fair value of investment properties owned by CEG, the foreign consolidated subsidiary of the Group, is TL 43,088 (31 December 2020: TL 24,294). The fair value of investment properties owned by Fiba Factoring is TL 53,545 (31 December 2020: TL 49,125).

Fair value information for all investment property within the scope of IFRS 13 based on fair value hierarchy are as follows:

<u>2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment property	--	--	511,018	511,018
Total	--	--	511,018	511,018

<u>2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment property	--	--	446,804	446,804
Total	--	--	446,804	446,804

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira (“TL”) unless otherwise stated)

18 Other assets

As at 31 December, other assets comprised the following:

	<u>2021</u>	<u>2020</u>
Premium and other insurance receivables, net	4,204,722	2,929,292
Receivables from related parties (Note 39)	1,804,106	692,537
Repossessed assets classified as inventories	723,287	459,043
Materials and supplies	540,570	251,731
Assets held for sale (*)	349,655	314,958
Deferred acquisition costs arising from insurance business	340,815	277,492
Check clearance balance	281,649	123,046
POS, debit card, credit card and ATM related receivables	256,338	203,993
Prepayments and advance payments to suppliers	170,979	126,793
Receivables from National Bank	94,428	167,084
Unfinished settlements	90,147	66,552
Current tax assets	68,985	36,178
Deposits and guarantees given from third parties	54,568	32,863
Receivables from tax authorities	14,167	7,855
Value Added Tax (“VAT”) receivables	4,006	12,597
Other	661,553	671,182
Total	9,659,975	6,373,196

(*) Assets held for sale represent ships and residential real estates transferred to the Group which were previously held as collateral against the loans and receivables from the customers.

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

19 Due to banks

As at 31 December, due to banks comprised the following deposits from banking institutions:

	<u>2021</u>	<u>2020</u>
Time deposits	17,138,622	5,589,340
Current accounts	591,998	412,397
Total	17,730,620	6,001,737

As at 31 December 2021, repo transactions amounting to TL 2,678,810 are included in time deposits (31 December 2020: TL 1,072,725).

The Group's exposure to liquidity, currency and interest rate risks related to due to banks is disclosed in Note 40.

20 Due to customers

As at 31 December, due to customers comprised the following deposits from the followings:

	<u>2021</u>	<u>2020</u>
Consumer and corporate time and demand deposits	92,185,054	53,693,494
Total	92,185,054	53,693,494

As at 31 December 2021, TL 541,115 (31 December 2020: TL 403,024) of the customer deposits balances were blocked by the Group as collateral for loans and off-balance sheet credit instruments granted by the Group.

The Group's exposure to liquidity, currency and interest rate risks related to due to customers is disclosed in Note 40.

21 Issued debt securities

As at 31 December 2021, issued debt securities comprised the following:

Principal amount (in thousands)	Original currency	Opening date	Maturity date	Interest rate (%)	Amount
278,633	TL	2021	2022	17.50-19.10	272,037
5,065,000	RUB	2019-2021	2022	6.50-9.00	905,857
193,567	USD	2018-2021	2022-2023	0.50-6.00	2,646,315
					3,824,209

As at 31 December 2020, issued debt securities comprised the following:

Principal amount (in thousands)	Original currency	Opening date	Maturity date	Interest rate (%)	Amount
5,067,564	RUB	2018-2020	2021-2022	4.00-9.25	502,617
196,661	USD	2018	2023	6.00	1,480,900
					1,983,517

The Group did not have any defaults of principal, interest or other breaches with respect to its debt securities during years ended 31 December 2021 and 2020.

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

22 Funds borrowed

As at 31 December, funds borrowed comprised the following:

2021	Original amount	Interest rate (%)	TL amount		
			Up to 1 year	1 year and over	Total funds borrowed
Currency	(in thousands)				
<u>Secured</u>					
TL	2,181,909	10.85-31.00	2,134,410	47,499	2,181,909
USD	54,491	5.50-6.25	229,754	496,553	726,307
EUR	148,157	(1.00)-5.25	448,621	1,786,582	2,235,203
<u>Unsecured</u>					
TL	698,795	15.00-30.45	698,795	--	698,795
USD	6,379	0.73-2.47	85,022	--	85,022
EUR	28,183	1.90-2.75	333,962	91,222	425,184
Total			3,930,564	2,421,856	6,352,420

2020	Original amount	Interest rate (%)	TL amount		
			Up to 1 year	1 year and over	Total funds borrowed
Currency	(in thousands)				
<u>Secured</u>					
TL	2,250,451	8.75-21.00	1,994,272	256,179	2,250,451
USD	130,346	0.33-6.25	782,469	174,338	956,807
EUR	139,039	(1.00)-5.62	33,185	1,219,266	1,252,451
<u>Unsecured</u>					
TL	541,210	7.25-18.90	541,210	--	541,210
USD	106,399	0.50-5.06	781,024	--	781,024
EUR	42,116	1.90-3.00	125,715	253,661	379,376
Total			4,257,875	1,903,444	6,161,319

As at 31 December, redemption schedule of the funds borrowed is as follows:

	31 December 2021	31 December 2020
Less than 3 months	1,426,652	2,374,478
Between 3-12 months	2,503,912	1,883,397
Between 1-5 years	2,419,581	1,875,383
More than 5 years	2,275	28,061
Total	6,352,420	6,161,319

23 Provisions

As at 31 December, provisions were as follows:

	<u>2021</u>	<u>2020</u>
Reserve for employee severance indemnity	46,826	25,700
Other provisions	240,544	180,524
Total	287,370	206,224

For the years ended 31 December, movements in the reserve for employee severance payments were as follows:

	<u>2021</u>	<u>2020</u>
Balance at the beginning of the year	25,700	19,862
Provision for the year	23,959	12,027
Currency translation differences	4,964	265
Paid during the year	(7,797)	(6,454)
Balance at the end of the year	46,826	25,700

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

For the years ended 31 December, movements in the other provisions were as follows:

	<u>2021</u>	<u>2020</u>
Balance at the beginning of the year	180,524	149,339
Provision for the year	60,911	44,843
Currency translation differences	57,144	26,191
Paid during the year	(15,909)	(22,091)
Reversal	(42,126)	(17,758)
Balance at the end of the year	240,544	180,524

24 Other liabilities

As at 31 December, other liabilities comprised the following:

	<u>2021</u>	<u>2020</u>
Insurance contract liabilities from insurance activities	4,129,656	2,865,487
Lease payables	487,176	319,785
Insurance technical reserve from insurance activities	463,448	344,923
Check clearance account	447,499	196,614
Cash collaterals received	441,114	116,723
Payables to related parties (Note 39)	322,848	26,384
Accrued expenses	214,467	60,466
Unfinished settlements (*)	189,093	26,023
Taxes and duties payable other than on income	171,576	78,874
Advances from customers	135,991	218,631
Other	750,404	285,730
Total	7,753,272	4,539,640

(*) This liability relates to ongoing payment orders in banking subsidiaries that are not settled as at reporting date.

25 Subordinated liabilities

Issued liabilities qualify as subordinated debt if claims by the holders are subordinated to all other current and future liabilities of, respectively, the Group and other Group companies.

As at 31 December, subordinated liabilities comprised the following:

Principal amount (in thousands)	Original currency	Opening date	Maturity date	2021	2020
50,000 ^(a)	USD	18 December 2017	18 December 2022	666,862	368,018
17,000 ^(b)	USD	28 June 2013	Perpetual contract	222,861	125,525
30,000 ^(c)	USD	31 December 2019	Perpetual contract	399,981	220,275
150,000 ^(d)	USD	22 November 2017 24 March 2016 /	9 November 2027	2,001,839	1,099,648
249,134 ^(e)	USD	10 May 2017	24 November 2027	3,390,167	1,907,324
				6,681,710	3,720,790

^(a) Additional Tier I loan with a fixed interest rate of 8.95% per annum.

^(b) Tier II loan with a fixed interest rate of 12.81% per annum.

^(c) Loan with a variable interest rate of Libor+10.00% per annum.

^(d) Subordinated notes with a fixed interest rate of 7.25% per annum.

^(e) The interest will be paid at a rate of 7.75% until the date of the repayment option, beyond at the current 5-year mid-swap rate + 5.758%.

The Group has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during the years ended 31 December 2021 and 2020.

Fiba Holding Anonim Şirketi and its Subsidiaries

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2021

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

26 Capital and reserves

26.1 Share capital

As at 31 December 2021, the paid in capital of Fiba Holding amounted to TL 2,000,000 (31 December 2020: TL 2,000,000) in the consolidated financial statements.

The paid in of Fiba Holding comprises 200,000,000,000 shares (31 December 2020: 200,000,000,000 shares) of TL 0.01 each.

As at 31 December, the shareholding structure of Fiba Holding based on the number of shares is presented below:

	<u>2021</u>		<u>2020</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
	<u>of shares</u>		<u>of shares</u>	
Hüsnü M. Özyeğin	187,087,208,500	90.04	187,087,208,500	90.04
Fiba Holding (Note 26.6)	19,899,321,695	9.95	19,899,321,695	9.95
Others	13,469,805	0.01	13,469,805	0.01
	200,000,000,000	100.00	200,000,000,000	100.00

26.2 Fair value reserves

The fair value reserve includes the cumulative net change in the fair value of financial assets at fair value through other comprehensive income investments, excluding impairment losses, until the investment is derecognised or impaired.

26.3 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the Group's net investments in foreign operations hedges and cash flow hedges.

26.4 Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into TL.

26.5 Legal reserves

The legal reserves, included in retained earnings, are generated by annual appropriations amounting to 5% of income disclosed in the Group's statutory accounts until it reaches 20% of paid in share capital (first legal reserve). Without limit, a further 10% of dividend distributions in excess of 5% of paid in capital is to be appropriated to increase legal reserves (second legal reserve). The first legal reserve is restricted and is not available for distribution as dividend unless it exceeds 50% of share capital. In the accompanying consolidated financial statements, the total of the legal reserves of the consolidated entities amounted to TL 261,320 as at 31 December 2021 (31 December 2020: TL 183,385).

According to the exemption of gains on sales of subsidiaries, 75% of gains on sales of subsidiaries are recognised under "Legal reserves" amounting to TL 492,016 (31 December 2020: TL 492,016) as a result of sales of subsidiaries in the past.

On 14 October 2012 and 22 July 2016, the Group repurchased its own shares representing 7.32% and 2.625% of shares for a consideration of TL 364,843 and TL 123,375, respectively. The consideration amounting to TL 488,218, which is paid fully, has been recognised in reserve for own shares under equity in the accompanying consolidated financial statements. In addition, in accordance with the related legislation, the same amount of the repurchased shares is reclassified as reserves regarding repurchased shares to "Legal reserves".

26 Capital and reserves (continued)

26.6 Reserve for own shares

On 14 October 2012 and 22 July 2016, the Group repurchased its own shares representing 7.32% and 2.62% of all shares for a consideration of TL 364,843 and TL 123,375, respectively. The consideration amounting to TL 488,218 which is paid fully has been recognised in "Reserve for own share" under the equity in the accompanying consolidated financial statement.

26.7 Non-controlling interests

For the years ended 31 December, movements of the non-controlling interests were as follows:

	<u>2021</u>	<u>2020</u>
Balance at the beginning of the year	1,951,494	1,742,335
Non-controlling interest portion of changes in translation reserve	948,954	135,946
Non-controlling interest portion of profit for the year	356,196	73,612
Non-controlling interest portion of changes in fair value reserve	283,990	1,442
Sales to / (purchases from) non-controlling interests	113,406	917
Non-controlling interest portion of share issuance premium due to share capital increase in consolidated subsidiary	48,605	--
Net investment hedge reserve on changes in the share of non-controlling interest	(6,320)	485
Dividend distribution to non-controlling interests	(47,717)	(3,243)
Balance at the end of the year	3,648,608	1,951,494

26.8 Dividend

In 2021, CEB Russia, Gelecek NPL Management, Fiba Factoring and Fiba Pension and Life's total dividend payment amounting to TL 47,717 is recognized as disposal of non-controlling interests.

In 2020, Gelecek NPL Management's dividend payment amounting to TL 3,243 is recognized as disposal of non-controlling interests.

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

27 Net interest income

For the years ended 31 December, net interest income comprised the following:

	<u>2021</u>	<u>2020</u>
<i>Interest income</i>		
Loans and receivables from customers	6,511,237	4,568,561
Loans and receivables from banks	318,083	135,463
Factoring receivables	251,407	144,253
Investment securities	248,582	162,580
Derivative financial instruments	127,266	148,882
Interest on financial lease	75,608	60,209
Financial assts at fair value through profit or loss	58,425	49,594
Cash and balances at central banks	49,937	81,315
Non-trading financial assets mandatorily at fair value through profit or loss	4,479	6,390
Other	84,019	13,792
Interest and similar income	7,729,043	5,371,039
<i>Interest expense</i>		
Due to customers	(2,523,734)	(1,493,671)
Funds borrowed	(505,840)	(416,789)
Subordinated liabilities	(303,012)	(254,410)
Issued debt securities	(247,688)	(170,437)
Due to banks	(216,893)	(73,212)
Interest expense on lease liabilities	(32,984)	(33,058)
Derivative financial instruments	--	(196,455)
Other	(619,938)	(214,811)
Interest expense and similar charges	(4,450,089)	(2,852,843)
Net interest income	3,278,954	2,518,196

28 Net fee and commission income

For the years ended 31 December, net fee and commission income comprised the following:

	<u>2021</u>	<u>2020</u>
<i>Fee and commission income</i>		
Credit cards	679,107	452,363
Insurance related commissions	458,717	257,115
Letters of credit	131,209	53,834
Cash loans	108,210	62,596
Payment and transaction services fees	45,458	33,630
Letters of guarantee	43,517	24,783
Portfolio and other management fees	39,461	36,245
Foreign exchange transactions	8,044	11,164
Cash withdrawal fees	7,585	10,500
Other fee and commission income (*)	157,671	98,608
Fee and commission income	1,678,979	1,040,838
<i>Fee and commission expense</i>		
Credit card fees	(610,389)	(370,040)
Fees paid by insurance companies on insurance activities	(382,425)	(276,395)
Insurance related fees	(89,954)	(74,762)
Commission paid to intermediaries/retailers	(30,501)	(27,052)
Payment and transaction service expenses	(27,578)	(21,136)
Collection operation fees	(6,309)	(7,717)
Account maintenance fees	(5,951)	(4,103)
Other fee and commission expense (*)	(91,536)	(44,595)
Fee and commission expense	(1,244,643)	(825,800)
Net fee and commission income	434,336	215,038

(*) Other fees and commission income includes factoring related commissions, commissions on funds transfer and fiduciary transactions, custody charges, fees from collection services given and commissions on option transactions.

29 Net trading income / (expense)

For the years ended 31 December, net trading income / (expense) comprised the following:

	<u>2021</u>	<u>2020</u>
Foreign exchange gains/(losses), net	980,952	(14,787)
Net gain on financial assets at fair value through profit or loss	60,546	59,149
Securities	45,761	11,851
Net gain on financial assets at mandatorily fair value through profit or loss	11,839	(15,176)
Derivatives	(931,927)	166,155
Total	167,171	207,192

30 Results from financial transactions

For the years ended 31 December, results from financial transactions comprised the following:

	<u>2021</u>	<u>2020</u>
Net gain on sale / disposal of financial assets at fair value through other comprehensive income investments	704,840	157,306
Dividend income	20,402	9,205
Net gain/(loss) from the disposal of financial assets measured at amortized cost	--	916
Other	1,651	9,061
Total	726,893	176,488

Gain on sale / disposal of financial assets at FVTOCI includes the amounts transferred from fair value reserve under equity to profit or loss on the derecognising of financial assets at fair value through other comprehensive income investments.

31 Other operating income

For the years ended 31 December, other operating income comprised the following:

	<u>2021</u>	<u>2020</u>
Net premium revenue from insurance activities	517,611	400,908
Revenue from shipbuilding activities	406,680	170,482
Income from operational leasing activities	169,071	136,481
Income from loan sales	143,199	75,355
Shipping charter and freight income	86,836	17,911
Gain on sales of assets held for sale	66,934	16,843
Income from insurance recoveries	1,806	3,273
Gain on sale of property and equipment	125	130,896
Sale of inventory property	--	3,919
Other income	180,695	224,339
Total	1,572,957	1,180,407

32 Personnel expenses

For the years ended 31 December, personnel expenses comprised the following:

	<u>2021</u>	<u>2020</u>
Wages and salaries	1,198,708	913,051
Social security and federal budget payments	132,344	100,249
Retirement benefit costs	81,609	56,119
Other employee expenses	155,124	117,480
Total	1,567,785	1,186,899

For the year ended 31 December 2021, retirement benefits costs amounting to TL 81,609 (31 December 2020: TL 56,119) includes a defined benefit plan cost amounting to TL 30,070 (31 December 2020: TL 15,683). As at 31 December 2021 and 2020, the Group has no defined contribution program.

The assets of the schemes are held separately from those of the Group in funds under the control of insurance companies.

33 General and administrative expenses

For the years ended 31 December, general and administrative expenses comprised the following:

	<u>2021</u>	<u>2020</u>
Consultancy expenses and professional fees	210,436	150,211
Taxes other than on income	123,297	87,974
Information technology expenses	120,748	88,165
Communication and information expenses	110,498	81,577
Rent and maintenance expenses	60,493	56,303
Stationary, office supplies and printing expense	24,309	22,305
Travel and transport expenses	16,186	15,951
Security expenses	10,770	9,420
Other	244,723	185,489
Total	921,460	697,395

34 Other operating expenses

For the years ended 31 December, other operating expenses comprised the following:

	<u>2021</u>	<u>2020</u>
Cost of sale from shipbuilding activities	386,477	159,719
Vessels running costs	157,865	32,328
Loss on sale of NPL portfolio	105,888	--
Net claims from insurance activities	104,592	61,128
Operational leasing activities losses	76,992	71,658
Claims service expenses	41,352	12,640
Donations	21,806	15,590
Provision for lawsuits	14,461	19,766
Losses from asset held for sale	7,073	989
Other	111,758	150,929
Total	1,028,264	524,747

Donations are explained detailed in Note 39.

35 Other impairment losses

For the years ended 31 December, other impairment losses comprised the following:

	<u>2021</u>	<u>2020</u>
Impairment / (impairment reversal) in value of property equipment	--	(15,891)
Impairment in value of asset held for sale	--	6,883
Other	63,998	8,247
Total	63,998	(761)

36 Taxation

Turkey

Corporate tax

The Company and its subsidiaries located in Turkey is subject to the tax legislation and practices in force in Turkey. The corporate tax is declared until the evening of the twenty-fifth day of the fourth month, following the end of the relevant accounting period and is paid in one installment until the end of the relevant month.

In Turkey, the corporate tax rate applied to the legal tax base to be found by adding the expenses that are not accepted as deductible in accordance with the tax laws to the commercial income of the corporations in Turkey and by deducting the exemptions in the tax laws was applied as 20% after 1 January 2021.

However, with the Provisional Article 13 added to the Corporate Tax Law No. 5520 with the 11th article of the "Law on the Collection Procedure of Public Claims No. The corporate tax rate is set to be 25% for corporate earnings for the 2021 taxation period and 23% for corporate earnings for the 2022 taxation period.

Since the tax rate change took effect as of 22 April 2021, the tax rate has been used as 25% in the calculations of the period tax in the consolidated financial statements dated 31 December 2021.

Income withholding tax

There is a withholding tax liability on dividend distributions and the withholding liability is accrued in the period when the dividend payment is occurred. The payments of dividend are subject to the 15% withholding tax until 22 December 2021, except for limited taxpayer companies that generate income through a workplace or their permanent representative in Turkey, and those made to companies residing in Turkey. Additionally, in accordance with the Presidential Decision No. 4936, which was published in the Official Gazette dated 22 December 2021 and numbered 31697, arrangements were made in the provisions of the Income Tax Law No. 193 and the Corporate Tax Law No. 5520 on dividend distribution, the withholding tax rate of 15% has been decreased to 10%. In the application of withholding tax rates for profit distributions to limited taxpayer companies and natural persons, the withholding tax rates in the relevant double taxation agreements are also taken into account.

The capital increase from retained earnings is not related to dividend distribution, therefore it's not subject to withholding tax liability.

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of “disguised profit distribution via transfer pricing”. The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

Corporations are required to pay advance corporation tax quarterly at the rate of 25 percent on their corporate income. Advance tax is declared by the 10th of the second month following each calendar quarter end and is payable by the 17th of the second month following each calendar quarter end.

36 **Taxation** *(continued)*

Income withholding tax (continued)

Tax payments that are made in advance during the year are being deducted from the total final tax liability of the fiscal year. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government. In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns on the fifteenth date of the four months following the close of the accounting year to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filling during which time the tax authorities have the right to audit tax returns and the related accounting records on which they are based and may issue re-assessments based on their findings.

Dividend income (excluding profits from investment funds participation certificates and investment trusts' shares) obtained from participating in the capital of another corporation which is fully taxpayer is exempt from corporation tax. In addition, 75% of the profits arising from the sale of associated shares, redeemable shares and preferential rights of real estates (property, plant) owned by the same duration as the participation shares included in the assets of the institutions for at least two full years are exempt from corporate taxation as at 31 December 2021. However, with the amendment made by Law No. 7061, this ratio has been decreased from 75% to 50% in terms of property, plant and this ratio will be used as 50% in tax declarations to be prepared from 2019.

In order to benefit from the exemption, the said income must be kept in a passive fund account and not withdrawn from the business for 5 years. The sales price must be collected until the end of the second calendar year following the year of sale.

In Turkey, there is no practice of reaching an agreement with the tax administration regarding the taxes to be paid. Corporate tax returns are submitted within four months following the end of the accounting period. The tax inspection authorities may examine the tax returns and the accounting records underlying them for five years following the accounting period and make a reassessment as a result of their findings.

Transfer pricing regulations

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing".

The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets out the details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

36 **Taxation** *(continued)*

The Netherlands

Corporate income tax is levied at the rate of 25% (2020: 25%) on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2021. A tax rate of 15% applies to the first EUR 245,000 of taxable income. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies.

Under the Dutch taxation system in 2021, tax losses can be carried forward to be offset against future taxable income for six years and tax losses can be carried back to offset profits up to one year. However, the Dutch Ministry of Finance has proposed that losses may be carried forward indefinitely and the offset of losses will be limited in a given year against the first EUR 1 million of taxable profit and for taxable profit in excess of this amount, losses may only be offset up to 50% of this excess.

Companies must file their tax returns within six months following the close of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue reassessments based on their findings. Beginning from 1 January 2007 the Credit Europe Bank N.V. formed a ‘fiscal unity’ with the Credit Europe Group N.V. and its subsidiaries. As a result of the fiscal unity all profits and losses of the fiscal unity members are “consolidated” for tax purposes. The main advantages of a fiscal unity are that tax losses of one company can be offset against profits of another company and assets can be transferred to another company without recognising income at the moment of transfer. On the other hand, each member of the fiscal unity is in principle jointly and individually liable for the income tax liability of the entire fiscal unity.

In 2021 the Dutch Ministry of Finance announced a number of important changes and amendments to the Dutch tax legislation for 2021 and onwards. The most important changes from the Group’s perspective are as follows:

- the corporate income tax rate applicable to the first bracket is still going to be decreased from 16.5 to 15 percent. This low rate will apply in 2021 for profits up to EUR 245,000 and in 2022 this threshold will be increased to EUR 395,000.
- Starting 2022, the corporate income tax rate will be increased to 25.8%.

Russian Federation

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions. The applicable tax rate for current 20% (2020: 20%) and deferred tax is 20% (2020: 20%). Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Group management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position of the Group, if the authorities were successful in enforcing their interpretations, could be significant.

Fiba Holding Anonim Şirketi and its Subsidiaries

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2021

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

36 Taxation (continued)

Romania

The applicable tax rate for current and deferred tax is 16% (2020: 16%). The Romanian Government has a number of agencies that are authorised to conduct audits (controls) of Romanian companies as well as foreign companies doing business in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters, but to other legal and regulatory matters in which the applicable agency may be interested. The statute of limitations period in Romania is of 5 years (extended to 10 years in case tax evasion is suspected by the tax authorities). When management is aware of specific circumstances where there exists a probability of fine, appropriate reserves are established for such contingencies. It is likely that the Group's consolidated subsidiaries in Romania will continue to be subject to controls from time to time for violations and alleged violations of existing and new laws and regulations. Although, the Group's consolidated subsidiaries in Romania can contest the allegations of violations and resulting penalties when management believe there is cause to do so, the adoption or implementation of laws or regulations in Romania could have a material effect on the Group's consolidated subsidiaries in Romania. The effective tax rate as per 31 December 2021 amounts to 16%.

Switzerland

Corporate tax in Switzerland is a combination of Canton and Federal tax. As of 1 January 2020 due to the new tax regime in Switzerland, Cantonal and federal taxes will be levied at the combined effective rate of 14%. In the financials, the deferred tax amounts have been calculated with the prospective effective tax rate of 14%.

In addition to the cantonal and federal taxes, another tax called professional tax is levied at various effective rates on the average of the last two years' gross revenue figures, rent expenses and number of employees.

Under the Swiss taxation system, tax losses can be carried forward to be offset against future taxable income for seven years. Companies must file their tax returns within four months following the close of the tax year to which they relate, unless the company applies for an extension. Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue reassessments based on their findings.

Ukraine

The applicable tax rate for the corporate profit is 18% (2020: 18%). The tax amount defined by a company could be reassessed by the tax authorities during the three subsequent calendar years after the date of submitting the respective tax return; however under certain circumstances this period could be longer. Therefore, companies should keep their primary documents related to tax returns till the beginning of the tax audit, but no less than three years.

Tax losses can be carried forward to be offset against future taxable income for the next taxable years after the year when this loss appeared.

36.1 *Income tax expense*

The income tax expense for the years ended 31 December comprised the following items:

	<u>2021</u>	<u>2020</u>
Current tax expense	(320,078)	(265,449)
Adjustment to prior years	(1,797)	12,732
Tax amnesty expense	(133)	--
Deferred tax benefit/(expense)	207,738	108,659
Income tax expense	(114,270)	(144,058)

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira (“TL”) unless otherwise stated)

36 Taxation (continued)

36.1 Income tax expense (continued)

Reconciliation of effective tax rate

The reported income tax expense for the years ended 31 December are different than the amounts computed by applying statutory tax rate to profit before tax as shown in the following reconciliation:

	2021		2020	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Net profit for the year	1,192,402		217,283	
Total income tax expense	(114,270)		(144,058)	
Reported profit before income tax	1,306,672		361,341	
Income tax using the Company’s domestic tax rate	(326,668)	(25.00)	(79,495)	(22.00)
Disallowable expenses	(23,226)	(1.78)	(27,716)	(7.67)
Effect of different tax rates in foreign jurisdictions	(76,243)	(5.83)	(41,322)	(11.44)
Unrecognised deferred tax asset	(72,673)	(5.56)	(6,881)	(1.90)
Tax exempt expense	131,718	10.08	2,025	0.56
Adjustment to prior years	(1,797)	(0.14)	12,732	3.52
Utilization of previously unrecognised tax losses	206,331	15.79	--	--
Effect of change in tax rate	(4,105)	(0.31)	11,517	3.19
Tax amnesty income	(133)	(0.01)	--	--
Other, net	52,526	4.02	(14,918)	(4.13)
Total income tax expense	(114,270)	(8.75)	(144,058)	(39.87)

36.2 Income taxes payable

As at 31 December, the Group’s income taxes payable comprised the following:

	<u>2021</u>	<u>2020</u>
Taxes on income	114,270	144,058
Less: Deferred taxes on taxable temporary differences	207,738	108,659
Less: Corporation taxes paid in advance	(152,108)	(119,233)
Less: Tax amnesty expense	(133)	--
Less: Adjustment to prior years	(1,797)	12,732
Income taxes payable / (prepaid taxes)	167,970	146,216

As at 31 December 2021, the Group’s taxes payable on income amounting to TL 236,955 (31 December 2020: TL 182,394) is not offset with prepaid taxes on income included in other assets amounting to TL 68,985 (31 December 2020: TL 36,178), since they are related to different tax jurisdictions.

36.3 Deferred tax assets and liabilities

Deferred tax is provided in respect of taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for the differences relating to goodwill not deductible for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

36 Taxation (continued)

36.3 Deferred tax assets and liabilities (continued)

Unrecognised deferred tax assets and liabilities

As at 31 December 2021, there is deferred tax assets with respect to the statutory tax losses carried forward amounting to TL 600,607 (31 December 2020: TL 309,915). As at 31 December 2021, those deferred tax assets were not recognised in respect of these items because it was not probable that future taxable profit will be available against which the Group can utilise the benefits there from. The latest expiry date for the unrecognised statutory tax losses carried forward is 2025.

Recognised deferred tax asset and liabilities

Deferred tax assets and deferred tax liabilities at 31 December, were attributable to the items detailed in the table below:

	2021		2020	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Employee benefits	16,567	(294)	10,193	--
Loan loss provision	124,700	(233,457)	165,352	(177,899)
Deferred gains and losses on foreign exchange contracts	67,108	(3,669)	33,452	(1,931)
Effect of applying IFRS 9	900	(117)	318	(211)
Difference between tax and reporting basis of property and equipment and intangible assets	14,475	(130,053)	6,929	(47,502)
Revaluations of financial assets measured at fair value through other comprehensive income	459	(40,179)	459	(7,757)
General banking risk provisions	--	(189,105)	--	(119,687)
Tax losses carried forward	1,103,246	(7,656)	418,210	--
Securities	44,598	(13,771)	379	(8,601)
Other temporary differences	244,129	(10,800)	104,327	(7,804)
Deferred tax assets/(liabilities)	1,616,182	(629,101)	739,619	(371,392)
Net off	(127,112)	127,112	(41,607)	41,607
Net deferred tax assets/(liabilities)	1,489,070	(501,989)	698,012	(329,785)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The following amounts as at 31 December determined after appropriate offsetting, are shown in the consolidated statement of financial position:

	2021			2020		
	<u>Gross</u>	<u>Offsetting</u>	<u>Net</u>	<u>Gross</u>	<u>Offsetting</u>	<u>Net</u>
Deferred tax assets	1,616,182	(127,112)	1,489,070	739,619	(41,607)	698,012
Deferred tax liabilities	(629,101)	127,112	(501,989)	(371,392)	41,607	(329,785)

36 Taxation (continued)

36.3 Deferred tax assets and liabilities (continued)

Movements in deferred tax assets and liabilities were as follows:

	<u>2021</u>	<u>2020</u>
Net deferred tax liabilities at the beginning of the year	368,227	148,504
Currency translation difference	454,267	130,986
Deferred tax credit/ (expense) recognised in the other comprehensive income	(43,151)	(19,922)
Deferred taxes on taxable temporary differences	207,738	108,659
Net deferred tax liabilities at the end of the year	987,081	368,227

37 Fair value information

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in its absence, the most advantageous market to which the Group has access at that 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. If there is no quoted market 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.

Fiba Holding Anonim Şirketi and its Subsidiaries**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2021***(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)***37 Fair value information (continued)**

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2021	Trading	Loans and receivables	Financial assets measured at FVTOCI	Financial assets measured at amortized cost	Other financial liabilities	Total carrying amount
Cash and balances at central banks	--	28,045,557	--	--	--	28,045,557
Financial assets at fair value through profit or loss	1,588,416	--	--	--	--	1,588,416
Investment securities	--	--	13,986,306	3,489,036	--	17,475,342
Loans and receivables from banks	--	8,229,846	--	--	--	8,229,846
Loans and receivables from customers	--	82,380,868	--	--	--	82,380,868
Factoring receivables	--	1,480,982	--	--	--	1,480,982
Other assets	--	7,259,245	--	--	--	7,259,245
Derivative financial instruments	2,339,831	--	--	--	--	2,339,831
Total assets	3,928,247	127,396,498	13,986,306	3,489,036	--	148,800,087
Due to banks	--	--	--	--	17,730,620	17,730,620
Due to customers	--	--	--	--	92,185,054	92,185,054
Derivative financial instruments	3,332,688	--	--	--	--	3,332,688
Issued debt securities	--	--	--	--	3,824,209	3,824,209
Funds borrowed	--	--	--	--	6,352,420	6,352,420
Other liabilities	--	--	--	--	6,650,720	6,650,720
Subordinated liabilities	--	--	--	--	6,681,710	6,681,710
Total liabilities	3,332,688	--	--	--	133,424,733	136,757,421

Fiba Holding Anonim Şirketi and its Subsidiaries

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2021

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

37 Fair value information (continued)

31 December 2020	Trading	Loans and receivables	Financial assets measured at FVTOCI	Financial assets measured at amortized cost	Other financial liabilities	Total carrying amount
Cash and balances at central banks	--	9,679,137	--	--	--	9,679,137
Financial assets at fair value through profit or loss	1,050,633	--	--	--	--	1,050,633
Investment securities	--	--	8,559,682	1,207,902	--	9,767,584
Loans and receivables from banks	--	4,687,957	--	--	--	4,687,957
Loans and receivables from customers	--	51,268,300	--	--	--	51,268,300
Factoring receivables	--	1,080,697	--	--	--	1,080,697
Other assets	--	4,961,453	--	--	--	4,961,453
Derivative financial instruments	2,427,028	--	--	--	--	2,427,028
Total assets	3,477,661	71,677,544	8,559,682	1,207,902	--	84,922,789
Due to banks	--	--	--	--	6,001,737	6,001,737
Due to customers	--	--	--	--	53,693,494	53,693,494
Derivative financial instruments	2,764,811	--	--	--	--	2,764,811
Issued debt securities	--	--	--	--	1,983,517	1,983,517
Funds borrowed	--	--	--	--	6,161,319	6,161,319
Other liabilities	--	--	--	--	3,803,584	3,803,584
Subordinated liabilities	--	--	--	--	3,720,790	3,720,790
Total liabilities	2,764,811	--	--	--	75,364,441	78,129,252

37 Fair value information *(continued)*

Fair value hierarchy

The fair value hierarchy consists of three levels, depending upon whether fair values are determined based on quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have significant impact on the fair value of the instrument (Level 3):

Valuation models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: This category includes inputs that are quoted market prices (unadjusted) in active markets for identical instruments. These are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets and where the instrument observed in the market is representative of that being priced in the Group's portfolio.
- Level 2: This category includes inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments 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.
- Level 3: This category includes all instruments where the valuation technique uses inputs based on unobservable data, which could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant, unobservable adjustments or assumptions are required to reflect differences between instruments. Unobservable in this context means that there is little or no current market data available from which the price at which an arm's length transaction would be likely to occur can be derived.

The Group uses following assumptions to estimate the fair value of financial instruments:

Equity securities: Fair values of publicly traded equity securities are based on quoted market prices where available. In the case of where no quoted market is available, fair value is determined based on quoted prices for similar securities or other valuation techniques. Valuation techniques include discounted cash flow models and transaction multiple methods.

Debt securities: Fair values are based on quoted market prices, where available. Quoted market prices may be obtained from an exchange, dealer, broker, pricing service or regulatory service. If quoted prices in an active market are not available, fair value is based on an analysis of available market inputs, which may include values obtained from one or more pricing services or by a valuation technique that discounts expected future cash flows using a market interest rate curves, referenced credit spreads and maturity of the investment.

37 Fair value information (continued)

Valuation models (continued)

Derivative assets and liabilities: Derivatives are valued using valuation techniques. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instruments. Observable prices or model inputs are usually available in the market for exchange-traded derivatives and simple over-the-counter derivatives.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The principal techniques used to value these instruments are based on discounted cash flows, Black-Scholes option models and Monte Carlo simulation. These valuation models calculate the present value of expected future cash flows. Inputs to valuation models are determined from observable market data where possible. The inputs used include prices available from exchanges, dealers, brokers or providers of consensus pricing, yield curves, credit spreads, default rates, recovery rates, volatility of underlying interest rates, equity prices and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes, where available.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. For measuring derivatives, fair values taken into account both credit valuation adjustments and debit valuation adjustments.

Loans to customers designated as financial assets measured at fair value through other comprehensive income: Fair values of loans are determined by reference to similar instruments trading in active markets and valuation models where all inputs are observable. These models calculate the present value of expected future cash flows. The inputs used include prices available from dealers, brokers or providers of consensus pricing, yield rates and currency exchange rates.

Valuation framework

The Group has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- analysis and investigation of significant daily valuation movements

When third party confirmation, such as broker quotes or pricing services, is used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to the measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using these quotes.

Significant valuation issues are reported to the Asset Liability Committee (ALCO) for the banks and board of directors of the other subsidiaries.

37 Fair value information (continued)

Level 3 Financial assets and liabilities

Level 3 financial assets include equity securities which are not quoted in a market. Their fair value is determined using valuation techniques: discounted cash flow models and transaction multiples. In these techniques, fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile, earnings comparisons and revenue multiples and by reference to market valuations for similar entities quoted in an active market and discount of cash flows. Unobservable inputs used in these techniques are not developed by the Group. The Group uses unadjusted prices from third party pricing information through valuation reports. The unobservable inputs used in the valuation are long term growth rate and WACC for the discounted cash flow method and EBITDA multiplier for the transaction multiple method.

The Group has no Level 3 financial liabilities.

Amounts recognised in other comprehensive income relating to unrealised gains and losses from financial assets measured at fair value through other comprehensive income financial instruments are included in fair value reserve, if any.

As the Group uses unadjusted prices obtained from third party valuation, there is no significant sensitivity to the Group's own unobservable inputs. Changes in the unobservable inputs used in the valuation of Level 3 financial assets would not have a significant impact on equity and net income.

Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position.

31 December 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at FVTPL	352,431	--	1,235,985	1,588,416
Investment securities	11,036,432	755,724	2,193,530	13,985,686
Derivative assets held for risk management and trading	--	2,339,831	--	2,339,831
	11,388,863	3,095,555	3,429,515	17,913,933
Financial liabilities				
Derivative assets held for risk management and trading	--	3,332,688	--	3,332,688
	--	3,332,688	--	3,332,688
31 December 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at FVTPL	162,052	--	888,581	1,050,633
Investment securities	6,894,044	418,125	1,245,074	8,557,243
Derivative assets held for risk management and trading	--	2,427,028	--	2,427,028
	7,056,096	2,845,153	2,133,655	12,034,904
Financial liabilities				
Derivative liabilities held for risk management and trading	--	2,764,811	--	2,764,811
	--	2,764,811	--	2,764,811

No securities were transferred from Level 1 to Level 2 of the fair value hierarchy in 2021 (2020: None).

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

37 Fair value information (continued)

Financial instruments not measured at fair value

The following table compares the carrying amount of financial assets and liabilities not measured at fair value and analyses them by the level in the fair value hierarchy.

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
31 December 2021					
Financial assets					
Cash and balances at central banks	13,699,123	14,346,434	--	28,045,557	28,045,557
Loans and receivables from banks	2,158,412	6,083,936	--	8,242,348	8,229,846
Loans and receivables from customers	--	22,984,498	58,902,599	81,887,097	82,380,868
Factoring receivables	--	1,480,982	--	1,480,982	1,480,982
Other assets	--	6,093,106	1,166,139	7,259,245	7,259,245
	15,857,535	50,988,956	60,068,738	126,915,229	127,396,498
Financial liabilities					
Due to banks	--	17,717,695	--	17,717,695	17,730,620
Due to customers	--	74,996,020	17,283,089	92,279,109	92,185,054
Issued debt securities	886,797	2,930,100	--	3,816,897	3,824,209
Funds borrowed	--	6,352,420	--	6,352,420	6,352,420
Other liabilities	--	6,080,711	570,009	6,650,720	6,650,720
Subordinated liabilities	--	6,456,962	222,861	6,679,823	6,681,710
	886,797	114,533,908	18,075,959	133,496,664	133,424,733
31 December 2020					
Financial assets					
Cash and balances at central banks	3,362,996	6,316,141	--	9,679,137	9,679,137
Loans and receivables from banks	1,941,085	2,748,827	--	4,689,912	4,687,957
Loans and receivables from customers	--	20,100,975	31,367,887	51,468,862	51,268,300
Factoring receivables	--	1,080,697	--	1,080,697	1,080,697
Other assets	--	3,687,176	1,274,277	4,961,453	4,961,453
	5,304,081	33,933,816	32,642,164	71,880,061	71,677,544
Financial liabilities					
Due to banks	--	6,029,416	--	6,029,416	6,001,737
Due to customers	--	45,213,431	8,737,896	53,951,327	53,693,494
Issued debt securities	506,965	1,487,619	--	1,994,584	1,983,517
Funds borrowed	--	6,161,319	--	6,161,319	6,161,319
Other liabilities	--	3,532,129	271,455	3,803,584	3,803,584
Subordinated liabilities	--	3,574,907	125,660	3,700,567	3,720,790
	506,965	65,998,821	9,135,011	75,640,797	75,364,441

38 Commitments and contingencies

38.1 Commitments and contingent liabilities

To meet the financial needs of customers, the Group issues various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the consolidated statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group. In many instances, the amount recognised on the consolidated statement of financial position for incurred obligation does not represent the loss potential of the arrangement in full.

Letters of credit, guarantees and acceptances commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. Guarantees carry the same credit risk as loans and receivables. Credit guarantees can be in the form of bills of exchange or in the form of irrevocable letters of credit, advance payment guarantees, and endorsement liabilities from bills rediscounted.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. With respect to credit risk on commitments to extend the credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Group monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

As at 31 December, commitment contingencies comprised of the following:

	<u>2021</u>	<u>2020</u>
Contingent liabilities with respect to irrevocable letters of credit - import	11,214,959	3,112,052
Contingent liabilities with respect to letters of guarantee granted - others	3,328,264	2,163,440
Contingent liabilities with respect to irrevocable letters of credit - export	3,784,428	1,582,669
Contingent liabilities with respect to letters of guarantee granted - banks	394,630	402,441
Contingent liabilities with respect to acceptance credits	174,675	156,767
Contingent liabilities with respect other guarantees	8,037,638	4,249,715
Total non-cash loans	26,934,594	11,667,084
Undrawn credit card limits	5,044,241	3,601,223
Credit-line commitments	3,140,704	1,716,084
Other commitments	290,803	207,895
Total	35,410,342	17,192,286

38.2 Litigations and claims

Litigation is a common occurrence in the banking and financial institutions industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. As at 31 December 2021, the expected cash outflow amount for the pending claims filed against to the Group is TL 66,861 (31 December 2020: TL 54,075). The Group made a provision for the whole amount related to these claims.

38 Commitments and contingencies *(continued)*

38.3 Pending tax audits

In Turkey, the tax and other government authorities (Social Security Institution) have the right to inspect the Group’s tax returns and accounting records for the past five fiscal years.

The tax and other government authorities abroad have the right to inspect the Group’s foreign consolidated subsidiaries’ tax returns and accounting records in accordance with the respective tax regulations to these countries. The Group has not recorded a provision for any additional taxes for the fiscal years that remained unaudited, as the amount cannot be estimated with any degree of uncertainty. The Group’s management believes that no material assessment will arise from any future inspection for unaudited fiscal years.

39 Related parties

For the purpose of the consolidated financial statements, the shareholders, key management personnel and the Board members, and in each case, together with their families and companies controlled by/affiliated with them; and associates, investments and joint ventures are considered and referred to as the related parties. Fiba and Fina Holding’s subsidiaries and affiliates, the universities and foundations established by the Özyeğin family are related parties. A number of transactions are entered into with the related parties in the normal course of business. Most of the related party activity is eliminated at consolidation and the remainder activity is not material to the Group.

As at 31 December, the Group had the following balances outstanding from its related parties:

	<u>2021</u>	<u>2020</u>
<i>Assets</i>		
Loans and receivables from customers	1,972,500	1,487,441
Loans and receivables from banks	517,809	32,618
Other assets	1,804,106	692,537
Total	4,294,415	2,212,596
<i>Liabilities</i>		
Due to customers	1,423,088	1,568,750
Due to banks	28,447	1,560
Other liabilities	322,848	26,384
Total	1,774,383	1,596,694

For the years ended 31 December, the Group earned income and incurred expenses from the transactions with its related parties as summarised below:

	<u>2021</u>	<u>2020</u>
Interest income	397,666	144,820
Interest expense	(185,696)	(127,270)
Commission income	12,480	11,810
Commission expense/loss	(12,431)	(10,875)
Net trading income	(34,544)	(104)
Result from financial transactions	20,374	(11,109)
Other operating income	39,379	7,098
General and administrative expenses	(21,748)	(20,826)
Other operating expenses	(7,699)	(5,961)
Total	207,781	(12,417)

The Group made donations amounting to TL 6,510 (2020: TL 2,414) to Özyeğin University, Mother Child Education Foundation and Hüsnü M. Özyeğin Foundation which is included in the other operating expenses in the profit or loss.

Key management costs including remuneration and fees for the year ended on 31 December 2021 are amounted to TL 14,643 (31 December 2020: TL 9,996) on a consolidated basis. Key management is defined as persons in the consolidated and local supervisory and managing board and first level management.

40 Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

The general risk management program of the Group focuses on minimize the probable negative effects of the volatility in the financial markets on the Group’s financial performance. The Group uses derivative instruments to hedge Group’s exposure to the various risks.

The financial risk management is applied by the board of directories of each subsidiary and joint ventures in accordance with the general principles set by Fiba Holding.

This note presents information about the objectives, processes and policies of Group’s financial risk management and processes for measuring and managing these risks. Besides, the Group’s financial risk management strategy sets out what types and to what extent the risks should be taken in order for the Group to achieve its business targets. Within the different types of risks which the Group is exposed to due to its business activities the most material are credit risk (including concentration risk), liquidity risk, market risk, interest rate risk, currency risk and operational risk. The Group identifies settlement risk, pension risk, reputation and residual risks as non-material risks.

Below is a discussion of the various risks the Group is exposed and the approach taken to manage those risks.

Credit risk

Credit risk is defined as the current or prospective threat to the Group’s earnings and capital as a result of counterparty’s failure to comply with financial or other contractual obligations.

Credit risk constitutes the most significant risk of the Group and arises mainly from its trade finance, lending, treasury, mortgage, leasing and factoring businesses. The Group requires a certain amount of collateral in respect of its financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit. Credit risk is managed in major segments i.e. banking, insurance and factoring by following tools and principles:

Banking:

Risk mitigation

For the Group’s banking group, Credit Europe Group (“CEG”) and Fibabanka, actively use collateral management as the major risk mitigation mechanism. Collaterals are managed and followed-up in processes fully supported by the Group’s banking system by means of collateral-transaction linkages, blocked accounts and system checking of collateralisation.

In particular, specialised lending is run through on collaterals and documentation. Valuation reports, survey report updates, insurance policies management are followed up systematically. Outsourcing is also utilised by Collateral Management Agreements and Collateral Monitoring Agreements with expert collateral management agents who have the management and reporting capabilities on the site of the collateral.

CEG and Fibabanka follow legal certainty and operational requirements as a pre-requisite for consideration risk mitigation effects of the collaterals. Legal department conducts in-depth legal review confirming the enforceability of the collateral arrangements under the law applicable to these arrangements in all relevant jurisdictions. Collateral value should not have a material positive correlation with the credit quality of the provider. The market value of the collateral should be appraised at least annually or more often whenever there is a reason to believe that a significant decrease in its market value has occurred.

40 Financial risk management (continued)

Credit risk (continued)

Concentration limits

The Group has established maximum concentration limits –in terms of both nominal and capital consumption- over country, industry and single-name concentrations to manage concentration risk in its loan portfolio.

Internal rating models and scorecards

The Group’s banking group uses a centralised internal rating system, which is the primary tool for quantifying counterparty credit risk at the consolidated level. The Group’s banking group borrower rating system employs a fundamental credit analysis supplemented by statistical models, as appropriate, in accordance with the analytical methodology.

The obligor rating framework has several building blocks to ensure that qualitative and quantitative risk drivers of corporate default are inherent in the rating process.

In 2011, Internal Rating System model coverage has been extended with new specialised lending models, which ensure more robust estimation of initial risk parameters for transactional lending portfolios. In line with the CEG lending practices, seven sub-classes of specialised lending, namely structured trade finance, marine object finance, marine project (ship building) finance, income producing real estate finance, real estate development finance, object finance and other project finance, are separately identified within the corporate asset class regarding the applied rating criteria.

A continually improving rating system can reduce credit losses and sustain the long-term profitability and competitive advantage of the Group. Validation of the internal rating system encompasses qualitative elements as well as quantitative methods. The key metrics used to measure the discriminatory power of the internal rating system is the Cumulative Accuracy Profile (“CAP”) and Accuracy Ratio (“AR”), which compresses the information depicted in the CAP curve into a single summary statistic. Accuracy of the risk parameter estimates is also continuously reviewed by their back testing and benchmarking.

CEG has established a center of excellence for retail risk management responsible for scoring, risk based pricing, algorithm development, stress testing, monitoring and reporting. The center is composed of highly skilled statisticians, bankers, econometrists, database programmers and risk managers. The team has worked in projects in several countries including Russia, Germany, Turkey and Belgium. Now through their efforts, all banking entities are taking the right risk with the right interest margin.

Stress testing

The Group’s banking group puts stress-testing and capital planning at the centre of its internal capital assessment process. The factual starting point of the capital planning process is the three years business plan which reflects the baseline assumptions on the global economy. Macroeconomic assumptions are mainly based on a survey of multiple sources to ensure objectivity and consistency. Then, the Group’s banking group identifies the potential threats to its business plan and capital adequacy based on a set of adverse scenarios.

Having a hypothetical stress testing framework, the CEG’s stress-testing methodology discourages both under-and over-reliance on internal data. The magnitude of the shocks varied across different portfolios based on their expected default correlation with the systematic risks which materialise under the adverse scenario.

The CEG’s credit-risk stress tests shock both default- and recovery-related risk parameters. In particular, risk concentrations in the portfolio are penalised with harsher shocks. The CEG’s stress-testing methodology does not aim to make accurate forecasts of the downturns, but instead aims to capture the tail loss by simulating the unexpected and the undesirable.

40 Financial risk management (continued)

Credit risk (continued)

Factoring:

Risk Management and Analysis Department is responsible to manage the credit risk. Fiba Factoring requires a certain amount of collateral in respect of its financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit. A special software program is issued to monitor the credit risk of Fiba Factoring.

Credit exposure

Maximum credit risk exposure

The Group identifies its maximum credit exposure as the sum of all transactions that may potentially expose the Group to credit losses, should the counterparty not fulfill its contractual obligations. The maximum credit exposure presented in the table below comprises on- and off-statement of financial position items. Credit exposure is measured without taking account of any collateral held or other credit enhancements.

Maximum credit risk exposure (gross exposure)

	<u>2021</u>	<u>2020</u>
Statement of financial position items		
Balances at central banks	26,420,786	8,971,319
Financial assets at fair value through profit or loss	1,588,416	1,050,633
Derivative financial instruments	2,339,831	2,427,028
Investment securities	17,475,342	9,767,584
Loans and receivables from banks	8,235,405	4,692,109
Loans and receivables from customers	87,502,032	55,158,776
Factoring receivables	1,508,521	1,155,696
Other assets (*)	4,567,268	3,341,549
Total statement of financial position	149,637,601	86,564,694
Off statement of financial position items		
Contingent liabilities with respect to irrevocable letters of credit	14,999,387	4,694,721
Undrawn credit card limits	5,044,241	3,601,223
Contingent liabilities with respect to letters of guarantee granted	3,722,894	2,565,881
Credit-line commitments	3,140,704	1,716,084
Contingent liabilities with respect to acceptance credits	174,675	156,767
Total off statement of financial position (**)	27,081,901	12,734,676
Total credit risk exposure	176,719,502	99,299,370

(*) Non-financial assets like assets held for sale, prepayments, advance payments, tax assets, accrued income and deposits given are excluded from other assets.

(**) On statement of financial position items are presented at their carrying amount net of impairment allowances. Derivative financial instruments are assessed at fair value of the future cash flows.

The off consolidated statement of financial position credit risk exposure is comprised of:

- Letters of guarantee granted and letters of credit issued or confirmed, shown at the maximum amount that the Group would have to pay if the guarantees or letters of credit are called upon; and,
- Undrawn credit-card limits

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

40 Financial risk management (continued)

Credit risk (continued)

Credit exposure (continued)

Concentration of credit exposure

Concentration risk normally arises when number of counterparties operates in the same geographical region or within the same economic sector, and thus is affected in the same extent to the economic, political and other conditions. Industry concentration is as follows:

	<u>31 December 2021</u>			<u>31 December 2020</u>		
	Statement of financial gross position	Off-statement of financial gross position (*)	Total gross exposure	% of total exposure	Total gross exposure (*)	% of total exposure
Exposure to central governments and financial institutions						
Exposure to central governments and central banks	26,420,786	704,217	27,125,003	67.38%	9,196,517	55.80%
Exposure to financial institutions	8,235,405	4,895,305	13,130,710	32.62%	7,284,675	44.20%
Total exposure to central governments and financial institutions	34,656,191	5,599,522	40,255,713	100.00%	16,481,192	100.00%
Automotive & derivatives	1,169,216	135,632	1,304,848	1.76%	1,266,924	2.71%
Building materials	158,459	179,999	338,458	0.46%	222,520	0.48%
Construction & installation	2,284,964	648,402	2,933,366	3.97%	3,589,970	7.68%
Durable consumer goods	42,440	28,245	70,685	0.10%	28,551	0.06%
Education & cultural services	464,073	9,409	473,482	0.64%	399,498	0.85%
Energy/coal	3,082,589	379,540	3,462,129	4.68%	2,502,853	5.35%
Fertilizers	1,039,096	397,263	1,436,359	1.94%	505,397	1.08%
Financial services & investments	2,132,731	127,292	2,260,023	3.06%	2,965,437	6.34%
Food, beverage & tobacco	839,572	88,553	928,125	1.25%	1,010,223	2.16%
Health & medical services	468,936	35,481	504,417	0.68%	826,052	1.77%
Iron, steel, metals & alloys	4,273,278	1,734,919	6,008,197	8.12%	2,531,328	5.41%
Leisure & tourism	8,106,917	165,482	8,272,399	11.19%	6,185,183	13.23%
Machinery – office & optical equipment	684,701	126,635	811,336	1.10%	753,719	1.61%
Media & publishing	345,384	11	345,395	0.47%	228,849	0.49%
Mining	70,996	--	70,996	0.10%	44,180	0.09%
Oil & derivatives	8,246,377	8,245,141	16,491,518	22.30%	7,186,010	15.37%
Other	3,776,514	966,768	4,743,282	6.41%	1,805,313	3.86%
Paper and pulp & forestry	267,474	69,505	336,979	0.46%	191,769	0.41%
Petrochemical, plasticizers & derivatives	1,201,001	141,623	1,342,624	1.82%	642,243	1.37%
Private person	36	--	36	0.00%	428	0.00%
Real estate	5,871,677	144,139	6,015,816	8.13%	4,289,293	9.18%
Retail	2,474,763	232,746	2,707,509	3.66%	2,429,891	5.20%
Services	898,804	18,957	917,761	1.24%	1,244,106	2.66%
Shipping & shipyards	5,510,008	745,617	6,255,625	8.46%	2,795,432	5.98%
Soft commodities & agricultural products	2,253,810	171,842	2,425,652	3.28%	1,420,568	3.04%
Technology, IT & electronic equipment	1,955,823	15,650	1,971,473	2.67%	173,533	0.37%
Telecommunications	28,234	1,329	29,563	0.04%	185,718	0.40%
Textile, clothing, readymade wearing & leather	724,181	54,858	779,039	1.05%	687,576	1.47%
Transportation, logistics & warehousing	709,422	11,407	720,829	0.97%	636,488	1.36%
Total exposure to corporate clients	59,081,476	14,876,445	73,957,921	100.00%	46,749,052	100.00%
Exposure to retail customers	23,145,138	6,520,538	29,665,676	81.20%	15,657,786	80.37%
Exposure secured by residential real estate	3,844,116	--	3,844,116	10.52%	2,363,824	12.13%
Exposure to SME	2,939,823	85,396	3,025,219	8.28%	1,460,722	7.50%
Total exposure to retail customers and SME	29,929,077	6,605,934	36,535,011	100.00%	19,482,332	100.00%
Total credit risk exposure (*)	123,666,744	27,081,901	150,748,645	100.00%	82,712,576	100.00%

(*) Excluding financial assets at fair value through profit or loss, financial assets measured at fair value through other comprehensive income investment securities, derivatives and other assets.

40 Financial risk management (continued)

Credit risk (continued)

Credit exposure (continued)

Geographic segment concentration

The following table provides the distribution of the Group's total gross portfolio by risk location as at 31 December 2021:

	2021		Total gross exposure
	Domestic	Foreign	
Statement of financial position items			
Loans and receivables from banks	4,366,022	3,869,383	8,235,405
Loans and receivables from customers	51,045,885	36,456,147	87,502,032
Other credit risk exposure (*)	14,268,240	13,661,067	27,929,307
Total statement of financial position	69,680,147	53,986,597	123,666,744
Off-Statement of financial position items			
Off-statement of financial position items	7,936,740	19,145,161	27,081,901
Total credit risk exposure	77,616,887	73,131,758	150,748,645

The following table provides the distribution of the Group's total gross portfolio by risk location as at 31 December 2020:

	2020		Total gross exposure
	Domestic	Foreign	
Statement of financial position items			
Loans and receivables from banks	2,643,531	2,048,578	4,692,109
Loans and receivables from customers	35,445,973	19,712,803	55,158,776
Other credit risk exposure (*)	4,419,204	5,707,811	10,127,015
Total statement of financial position	42,508,708	27,469,192	69,977,900
Off-Statement of financial position items			
Off-statement of financial position items	6,507,789	6,226,887	12,734,676
Total credit risk exposure	49,016,497	33,696,079	82,712,576

(*) Other credit risk exposure includes demand deposits with central banks and factoring receivables.

Collaterals and other credit enhancements obtained

The Group's credit policy requires that the loan extension process is conducted with strong evidence of the customer's ability to repay the loan. Collaterals are also actively used for the purposes of credit risk mitigation.

40 Financial risk management (continued)

Credit risk (continued)

Credit exposure (continued)

Collaterals and other credit enhancements obtained (continued)

In the tables below, collaterals are aggregated into two groups:

- Financial collaterals, which include any kind of documentary collateral, such as bills of exchange or trade related promissory notes. Cash collaterals, credit derivatives and other guarantees are also part of this group.
- Physical collaterals comprise other collaterals not mentioned under “financial collaterals”.

Although the Group accepts personal and corporate guarantees as collateral, they are not included in the tables below, due to their limited credit risk mitigation ability.

	31 December 2021				
	Total exposure, gross	Fair value of financial collaterals	Fair value of physical collaterals	Total collaterals obtained	Collaterals to total gross exposure (**)
Balances at central banks	26,420,786	--	--	--	--
Financial assets at fair value through profit or loss	1,588,416	185,159	110,042	295,201	18.58%
Derivative financial instruments	2,339,831	--	--	--	--
Investment securities	17,475,342	--	--	--	--
Loans and receivables from banks	8,235,405	3,334	--	3,334	0.11%
Loans and receivables from customers	87,502,032	8,317,949	36,275,659	44,593,608	50.96%
Factoring receivables	1,508,521	15,147,717	1,593,922	16,741,639	1109.80%
Other assets	4,567,268	--	--	--	--
Total statement of financial position	149,637,601	23,654,159	37,979,623	61,633,782	41.19%
Off statement of financial position (*)	27,081,901	939,802	94,081	1,033,883	3.82%
Total credit risk exposure	176,719,502	24,593,961	38,073,704	62,667,665	35.46%

(*) Excluding other credit commitments and contingent liabilities.

(**) If the total collaterals obtained are assumed to be limited to the total gross risk exposure, the collaterals to total gross exposure rate is 26.84%.

	31 December 2020				
	Total exposure, gross	Fair value of financial collaterals	Fair value of physical collaterals	Total collaterals obtained	Collaterals to total gross exposure (**)
Balances at central banks	8,971,319	--	--	--	--
Financial assets at fair value through profit or loss	1,050,633	377,080	115,031	492,111	46.84%
Derivative financial instruments	2,427,028	--	--	--	--
Investment securities	9,767,584	--	--	--	--
Loans and receivables from banks	4,692,109	9,591	--	9,591	0.20%
Loans and receivables from customers	55,158,776	3,570,030	21,083,157	24,653,187	44.69%
Factoring receivables	1,155,696	12,866,636	1,440,665	14,307,301	1237.98%
Other assets	3,341,549	--	--	--	--
Total statement of financial position	86,564,694	16,823,337	22,638,853	39,462,190	45.59%
Off statement of financial position (*)	12,734,676	64,372	17,767	82,139	0.65%
Total credit risk exposure	99,299,370	16,887,709	22,656,620	39,544,329	39.82%

(*) Excluding other credit commitments and contingent liabilities.

(**) If the total collaterals obtained are assumed to be limited to the total gross risk exposure, the collaterals to total gross exposure rate is 26.58%.

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira (“TL”) unless otherwise stated)

40 Financial risk management (continued)

Credit risk (continued)

Credit exposure (continued)

Collaterals and other credit enhancements obtained (continued)

In general, the Group obtains collaterals to secure its loan portfolio. Collaterals for derivative financial instruments consist mostly of the margin called by the Group for its OTC derivative assets.

Credit quality of financial assets

The following tables present the credit quality of the Group’s financial assets, as at 31 December 2021 and 2020. In assessing the credit quality of its financial assets, the Group obtains ratings from eligible credit assessment institutions, namely Fitch, Standard & Poor’s (S&P) and Moody’s. In order to compare assets, the ratings below were mapped to Fitch’s rating scale.

	2021						Total
	External rating class				Below B	No rating	
	AAA / AA	A+ / A	BBB+ / BBB	BB+ / B			
Balances at central banks	9,579,919	20,533	3,705,390	1,071	--	13,113,873	26,420,786
Financial assets at fair value through profit or loss	2,912	21,529	453,914	429,549	--	680,512	1,588,416
Investment securities	3,024,144	790,543	7,713,979	1,010,840	--	4,935,836	17,475,342
Loans and receivables from banks	1,205,776	973,683	1,466,447	961,902	60	3,627,537	8,235,405
Loans and receivables from customers	1,305,588	--	--	1,460,347	--	84,736,097	87,502,032
Factoring receivables	--	--	--	--	--	1,508,521	1,508,521
Other assets	--	--	--	--	--	4,567,268	4,567,268
Derivative financial instruments	17,304	84,365	20,067	123	--	2,217,972	2,339,831
Off- statement of financial position (*)	167,447	1,980,024	1,161,887	1,237,607	--	22,534,936	27,081,901
Total	15,303,090	3,870,677	14,521,684	5,101,439	60	137,922,552	176,719,502

(*) Excluding other credit commitments and contingent liabilities.

	2020						Total
	External rating class				Below B	No rating	
	AAA / AA	A+ / A	BBB+ / BBB	BB+ / B			
Balances at central banks	3,926,073	4,839	2,204,045	1,036	--	2,835,326	8,971,319
Financial assets at fair value through profit or loss	--	29,032	--	463,366	--	558,235	1,050,633
Investment securities	1,507,148	132,299	4,263,654	735,977	--	3,128,506	9,767,584
Loans and receivables from banks	459,947	179,775	1,136,050	651,847	18	2,264,472	4,692,109
Loans and receivables from customers	537,880	--	--	942,064	--	53,678,832	55,158,776
Factoring receivables	--	--	--	--	--	1,155,696	1,155,696
Other assets	--	--	--	--	--	3,341,549	3,341,549
Derivative financial instruments	149,900	329,329	15,602	--	--	1,932,197	2,427,028
Off- statement of financial position (*)	25,537	779,499	353,533	782,913	2,639	10,790,555	12,734,676
Total	6,606,485	1,454,773	7,972,884	3,577,203	2,657	79,685,368	99,299,370

(*) Excluding other credit commitments and contingent liabilities.

The assets in the tables above are allocated through the rating bucket following the principles imposed by the Basel II accord. Where multiple credit assessments are available, a ‘second worst’ is taken into account.

The total amount of impaired assets included in tables above is TL 5,154,262 (31 December 2020: is TL 3,969,627), and is allocated to investment securities, loans and receivables from banks, Loans and receivables from customers and factoring receivables. Impaired assets are concentrated in the categories ‘Below B-’ and ‘No rating’.

40 Financial risk management (continued)

Credit risk (continued)

Loans and receivables from customers

This section provides a detailed overview of the credit quality of the Group’s loans and receivables portfolio. The Group’s current Loan Assessment and Impairment Policy is aligned with the industry practices and regulatory requirements. The Group’s classification approach is based on the respective recovery capabilities and debtors’ creditworthiness levels, providing the management and the external shareholders a detailed and a transparent overview of the portfolio’s credit quality. There have been no major revisions in this policy in 2021.

The Group differentiates between the following categories of assets in the loan portfolio:

- Standard (performing) loans covers corporate (retail/SME) loans on which payments are made according to the contractual terms, repayment problems are not expected in the future and which are totally recoverable (collectable).
- Watch List (substandard loans) is for corporate loans where problems with principal or interest payments are not necessarily present yet, but which require close monitoring due to negative trends in the debtors’ payment capability or cash flow positions, for instance, corporate loans experiencing delays of contractual payments of less than 90 days or credit quality deterioration in terms of internal rating.
- Non-Performing Loans (NPL) includes loans and receivables with limited (doubtful) recovery prospects. These customers:
 - have limited means for total recovery because their repayment capacity is inadequate to cover payments on respective terms; they are likely to lead to losses if these problems are not solved; or,
 - are in a situation where full or partial recovery prospects are fully dependent on the outcome of the liquidation of the underlying assets or recourse to the guarantor; or,
 - have suffered significant credit quality deterioration; or,
 - have delayed the capital and/or interest payments for more than 90 days as at the day of their payment date.
- Delinquent Loans are retail loans (including SME loans and the residential mortgage portfolio) with a delay in contractual payment of no more than 90 days (also shown on Watch List).

Impairment allowances

The Group aims to maintain sufficient reserves to cover its incurred losses. According to its policy, the Group differentiates between:

- Provisions for individually assessed assets
- Provisions for collectively assessed assets.

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira (“TL”) unless otherwise stated)

40 Financial risk management (continued)

Credit risk (continued)

Credit quality of loans and receivables from customers

The following tables provide a breakdown of the Group’s loans and receivables from customers per credit quality group, defined above. It also shows the allocation of provisions and collaterals obtained per group.

31 December 2021								
	Gross loans	Provisions for individually assessed assets (-)	Provisions for collectively assessed assets (-)	Net loans	Financial collateral	Physical collateral	Total collateral	Collaterals to total loans
Corporate loans	57,273,138	(1,402,879)	(1,489,225)	54,381,034	8,176,651	21,726,493	29,903,144	54.99%
Stage 1	45,943,053	--	(230,271)	45,712,782	6,474,458	16,190,351	22,664,809	49.58%
Stage 2	6,026,372	(290,028)	(222,984)	5,513,360	311,791	3,578,940	3,890,731	70.57%
Stage 3	5,303,713	(1,112,851)	(1,035,970)	3,154,892	1,390,402	1,957,202	3,347,604	106.11%
Retail loans (incl. mortgages)	27,274,460	(709,327)	(1,317,921)	25,247,212	62,237	14,042,988	14,105,225	55.87%
Stage 1	22,235,840	--	(209,719)	22,026,121	3,391	11,201,774	11,205,165	50.87%
Stage 2	2,026,076	--	(240,399)	1,785,677	57,068	1,538,634	1,595,702	89.36%
Stage 3	3,012,544	(709,327)	(867,803)	1,435,414	1,778	1,302,580	1,304,358	90.87%
SME loans	2,954,434	(151,487)	(50,325)	2,752,622	79,061	506,178	585,239	21.26%
Stage 1	2,668,083	--	(47,341)	2,620,742	55,055	391,744	446,799	17.05%
Stage 2	56,964	--	(2,984)	53,980	544	27,890	28,434	52.68%
Stage 3	229,387	(151,487)	--	77,900	23,462	86,544	110,006	141.21%
Total exposure	87,502,032	(2,263,693)	(2,857,471)	82,380,868	8,317,949	36,275,659	44,593,608	54.13%
Total Stage 3	8,545,644	(1,973,665)	(1,903,773)	4,668,206	1,415,642	3,346,326	4,761,968	102.01%

31 December 2020								
	Gross loans	Provisions for individually assessed assets (-)	Provisions for collectively assessed assets (-)	Net loans	Financial collateral	Physical collateral	Total collateral	Collaterals to total loans
Corporate loans	39,919,764	(1,142,615)	(1,045,292)	37,731,857	3,449,481	14,752,278	18,201,759	48.24%
Stage 1	28,355,924	(22,381)	(198,572)	28,134,971	2,566,816	8,479,451	11,046,267	39.26%
Stage 2	7,594,637	(244,931)	(303,745)	7,045,961	249,978	4,744,779	4,994,757	70.89%
Stage 3	3,969,203	(875,303)	(542,975)	2,550,925	632,687	1,528,048	2,160,735	84.70%
Retail loans (incl. mortgages)	13,599,825	(877,118)	(624,550)	12,098,157	73,593	5,953,608	6,027,201	49.82%
Stage 1	9,734,710	(73,938)	(54,667)	9,606,105	41,033	4,249,816	4,290,849	44.67%
Stage 2	1,446,703	(35,660)	(51,590)	1,359,453	3,441	993,727	997,168	73.35%
Stage 3	2,418,412	(767,520)	(518,293)	1,132,599	29,119	710,065	739,184	65.26%
SME loans	1,639,187	(130,896)	(70,005)	1,438,286	46,956	377,271	424,227	29.50%
Stage 1	1,210,160	(5,532)	(20,208)	1,184,420	24,691	195,572	220,263	18.60%
Stage 2	102,834	(414)	(13,213)	89,207	5,881	69,112	74,993	84.07%
Stage 3	326,193	(124,950)	(36,584)	164,659	16,384	112,587	128,971	78.33%
Total exposure	55,158,776	(2,150,629)	(1,739,847)	51,268,300	3,570,030	21,083,157	24,653,187	48.09%
Total Stage 3	6,713,808	(1,767,773)	(1,097,852)	3,848,183	678,190	2,350,700	3,028,890	78.71%

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira (“TL”) unless otherwise stated)

40 Financial risk management (continued)

Credit risk (continued)

Aging of loans and receivables from customers

The following tables present the Group’s portfolio of loans and receivables from customers, broken down by delinquency bucket, as at 31 December 2021 and 2020:

31 December 2021

	Loans that are not past due	Loans less than 30 days past due	Loans 30 or more but less than 60 days past due	Loans 60 or more but less than 90 days past due	Loans 90 days or more past due	Total loans to customers (excluding loans of NPL management companies)	Loans of NPL management companies	Total
Net exposure								
Corporate loans	53,776,409	82,037	58,728	139,551	1,009,293	55,066,018	2,207,120	57,273,138
Retail loans and residential mortgage loans	23,499,219	644,807	306,068	370,650	1,266,045	26,086,789	1,187,671	27,274,460
SME loans	2,742,975	42,230	6,000	45,949	108,107	2,945,261	9,173	2,954,434
Total loans and advances to customers (*)	80,018,603	769,074	370,796	556,150	2,383,445	84,098,068	3,403,964	87,502,032

31 December 2020

	Loans that are not past due	Loans less than 30 days past due	Loans 30 or more but less than 60 days past due	Loans 60 or more but less than 90 days past due	Loans 90 days or more past due	Total loans to customers (excluding loans of NPL management companies)	Loans of NPL management companies	Total
Net exposure								
Corporate loans	36,795,893	76,454	29,702	242,316	1,176,445	38,320,810	1,598,954	39,919,764
Retail loans and residential mortgage loans	10,770,698	353,645	170,673	213,017	982,083	12,490,116	1,109,709	13,599,825
SME loans	1,394,288	17,255	8,799	31,790	172,625	1,624,757	14,430	1,639,187
Total loans and advances to customers (*)	48,960,879	447,354	209,174	487,123	2,331,153	52,435,683	2,723,093	55,158,776

(*) 59% of the total loans and advances to customers with a maturity of 90 days or more past due are composed of the balances of NPL management companies (2020: 54%). NPL management companies are engaged in the acquisition of overdue receivables and other assets of financial institutions and other debtors, or to provide collection services to financial institutions. As explained in more detail in Note 10, NPL management companies have allocated 65.6% of the total loans and advances as allowances for impairment (2020: 52.1%).

40 Financial risk management (continued)

Liquidity risk

The Group defines liquidity risk as the current or prospective risk arising from an institution's inability to meet its liabilities when they come due. The Group considers funding and liquidity as a major source of risk. The Group's minor and very limited tolerance towards liquidity risk is explicitly reflected its high internal liquidity buffer requirements and strict definition of liquid assets (or counterbalancing capacity).

Liquidity risk is managed in major segments i.e. banking and factoring by following tools and principles:

Banking:

The Group's banking group monitors its liquidity position on a daily basis and conducts regular liquidity stress testing and it is perceived as an important risk indicator by Asset/ Liability Committee ("ALCO"), Audit and Risk Committee ("ARC") and the Supervisory Board. The Group identifies the following items as the key liquidity-risk drivers:

CEG identifies the following items as the key liquidity risk drivers:

- Withdrawal of deposits: CEG should withstand a severe meltdown in its non-maturity deposits through deploying its available liquid assets. The severity is defined as a 40% loss in the saving account balance in a period of one month.
- Erosion in value of liquid assets: CEG applies a 75% for the securities that are not eligible for refinancing through the European Central Bank ("ECB"). The remaining qualifying securities are taken into account after adding nominal 5% on top of the existing haircuts applied by the ECB. The policy also incorporates a scenario of material price drops, which in return further decrease the refinancing capacity.
- Erosion in value of liquid assets: CEG applies a 75% haircut for the securities that are not eligible for refinancing through the European Central Bank. The remaining qualifying securities are considered after applying certain haircuts according to their external ratings.
- Additional collateral requirements: CEG has sensitivity to certain foreign exchange parities due to its involvement in swap markets. CEG might face intensive margin calls from the counterparties if certain foreign exchange rates move in the adverse direction. CEG measures the required liquidity under worse than expected foreign exchange market conditions.

The Board and senior management ensure that the CEG's funding strategy and its implementation are consistent with their expressed risk tolerance. The Board delegates responsibility for establishing specific liquidity risk policies and practices to ALCO. ALCO is responsible for ensuring that measurement systems adequately identify and quantify the CEG's liquidity exposure and that reporting systems communicate accurate and relevant information about the level and sources of that exposure.

Any violation of the Liquidity Policy and predefined limits is reported to ALCO. In case of limit excess during a market turmoil, ALCO calls an immediate meeting to discuss options to bring the liquidity to its desired levels. This can include slowing down and/or ceasing to enter into new commitments, selling assets from trading and AFS portfolios, and increasing spreads to attract new long-term funds on the consumer and corporate sides, as defined in the Group's contingency-funding plan. To mitigate liquidity risk, the Group diversifies funding sources as customer deposits and funds borrowed from abroad and it keeps certain level of assets as cash and cash equivalents.

Liquidity gaps as a result of size and maturity mismatches in assets and liabilities also generate liquidity risk. Liquidity-gap analysis is done on a monthly basis, to be submitted to ALCO, or more frequently when required. It distributes all on-statement of financial position' and liabilities' expected cash flows in predefined maturity bands according to remaining contractual maturity.

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira (“TL”) unless otherwise stated)

40 Financial risk management (continued)

Liquidity risk (continued)

Factoring:

The approaches of Fiba Factoring to manage their liquidity position is to ensure, as far as possible, that they will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

Fiba Factoring monitors their liquidity positions on a periodic basis, which assists them in monitoring cash flows requirements and optimizing their cash returns on investments. Typically, Fiba Factoring ensures that they have sufficient liquid assets to meet expected operational expenses including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. To manage liquidity risk arising from financial liabilities, Fiba Factoring hold liquid assets mainly comprising cash and cash equivalents and investments in debt securities for which there is an active market. These assets can be readily sold to meet liquidity requirements.

The maturity gap analysis table of the Group’s monetary assets and liabilities are as follows:

	<i>31 December 2021</i>						
	<u>Up to 1 month</u>	<u>1-3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Maturity not applicable</u>	<u>Total</u>
Monetary assets							
Cash and balances at central banks	27,077,261	--	--	--	--	968,296	28,045,557
Financial assets designated at fair value through profit or loss	248,022	24,451	373,832	820,333	13,401	108,377	1,588,416
Investment securities	4,930,223	1,340,983	1,549,462	5,939,194	2,547,340	1,168,140	17,475,342
Loans and receivables from banks	5,703,970	980,862	335,788	237,655	--	971,571	8,229,846
Loans and receivables from customers	18,929,634	11,126,063	13,258,861	25,888,812	9,017,437	4,160,061	82,380,868
Factoring receivables	118,674	279,689	1,024,625	57,994	--	--	1,480,982
Other assets	956,492	555,614	1,832,361	2,420,897	4,323,686	1,561,101	11,650,151
Total monetary assets	57,964,276	14,307,662	18,374,929	35,364,885	15,901,864	8,937,546	150,851,162
Monetary liabilities							
Due to banks	10,963,168	5,743,103	573,142	314,452	--	136,755	17,730,620
Due to customers	35,314,286	7,607,883	15,498,753	21,383,162	5,943,733	6,437,237	92,185,054
Issued debt securities	84,666	272,037	887,531	2,579,975	--	--	3,824,209
Funds borrowed	611,408	962,171	2,356,985	2,419,581	2,275	--	6,352,420
Other liabilities	987,432	736,923	1,991,587	1,022,696	4,526,731	2,344,916	11,610,285
Subordinated liabilities	--	69,460	689,920	--	5,699,469	222,861	6,681,710
Total monetary liabilities	47,960,960	15,391,577	21,997,918	27,719,866	16,172,208	9,141,769	138,384,298
Net liquidity gap	10,003,316	(1,083,915)	(3,622,989)	7,645,019	(270,344)	(204,223)	12,466,864
	<u>Up to 1 month</u>	<u>Up to 3 months</u>	<u>Up to 12 months</u>	<u>Up to 5 years</u>	<u>Over 5 years</u>	<u>Maturity not applicable</u>	
Cumulative net liquidity gap	10,003,316	8,919,401	5,296,412	12,941,431	12,671,087	(204,223)	

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira (“TL”) unless otherwise stated)

40 Financial risk management (continued)

Liquidity risk (continued)

31 December 2020

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Maturity not applicable	Total
Monetary assets							
Cash and balances at central banks	9,342,529	--	--	--	--	336,608	9,679,137
Financial assets designated at fair value through profit or loss	223,290	66,714	251,054	446,382	45,286	17,907	1,050,633
Investment securities	3,851,704	452,042	1,386,157	1,248,790	2,089,323	739,568	9,767,584
Loans and receivables from banks	3,375,989	357,175	449,805	20,739	--	484,249	4,687,957
Loans and receivables from customers	9,862,326	6,686,249	9,972,866	15,879,760	5,460,295	3,406,804	51,268,300
Factoring receivables	198,400	130,967	732,213	19,117	--	--	1,080,697
Other assets	740,508	898,090	1,125,684	1,429,834	3,491,828	799,322	8,485,266
Total monetary assets	27,594,746	8,591,237	13,917,779	19,044,622	11,086,732	5,784,458	86,019,574
Monetary liabilities							
Due to banks	4,022,393	1,204,429	495,807	228,482	--	50,626	6,001,737
Due to customers	21,273,249	5,748,090	11,020,801	10,392,527	3,326,893	1,931,934	53,693,494
Issued debt securities	47,646	--	6,452	1,929,419	--	--	1,983,517
Funds borrowed	584,849	1,826,500	1,846,526	1,876,613	26,831	--	6,161,319
Other liabilities	697,062	1,322,106	796,557	1,192,516	2,888,807	796,021	7,693,069
Subordinated liabilities	--	38,843	12,726	368,018	3,175,678	125,525	3,720,790
Total monetary liabilities	26,625,199	10,139,968	14,178,869	15,987,575	9,418,209	2,904,106	79,253,926
Net liquidity gap	969,547	(1,548,731)	(261,090)	3,057,047	1,668,523	2,880,352	6,765,648
	Up to 1 month	Up to 3 months	Up to 12 months	Up to 5 years	Over 5 years	Maturity not applicable	
Cumulative net liquidity gap	969,547	(579,184)	(840,274)	2,216,773	3,885,296	2,767,690	

The following table represents the Group’s the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements.

31 December 2021

	Carrying amount	Contractual cash flows	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 1 year
Non-derivative financial liabilities							
Due to banks	17,730,620	18,721,083	10,305,472	6,019,269	1,119,454	444,435	832,453
Due to customers	92,185,054	94,060,106	40,856,754	8,087,060	5,780,126	10,490,825	28,845,341
Leasing payables	487,176	544,104	35,849	21,526	29,299	54,506	402,924
Issued debt securities	3,824,209	4,105,996	98,334	280,000	25,820	1,001,909	2,699,933
Funds borrowed	6,352,420	6,768,765	585,272	988,637	1,024,530	1,536,439	2,633,887
Subordinated liabilities	6,681,710	8,045,506	--	131,472	--	821,281	7,092,753
Derivative financial liabilities							
Outflow	3,332,688	35,335,561	13,991,936	8,957,581	4,531,985	4,852,168	3,001,891
Inflow	(2,339,831)	(35,210,567)	(13,932,829)	(9,147,141)	(4,526,746)	(4,794,138)	(2,809,713)

40 Financial risk management (continued)

Liquidity risk (continued)

	Carrying amount	Contractual cash flows	Up to 1 month	31 December 2020			
				1-3 months	3-6 months	6-12 months	Over 1 year
Non-derivative financial liabilities							
Due to banks	6,001,737	6,632,601	3,427,238	1,693,835	484,083	200,262	827,183
Due to customers	53,693,494	54,890,994	22,725,986	6,081,426	3,973,978	7,806,986	14,302,618
Leasing payables	319,785	395,850	33,463	16,507	23,895	44,281	277,704
Issued debt securities	1,983,517	2,242,944	54,263	--	10,955	72,051	2,105,675
Funds borrowed	6,161,319	6,422,153	1,099,768	1,324,420	627,450	1,365,441	2,005,074
Subordinated liabilities	3,720,790	4,511,195	--	72,404	--	85,069	4,353,722
Derivative financial liabilities							
Outflow	2,764,811	30,272,696	13,888,124	6,487,841	3,635,623	2,513,586	3,747,522
Inflow	(2,427,028)	(30,754,296)	(14,083,442)	(6,798,963)	(3,747,111)	(2,561,833)	(3,562,947)

Market risks

Market risk is defined as the current or prospective threat to the Group's earnings and capital as a result of adverse market movements in market prices (security and derivative prices, as well as interest rates and foreign exchange rates) or in parameters such as volatility and correlations. Fiba Factoring aims to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The CEG's trading portfolio includes financial instruments like securities, derivatives and FI loans, which are exposed to short term price/interest rate fluctuations. Eligible positions should be in line with the guidelines and principles set out in the Market Risk Policy. No eligible positions and financial instruments approved by ALCO are monitored within the scope of the banking book. In line with its business plan the CEG has "minor" risk appetite in market risk. CEG aims at regularly measuring and monitoring its market risk associated with adverse market movements affecting the trading components of its Treasury and Financial Institutions "FI" portfolio. It measures its market risk using different approaches standard and internal models.

CEG's risk tolerance in the form of limits is determined in order to manage the market risk efficiently and to keep market risk within these limits. Risk limits such as VaR limit (Value at Risk), notional limits, sensitivity limits are set by considering the primary risk factors. In case of a limit breach, ALCO is convened in order to determine strategy and take necessary actions to restore the outstanding exposure within limits in a certain period of time.

CEG measures the market risk of its trading book and the foreign exchange risk of its banking book by using an internal model, based on VaR methodology. VaR defines the maximum loss not exceeded with a given probability over a given period of time under normal market conditions. However, this approach fails to capture exceptional losses under extreme market conditions; therefore, market risk measurement is complemented by periodic stress testing analysis.

Fibabanka has also established market risk management operations and has taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Control and Risk Management Systems of Banks" announced by Banking Regulation and Supervision Agency ("BRSA") of Turkey. The position that Fibabanka carries cannot exceed the legal limits. In addition, within the scope of Trading Policy, Value at Risk limit is determined for trading portfolio of Fibabanka. Necessary infrastructure is made by the Risk Management Department in order to provide the compliance with these limits following on a daily basis.

40 Financial risk management (continued)

Market risks (continued)

Interest rate risk

Interest rate risk is the current or prospective risk to earnings and capital arising from adverse movements in interest rates.

Interest risk is managed in major segments i.e. banking and factoring by following tools and principles:

Banking:

The trading portfolio is subject to interest rate risk, but this type of risk is dealt with under Market Risk: Value at Risk section. CEG has a “minor” risk tolerance towards interest rate risk in its banking book.

CEG’s interest rate risk is monitored for the banking book only, by means of a “Static Repricing Gap” and an “Interest Rate Sensitivity” analysis on a monthly basis in all levels for each major currency in use. Interest rate sensitivity of the banking book is calculated according to “Economic Value approach”.

Interest rate sensitivity in the banking book is calculated according to the economic value approach. All future cash flows, arising solely from on-and off-statement of financial position assets and liabilities are discounted back to their present values with zero coupon yield curves to see the impact of interest rate changes on the economic value of the CEG. The impact of the curve with the maximum net gain or loss compared to a benchmark curve is analysed.

Determination of economic internal capital to be set aside to cover potential interest rate risk of the banking book is based on a Historical Simulation Method. Historical economic values of the current banking book is calculated by discounting the repricing gaps in each one of the major currencies with historical month end zero coupon swap curves in predefined maturity buckets. Once historical economic values are obtained, then an economic value change distribution is created using a rolling window of one year.

Fibabanka’s assets and liabilities are repriced according to the remaining maturities within the scope of its Asset and Liability Management Policy by applying the determined interest rate shocks the change in net economic value is calculated.

With the Interest Rate Risk Reports and stress tests on the interest rate risk of Fibabanka, willing to relocate risk levels are tested due to the sensitivity of the risk levels in the presence of crisis scenarios and keeping them under control is provided.

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

40 Financial risk management (continued)

Market risks (continued)

Interest rate risk (continued)

The Group's assets and liabilities, based on the interest repricing dates are as follows:

Assets	31 December 2021						Non-interest bearing items	Total
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years			
Cash and balances at central banks	24,829,137	--	--	--	--		3,216,420	28,045,557
Financial assets designated at fair value through profit or loss	689,086	400,336	422,877	2,439	13,397		60,281	1,588,416
Investment securities	3,184,240	917,739	4,113,098	6,010,074	2,074,659		1,175,532	17,475,342
Loans and receivables from banks	5,749,721	791,127	332,184	238,394	--		1,118,420	8,229,846
Loans and receivables from customers	31,266,179	15,326,297	15,167,190	14,701,483	2,061,362		3,858,357	82,380,868
Other assets	120,882	279,689	1,024,625	1,763,295	--		15,070,098	18,258,589
Total assets	65,839,245	17,715,188	21,059,974	22,715,685	4,149,418		24,499,108	155,978,618
Liabilities								
Due to banks	10,878,962	5,740,659	576,190	340,839	--		193,970	17,730,620
Due to customers	45,054,864	5,697,647	9,778,331	15,832,822	866,112		14,955,278	92,185,054
Issued debt securities	84,666	272,037	887,531	2,579,975	--		--	3,824,209
Funds borrowed	610,775	1,093,043	2,315,693	2,330,634	2,275		--	6,352,420
Other liabilities and equity	34,967	19,860	333,422	274,956	18,862		28,522,538	29,204,605
Subordinated liabilities	--	69,571	6,212,269	--	399,870		--	6,681,710
Total liabilities	56,664,234	12,892,817	20,103,436	21,359,226	1,287,119		43,671,786	155,978,618
Off-statement of financial position - sensitivity gap	(251,993)	(617,861)	2,056,785	176,741	(1,632,321)		7,613,029	7,344,380
Net gap	8,923,018	4,204,510	3,013,323	1,533,200	1,229,978		(11,559,649)	7,344,380

Assets	31 December 2020						Non-interest bearing items	Total
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years			
Cash and balances at central banks	7,864,711	--	--	--	--		1,814,426	9,679,137
Financial assets designated at fair value through profit or loss	375,817	289,264	89,017	178,630	--		117,905	1,050,633
Investment securities	2,424,034	453,825	1,781,534	2,478,682	1,622,156		1,007,353	9,767,584
Loans and receivables from banks	3,206,186	445,524	409,543	--	--		626,704	4,687,957
Loans and receivables from customers	16,080,990	10,419,302	9,295,092	10,735,427	1,830,029		2,907,460	51,268,300
Other assets	218,057	137,048	732,213	19,117	659,000		10,944,252	12,709,687
Total assets	30,169,795	11,744,963	12,307,399	13,411,856	4,111,185		17,418,100	89,163,298
Liabilities								
Due to banks	3,998,929	1,203,819	515,138	215,411	--		68,440	6,001,737
Due to customers	26,887,002	4,698,383	8,012,282	7,269,751	501,816		6,324,260	53,693,494
Issued debt securities	47,646	--	6,452	1,929,419	--		--	1,983,517
Funds borrowed	583,863	2,239,561	1,685,064	1,626,000	26,831		--	6,161,319
Other liabilities and equity	23,710	12,409	52,206	174,601	29,024		17,310,491	17,602,441
Subordinated liabilities	--	38,843	138,251	2,236,498	1,307,198		--	3,720,790
Total liabilities	31,541,150	8,193,015	10,409,393	13,451,680	1,864,869		23,703,191	89,163,298
Off-statement of financial position - sensitivity gap	(506,532)	7,648	(799,379)	2,649,908	(1,216,323)		(431,311)	(295,989)
Net gap	(1,877,887)	3,559,596	1,098,627	2,610,084	1,029,993		(6,716,402)	(295,989)

40 Financial risk management (continued)

Market risks (continued)

Interest rate risk (continued)

Interest rate sensitivity

Banking:

CEG

Interest rate sensitivity in the banking book is measured by means of PV01 method. The PV01 method is based on flat upward shifts of each currency’s yield curve in magnitudes of one basis point. The economic value impact of these shifts on the banking book is then analysed. PV01 analysis is complemented with 200 basis points (bps) scenarios, which consist of the parallel shifts of the yield curves by shifting short-term rates and long-term rates for each individual currency. The interest rate risk on the banking book, excluding the trading book has been calculated as TL 174.4 million for 2021 with 200 basis point upward parallel rate shock (31 December 2020: TL 128.2 million).

Fibabanka

Fibabanka analyses and reports to Fibabanka’s senior management the interest rate sensitivity of equity on a monthly basis by applying positive and negative shocks to the interest rate sensitive on balance sheet and off-balance sheet positions which are distributed into group based on their cashflows.

The interest rate risk on the banking book, has been calculated as TL 228,572 (31 December 2020: TL 258,373) losses for 2021 on TL interest with 500 basis point upward, TL 198,258 (31 December 2020: TL 234,459) gains on TL interest with 400 basis point downward, TL 89,470 (31 December 2020: TL 11,716 gains) losses on USD interest with 200 points upward, TL 103,418 (31 December 2020: TL 8,815 losses) gains on USD interest with 200 points downward, TL 284,180 (31 December 2020: TL 155,789) losses on EUR interest with 200 points upward and TL 323,667 (31 December 2020: TL 171,514) gains on EUR interest with 200 points downward.

Factoring:

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 31 December 2021.

	Profit or loss		Equity (**)	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2021				
Variable rate instruments (*)	1,952	(1,952)	1,952	(1,952)
Total, net	1,952	(1,952)	1,952	(1,952)
31 December 2020				
Variable rate instruments (*)	1,661	(1,661)	1,661	(1,661)
Total, net	1,661	(1,661)	1,661	(1,661)

(*) Variable rate instrument include factoring receivables and funds borrowed.

(**) Equity effect also includes profit or loss effect of 100 bp increase or decrease in the interest rates.

40 Financial risk management (continued)

Market risks (continued)

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Currency risk is managed in major segments i.e. banking and factoring by following tools and principles:

Banking:

The Group's banking group enters into foreign currency forward transactions and swap transactions to decrease foreign currency position risk.

Fibabanka manages its currency risks through applying VaR limits. CEG engages in foreign currency and Eurobond buy/sell option transactions. Position limit of CEG related with currency risk is determined according to foreign currency net position standard ratio determined by the Dutch Central Bank.

CEG has control limits over the positions of forward transactions, options and other similar agreements. The credit risk arising from these instruments are managed together with the risks resulting from market fluctuations. CEG monitors risks of forward transactions, options and other similar agreements, reviews open positions with the ALCO Committee and takes appropriate action where deemed necessary.

Consolidated subsidiaries and associates determine position limits related with currency risk as determined by local regulatory bodies. Subsidiaries established abroad conduct their operations in local currencies of the countries they are incorporated in.

The result of structural foreign exchange positions on CEG's net investments in foreign subsidiaries and branches, together with any related net investment hedges (See Note 13), is recognised in equity.

Foreign exchange risk of the position held is calculated with VaR methodology and reported daily on bank only level and monthly on CEG level. The VaR limits and other market risk related issues are monitored by the Risk Management Department and discussed in weekly ALCO meetings.

Factoring:

Fiba Factoring is exposed to currency risk through transactions (such as factoring operations and borrowings) in foreign currencies. As the currency in which the Group presents its financial statements is TL, the financial statements are affected by movements in the exchange rates against TL.

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira (“TL”) unless otherwise stated)

40 Financial risk management (continued)

Market risks (continued)

Currency risk

The Group’s exposure to foreign currency risk was as follows (TL equivalents):

Currency analysis for the year ended 31 December 2021:

	31 December 2021 (TL Equivalent)			
	EUR	USD	Others	Total
Cash and balances with central banks	2,486,572	9,386,554	3,172,879	15,046,005
Financial assets at fair value through profit or loss	9,438	1,140,260	4,571	1,154,269
Financial investments	1,073,951	4,173,151	2,864,013	8,111,115
Loans and receivables from banks	784,941	3,556,862	141,453	4,483,256
Loans and receivables from customers	6,135,096	19,180,167	5,731,077	31,046,340
Factoring receivables	43,652	56,907	--	100,559
Other assets	60,966	1,326,953	1,083,281	2,471,200
Total assets	10,594,616	38,820,854	12,997,274	62,412,744
Due to banks	74,644	3,668,472	532,344	4,275,460
Due to customers	2,639,554	18,474,743	8,900,436	30,014,733
Issued debt securities	--	2,646,315	--	2,646,315
Funds borrowed	477,070	811,329	--	1,288,399
Other liabilities	93,378	557,327	329,335	980,040
Subordinated liabilities	--	6,681,710	--	6,681,710
Total liabilities	3,284,646	32,839,896	9,762,115	45,886,657
On statement of financial position net position	7,309,970	5,980,958	3,235,159	16,526,087
Off-statement of financial position net position	(7,563,496)	(6,998,268)	(3,007,383)	(17,569,147)
Net position	(253,526)	(1,017,310)	227,776	(1,043,060)

Currency analysis for the year ended 31 December 2020:

	31 December 2020 (TL Equivalent)			
	EUR	USD	Others	Total
Cash and balances with central banks	752,928	1,596,017	1,449,416	3,798,361
Financial assets at fair value through profit or loss	--	493,930	--	493,930
Financial investments	974,383	1,930,593	1,623,458	4,528,434
Loans and receivables from banks	321,165	1,785,524	288,491	2,395,180
Loans and receivables from customers	7,484,472	11,333,502	3,835,141	22,653,115
Factoring receivables	31,239	13,807	700	45,746
Other assets	17,974	897,469	738,944	1,654,387
Total assets	9,582,161	18,050,842	7,936,150	35,569,153
Due to banks	65,306	2,361,296	1,353,186	3,779,788
Due to customers	1,202,542	9,457,548	3,365,128	14,025,218
Issued debt securities	--	1,480,900	--	1,480,900
Funds borrowed	442,950	1,737,831	--	2,180,781
Other liabilities	18,508	307,257	191,370	517,135
Subordinated liabilities	--	3,720,790	--	3,720,790
Total liabilities	1,729,306	19,065,622	4,909,684	25,704,612
On statement of financial position net position	7,852,855	(1,014,780)	3,026,466	9,864,541
Off-statement of financial position net position	(7,578,860)	8,183,136	832,534	1,436,810
Net position	273,995	7,168,356	3,859,000	11,301,351

40 Financial risk management (continued)

Market risks (continued)

Currency risk (continued)

Sensitivity Analysis

A 10 percent strengthening of TL against the following currencies as at 31 December 2021 and 2020 would have decreased equity or profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	<u>2021</u>		<u>2020</u>	
	<u>Equity</u>	<u>Profit or (loss)</u>	<u>Equity</u>	<u>Profit or (loss)</u>
USD	(857)	102,588	3,747	(720,583)
EUR	(580)	25,933	4,739	(32,139)
Other currencies	(406)	(22,372)	(2,154)	(383,746)
Total, net	(1,843)	106,149	6,332	(1,136,468)

A 10 percent weakening of the TL against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group'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 behavior. Operational risks arise from all of the Group's operations and are faced by all business areas. The Group practices policies in accordance with local regulations and in the context of best international practices for operational risk identification, measurement, mitigation, reporting and control of international best practices in the context of implementing. Under the umbrella of operational risk, business continuity policies and procedures have been created. Business impact analysis has been made to ensure process based business continuity, critical activities of the institution and necessary resources to carry out these activities have been identified.

CEG has a Group Level Operational Risk Management (“ORM”) Department whose goal is to consolidate already existing ORM activities and coordinate implementation of the framework at locations where there was no prior ORM activity. The framework uses the Risk Control Self Assessment and Operational Loss database to identify risks and establish risk mitigating action points. Related departments have been given awareness trainings to ensure that operational risk management is embedded in day to day operations.

Capital management

The Group’s objectives when managing capital include:

- to comply with the capital requirements required by the regulators of the financial markets where the Group operates;
- to safeguard the Group’s ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

41 Group enterprises

The consolidated financial statements aggregate financial information from the following entities:

41.1 *Entities in foreign financial institutions segment*

<u>Name</u>	<u>Nature of business</u>
CEG	Holding
Credit Europe Bank N.V. (“CEB Holland”) ³	Banking
Credit Europe Bank S.A. (“CEB Suisse”) ¹	Banking
Credit Europe Bank Ltd. (“CEB Russia”)	Banking
Credit Europe Bank (Romania) SA (“CEB Romania”) ¹	Banking
JSC Credit Europe Bank (“CEB Ukraine”) ¹	Banking
Credit Europe Bank (Dubai) Ltd. (“CEB Dubai”) ¹	Banking
Credit Europe Leasing LLC (“Credit Europe Leasing Russia”) ⁴	Leasing
Credit Europe Leasing LLC (“Credit Europe Leasing Ukraine”) ¹	Leasing
Credit Europe Ipotecar IFN S.A. (“Credit Europe Ipotecar”) ²	Mortgage financing
Credit Europe Asset Management S.A. (“Credit Europe Asset Management”) ¹	NPL management
Credit Plus Gulf Ltd. (“Credit Plus Gulf”)	NPL management
FMT Holding B.V. (“FMT Holding”) ¹	Holding
Insurance Company Credit Europe Life Ltd (“Credit Europe Life”) ⁴	Insurance
Autopartners LLC (“Autopartners”) ⁴	Leasing
Cirus Holding ¹	Holding
Ikano ¹	Holding

¹ First consolidated under CEB Holland then under CEG.

² First consolidated under CEB Romania then consolidated under CEB Holland.

³ First consolidated under CEG then under the Group.

⁴ First consolidated under CEB Russia then under the Group.

41.2 *Entities in domestic financial institutions segment*

<u>Name</u>	<u>Nature of business</u>
Fibabanka	Banking

41.3 *Entities in factoring segment*

<u>Name</u>	<u>Nature of business</u>
Fiba Factoring	Factoring

41.4 *Entities in life insurance segment*

<u>Name</u>	<u>Nature of business</u>
Fiba Pension and Life	Pension and life insurance

41 Group enterprises (continued)

41.5 Entities in other segments

<u>Name</u>	<u>Nature of business</u>
Fiba Portföy Yönetimi A.Ş. (“Fiba Portfolio Management”) ²	Portfolio management
Gelecek NPL Management	NPL management
Finberg Araştırma Geliştirme Danışmanlık Yatırım Hizmetleri A.Ş. (“Finberg”) ²	Consulting
Etkin Değer Gayrimenkul Yatırım A.Ş. (“Etkin Değer Real Estate”) ¹	Real estate
Feniks Gayrimenkul Yatırım A.Ş. (“Feniks Real Estate”) ¹	Real estate
Ofishane	Real estate
Seyir Gayrimenkul Yatırım A.Ş. (“Seyir Real Estate”) ¹	Real estate
Ziyaret Gayrimenkul Yatırım A.Ş. (“Ziyaret Real Estate”) ¹	Real estate
Atlas Shipyard ¹	Ship construction
Angora 1 Shipping Ltd. (“Angora 1 Shipping”) ¹	Chartering and operating of own or leased vessels
Angora 2 Shipping Ltd. (“Angora 2 Shipping”) ¹	Chartering and operating of own or leased vessels
Angora 3 Shipping Ltd. (“Angora 3 Shipping”) ¹	Chartering and operating of own or leased vessels
Angora 4 Shipping Ltd. (“Angora 4 Shipping”) ¹	Chartering and operating of own or leased vessels
Cappadocia Shipping Ltd. (“Cappadocia Shipping”) ¹	Chartering and operating of own or leased vessels
Hitit Shipping Ltd. (“Hitit Shipping”) ¹	Chartering and operating of own or leased vessels
Hunter Navigation Inc. (“Hunter Navigation”) ¹	Chartering and operating of own or leased vessels
Mysia Shipping Ltd. (“Mysia Shipping”) ¹	Chartering and operating of own or leased vessels
Yeniköy Enterprises B.V. (“Yeniköy Enterprises”) ¹	Shipyard activities

¹ First consolidated under CEB Holland then under CEG.

² First consolidated under Fibabanka then under the Group.

41 Group enterprises (continued)

41.5 Entities in other segments (continued)

All subsidiaries are registered in Turkey except for the following companies:

<u>Name</u>	<u>Country of</u>
Angora 1 Shipping	Malta
Angora 2 Shipping	Malta
Angora 3 Shipping	Malta
Angora 4 Shipping	Malta
Autopartners	Russia
Cappadocia Shipping	Malta
CEB Dubai	The United Arab Emirates
CEB Holland	The Netherlands
CEB Suisse	Switzerland
CEB Romania	Romania
CEB Russia	Russia
CEB Ukraine	Ukraine
CEG	The Netherlands
Cirus Holding	The Netherlands
Credit Europe Asset Management	Romania
Credit Europe Ipotecar	Romania
Credit Europe Leasing Russia	Russia
Credit Europe Leasing Ukraine	Ukraine
Credit Europe Life	Russia
Credit Plus Gulf	The United Arab Emirates
FMT Holding	The Netherlands
Hitit Shipping	Malta
Hunter Navigation	Malta
Ikano	The Netherlands
Mysia Shipping	Malta
Yeniköy Enterprises	The Netherlands

Fiba Holding Anonim Şirketi and its Subsidiaries
Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2021
(Currency: Thousands of Turkish Lira (“TL”) unless otherwise stated)

41 Group enterprises (continued)

41.6 Subsidiaries

The table below sets out the subsidiaries and their shareholding structure at 31 December:

<u>Name</u>	<i>Direct controlling interest by Fiba Holding and its subsidiaries (%)</i>		<i>Effective ownership interest of Fiba Holding in its subsidiaries (%)</i>	
	<i>31 December 2021</i>	<i>31 December 2020</i>	<i>31 December 2021</i>	<i>31 December 2020</i>
Angora 1 Shipping	100.00%	100.00%	90.46%	90.46%
Angora 2 Shipping	100.00%	100.00%	90.46%	90.46%
Angora 3 Shipping	100.00%	100.00%	90.46%	90.46%
Angora 4 Shipping	100.00%	100.00%	90.46%	90.46%
Atlas Shipyard	100.00%	100.00%	90.46%	90.46%
Autopartners	89.69%	89.69%	62.31%	62.31%
Cappadocia Shipping	100.00%	100.00%	90.46%	90.46%
CEG	90.60%	90.60%	90.46%	90.46%
CEB Holland	100.00%	100.00%	90.46%	90.46%
CEB Suisse	100.00%	100.00%	90.46%	90.46%
CEB Russia	65.00%	65.00%	65.51%	65.51%
CEB Romania	99.34%	99.34%	89.87%	89.86%
CEB Ukraine	100.00%	100.00%	90.46%	90.46%
CEB Dubai	100.00%	100.00%	90.46%	90.46%
Credit Europe Leasing Russia	100.00%	100.00%	65.51%	65.51%
Credit Europe Asset Management	100.00%	100.00%	90.46%	90.46%
Credit Europe Leasing Ukraine	100.00%	100.00%	90.46%	90.46%
Credit Europe Ipotecar	100.00%	100.00%	89.87%	89.86%
Credit Europe Life	100.00%	100.00%	65.51%	65.51%
Credit Plus Gulf	100.00%	100.00%	100.00%	100.00%
Etkin Değer Real Estate	100.00%	--	90.46%	--
Feniks Real Estate	100.00%	100.00%	90.46%	90.46%
Fiba Factoring	56.96%	56.96%	58.75%	58.75%
Fiba Pension and Life	94.25%	93.25%	94.25%	93.25%
Fiba Portfolio Management	100.00%	100.00%	69.77%	71.88%
Fibabanka	69.47%	71.59%	69.47%	71.59%
Finberg	100.00%	100.00%	69.47%	71.59%
FMT Holding	100.00%	100.00%	90.46%	90.46%
Gelecek NPL Management	69.90%	87.63%	69.90%	87.63%
Girişim Receivable Management	--	99.99%	--	87.63%
Hitit Shipping	100.00%	100.00%	90.46%	90.46%
Hunter Navigation	100.00%	100.00%	90.46%	90.46%
Mysia Shipping	100.00%	100.00%	90.46%	90.46%
Ofishane	99.98%	99.98%	99.98%	99.98%
Seyir Real Estate	53.00%	53.00%	49.91%	49.91%
Yeniköy Enterprises	100.00%	100.00%	90.46%	90.46%
Ziyaret Real Estate	100.00%	100.00%	90.46%	90.46%

41 Group enterprises (continued)

41.7 Associates / Joint ventures

<u>Name</u>	<i>Direct controlling interest by Fiba Holding and its subsidiaries (%)</i>		<i>Effective ownership interest of Fiba Holding in its subsidiaries (%)</i>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Cirus Holding	50.00%	50.00%	45.23%	45.23%
Ikano	50.00%	50.00%	45.23%	45.23%
Stichting CE Custodian Services (*)	--	100.00%	--	90.46%

(*) Stichting CE Custodian Services is liquidated during 2021.

42 Subsequent events

With the start of the Russia-Ukraine war on 24 February 2022, uncertainties regarding the Group's operations in Russia and the region have emerged. While preparing the consolidated financial statements as of 31 December 2021, the effects of the Russia-Ukraine war and the sanctions on the Russian State, which were announced as of the publication date of the consolidated financial statements, on the consolidated financial statements are being evaluated by the Group management.

Group management believes that the Group will continue as a going concern for the foreseeable future and that there is no material uncertainty regarding the Group's ability to continue as a source of concern. Management will take the necessary measures to mitigate the expected adverse effects of these events.

In the Official Gazette No. 31810 dated 15 April 2022, the Law No. 7394 on the Evaluation of the Immovable Property of the Treasury and Amending the VAT Law and Amending Some Laws and Decree-Laws was published. According to the regulation made by the law;

Corporate tax rate has been increased to 25% for the banks and companies covered by Law No. 6361 (financial leasing, factoring and financing companies established in Turkey), electronic payment and money institutions, authorized foreign exchange institutions, asset management companies, capital market institutions, insurance and reinsurance companies and pension companies.

With the amendment made in the provisional article 13 of the Law, it was stipulated that the corporate earnings of the listed corporations for the 2022 taxation period would also be taxed at a rate of 25%. It is envisaged that it will enter into force on the date of publication, to be valid for corporate earnings.

Within the framework of these regulations, starting from the declarations of the second provisional taxation period of 2022, 25% of the earnings of the institutions for the 2022 and after accounting periods, the 2022 accounting period earnings of other institutions will be taxed at the rate of 23% and the earnings of the next period will be taxed at 20%.

The cumulative inflation over the past three years has risen to just above 100% in the first quarter of 2022. Based on this information, Turkey is considered a hyperinflationary economy for reporting periods ending on or after 30 April 2022. Accordingly, entities with operations whose functional currency is the Turkish Lira should expect to apply IAS 29 for those operations in financial statements for reporting periods ending on or after 30 April 2022.