

ANNUAL REPORT

2021 GARANTIBANK
INTERNATIONAL N.V.



Annual Report **2021**

GARANTIBANK INTERNATIONAL N.V.

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GBI is a **wholly-owned subsidiary of Garanti BBVA** and a **member of BBVA GROUP**

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Key Figures

EUR 1,000	2021	2020	2019	2018	2017
Total assets	4,129,876	3,430,176	3,615,038	4,288,512	4,274,149
Cash and balances with central banks	675,396	524,911	721,128	836,208	339,431
Loans and advances to banks	620,651	654,246	325,733	324,599	383,104
Loans and advances to customers	2,535,213	2,092,514	2,433,408	2,847,874	3,048,906
Financial assets at fair value through other comprehensive income	250,198	102,773	75,114	206,040	438,500
Deposits from banks	409,982	344,614	194,917	803,199	663,792
Deposits from customers	3,037,822	2,444,457	2,731,363	2,801,236	2,903,080
Equity	619,765	600,875	591,995	582,562	594,699
Total income	69,635	56,306	61,015	75,439	87,928
Profit for the year	18,011	6,803	6,612	12,020	26,234
RATIOS					
Common Equity Tier 1 ratio %	21.69	23.84	23.89	21.27	20.44
Total capital ratio %	21.83	23.88	26.42	23.58	22.74
LCR - Liquidity coverage ratio %	516.9	509.3	769.9	583.3	359.9
Cost to income ratio % ¹	58	72	71	62	51
Return on average equity % ²	3.00	1.15	1.13	2.10	4.53
Non-performing loans % ³	0.93	1.02	2.78	3.14	1.93
Cost of Risk % ⁴	0.20	0.30	0.32	0.43	0.28
Return on average assets %	0.48	0.19	0.18	0.29	0.58
STAFF & NETWORK					
Total average number of employees	224	240	244	251	242
Foreign branches & representative offices	3	3	3	3	3

¹ – Cost-to-income ratio is calculated using total expenses and total income. Expected credit losses are excluded.

² – Return on average equity is calculated using average shareholders' equity, excluding result after tax.

³ – Credit impaired loans to customers / Gross loans to customers

⁴ – Expected credit losses on financial instruments / Average gross amounts of loans and advances to customers

About Us

GBI is a **wholly-owned subsidiary of Garanti BBVA** and a **member of BBVA Group**.

GarantiBank International N.V. (“Garanti BBVA International” or “GBI”) is a mid-sized European bank established in Amsterdam, the Netherlands in 1990, with a branch in Germany. GBI serves corporate, institutional and retail clientele, offering financial solutions in the areas of trade and commodity finance, corporate banking, global markets and retail banking.

GBI is a wholly-owned subsidiary of Türkiye Garanti Bankası A.S. (Garanti BBVA). Our ultimate parent is Banco Bilbao Vizcaya Argentaria S.A. (BBVA). GBI operates in accordance with the Dutch and European Union laws and regulations, and is under the supervision of the European Central Bank (ECB), De Nederlandsche Bank (DNB) and De Autoriteit Financiële Markten (AFM).



Purpose & Values

OUR PURPOSE

TO BRING THE AGE OF
OPPORTUNITY TO EVERYONE

OUR VALUES

CUSTOMER COMES FIRST

We Are Empathetic
We Have Integrity
We Meet Their Needs

WE THINK BIG

We Are Ambitious
We Break The Mold
We Amaze Our Customers

WE ARE ONE TEAM

We Are Committed
We Collaborate
This Is Our Bank

Supervisory Board

Mr. Recep Baştuğ

Chairman Member of the Remuneration Committee

Mr. Baştuğ graduated from Çukurova University's Faculty of Economics. He started his career in Garanti BBVA's Internal Audit Department in 1989. Mr. Baştuğ worked as a Corporate Branch Manager from 1995 to 1999; a Commercial Regional Manager from 1999 to 2004; a Commercial Banking Coordinator from 2004 to 2012; and served as an Executive Vice President of Commercial Banking and Consumer Finance from 2013 to 2018. Following a brief period as a Vice Chairman at a private company he was appointed as the Board Member, President & CEO at Garanti BBVA on 1 September 2019. Mr. Baştuğ has 30 years of experience in banking and business administration.

Mr. Aydın Düren

*Chairman of Audit and Compliance Committee
Member of Risk Committee*

After serving as an associate, partner and managing partner for over 18 years at international private law firms in New York, London and Istanbul, Mr. Düren joined Garanti BBVA in 2009 as the Executive Vice President in charge of Legal Services. With 23 years of experience in banking and business administration, as a Board Member at Garanti BBVA, his current responsibility areas include Legal Advisory Services, Legal Collections, Litigation, Garanti Payment Systems, Legal Services, Wholesale Recovery and Retail Collections. Furthermore, Mr. Düren is the Vice Chairman of Garanti Bank Pension and Provident Fund Foundation, Garanti Bank International N.V. and Board Member of Garanti Payment Systems, Teachers Academy Foundation and Garanti BBVA Mortgage. Since June 2015, Mr. Düren has also served as the Corporate Secretary of Garanti BBVA.

Mr. René van der Linden

Chairman of Remuneration Committee

Member of the Supervisory Board of Eureka Sigorta; Member of the Supervisory Board of Ballast Nedam; Advisor of Otto Workforce; Member of the Dutch Parliament between 1977 and 1998 and Secretary of State for Foreign Affairs between 1986 and 1988; Member of the Benelux Parliament and of the Assembly of the Western European Union (WEU) and Vice President of the WEU from 1999 to 2004; Chairman of the European People's Party (EPP) in the Council of Europe from 1999 to 2004; President of the Parliamentary Assembly of the Council of Europe

from 2005 to 2008; Member of the Senate of the Netherlands from 1999 to 2015; President of the Dutch Senate from 2009 to 2011.

Mr. Harry de Roo

Chairman of Risk Committee

Board Treasurer of Stichting Nationaal Warmtefonds since 2013; Board member of Stichting Agri3; Non-executive member of the board and various committees of Rabobank Pensioenfonds from 2017 until feb 2022; Board member and Chairman Audit and Risk Committee at the International Maize and Wheat Improvement Center (CIMMYT) between 2016 and 2021; Non-executive member of the board and various committees at Banco Terra SA between 2013 and 2017; Advisor to Executive Board Rabobank between 2013 and 2014; CFRO/ managing board member at Rabobank International and board member of several nationally supervised retail bank subsidiaries - including the USA, Ireland and Poland of Rabobank International between 2006 and 2013; managing board member at Rabobank International between 2004 and 2006; CFO of Domestic Banking Activities at Rabobank Group between 2000 and 2004.

Ms. Mirjam Halverhout

*Member of Audit and Compliance Committee
(as of July 2021)*

Since 2017 member of the management team of Projective Biz and ProjectiveGroup, a European consultancy firm in financial services. Since 2018 member of the supervisory board and remuneration committee of Stichting Bureau Krediet Registratie (BKR), a Dutch credit registration agency. Between 2011 and 2016 board member of Solid Mortgages B.V. Between 2005 and 2009 CEO of Direktbank N.V. and furthermore over 20 years of management and board experience at Rabobank in corporate and retail banking.

Mr. Bart Meesters

*Member of Audit and Compliance Committee
(until July 2021)*

Dutch qualified lawyer and partner at Loeff Claeyns Verbeke/Allen & Overy from 1988 to 2010; Off-Counsel of Allen & Overy and independent lawyer from 2010 to 2015; Member of the Supervisory Board at Stichting Orkater between 2011 and 2019.

Managing Board



Mr. Erhan Zeyneloğlu
Chief Executive Officer

Mr. Zeyneloğlu began his career at Türkiye Garanti Bankası A.Ş. (Garanti BBVA) in Turkey. He joined GBI in 1995. Before his appointment as CEO, Mr. Zeyneloğlu held several managerial positions in various departments. In his most recent role, he served as the Executive Director responsible for Structured Finance and Retail Banking. Mr. Zeyneloğlu holds a Bachelor of Arts degree in Economics from Boğaziçi University.



Mr. Marco Witteveen
Chief Operating Officer

Mr. Witteveen's professional life began in 1985. He has since enjoyed a 35-year banking career. Twelve of these years involved expatriate assignments in Jakarta, London, New York and Geneva. During this time, he has held various managerial positions in several Dutch banks. Mr. Witteveen joined GBI in 2016 as the Chief Operating Officer responsible for technology and operations. He is a Business Economics graduate of Vrije Universiteit Amsterdam.



Dr. Övünç Şişman
Chief Financial Officer

Dr. Şişman began his career in 1999. Before joining GBI in 2003, he held risk management positions at Garanti. Before joining GBI's Managing Board, he was the Executive Director of Risk Management, Control and Reporting. Dr. Şişman holds a Management Engineering degree from Istanbul Technical University, a Master of Arts degree in Money and Capital Markets and Financial Institutions and a PhD in Economics from Istanbul University.



Mr. Cem Bahadır Mutlu
Chief Risk Officer

Mr. Mutlu joined GBI in June 2017 as the Executive Director of Credits. In January 2018, Mr. Mutlu was appointed as a member of the Managing Board. During his 28-year banking career, Mr. Mutlu has held various positions in several Turkish banks. He holds a BA degree in Economics from Ankara University's Faculty of Political Sciences.

Senior Management Team

TRADE & COMMODITY FINANCE

Mr. Ali Arolat
Executive Director

CORPORATE BANKING

Mr. Osman Barutçu
Executive Director

STRATEGY, SECURITY & CONTROL

Mr. Alex Hurkmans
Chief Digital Officer

DUSSELDORF BRANCH

Mr. Nevzat Işık
Executive Director

TALENT & CULTURE

Ms. Mijke van Tilburg-van Alfen
Director

COMPLIANCE

Mr. Tahsin Ertan
Chief Compliance Officer

INTERNAL AUDIT

Mr. Cenk Taşpınar
Chief Audit Executive

Report of the Managing Board

GBI has improved
its financial performance
in 2021

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Economic Developments

Global economic recovery remained strong yet heterogenous across countries and sectors throughout 2021. Robust monetary and fiscal policy responses, coupled with high vaccine rollout numbers enabled major developed economies to largely offset the impacts of the pandemic on output and employment figures. On the other hand, growth in emerging markets (ex-China) and developing nations has been soft, owing to a number of factors including increased case count due to low vaccination and sporadic occurrence of new variants, and diminishing monetary support in response to rising global inflation.

Improved pandemic outlook and reduced social distancing measures resulted in a partial release of the pent-up demand. Global manufacturing

activity gained substantial momentum, despite supply side disruptions caused by swift changes in the magnitude and composition of demand, labor market shortages due to lockdowns in some regions and increasing commodity and transportation prices. Services remained firm albeit softer overall in comparison to manufacturing activity, as pandemic measures proved to be a larger setback, especially for tourism.

In the light of these developments, the global economy is set to grow at 6.1% in 2021, and 4.4% in 2022. As the flagship of global growth, the US economic output is expected to rise by 5.6%, and 4.2% respectively. The Eurozone, on the other hand, is expected to grow steadily at 5.1% and 3.7% respectively.

Release of pent-up demand and supply side bottlenecks, as well as rising commodity prices and ample monetary stimulus fuelled global inflation in 2021. The US inflation printed 7.0% y/y in 2021, the highest in over three decades. Similarly, Eurozone inflation is set to rise 5.0% y/y. Still, the global inflation trend is expected to fade over the coming years, as most of the factors contributing to its rise are deemed transitory. The US and Eurozone inflation figures are expected to average 4.8% and 3.0% respectively in 2022.

In 2021, the global monetary and fiscal stance remained very accommodative, so as to dampen the continued effects of the pandemic on the economy. The Federal Reserve kept its interest rate target range at 0.00% - 0.25% throughout the year. Asset purchases continued at a total pace of USD 120 bn per month for most of the year, until it was decreased to 40 bn per month in November. Subsequently, total assets of the Federal Reserve amounted to US 8.8 trn as of 2021, growing 19% y/y. On the fiscal front, the American Rescue Plan Act enacted early in 2021 added an extra USD 1.9 trn (circa 9% of GDP) to the fiscal stimulus envelope. In Europe, the ECB interest rates were unchanged, while continuing asset purchases under APP and PEPP took the ECB balance sheet to EUR 8.6 trn (+23% y/y).

In the wake of soaring inflation and with post-pandemic recovery in sight for developed markets, financial conditions are expected to tighten in 2022. The Federal Reserve, which already began tapering its asset purchases in November 2021, is set to end the latter by the first quarter of the year. Median staff projections imply three rate hikes for both 2022 and 2023. In Europe, the ECB announced the

end of the EUR 1.85 trn PEPP envelope in March, while mildly boosting purchases in the standing APP program to avoid cliff effects. The additional interest rate incentive for the TLTRO III is also set to end in June 2022. While the ECB members committed to action should inflationary pressures diverge from forecasts, current price dynamics are still seen as transitory and core inflation is expected to undershoot the ECB's target in the medium term. Meanwhile, the impact of the omicron variant, though less disruptive, remains a downside risk to the recovery outlook, as some members of the monetary union welcome the year under lockdowns.

Emerging markets (ex-China) saw substantial outflows as recovery lagged. Several EM central banks resorted to rate hikes due to inflationary pressures in 2021. The trend is expected to continue, with global economic backdrop causing potentially more headwinds in 2022. Still, swifter global recovery from the virus with increased vaccine rollout and faster convergence to normalcy poses upside risks for these economies.



In 2021, the global monetary and fiscal stance remained very accommodative, so as to dampen the continued effects of the pandemic on the economy.

Financial Analysis

It has been another challenging year in 2021, marked by the strong impact of the COVID-19 pandemic, with severe health and economic consequences. In this context, and as part of BBVA Group, our priorities have remained clear and unchanged: protecting the health of our employees, clients and society as a whole, providing an essential service to the economy, and financial support to individuals and businesses, while focusing on growth in the second half of the year.

GBI HAS IMPROVED ITS FINANCIAL PERFORMANCE IN 2021

Despite a challenging operating environment, GBI has demonstrated the strength of its business model, and has reported solid financial results, with total income growing at double digit. Our solid capital and liquidity position has supported us throughout 2021. In line with the strong risk metrics as well as the improving financial performance Moody's upgraded GBI's deposit rating to Baa3 from Ba1, reflecting the achieved de-risking of GBI's credit profile and closer alignment to the strategic priorities as set by its ultimate parent BBVA, and the reduced potential for transmission of risks to GBI from its exposure to counterparties in emerging economies.

GBI has delivered a strong profit before tax, which increased by 160 percent versus last year. A strong income generation led to an improvement in cost to income ratio to 58.25 percent from 72.24 percent. Thanks to our selective approach and sound credit risk practices, the cost of risk has decreased to 20 bps compared to 30 bps of 2020 and NPL ratio has decreased to 0.93 percent from 1.02 percent in 2020. Finally, we have maintained our strong capitalization, with a CET1 capital ratio of 21.69 percent (2020: 23.84 percent).

ASSET GENERATION INCREASED IN 2021 WHILE THE ASSET QUALITY HAS CONTINUED TO IMPROVE

GBI has continued its sound approach to its credit policy in 2021, where the global economic recovery has been observed coupled with heterogenous sectoral performance. In this challenging operating environment GBI has been able to increase its total assets to EUR 4.1 billion from the level of EUR 3.4 billion at the end of 2020. The main driver of growth has been the increase in "Loans and Advances to Customers" by EUR 443 million, in line with the GBI's risk transitioning as per the risk policies in place, by continuous reduction to loans to customers residing in Turkey and decrease in loans to customers operating in economic sectors that have a higher risk profile. The growth has been funded by stable funding resources through the increase in "Deposits from Customers" by EUR 593 million. "Loans to Banks" has slightly decreased by EUR 34 million, despite an increase in client-driven trade finance exposures by 14 percent. The decrease in "Loans to Banks" is mostly driven by significant decrease in reverse repo transactions by EUR 132 million. Instead of using collaterals through reverse repo transaction, the "Marketable Securities" portfolio held in FVOCI has been increased by EUR 147 million, through new purchases made in line with the guidelines of the Group ALM Investment Policy. "Deposits from Banks" has increased by EUR 65 million, mostly as a result of the additional use of the TLTRO facility from ECB, while market-based funding from other financial institutions has been decreased, in an effort to optimize funding cost. As a result of all these actions, "Cash and Balances with Central Banks" has increased by EUR 150 million to EUR 675 million (or 16.4 percent of the balance sheet), providing a strong liquidity position.

GBI's asset quality has remained strong during 2021. Despite a slight increase in Stage 3 loans to EUR 23.7 million (2020: EUR 21.5 million) in 2021, the Bank has managed to reduce its NPL ratio to 0.93 percent

(2020: 1.02 percent). ECL allowance has increased by EUR 3.4 million, from EUR 27.7 million in 2020 to EUR 31.1 million in 2021 in line with the increase in the business volumes. GBI has preserved its prudent approach and increased the ECL allowance for loans and advances to corporates and banks by EUR 3.6 million in 2021.

"Contingent Liabilities" has decreased by EUR 139 million to EUR 420 million (2020: EUR 559 million) partly as a result of a decrease in commitments in loan granting by 44 percent, as well as a temporary decrease in the letters of credit at the year-end.

"The Profit for the Year" stands at EUR 18.0 million in 2021, which is an increase of 164.7 percent compared to 2020 (EUR 6.8 million). This strong improvement in profitability has been achieved through a combination of improvement in all operational areas, but mainly driven by increase in total income as well as stable operating expenses and lower cost of risk. As a result, GBI has improved its return on average equity (ROE) to 3.00 percent in 2021 (2020: 1.15 percent).

"Total Income" amounted to EUR 69.6 million, which is 23.7 percent higher than in 2020 (EUR 56.3 million). This increase in is mainly explained by the surge in commission income as a result of increase in trade finance volume as well as the improvement in "Net Interest Income" due to the growth in loans to banks and customers. Another important factor was the decrease in cost of funding. GBI has continued to decrease the interest expense on deposits from customers by 37.4 percent, despite an increase in deposits by 24.3 percent. As a result NII has increased to EUR 53.1 million in 2021 (2020: EUR 46.9 million). Consequently, the Net Interest Margin (NIM) has improved to 1.41 percent (2020: 1.33 percent).

The net commission income has increased from EUR 10.9 million in 2020 to EUR 17.4 million in 2021, due to higher commissions trade finance commissions reaching EUR 13.3 million (2020: 7.0 million) related to increased transactional volume. Trading gains have also improved by EUR 0.6 million in 2021 to EUR 2.5 million (2020: EUR 1.9 million). Other income and expenses, which are mostly driven by the contributions to the deposit guarantee fund and national resolution fund has almost stayed at the same level of EUR 3.3 million in 2021 (2020: EUR 3.4 million).

Total operating expenses stabilized at EUR 40.6 (2020: EUR 40.7 million). GBI continued to decrease its personnel expenses to EUR 26.3 million in 2021 (2020: EUR 26.8 million) whereas observed a modest increase in other operating expenses and depreciations in intangibles as a result of ongoing digitalization initiatives.

Change in allowances for expected credit losses led to a loss of EUR 4.7 million in 2021 (2020 EUR 6.2 million). This is mainly driven by the increase in the provisions on Stage 1 and Stage 2 assets due to the growth in loans and advances to customers and banks. GBI has continued to be cautious in the calibration of collective ECL models to reflect the potential aftermath effects of the global COVID-19 pandemic, as well as in the individually assessed loans.

Income tax expense is EUR 6.4 million for 2021 (2020: EUR 2.6 million) with an effective tax rate of 26.1 percent (2020: 28.0 percent) similar to last year.

Moody's upgraded GBI's deposit rating to Baa3

Despite a challenging operating environment, GBI has demonstrated the strength of its business model, and has reported solid financial results, with total income growing at double digit.

Business Strategy & Developments

There were challenges in 2021, marked by the impact of the pandemic, with severe health and economic consequences. In this context, our priorities have remained clear and unchanged: protecting the health of our employees, clients and society as a whole, providing an essential service to the economy, and financial support to individuals and businesses. GBI continued to focus on its strategic priorities in 2021, where the human talent and the customer focus have been the main strengths. The pandemic we are facing has accelerated trends on which our strategy is based, such as digitization. Our commitment in digitalization is paying off and has given us an advantage that has allowed us to better serve our customers, even in a context as complex as the present, and largely operating remotely.

Working with a high quality and engaged team, we have been able to tackle the challenges and also take advantage of the opportunities that this new environment affords us. We would like to take this opportunity to praise the efforts of our employees for their constant dedication, their continuous effort and their contribution to these results in a particularly difficult year for everyone. It is thanks to each one of these individuals that we are able to work as one team. At GBI we will continue to work to achieve more sustainable and inclusive development.

GBI continued to focus on its strategic priorities in 2021, where the human talent and the customer focus have been the main strengths.

WE PROVIDE SIMPLE YET CUSTOMIZED SOLUTIONS IN A COMPLEX REGULATORY AND MACROECONOMIC ENVIRONMENT

GBI is a mid-sized European bank, with a branch in Germany. We primarily serve retail, corporate, institutional and high-net-worth clientele. We strive to create an appealing and unique client experience to achieve mutual benefit and client loyalty.

Our personal approach, reliability, stability and sound balance sheet, provide comfort and value to our stakeholders. We provide simple yet customized solutions in a complex regulatory and macroeconomic environment. Our digital capabilities and aspirations which are firmly supported by our parent, Garanti BBVA and by our ultimate parent BBVA, aim to enhance the value that we create for our clients and counterparties.

BUSINESS LINES

RETAIL BANKING

GBI has been positioned as a savings bank both in the Netherlands and Germany for almost three decades. We serve over 70,000 clients in these markets. Euro-denominated savings deposits by our retail clients has been a major funding source for GBI as a key component of its strategy.

We offer simple savings products through digital and offline channels. Our dedicated retail banking teams deliver a unique customer experience through our own native-speaking and personable call centers in the Netherlands and Germany, which differentiates us and bolsters client loyalty.

Our customer satisfaction survey and donation program in cooperation with Make-A-Wish Foundation started in 2018 and it repeats yearly. This feedback mechanism helps us constantly improve on our customer experience and contributes to our corporate social responsibility projects.

The improvements in our digital channels were appreciated by our customers based on their feedback. Both our retail websites in the Netherlands and Germany, redesigned with a new look and feel, and mobile functionality were launched in 2021. Since Q4-2020, our Dutch SME and German individual savings clients are using our new digital customer portal. With this new portal, we offer various functionalities with a contemporary design. One-click fund transfer, client data maintenance, opening/closing accounts and deposits, direct messaging, and widget structure for personalized experience are some of the functionalities offered to our clients with a state-of-the-art technical infrastructure. Dutch individual savings clients will be migrated to the new digital portal in the course of 2022. Furthermore, we plan to enhance the digital experience of our customers starting from onboarding to complete customer life cycle. As part of our continuous improvements, we will be focusing on the improvements in instant verification solution and, dialogue management solution to deliver an aggregate and instant communication experience.

As a final note, both in the Netherlands and Germany, we were able to serve our customers as usual and deliver the same quality service during the pandemic despite the negative impact of COVID-19, thanks to our technological infrastructure and fast adaptation to remote working, without posing any risk to our employees. Our customers were able to reach us immediately and we took care of their requests without any disruption.

TRADE & COMMODITY FINANCE

International trade and financing of commodities and merchandise can be challenging and complex. Geopolitical events, global supply and demand imbalances, regulatory and jurisdictional variations, commodity and currency price fluctuations, natural disasters and weather conditions constantly test the sustainability and resilience of global trade and its actors.

Since GBI's inception in 1990, we have served corporations functioning as international merchants and supply chain managers, physically trading various commodities and corporations that produce, store, import, export and distribute commodities and other merchandise as part of the global supply chain. Our clients take an active role in the international physical trade of metals, agricultural products and energy commodities with trade flows spanning across Europe, the Middle East, Africa, the Americas and Asia.

Trade & Commodity Finance delivers traditional products such as transactional trade finance facilities with or without self-liquidating structures, hedging and margin-call financing, syndicated facilities, Schuldschein lending, documentary credits and collections. In the context of cross-selling and holistic client coverage, we also offer correspondent banking solutions, trade-receivables factoring, hedging and cash management services. With such a vast array of banking and trade finance products, we continuously strive to deliver the best value and risk coverage to our clientele with fast and seamless execution. Consequently, our clients enjoy simple solutions and smooth handling while we deal with any challenges and complexities in the background.



Following a successful 2020 where, despite the pervasive impact of COVID-19, we managed to benefit from the retrenchment of several large banks from the Trade & Commodity Finance market, we further built our platform to take advantage of strong demand from Asia and other parts of the world against a backdrop of rising commodity prices. This effort paid out throughout 2021; total trade finance volumes rose significantly, thanks to growth of commodity finance loans and the growth of documentary credits supporting our clients' cross border trade activities. As a result, we benefited from increasing profitability where commissions earned on documentary credits increased by 90%. Loans to customers and banks grew while maintaining solid asset quality again no impairments. Our aim remains to selectively chase opportunities that fit our scale and risk appetite, while also taking advantage of synergies with other BBVA entities.

CORPORATE BANKING

Under our Corporate Banking coverage, we serve a select set of corporate clienteles with international operations, which are predominantly based in the Netherlands, the rest of the European Union and Turkey with well-structured products, that can be categorized under transactional banking, including but not limited to; working capital loans, trade-loans, local currency lending, receivable finance and Islamic finance. To promote cross-selling, any of the aforementioned can be combined or used alongside cash management products, documentary credits, collections, correspondent banking arrangements or hedging products, to best serve the interest of our clients.

In addition to delivering various services and lending products, we also attract deposits from our corporate clients. These are roughly equivalent to two-thirds of our retail banking funding, a substantial amount of which is mostly denominated in US dollars.

Key success factors of our Corporate Banking offerings are clear communication and coordination, a personal approach, swift execution and embracing ownership of our clients' challenges.

In 2021, despite the volatile and challenging economic conditions, GBI Corporate Banking proved its resistance and flexibility in adjusting to the new environment and achieved a moderate loan growth. For the year ahead, we will continue our prudent strategy to further improve our tailor-made product offerings and client coverage in target markets.

FINANCIAL INSTITUTIONS

GBI has had successful relationships and good cooperation with other reputable global and regional financial institutions since its inception in 1990.

The Financial Institutions and Investor Relations (FI&IR) department covers GBI's correspondent banking relationships with other financial institutions (FIs) around the globe, which entails cooperation in a broad range of areas and products, including but not limited to transactional banking such as documentary credits, collections and cross-border payments as well as financial markets such as FX and derivatives transactions. In addition, FI&IR is active in origination and distribution of trade-related assets in the secondary markets.

By establishing and maintaining necessary correspondent banking relationships with FIs, and securing crucial credit limits with them, FI&IR also supports our Trade and Commodity Finance, Corporate Banking, ALM and Global Markets teams in terms of their related transactional needs.

FI&IR is also responsible for managing GBI's relations with the credit rating agencies and coordinating the external rating process of the bank.

GLOBAL MARKETS

Our Global Markets activity incorporates trading functions related to fixed income, rates and currencies.

The Global Markets team provides market access for GBI's Global Markets Sales activity, which in turn supports corporate and individual investor clientele and manages very limited positions in the cited financial markets. We are able to reach sizeable transaction volumes through our broad network of market counterparties. This ensures fast, accurate and competitive pricings for our customers in compliance with MiFID-II regulations.

GLOBAL MARKETS SALES

Our Global Markets Sales (GMS) department provides financial intermediary services to high-net-worth individuals and corporate clients. Our services are delivered to our clients in advisory and execution-only forms. We provide our clients access to global financial markets. Our advisory services are designed for clients who would like to receive guidance in their financial investments. We provide risk-based portfolio advice, and investment and risk management ideas to help our clients achieve capital preservation and steady portfolio growth. Our execution-only brokerage services are for the clients who seek market access through direct, fast and accurate order execution.

GBI aims to position itself as the home bank of core clients by providing a complete set of financial services through our GMS activity. Owing to GMS's enhanced returns, coherent advisory and transparency in relationships, GBI enjoys high customer loyalty.

Despite the volatility in global markets, GMS managed to deliver solid results in terms of assets under management increase in 2021. In 2022, with the ongoing digitalization of our processes and products, GMS aims to continue focusing on providing value to our clients as well as our stakeholders.

ASSET, LIABILITY & CAPITAL MANAGEMENT

GBI focuses on prudent balance sheet management with the aim to sustain adequate risk-adjusted return on capital, a sound funding structure and strong level of solvency and liquidity. We have an Asset and Liability Management (ALM) function, which acts as the central point and applies a funds transfer pricing mechanism, isolating front offices from market risks. These risks are translated into an institutional level to be strategically navigated by the Assets and Liabilities Committee (ALCO).

Commissions earned on documentary credits increased by 90%.

GBI oversees the efficient capital allocation and the management of liquidity, interest rate and exchange rate risks through its Finance function, which analyses and reports on these risks and proposes alternative strategies to ALCO.

GBI's overall approach to capital management is intended to maintain sufficient capital to cover the (economic) risks at all levels and to ensure compliance with regulations. GBI's Capital Management strategy is driven by our strategic aims and risk appetite. Our policy is to retain sufficient financial flexibility to implement GBI's strategy in all market conditions. GBI's Risk Appetite Statement forms the basis of the capital plan. The capital plan sets targets well above the minimum regulatory requirements. The Risk Appetite Statement and targets are developed and communicated to all affiliated businesses. Policies for recovery planning are a natural extension of GBI's capital management policies. Within this context, and as a BBVA Group entity, GBI is subject to the Internal Liquidity Adequacy Assessment Process (ILAAP) and Internal Capital Adequacy Assessment Process (ICAAP) as stipulated by the European Central Bank to BBVA Group.

RISK MANAGEMENT

In our day-to-day business, GBI is exposed to multiple financial risks. These include liquidity and funding risks, interest rate risk, credit risk in our lending and banking transactions and market risk in our trading positions.

Financial risk management at GBI is monitored and governed by an independent Risk Management function. The function primarily serves to correctly identify, measure and propose management actions for risks to the Credit Committee, ALCO, Risk Management Committee and the Supervisory Board in normal and stressed economic conditions and to oversee our business activities to ensure that they are consistent with GBI's risk appetite.

In addition to these financial risks, GBI is subject to non-financial risks in our daily operations. These pertain to IT and cybersecurity, operational processes, integrity risks, compliance to rules

(particularly in relation to Know Your Customer, Anti Money Laundering, Sanctions and Data Privacy), regulations, laws as well as the ethical and social norms that generally apply to our people and activities.

In 2021, we have remained focused on enhancing our internal control environment on non-financial risks, ensuring compliance with applicable laws and regulations in the most effective manner. As always, special attention was given to the management of inherent risks related to Financial and Economic Crime (FEC) including integrity risks such as money laundering, corruption or evasion of sanctions regulations.

The overall amount of risk that GBI is willing to take is established in the Risk Appetite Framework. We monitor a range of risk metrics to ensure our risk profile is in line with our risk appetite. The Risk Appetite Statement, the Principles of Risk Appetite and the Limit Framework, all of which are approved by the Supervisory Board, are designed to withstand market volatility and stress, while meeting strategic goals and regulatory requirements. They combine various financial and non-financial risk disciplines into a single converged approach and provide businesses with a clear and fair view of their risks and the way these risks are managed.

In 2021, GBI has also started a very important project in order to further enhance its Sustainability approach. With this project, GBI aims to define ESG as part of its strategy, establish a roadmap for the implementation of strategic initiatives, enhance accountability and improve its ICAAP by defining its risk appetite, performing materiality assessments and stress tests.

Further disclosures on risk management are provided in the Risk Management section of the financial statements in this Annual Report.

Digital Transformation

Covid-19 and all its variants continued to have a firm grip on the world in 2021 and the way organizations like GBI served their clients and collaborate. The dependency on a solid, robust and scalable digital operating model increased even more. Despite all consequences related to well-being of humankind, thanks to our digitalization initiative GBI's value chains could still operate continuously and efficiently. Next to that, the progress achieved in 2021 substantially contributed to a robust, stable and more secure operating model.

At first GBI accelerated in 2021 Business and IT alignment, supporting GBI Strategy, Security and Control with the goal to support and translate GBI's strategy into innovation, accelerate continuous improvement and fully integrate all non-financial risk related activities within the value chains and domains.

Second, the foundation for 2022 - 2023 was laid on with revised relationships with strategic vendors and platforms strengthening and supporting GBI's ambition to continue and enhance using services from tech giants and existing and proven services in the market. This foundation will ensure that GBI is able to focus on what truly matters: customer experience and employee engagement.

And third, GBI continued to deliver improvements in our value chains, and we are still very proud of all achievements realized last year where we expanded our services on our Internet Banking Platform, the renewal of our websites and realized internal efficiencies.

The progress achieved in 2021 substantially contributed to a robust, stable and more secure operating model.

Outlook 2022

Our strategic priorities in 2022 include improving the revenue stream through our core business lines Trade Finance, Corporate Banking and Global Markets Sales while enhancing our efficiency by cost control and further digitalization of operational flows and customer services.

The economic recovery will continue in 2022, as uncertainties around inflation, supply chain tensions and new COVID-19 variants gradually clear up. The unprecedented changes we are witnessing around the world in terms of digitization and technological innovation and in terms of sustainability, especially decarbonization, will continue to play a key role. This affects all businesses and all sectors, in all countries. We believe these are big challenges ahead, but also great opportunities

Economic activity has been recovering faster than expected from the pandemic crisis. The ongoing improvement is mostly related to the economic reopening supported by the vaccination process and the large fiscal and monetary stimulus, especially in G3 economies. After having fallen 3.2 percent in 2020 global GDP is expected to expand by 6.3 percent in 2021 and 4.7 percent in 2022. However, some negative supply shocks (such as bottlenecks in global value chains and higher energy prices) that have been holding economic activity down in recent months will likely continue to weigh on growth in 2022.

In the US, Eurozone and China, GDP is expected to grow in 2022 at a relatively slower pace than 2021. There are now better growth prospects also for emerging countries, although the pre-crisis GDP levels will take longer to be achieved in most of them in a context of lagged vaccination as compared to advanced economies, less room for policy stimulus and higher commodity prices.

Increasing inflation observed over the course of 2021 is likely to ease in 2022 as supply catches up with demand, bottlenecks fade and commodity prices lose steam. Overall, inflation is thus expected to remain broadly under control. Economic policies will keep focused on supporting the economic recovery, but higher inflation reduces their room for maneuver. The Fed is likely to carry out a gradual tapering during the first half of 2022, while starting its rate hikes. In Europe, the ECB is expected to scale down bond purchases (PEPP) and will likely redefine its key policy parameters in early 2022 regarding the interest rate path. Regarding fiscal policy, further stimulus is expected in the US. In Europe, the NGEU has been approved and could have a small short-run effect, but a significant impact in the long run. The process of withdrawal of monetary stimulus by the Fed is assumed to weigh on emerging markets assets and trigger earlier than expected hikes by local central banks.

Our risk management approach will continue to sustain strong solvency, sufficient liquidity and low leverage to maintain our asset quality while targeting a cost-effective funding structure.

Our strategic priorities in 2022 are: enhancing our Trade Finance franchise with an emphasis on creating synergies with the Group, focusing on serving our European-based clientele in Corporate Banking and moderately growing assets under management within our Global Markets Sales activities. We will continue with our stable funding strategy, which is aimed at preserving the retail franchise and diversifying our wholesale funding base. Digitalization of operational flows and customer services, and our ambition to work with the best and most engaged team will remain as the main pillars of our operating model. We believe these strategic priorities will result in ensuring a sustainable revenue stream and maintaining our high customer satisfaction level, while enabling a further reduction in controllable expenses and creating value for our stakeholders in a responsible manner.

Our risk management approach will continue to sustain strong solvency, sufficient liquidity and low leverage to maintain our asset quality while targeting a cost-effective funding structure.



Effective corporate governance in accordance with **high international standards is fundamental to GBI**

Corporate Governance

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Financial Reporting Process

As GBI is a wholly-owned subsidiary of Türkiye Garanti Bankası A.Ş. (Garanti BBVA), which is in turn a consolidated subsidiary of Banco Bilbao Vizcaya Argentaria S.A. (BBVA), GBI's policies and procedures for establishing and maintaining adequate internal control over financial reporting are broadly in line with those applied by Garanti BBVA, the parent and BBVA, the ultimate parent.

GBI's internal control over financial reporting is a process designed under the supervision of management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of GBI's assets;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are made only in accordance with the authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, and any use or disposition of our assets that could have a material effect on our financial statements.

Managing Board Composition

GBI aims to have an adequate and balanced composition of its Managing Board. Thereto, annually, the Supervisory Board assesses the composition of the Managing Board. In the context of such assessment, GBI aims to achieve a gender balance in the Managing Board, with the aim that at least 30 percent of the members would be men and at least 30 percent of the members would be women. However, since GBI needs to balance several other relevant selection criteria when composing its Managing Board, the composition of the Managing Board did not match the above-

mentioned gender balance in 2021. GBI will continue to strive for an adequate and balanced composition of the Managing Board in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance of large stock-listed companies and experience in the political and social environment.

INFORMATION ON MEMBERS OF THE MANAGING BOARD

The Managing Board comprises the following members:

Name	Year of Birth	Position	Member since
Mr. S.E. Zeyneloğlu	1967	Chief Executive Officer	2015
Mr. Ö. Şişman	1977	Chief Financial Officer	2015
Mr. M. Witteveen	1960	Chief Operations Officer	2016
Mr. C.B. Mutlu	1968	Chief Risk Officer	2018

The full profile of the Managing Board can be found in the Charter Governing the Managing Board, which is published on GBI's websites www.garantibank.eu, www.garantibank.nl and www.garantibank.de.

Supervisory Board

GBI needs to balance several relevant selection criteria when composing Supervisory Board but strives for an adequate and balanced composition thereof, by taking into account all relevant selection criteria including, but not limited to experience in banking, gender balance, executive experience, experience in corporate governance, and experience in the political and social environment.

The Supervisory Board assesses its composition annually (2021: 20 (twenty) percent women as of July 2021). In the context of such assessment, GBI aims to have a gender balance in its Supervisory Board of at least 30 percent men and at least 30 percent women.

INFORMATION ON MEMBERS OF THE SUPERVISORY BOARD

The Supervisory Board currently consists of five members whose combined experience and technical knowledge are suitable for the international and specialized nature of GBI's businesses from commercial, economic, financial and risk management points of view.

The full profile of the Supervisory Board as of December 2021 can be found in the 'Charter Governing the Supervisory Board', which is published on GBI's websites www.garantibank.eu, www.garantibank.nl and www.garantibank.de.

Name	Year of Birth	Position	Member since	End of Term
Mr. R. Baştuğ	1967	Chairman	2020	2024
Mr. A. Düren	1968	Vice Chairman	2017	2025
Mr. R. van der Linden	1943	Member	2012	2022
Mr. J.H. de Roo	1956	Member	2020	2024
Ms. M. Halverhout	1961	Member	2021	2025

In 2021, the following changes were made to the composition of the Supervisory Board:

— On 29 July 2021 Mr Düren was re-appointed as member of Supervisory Board for a term of four years;

— Mr Meesters resigned from the Supervisory Board on 29 July 2021 following the expiry of his last term;

— Ms Halverhout was appointed on 29 July 2021 as new member to the Supervisory Board for a term of four years.

Future-Oriented Banking

GBI applies the principles of Future-Oriented Banking by embedding the assumptions of the Social Charter of the Nederlandse Vereniging van Banken - NVB (Dutch Banking Association) and the rules of conduct associated with the banker's oath in its Code of Conduct and by embedding the principles of the updated Banking Code in the governance structure.

All employees must comply with the self-regulations that apply within GBI. The Managing Board and Supervisory Board are responsible for ensuring as such with due regard for each other's duties and powers.

Amsterdam, 23 February 2022

The Managing Board

Mr. S.E. Zeyneloğlu, Chief Executive Officer

Mr. M.Ö. Şişman

Mr. M.J. Witteveen

Mr. C.B. Mutlu

The Supervisory Board has agreed to **transfer the net profit to general reserves**

Report Of The Supervisory Board

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Financial Statements

The Supervisory Board has voted to adopt the Managing Board's proposal to transfer the net profit of 2021, which totals EUR 18.0 million, to the other reserves rather than paying a dividend.

The financial statements were drawn up by the Managing Board and were audited in accordance with Article 27, paragraph 1 of the Articles of Association by BDO Audit & Assurance B.V. (BDO). In compliance with the provisions of the Articles of Association of GarantiBank International N.V. (GBI, the Bank), the Supervisory Board has reviewed the Annual Report and approved the financial

statements of the year 2020. In accordance with Article 29 of the Articles of Association, the Supervisory Board advises and proposes that the shareholder adopts the 2021 financial statements at the next Annual General Meeting of Shareholders to be held in 2022. The Supervisory Board also recommends that the Annual General Meeting of Shareholders discharge the members of the Managing Board and the Supervisory Board from their respective management and supervisory duties related to the financial year of 2021.

Financial Statements and Proposed Dividend

The Supervisory Board has voted to adopt the Managing Board's proposal to transfer the net profit of 2021, which totals EUR 18.0 million, to the other reserves rather than paying a dividend.

Supervisory Board Meetings

The Supervisory Board met on five occasions during the reporting period, and a quorum of members of the Supervisory Board was present at all meetings. In the meetings, the current business developments and performance of GBI were discussed thoroughly and considerable time was devoted to reviewing the Bank's strategy, current and future economic challenges, intensified supervision, compliance with compounded international and national regulations, actions to address the requirements of De Nederlandsche Bank (DNB), correspondence with regulators, including the DNB, the Autoriteit Financiële Markten (AFM) and the European Central Bank (ECB); continuous focus on a prudent and proactive credit risk management, the Risk Appetite, and the review and approval of various policies related to the group alignment process with BBVA and the preservation of good relations with our stakeholders. The 2020 annual figures and all related reports were assessed in the presence of our external auditor during the Supervisory Board meeting held on 17 February 2021. The budget for 2022 was discussed and approved during the Supervisory Board meeting held on 17 December 2021. The Board agreed with appointing BDO Audit & Assurance B.V. as the external auditor starting from the year 2021. Subsequently the external audit plan has been approved and the independence of the external auditor has been confirmed for 2021. Developments regarding the COVID-19 and its impact on GBI's risk management processes and financials have been an ongoing discussion point during 2021. The Managing Board's presentation incorporated the key developments around the implementation of the strategy, GBI's switch to the hybrid working environment, the financial impact of macroeconomic forecasts with regards to the provisions of IFRS 9 and the outcomes of loan portfolio reviews. The CFO and CRO attended all meetings and presented financial and risk management issues. The COO presented the implementation of the IT strategy, and the Supervisory Board discussed the steps required to realize our digital vision and elaborated on the outsourcing initiatives. Compliance related updates were discussed at all meetings. During the year, the Chairman of the Supervisory Board maintained close contact with the CEO, in addition to attending regular meetings of the Supervisory Board.

In parallel with the external auditor rotation at the Group level, GBI has initiated a tender for the selection and appointment of the external auditor. Supervisory Board agreed with the Managing Board's proposal to appoint Ernst & Young Accountants LLP as the external auditor, in line with the Group, starting from the year 2022 during the Supervisory Board meeting held on 16 December 2021 and decided to recommend to the Annual General Meeting of Shareholders to approve the appointment, which was approved accordingly.

SUPERVISORY BOARD SUBCOMMITTEE MEETINGS

While retaining overall responsibility, the Supervisory Board assigns certain tasks to three permanent committees as listed below and further outlined in the Supervisory Board Charter:

- Audit and Compliance Committee
- Risk Committee
- Remuneration Committee

AUDIT AND COMPLIANCE COMMITTEE

Members: Mr. A. Düren (Chairman) and B Meesters (until July 2021)/ Ms. M. Halverhout (since July 2021)

In 2021, the Audit and Compliance Committee of the Supervisory Board (ACSB) met five times. The Audit and Compliance Committee assists the Supervisory Board in supervising the activities of the Managing Board with respect to: (a) the quality and effectiveness of the internal risk management and controls systems of the Bank, including supervision of the enforcement of relevant laws and regulations and operation of the Codes of Conduct, Whistleblower regulations and corporate governance framework; (b) overseeing the quality and efficiency of the financial reporting processes; (c) submitting proposals for the selection, appointment, re-election and replacement of the external auditor; (d) ensuring that the internal audit and compliance functions can complete their responsibilities in an independent manner; (e) internal audit and compliance activities, findings, reports; and acting as the ultimate reporting authority for the internal audit and

compliance departments; (f) ensuring that the recommendations of the internal and external auditors and that deficiencies identified are remedied within the appropriate time frames; (g) overseeing external auditor independence and fees.

During 2021, the Audit and Compliance Committee has paid and will continue to pay special attention to the follow-up of the examinations of the supervisory authorities, compliance with regulations on Customer Due Diligence and Anti-Money Laundering, ongoing training and strengthening of three lines of defense controls, including related processes and procedures, and culture and awareness of non-financial and integrity risks. Further attention has also been paid to the implementation of laws and regulations, such as DGS (3.0), AnaCredit, AMLD4, MiFID II, PSD2 and GDPR. The Supervisory Board is regularly provided with follow-up reports and closely monitors progress made regarding GBI's ongoing commitment to meet regulatory recommendations. The Committee has discussed the external audit plan for 2021 and assessed the independence of the external auditor through the Group. The Committee discussed the report of the external auditor regarding the audit of the 2020 financial statements, including the management letter observations.

The Committee has closely followed up the developments regarding the tender for the appointment of a new external auditor for year 2022 as per the European Commission (EC) Regulation 537/2014, since BBVA has decided to rotate its external auditor. Following a thorough evaluation of the independence conditions that are applicable at BBVA Group level as per the said EC Regulation and assessment of the quality of the audit engagement proposal through the Audit and Compliance Committee of the Supervisory

Board, the Managing Board has proposed to appoint Ernst & Young Accountants LLP. as the external auditor starting from the year 2022. After careful evaluation of the proposal and having a direct meeting with the audit firm representatives during the Committee meeting held on 16 December 2021, the Committee agreed with the proposal and decided to positively advise the Supervisory Board on the appointment.

RISK COMMITTEE

Members: Mr. H. de Roo (Chairman), Mr. A. Düren

The Risk Committee of the Supervisory Board met five times in 2021. The Risk Committee assists the Supervisory Board with its responsibilities related to the supervision of the Managing Board's activities with respect to the review and assessment, as appropriate, of risk management policies, practices and processes through the establishment and maintenance of an effective risk management framework, including the corporate risk policies for each risk type. It also advises the Supervisory Board in regard to the adoption of said policies and analyzes and assesses the control and management policies of the GBI's different risks and information and internal control systems, including the Risk Appetite Statement together with other risk appetite framework metrics of GBI, ICAAP and ILAAP. The Committee manages an agenda on all material risk areas requiring Supervisory Board approval concerning proposals and recommendations, as per an initiative led by the Managing Board or the Supervisory Board.

The Risk Committee monitors and periodically assesses the effectiveness of GBI's risk governance. In this capacity, the Risk Committee reviewed the Risk Appetite Statement and various Management Policies, such as the Credit Policies, Market Risk Policy, Liquidity Risk Policies, Interest Rate Risk Policy, Operational Risk Policies, Concentration Policies and Investment Policy, and submitted its recommendations to the Supervisory Board for approval.

The Risk Committee also discusses DNB and ECB reports, such as the SREP letter, and ensures that the findings are addressed adequately. It also reviews and approves the Bank's Pillar 3 Disclosures before publication.

COVID-19 and its impact has been a regular discussion point. The Committee has received detailed information regarding the developments and provided feedback to the Managing Board regarding, among other issues, credit risk issues and business model.

REMUNERATION COMMITTEE

Members: Mr. R. van der Linden (Chairman), and Mr. R. Baştuğ

The Remuneration Committee of the Supervisory Board met five times in 2021. The role of the Remuneration Committee is to assist the Supervisory Board in supervising the activities of the Managing Board with respect to: (a) the design, implementation and approval of a long-term remuneration policy that is in line with the Bank's strategy, risk appetite, objectives and values, taking into account the long-term interests of the Bank, the relevant international context and wider social acceptance; (b) the terms and conditions of employment and remuneration of the Managing Board members, overseeing performance targets to be set by the Managing Board members and the Managing Board as a whole; (c) the design, approval and evaluation of the remuneration policy for Identified Staff and senior management. During its meetings, the Remuneration Committee considered various personnel issues such as strategic personnel planning, the vitality plan, employee engagement, the new way of working in the hybrid model, personnel budget and remuneration packages of the Managing Board, the variable remuneration for Identified Staff, the total amount of fixed salaries for 2021 and the total amount of variable remuneration to be distributed within GBI. Proposed remuneration packages including fixed and variable components, training budget, pension

plans and promotions were reviewed and approved. Additionally, the Remuneration Policy was reviewed and proposed to the Supervisory Board for various updates.

GOVERNANCE

Effective corporate governance in accordance with high international standards is fundamental for us. The Supervisory Board will ensure responsible, value-driven management and control of GBI through strong corporate governance. This has five key elements:

- Good relations with all stakeholders
- Effective cooperation between the Managing Board and the Supervisory Board
- Sound remuneration policy for all staff
- Transparent reporting system
- Sound and ethical operations in accordance with GBI's mission, strategy and objectives.

The Charter Governing the Supervisory Board contains the Supervisory Board Principles of the Banking Code. The content of this charter is taken from the Articles of Association, the Dutch legislation, Capital Requirements Directive and the respective EU directives, EBA guidelines on internal governance and the Banking Code. The charter concerns the roles and responsibilities of the Supervisory Board, the supervision of the activities of the Managing Board, and the composition and structure of the Supervisory Board. This includes (re)appointment, rotation plans, retirement, meeting schedules, adoption of resolutions, conflicts of interest, and permanent education. The charter describes the different committees of the board, the co-operation with the Managing Board and also includes a Supervisory Board profile. Additionally, the individual personal details of each board member are described. GBI meets the requirements that the Supervisory Board is composed in such a way that it is able to perform its tasks properly, ensuring that the competence, experience and independence requirements of the members are met. The governance of the Managing Board is in compliance with the Executive Board Principles of the Banking Code.

The three-yearly external self-assessment of the Supervisory Board and its overall functioning was carried out by an external firm in November 2020 and discussed by the end of 2020. The annual self-evaluation form for the past year has been circulated in line with the requirements prescribed by the Banking Code.

Supervisory Board discussed the steps required to realize our digital vision and elaborated on the outsourcing initiatives.

Moral and Ethical Conduct Declaration

The members of the Managing Board have signed the moral and ethical conduct declaration. By this declaration, the members declare to perform their duties as bankers with integrity and care, and that they will prioritize the customers' interests. The moral and ethical conduct declaration is published on GBI's website www.garantibank.eu. Furthermore, as per the rules of conduct established by the NVB, all GBI personnel, the Supervisory Board members and the Managing Board members have taken the Banker's Oath.

PERMANENT EDUCATION

GBI annually organizes a permanent education program for the members of the Managing Board and the Supervisory Board, as required by the Banking Code. Each year, a subject is touched upon in the form of a workshop. Due to the COVID-19 situation, no physical meeting was organized in 2021, but GBI has organized an online training session on actual topics for SB and MB members to support their permanent education program.

RISK MANAGEMENT

As a financial institution, GBI is exposed to a variety of risks. To ensure measured risk taking, we have integrated risk management into our daily activities and strategic planning. The Risk Management Department assists with the formulation of its risk appetite, risk strategy and policies, and provides an overview, supervision and support function with regards to risk-related issues.

Risk management is frequently addressed in Supervisory Board meetings and in the meetings of the Supervisory Board's Risk Committee. Our risk appetite is discussed yearly and approved by the Supervisory Board. The Supervisory Board supervises the risk policy applied by the Managing Board, and as part of its supervision, discusses the GBI's risk profile and assesses at a strategic level whether the capital allocation and liquidity position of GBI and its operations are in line with our approved risk appetite. In the performance of this supervisory role, the Supervisory Board is advised by its Risk Committee. GBI's Managing Board has also established a Risk Management Committee, which supervises all risk management activities

at the Bank. The Committee includes several members of the Managing Board.

The Risk Management principles of the Dutch Banking Code are adequately met. Our risk policy is characterized by its comprehensive approach, it is transparent and has both a short-term and long-term focus, taking into account reputational and non-financial risks. Detailed disclosures on GBI's risk management practices can be found in the Report on Capital Adequacy and Risk Management, which is published on GBI's website www.garantibank.eu.

OPERATIONAL RISK ADMISSION AND PRODUCT GOVERNANCE PROCESS

The governance around the new business, product, service or outsourcing initiative is explained in the Operational Risk Admission and Product Governance (ORA&PG) Policy, which is approved by the Supervisory Board. The ORA&PG Policy covers the entire process, starting from the initial proposal until the business or product is approved according to the assessment and approval processes.

New products and services that will go through the ORA&PG shall not be introduced to the market or distributed to various channels without prior careful examination of the risks for GBI as well as the client, and without the approval of the ORA&PG Committee. ORA & PG Committee, which consists of the Managing Board members and related Management Team members, is the ultimate body to approve or disapprove the introduction of a new product. New business that will go through the ORA&PG process will be further escalated to the Supervisory Board for final approval.

INTERNAL AUDIT

GBI assumes all related Dutch and EU regulations, the guidelines of the Basel Committee on Banking Supervision and the Institute of Internal Auditors regarding the Internal Audit function, which is formed as an independent, objective assurance and consulting activity designed to add value and improve the operations of the organization. An independent Audit function directly reports to the Audit and Compliance Committee of the

Supervisory Board. The Chief Audit Executive is always present in meetings held by the Audit and Compliance Committee of the Supervisory Board. Furthermore, the external auditor sometimes takes part in the Audit and Compliance Committee meetings.

REMUNERATION

GBI has implemented a meticulous, restrained and long-term remuneration policy in line with our strategy and risk appetite. The policy focuses on ensuring sound and effective risk management through:

- a stringent governance structure for setting goals and communicating these goals to the employees
- including both financial and non-financial goals in performance and result assessments
- making fixed salaries the main remuneration component

The policy reflects GBI's objectives for good corporate governance and meets the requirements established in DNB's Guidelines on Controlled Remuneration Policy and the Dutch Banking Code, except for one item which has been neutralized by applying the proportionality principle. GBI will not meet the bonus share part of the guidelines as employees of GBI are not rewarded with shares of GBI.

GBI is following the Group policy on Annual Variable Compensation for certain identified staff members. This policy stipulates how the variable remuneration granted under the GBI remuneration policy to those identified staff members should be treated. For 2021, 60 percent of the annual variable compensation, as shares or as cash, will be paid in 2022 and the remaining 40 percent will be payable, if applicable, in 2024. Amounts deferred from the 2021 annual variable remuneration, both in cash and in shares, will be subject to multi-year performance indicators during the deferral period.

Once a year, the Remuneration Committee monitors compliance with the remuneration policy. The Remuneration Committee submits any policy adjustments for review to the Supervisory Board and for adoption to the Annual General Meeting of

Shareholders. A description of the composition, duties and authority of the Remuneration Committee is defined in the remuneration policy and the Charter of the Supervisory Board. In 2021, none of the Managing Board members received an annual remuneration of more than EUR 1 million. The annual amount of variable remuneration paid out to natural persons amounts to EUR 0.88 million in 2021, which includes the deferred payments of the previous performance years amounting to EUR 0.27 million. As of 2021, one GBI employee was identified who met the quantitative criteria of the Group policy on annual variable compensation. The Supervisory Board would like to thank the members of the Managing Board and all staff for their hard work and appreciate their strong commitment to the Bank under difficult circumstances in 2021.

Amsterdam, 23 February 2022

THE SUPERVISORY BOARD

Mr. R. Baştuğ (Chairman)
Mr. A. Düren (Vice Chairman)
Mr. P.R.H.M. van der Linden
Ms. M. Halverhout
Mr. J.H. de Roo

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Financial Statements 2021

GARANTIBANK INTERNATIONAL N.V.

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Financial Statements

1.1 Statement of Financial Position

As at 31 December 2021

	<i>Notes</i>	31 December 2021	31 December 2020
Assets			
Cash and balances with central banks	3	675,396	524,911
Loans and advances to banks	4	620,651	654,241
Financial assets at fair value through profit or loss			
- Mandatorily at fair value through profit or loss	6	284	317
- Trading derivatives	40	5,128	2,551
- Non-trading derivatives	40	3,116	1,714
Financial assets at fair value through other comprehensive income	7	250,198	102,773
Loans and advances to customers	5	2,535,213	2,092,514
Property and equipment	8	31,068	31,905
Intangible assets	9	5,398	5,818
Current tax asset	14	1,851	7,917
Other assets	10	1,573	5,515
Total Assets		<u>4,129,876</u>	<u>3,430,176</u>
Liabilities			
Deposits from banks	11	409,982	344,614
Deposits from customers	12	3,037,822	2,444,457
Financial liabilities at fair value through profit or loss			
- Trading derivatives	40	5,041	1,531
- Non-trading derivatives	40	21,914	7,772
Subordinated liabilities	13	-	-
Deferred tax liability	14	3,711	3,429
Other liabilities	15	31,641	27,498
Total Liabilities		<u>3,510,111</u>	<u>2,829,301</u>
Equity			
Share capital	16	136,836	136,836
Retained earnings		470,069	451,598
Other reserves	16	12,860	12,441
Total Equity attributable to owners of the Bank		<u>619,765</u>	<u>600,875</u>
Total Liabilities and Equity		<u>4,129,876</u>	<u>3,430,176</u>
Commitments and Contingencies	18	<u>420,039</u>	<u>558,665</u>

Statement of Comprehensive Income

For The Year Ended 31 December 2021

	Notes	2021	2020
Statement of Income:			
Interest income using effective interest method	19	73,414	76,313
Interest expense using effective interest method	19	(20,293)	(29,420)
Net interest income		53,121	46,893
Fee and commission income	20	20,945	13,295
Fee and commission expense	20	(3,551)	(2,353)
Net fee and commission income		17,394	10,942
Valuation results and net trading income	21	2,459	1,871
Investment income	22	-	-
Other income and expenses	23	(3,339)	(3,400)
Total income		69,635	56,306
Expected credit losses on financial instruments	31	(4,687)	(6,245)
Personnel expenses	25	(26,326)	(26,770)
Depreciation and amortisation	8/9	(3,310)	(3,116)
Other operating expenses	24	(10,925)	(10,788)
Total expenses		(45,248)	(46,919)
Profit before tax		24,387	9,387
Income tax expense	14	(6,376)	(2,584)
Profit for the year		18,011	6,803
Other Comprehensive Income			
<u>Items that will not to be reclassified to profit or loss:</u>			
<i>Property and equipment</i>			
Revaluation	8	45	33
Tax effect (deferred)		(12)	(8)
Net gain on revaluation of property and equipment		33	25
<u>Items that may subsequently be reclassified to profit or loss:</u>			
<i>Cash flow hedges</i>			
Effective portion of changes in fair value	40	940	59
Reclassified to profit or loss	40	264	1,042
Tax effect (deferred)		(300)	(275)
Net gain on cash flow hedges		904	826

	Notes	2021	2020
<i>Debt instruments at fair value through other comprehensive income</i>			
Valuation results	7	(77)	1,635
Reclassification to profit or loss	7		-
Tax effect (current)		19	(409)
		<hr/>	<hr/>
Net gain/ (loss) on debt instruments at fair value through other comprehensive income		(58)	1,226
		<hr/>	<hr/>
Total other comprehensive income for the year, net of tax attributable to the shareholder		879	2,077
		<hr/>	<hr/>
Total comprehensive income for the year, net of tax attributable to the shareholder		18,890	8,880
		<hr/> <hr/>	<hr/> <hr/>

Statement of Changes in Equity

	Share Capital and Share Premium	Fair value reserve investments	Hedging Reserve	Other legal reserves	Retained Earnings	Total Equity
Balance as at 1 January 2021	136,836	91	(1,067)	13,417	451,598	600,875
Profit for the year					18,011	18,011
<i>Other comprehensive income</i>						
Net unrealised gains/(losses) on fair value assets portfolio		(133)				(133)
Net gains/(losses) on fair value assets and cash flow hedges transferred to profit or loss						-
Foreign currency translation differences on fair value portfolio		(5)				(5)
Net fair value gains/(losses) from cash flow hedges			904			904
Net change in expected credit losses on FVOCI portfolio		80				80
Revaluation surplus on building				33		33
Total comprehensive income	-	(58)	904	33	18,011	18,890
Translation differences						
Other movements				(460)	460	-
Balances as at 31 December 2021	136,836	33	(163)	12,990	470,069	619,765

	Share Capital and Share Premium	Fair value reserve investments	Hedging Reserve	Other legal reserves	Retained Earnings	Total Equity
Balance as at 1 January 2020	136,836	(1,135)	(1,893)	12,808	445,379	591,995
Profit for the year					6,803	6,803
<i>Other comprehensive income</i>						
Net unrealised gains/(losses) on fair value assets portfolio		1,163				1,163
Net gains/(losses) on fair value assets and cash flow hedges transferred to profit or loss						
Foreign currency translation differences on fair value portfolio		(101)				(101)
Net fair value gains/(losses) from cash flow hedges			826			826
Net change in expected credit losses on FVOCI portfolio		164				164
Revaluation surplus on building				25		25
Total comprehensive income		1,226	826	25	6,803	8,880
Translation differences						
Other movements				584	(584)	-
Balances as at 31 December 2020	136,836	91	(1,067)	13,417	451,598	600,875

Statement of Cash flows

For the year ended 31 December 2021

	<i>Notes</i>	1 January 2021 - 31 December 2021	1 January 2020 - 31 December 2020
Cash flows from operating activities:			
Profit for the year		18,011	6,803
<i>Adjustments for:</i>			
Depreciation and amortisation	8, 9	3,310	3,116
Expected credit losses on financial instruments	31	4,687	6,245
Tax expense	14	6,376	2,584
		32,384	18,748
<i>Changes in:</i>			
Loans and advances to banks	4	61,447	(347,509)
Financial assets at fair value through profit or loss	6, 40	(3,946)	4,397
Loans and advances to customers	5	(447,386)	335,461
Other assets	10	3,937	455
Deposits from banks	11	98,981	101,528
Deposits from customers	12	593,365	(286,906)
Financial liabilities at fair value through profit or loss	40	17,652	(5,516)
Other liabilities, accrued expenses and provisions	15	4,143	(1,358)
		360,577	(180,700)
Income taxes paid		(28)	(2,390)
Net cash from/ (used in) operating activities		359,366	(183,090)
Cash flows from investing activities:			
Acquisitions in investment portfolio	7	(210,716)	(29,122)
Proceeds from investment portfolio	7	63,291	-
Purchase of tangible and intangible assets	8	(2,061)	(2,710)
Net cash from/ (used in) investing activities		(149,486)	(31,832)

Statement of Cash flows (continued)

	Notes	1 January 2021 - 31 December 2021	1 January 2020 - 31 December 2020
Cash flows from financing activities:			
(Decrease)/increase in subordinated liabilities, net		-	(50,398)
Net cash from/ (used in) financing activities		-	(50,398)
Effect of exchange rate changes		848	2,592
Net increase/ (decrease) in cash and cash equivalents		211,911	(262,728)
Cash and cash equivalents at the beginning of the period	1	490,183	752,911
Cash and cash equivalents at the end of the period	1	702,094	490,183
Additional information on operational cash flows from interest			
Interest received		95,601	95,661
Interest paid		(26,448)	(36,938)

Notes to the financial statements

Notes to the accounting policies

Reporting entity

GarantiBank International N.V. (hereafter: 'GBI' or 'the Bank') has its statutory seat in Amsterdam, The Netherlands. Its head office is located at Keizersgracht 569-575, 1017 DR Amsterdam, The Netherlands. Its Chamber of Commerce number is 33225009. The Bank also operates a branch in Germany.

The financial information of GBI is included in the financial statements of its parent Türkiye Garanti Bankasi A.Ş. (TGB), incorporated in Turkey, and in those of the ultimate parent of the group, Banco Bilbao Vizcaya Argentaria S.A. (BBVA), incorporated in Spain. GBI works in close cooperation with its parent, which owns 100% of the shares of GBI, and with the ultimate parent of the group, which owns 49.85% of the shares of Türkiye Garanti Bankasi A.Ş.

GBI is mainly active in international trade finance and corporate lending, as well as in retail banking.

Authorisation of the financial statements

On 23 February 2022, the Managing Board prepared the annual accounts of GBI as at and for the year ended 31 December 2021 and the Supervisory Board adopted a resolution, to propose that the Shareholder adopt the 2021 financial statements at the next Annual General Meeting of Shareholders to be held in 2022.

Basis of preparation

The GBI financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the relevant articles of Part 9 of Book 2 of the Dutch Civil Code.

IFRS as adopted by the EU are IFRS Standards and IFRS Interpretations as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC).

GBI's annual accounts have been prepared on a going concern basis.

Use of estimates and judgements

The preparation of financial statements 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 recognized in the period in which the estimates are revised and in any future periods affected.

Notable areas that involved judgements, estimates and assumptions are:

- Credit risk of financial instruments as disclosed in notes 31 to 36:

Judgement is exercised in determining the extent of the expected credit loss (ECL) for financial assets assessed for impairment both individually and collectively. The ECL for financial assets is based on assumptions about risk of default and expected loss rates. GBI uses judgement in making these assumptions and selecting the inputs to the ECL calculation, based on the historical observations, existing market conditions as well as forward-looking estimates at the end of each reporting period. Changes in such judgements and analyses may lead to changes in the ECL over time.

Use of estimates and judgements (continued)

The key judgement areas are:

- The criteria for identifying a significant increase in credit risk:

A financial asset moves from Stage 1 to Stage 2 when there is a significant increase in credit risk (SICR) since initial recognition. GBI assesses significant increase in credit risk using qualitative and quantitative assessments.

The qualitative assessments require a considerable level of judgement from the credit officers that perform the assessment as well as from the members of the credit committee that review and approve the assessments.

For the quantitative assessment the Bank compares the risk of default occurring at the reporting date with the risk of default occurring at the initial recognition of the financial asset. Internal credit rating models are used for determining the probability of default (PD) of each financial asset. Judgement is used to determine whether the stage allocation thresholds are suitable for statutory reporting purposes and to assess the need for management overlays to reflect the impact of COVID-19 on the financial performance of an obligor. Such judgements are reviewed and approved by related management committees of the Bank.

The process of comparing a financial asset's PD with the PD banding thresholds determines its ECL stage. Assets in Stage 1 are allocated a 12 month ECL, and those in Stage 2 are allocated a lifetime ECL, and the difference is often significant. As such, the assumptions made in setting PD banding thresholds constitute a key source of estimation uncertainty. Analysis of the sensitivity associated with the assessment of significant increase in credit risk is presented in the Risk Management section of this report.

- Assumptions used to measure ECL, including the use of forward-looking and macro-economic information for individual and collective ECL assessment:

Individually assessed loans (Stage 2 and 3): Individual provisions are calculated using the discounted expected future cash flow method. To determine expected future cash flows, three or more scenarios are used. Each scenario is analysed based on the probability of occurrence and includes forward looking information. In determining the scenarios, all relevant factors impacting the future cash flows are taken into account. These include expected developments in credit quality, business and economic forecasts, and estimates about recoveries, including the recoveries from the collaterals (where applicable), taking into account the structure of the financial asset and GBI's restructuring/recovery strategy. The macroeconomic forecast is captured in the estimation, as the expected future macroeconomic situation serves as basis for the cash flows in the scenarios. The update of macroeconomic forecasts to reflect the circumstances created by the COVID-19 pandemic is characterized by a high degree of uncertainty regarding its intensity, duration and speed of recovery. Hence management has chosen to apply haircuts in relation to the valuation of collateral. For the individual assessment, with granular (company-specific) scenarios, specific factors can have a larger impact on the future cash flows than macroeconomic factors (i.e. for the country as a whole).

Collectively assessed loans (Stages 1 and 2) using ECL models: For the purposes of a collective evaluation of ECL's, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Expected future cash flows in a portfolio of financial assets that are collectively evaluated for ECL's, are estimated on the basis of the contractual cash flows of the assets in the portfolio, GBI's expectations on future economic developments and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Given that modelling assumptions and calculation methodologies that prevail in normal times may prove impaired in the current context of extraordinary uncertainty, management assesses the need for overlays based on expert opinion. The outcome of the models reflects forward looking macro-economic information. The update of the forward looking information in the IFRS 9 models in order to reflect the circumstances created by the COVID-19 pandemic in the macroeconomic environment, is

characterized by a high degree of uncertainty regarding its intensity, duration and speed of recovery.

- Assessment of a default: in certain cases, judgement is exercised in GBI's evaluation of whether there is objective evidence of impairment (e.g. in relation to assessing 'financial difficulties' of a borrower).
- Fair value measurement of financial instruments:

Even if quoted market prices and observable inputs are available, when markets are less liquid there may be a range of prices and inputs for the same asset from different sources. Selecting the most appropriate price or input requires judgement and could result in different estimates of fair value. Valuation techniques are subjective in nature and, depending on the liquidity of the market and the extent parameters are unobservable, the valuation uncertainty increases and hence significant judgement is involved in establishing fair values for certain assets and liabilities. Valuation techniques involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value.

Change in accounting policies

The following standards and amendments became effective in 2021:

- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS19 (issued on 25 June 2020).
- Amendments to IFRS 16 Leases Covid-19 Related Rent Concessions beyond 30 June 2021 (issued on 31 March 2021).
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020);

The amendments to IFRS 4 and IFRS 16 do not have an impact on the Bank's financial statements in 2021.

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 have a profound impact on the Bank's operations. Due to the interest rate reform certain benchmarks will be replaced while others are being reformed. In both cases contractual relations between GBI and counterparties that rely on such interest rate benchmarks are affected. Depending on the amendments to those contractual arrangements, certain changes have been made to the IT systems to accommodate the new benchmarks, to calculate the amortised cost and measure hedge effectiveness.

The amendments include a number of reliefs and additional disclosures to be applied in relation to the interest rate reform to minimise the impact on the financial statements. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR). Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

Furthermore IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. For existing hedge relationships as per the end of 2021, the impact of IBOR is limited. However, for new hedge relationships the Bank amended its standardised hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives. For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to become separately identifiable within 12 months. For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application. The other amendments and standards are not expected to have a significant impact on the Bank's financial statements once they become effective.

New and revised IFRSs in issue but not yet effective

Standards endorsed by the EU

The following published standards and amendments are effective for annual periods beginning on or after 1 January 2022 and have been endorsed by the EU and have not been early adopted by GBI.

- Amendments (issued on 18 May 2020) to:
 - IFRS 3 Business Combinations;
 - IAS 16 Property, Plant and Equipment;
 - IAS 37 Provisions, Contingent Liabilities and Contingent Assets;
 - Annual Improvements 2018-2020 (All issued 14 May 2020).

The amendments do not have an impact on the Bank's financial statements in 2021.

Standards not yet endorsed by the EU

For the following published amendments that have not been endorsed by the EU yet, GBI is in the process of assessing the detailed impact thereof:

- IFRS 17 Insurance Contracts (issued on 18 May 2017) including Amendments to IFRS 17 (issued on 25 June 2020).
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 respectively)
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosures of Accounting policies (issued on 12 February 2021).
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021).
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021).

The amendments do not have an impact on the Bank's financial statements in 2021.

Changes to prior year financial statements and disclosures

Certain figures reported in the 2020 annual report have been reclassified for consistency with the presentation applied within these financial statements and disclosures. These changes are presentational in nature and do not change the previously reported financial results for the year ended 31 December 2020 nor the aggregate assets and liabilities at that date.

Significant accounting policies

Foreign currency

Transactions in the financial statements of the Bank are recorded in EUR, which is the Bank's functional currency and the presentation currency for the accompanying financial statements. Transactions in foreign currencies are translated into the functional currency of the Bank at exchange rates applicable at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into EUR at the exchange rates applicable at date of the statement of financial position with the resulting exchange differences recognized in income as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in income as realized during the period.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Exchange rate differences on non-monetary items, measured at fair value through profit or loss, are reported as part of the fair value gain or loss. Non-monetary items are translated at the date fair value is determined.

Property and equipment and related depreciation and amortisation

At initial recognition, property and equipment (PPE assets) are measured at cost. After initial recognition, the Bank applies the revaluation model for properties and the cost model for all other PPE assets. Accordingly, properties are carried at a revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated expected credit losses. For all significant properties, a valuation study is performed by independent expertise firms in accordance with the Royal Institution of Chartered Surveyors (RICS) on an annual basis as part of the year-end closing routine to assess the fair value, which is defined as the price received to sell an asset in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions.

Subsequent expenditure

Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of such assets. All other expenditures are reflected as expense in the statement of income as incurred.

Expenditures for major renewals and improvement of PPE assets are capitalized and depreciated over the remaining useful lives of the related assets.

Depreciation

The estimated useful lives and depreciation rates of PPE assets are as follows. Depreciation and amortisation method in use is the straight-line method and was not changed in the current period.

PPE Assets	Estimated useful lives (years)	Depreciation Rates (%)
Properties	50	2
Improvement of properties	50	2
Renovation of properties	10-15	6.67-10
Furniture and equipment	5-10	10-20

The estimated useful lives, residual values and depreciation methods are reviewed at least once a year, with the effect of any changes in estimate accounted for on a prospective basis.

Significant accounting policies (continued)

Intangible assets

As per IAS 38, internally generated software should be recognised as intangible assets, if they meet all the below listed criteria:

- The technical feasibility of completing the asset so that it will be available for use,
- Availability of the intention to complete and use the asset,
- The ability to use the asset,
- Clarity in probable future economic benefits to be generated from the asset,
- The availability of adequate technical, financial and other resources to complete the development phase and to start using the asset, and
- The availability to measure reliably the expenditure attributable to the asset during the development phase.

The directly attributable development costs of intangible assets are included in the cost of such assets, however the research costs are recognised as expense as incurred.

Subsequent expenditure

Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of such assets. All other expenditures are reflected as expense in the statement of income as incurred.

Expenditures for major renewals and improvement of intangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

Depreciation

The estimated useful lives is between 2 and 10 years and the depreciation rates are between 10% and 50% for intangible assets. Depreciation and amortisation method in use is the straight-line method and was not changed in the current period.

The estimated useful lives, residual values and depreciation methods are reviewed at least once a year, with the effect of any changes in estimate accounted for on a prospective basis.

Leases

At inception of a contract, the Bank (as lessee) assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

For all leases not being a car lease, the Bank has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component. The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life

Significant accounting policies (continued)

of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairments, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'tangible and intangible assets' and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

For contracts entered into before 1 January 2019, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

Financial instruments

Recognition and derecognition of Financial instruments

Recognition of financial assets

Financial assets are initially recognised in the balance sheet at fair value when the Bank becomes a party to the contractual provisions of the instruments. Debt securities and derivatives are recognised using

Significant accounting policies (continued)

trade date accounting. Trade date is the date on which the Bank commits to purchase or sell the asset. Loans and advances and repurchase agreements are recognised using settlement date accounting.

Financial instruments

Recognition and derecognition of Financial instruments

Recognition of financial assets

Financial assets are initially recognised in the balance sheet at fair value when the Bank becomes a party to the contractual provisions of the instruments. Debt securities and derivatives are recognised using trade date accounting. Trade date is the date on which the Bank commits to purchase or sell the asset. Loans and advances and repurchase agreements are recognised using settlement date accounting.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset. The difference between the carrying amount of a financial asset that has been extinguished and the consideration received is recognised in profit or loss.

Recognition of financial liabilities

Financial liabilities are initially recognised in the balance sheet at fair value when the Bank becomes a party to the contractual provisions of the instrument.

Derecognition of financial liabilities

Financial liabilities are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished and the consideration paid is recognised in profit or loss.

Modifications

If the terms of a financial asset are renegotiated or otherwise modified (for example in forbearance measures), the Bank evaluates whether the cash flows of the modified asset are substantially different (in both qualitative and quantitative terms).

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

Significant accounting policies (continued)

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities are derecognised when the liability has been settled, has expired or has been extinguished. An exchange of an existing financial liability for a new liability with the same lender on substantially different terms, qualitatively and quantitatively (a 10% difference in the present value of the cash flows) is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the former amortised cost and the consideration paid is recognised in the income statement. Any subsequent resale is treated as a new issuance.

Classification and measurement

The Bank classifies its financial assets in the following measurement categories:

- fair value (either through other comprehensive income, or through profit or loss), and
- amortised cost.

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset measured at amortised cost or fair value through other comprehensive income, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows at initial recognition.

a) Business models

Business models are classified as either Hold to Collect (HtC), Hold to Collect and Sell (HtC&S) or Other depending on how a portfolio of financial instruments as a whole is managed. GBI's business models are based on the existing management structure of the bank, and refined based on an analysis of how businesses are evaluated and reported, how their specific business risks are managed and on historic and expected future sales.

Sales are permissible in a HtC business model when these are due to an increase in credit risk, take place close to the maturity date, are insignificant in value (both individually and in aggregate) or are infrequent.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes.

b) Assessing whether contractual cash flows are solely payments of principal and interest (SPPI test)

The contractual cash flows of a financial asset are assessed to determine whether they represent SPPI. Interest includes consideration for the time value of money, credit risk and also consideration for liquidity risk and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are SPPI, GBI considers all contractual terms of the instrument.

Significant accounting policies (continued)

Depending on the Bank's business model for managing the asset and the cash flow characteristics of the asset (SPPI test), there are three measurement categories into which the Bank classifies its debt instruments:

- *Amortised Cost*: Debt instruments that are held for collection of contractual cash flows under a HtC business model where those cash flows represent SPPI are measured at amortised cost. Any gain or loss arising on derecognition is recognised directly in profit or loss. Interest income from these financial assets is included in interest income using the effective interest rate method to the gross carrying amount of a financial asset (before any ECL allowance) except for credit impaired debt instruments, in which case the effective interest rate method is applied to the amortised cost. Expected credit losses are presented as a separate line item in the statement of profit or loss.
- *Fair value through other comprehensive income (FVOCI)*: Debt instruments that are held for collection of contractual cash flows and for selling the financial assets under a HtC&S business model, where the assets' cash flows represent SPPI, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of expected credit losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other operating income. Interest income from these financial assets is included in interest income using the effective interest rate method to the gross carrying amount of a financial asset (before any ECL allowance) except for credit impaired debt instruments, in which case the amortised cost. Expected credit losses are presented as a separate line item in the statement of profit or loss.
- *Fair value through profit or loss (FVTPL)*: Debt instruments that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument is recognised in profit or loss and presented on a net basis within investment income in the period in which it arises. Interest income from these financial assets is included in interest income using the effective interest rate method.

Equity instruments

The Bank measures all equity investments at fair value with changes recognised in investment income in the statement of profit or loss as applicable.

Derivatives

Derivative contracts are measured at fair value through profit or loss, except for derivatives that are designated in a cash flow hedge. For those, the effective portion of changes in the fair value is recognised in equity. All derivatives in a net receivable position (positive fair value) are reported as trading assets. All derivatives in a net payable position (negative fair value) are reported as trading liabilities.

Financial liabilities

Financial liabilities, not being derivatives, are classified and subsequently measured at amortised cost.

Expected credit losses of financial assets

ECL models are applied to on-balance sheet financial assets accounted for at amortised cost and FVOCI such as loans and debt securities as well as off balance instruments including financial guarantees and loan commitments. Under the ECL model GBI calculates the ECL allowance, by considering the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The LLP is the sum of these probability-weighted outcomes and the ECL estimates are unbiased and include supportable information about past events, current conditions, and forecasts of future economic conditions. GBI's approach leverages on the existing credit risk models that are used within the scope of Foundation Internal Ratings Based (F-IRB) models

Significant accounting policies (continued)

used for the calculation of the regulatory capital requirement. Those credit rating models have been modified to meet the requirements of IFRS 9.

Three stage approach

Financial assets are classified in any of the below 3 Stages at each reporting date. A financial asset can move between Stages during its lifetime. The Stages are based on changes in credit quality since initial recognition and defined as follows:

- Stage 1: 12 month ECL: Financial assets that have not had a significant increase in credit risk since initial recognition (i.e. no Stage 2 or 3 triggers apply). Assets are classified as Stage 1 upon initial recognition (with the exception of purchased or originated credit impaired (POCI) assets) and a provision for ECL is made associated with the probability of default (PD) events occurring during the next 12 months (12 months ECL);
- Stage 2: Lifetime ECL not credit impaired: Financial assets showing a significant increase in credit risk since initial recognition. A provision is made for the life time ECL representing losses over the life of the financial instrument (lifetime ECL) associated with the probability of default (PD) events occurring during the lifetime; or
- Stage 3: Loans considered as credit impaired, require a provision that is based on lifetime ECL's.

Significant increase in credit risk

A financial asset moves from Stage 1 to Stage 2 when there is a significant increase in credit risk (SICR) since initial recognition. GBI established a framework which incorporates quantitative and qualitative information to identify this on an asset level applying a relative assessment. Each financial asset is assessed at the reporting date on the triggers for significant deterioration. GBI assesses significant increase in credit risk using:

- Quantitative indicators: change in the lifetime probability of default (both absolute and relative);
- (Re)payment performance: loans with more than 30 days past due at the reporting date
- Forbearance measures taken and the status thereof;
- Qualitative assessment of the performance of the obligor.

The change in lifetime probability of default is one of triggers for movement between Stage 1 and Stage 2. For exposures originated after 1 January 2018, the trigger compares lifetime probability of default at origination versus lifetime point in time probability of default at reporting date, considering the remaining maturity. For exposures originated before 2018 a comparison is made based on the 'Through The Cycle' PD's (both current and origination) used for regulatory purposes.

Assets can also return to Stage 1 if there is sufficient evidence that there has been a significant reduction in credit risk.

Exposures with forbearance measures can be either performing (Stage 2) or non-performing (Stage 3). The Bank uses specific criteria to move forbore exposures from non-performing to performing and to remove the forbearance statuses that are consistent with the corresponding EBA Guidelines on the management of non-performing and forbore exposures. An exposure is reported as forbore for a minimum of two years. An additional one year probation period is observed for forbore exposures that move from non-performing back to performing.

Credit impaired financial assets (Stage 3)

Financial assets are assessed for credit-impairment at each reporting date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment includes arrears of over 90

Significant accounting policies (continued)

days on any material credit obligation, indications that the borrower is experiencing significant financial difficulty, a breach of contract, bankruptcy or distressed restructuring.

An asset that is in stage 3 will move back to stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired. The asset will migrate back to stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly since initial recognition.

Definition of default

GBI has aligned the definition of credit impaired under IFRS 9 (Stage 3) with the definition of default for prudential purposes that stems from CRR article 178 on default of an obligor and the related EBA Guidelines thereon (Regulation (EU) No 575/2013). This is also the definition used for internal risk management purposes.

Macroeconomic scenarios

GBI has established a quarterly process whereby forward-looking macroeconomics scenarios and probability weightings are developed for ECL calculation purposes. GBI applies data from its parent company enriched with the internal views. A baseline, up-scenario and a down-scenario are determined to reflect an unbiased and probability-weighted ECL amount. As a baseline scenario, GBI applies the market-neutral view combining consensus forecasts for economic variables (e.g. GDP growth). Applying market consensus in the baseline scenario ensures unbiased estimates of the ECL's.

The alternative scenarios are based on observed events in the past. The probabilities assigned are based on the likelihoods of observing the three scenarios and are derived from confidence intervals on a probability distribution. The scenarios are reviewed on a quarterly basis.

Measurement of ECL

The Bank applies a collective assessment method to measure ECL for performing (Stage 1) and underperforming (Stage 2) assets, except for assets that are in Stage 2 due to qualitative factors. For those assets and all assets in Stage 3 an individual assessment method to calculate the ECL.

a) Collectively assessed assets (Stage 1 and 2)

For financial assets that are collectively assessed, GBI applies a model-based approach that calculates ECL in a formula that is expressed simplistically as $PD \times EAD \times LGD$, adjusted for the time value of money

Probability of Default (PD): PD's are assessed on the borrower level and refer to the likelihood that a borrower will default. The internal credit risk rating methodology is the basis on which the PD is calculated. The underlying internal rating models used for the corporate portfolio consider, amongst others, customer financial information and qualitative survey factors. PD's calculated as the outcome of the rating models are then adjusted by the PD term structure models to estimate the point in time PD's for the respective time period, i.e. 12 months or lifetime.

Loss Given Default (LGD): If a loan default occurs, it represents the expected economic loss on the loan. It is expressed as a percentage. LGD calculations are performed using professional judgement, regulatory benchmarks used in capital requirement calculations and other external benchmarks for collateralized exposures due to the low number of internal historical observations.

Exposure at Default (EAD): For cash loans, the expected outstanding balance at default corresponds to the amount of loan granted as of the reporting date plus expectations about future draw-downs. For commitments and contingencies, it is the value calculated through using credit conversion factors. Credit conversion factor corresponds to the factor, which adjusts the potential increase of the exposure between the current date and the default date.

Significant accounting policies (continued)

With the exception of revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless there is the legal right to call it earlier.

The ECL's are discounted using:

- the original effective interest rate for cash loans,
- a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to financial guarantee contracts or on loan commitments.

b) Individually assessed assets (Stage 2)

For individually significant financial assets that are in Stage 2 based on qualitative criteria, GBI estimates the ECL on an individual level at each reporting date and more frequently when circumstances warrant further assessment. Individual provisions are calculated using the discounted expected future cash flow method. To determine expected future cash flows, three or more scenarios are used. Each scenario is analysed based on the probability of occurrence and including forward looking information.

The ECL is calculated as the probability weighted average of the shortfall (gross carrying amount minus discounted expected future cash flow using the original effective interest rate) per scenario. The scenarios are based on the Bank's judgement regarding the magnitude and timing of recoveries. Recoveries can be from different sources including repayment of the loan, additional drawing, collateral recovery, asset sale etc. Cash flows from collateral and other credit enhancements are included in the measurement of the ECL's of the related financial asset when it is part of or integral to the contractual terms of the financial asset and the credit enhancement is not recognised separately. The estimation of future cash flows are subject to significant estimation uncertainty and assumptions.

c) Credit impaired financial assets (Stage 3)

GBI estimates individual ECL allowance for credit impaired financial assets within Stage 3. Financial assets are assessed for credit-impairment at each reporting date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the borrower is experiencing significant financial difficulty, a breach of contract, probability of bankruptcy or other financial reorganization, as well as a measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payment status of the borrower or economic conditions that correlate with defaults.

For Financial assets that are credit-impaired, the ECL calculation method is identical to the approach for individually assessed assets in Stage 2.

When a financial asset is credit-impaired, interest ceases to be recognised on the regular accrual basis, which accrues income based on the gross carrying amount of the asset. Rather, interest income is calculated by applying the original effective interest rate to the amortised cost of the asset, which is the gross carrying amount less the related ECL allowance.

d) Non-integral financial guarantee contracts

The Bank assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and

Significant accounting policies (continued)

- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired.

These assets are recognised in 'other assets'. The Bank presents a gains or losses on a compensation right in profit or loss in the line item 'expected credit losses on financial instruments'.

Purchase or Originated Credit Impaired (POCI) assets

POCI assets are financial assets that are credit-impaired on initial recognition. Impairment on a POCI asset is determined based on lifetime ECL from initial recognition. POCI assets are recognised initially at an amount net of impairments and are measured at amortised cost using a credit-adjusted effective interest rate. In subsequent periods any changes to the estimated lifetime ECL are recognised in the income statement. Favourable changes are recognised as an ECL gain, regardless whether the lifetime ECL at the reporting date is lower than the estimated lifetime ECL at origination.

Write-off and debt forgiveness

Loans and the related ECL are written off, either partially or in full, when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. When a loan is uncollectable, it is written off against the related ECL allowance. Subsequent recoveries of amounts previously written off are included in 'expected credit losses on financial instruments' in the statement of profit or loss.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Changes in ECL

Changes in ECL are recorded in the statement of comprehensive income in the line item expected credit losses on financial instruments.

Presentation of ECL allowance

ECL allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the ECL allowance is recognised in OCI, instead of deducting the carrying amount of the asset. The ECL allowances related to off-balance sheet items are recorded under other liabilities.

Financial guarantees

A financial guarantee contract is a contract that requires the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract is recognised at the date that the Bank becomes a party to the irrevocable commitment and is recorded at face value under commitment and contingencies. Income from issued financial guarantees, and expenses

Significant accounting policies (continued)

for bought financial guarantees, are amortised over the duration of the instruments and classified as "Fee and commission income" and "Fee and commission expense" respectively. The IFRS 9 ECL requirements apply to issued financial guarantee contracts that are not measured at fair value through profit or loss under IFRS 9 (see section expected credit loss on financial assets in this chapter).

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets that are subject to an insignificant risk of changes in their fair value, and are readily available for use by GBI in the management of its short-term commitments.

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

Fair values of financial assets and liabilities

Fair value is defined as 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. It uses the assumptions that market participants would use and takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability. Fair values of financial assets and liabilities are based on unadjusted quoted market prices where available. Such quoted market prices are primarily obtained from exchange prices for listed financial instruments. Where an exchange price is not available, quoted prices in an active market may be obtained from independent market vendors, brokers, or market makers.

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to various valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings), and customer behaviour are taken into account. GBI maximises the use of market observable inputs and minimises the use of unobservable inputs in determining the fair value.

Derivatives held for risk management purposes

Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment for the changes in their fair value depends on their classification into the following categories:

Cash flow hedge

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the income, the effective portion of changes in the fair value of the derivative are recognized directly in other comprehensive income and presented in hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in income.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects the income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in other comprehensive income is recognized immediately in income.

Significant accounting policies (continued)

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to income from that date.

Repurchase and resale agreements over investments

The Bank enters into purchases of investments under agreements to resell (reverse repo) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements (repo) continue to be recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. The proceeds from the sale of the investments are reported as "deposits from banks", a liability account.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

Items held in trust

Assets, other than cash deposits, held by the Bank in fiduciary or agency capacities for its customers and government entities are not included in the accompanying statement of financial position, since such items are not under the ownership of the Bank.

Taxes on income

Taxes on income for the period comprise current taxes and deferred taxes. Current taxes on income comprises tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and; any adjustment in taxes payable for previous years.

Deferred income tax is provided, using the statement of financial position method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities and assets are recognized when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank. A deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Currently, enacted tax rates are used to determine deferred taxes on income.

The Bank offsets deferred tax assets and deferred tax liabilities if the Bank has a legally enforceable right to set off current tax assets against current tax liabilities and if the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

Deferred taxes related to fair value remeasurement of financial assets measured at fair value through other comprehensive income and cash flow hedges, are charged or credited directly to OCI and subsequently recognized in income together with the deferred gains or losses that are realized.

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

Significant accounting policies (continued)

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position if, and only if there is a legally enforceable right to set off the amounts and there is an intention to settle on

a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses from a group of similar transactions.

Impairment of non-financial assets

Non-financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

Income and expense recognition

Interest income and expense

Interest income and expense is recognized on an accrual basis by taking into account the effective interest of the asset or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fees received from the syndication loans purchased in the secondary markets or entered into in the primary markets are recorded as interest income as these are an integral part of the effective interest.

Fees for the loans that are received by GBI is recorded as interest expense as these are an integral part of the effective interest.

Fee and commission

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commissions, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank's Financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Valuation results and net trading income

Valuation results and net trading income includes gains and losses arising from derivatives and investments that are recorded at fair value through profit or loss.

Investment income

Investment income includes gains and losses arising from sales of investments that are recorded at fair value through other comprehensive income.

Significant accounting policies (continued)

Employee benefits

Below we provide a description of the most significant accounting policies relating to post-employment and other employee benefit commitments assumed by the employees in the Netherlands and the majority of staff employed outside the Netherlands.

Short-term employee benefits

Benefits for current active employees which are accrued and settled during the year and for which a provision is not required in the entity's accounts. These include wages and salaries, social security charges and other personnel expenses.

Costs are charged and recognized under the heading "Personnel expenses of the income statement.

Post-employment benefits – Defined-contribution plans

Pension plans have been established for the employees in the Netherlands and the majority of staff employed outside the Netherlands in accordance with the regulations and practices of the relevant countries. Third parties, mostly insurance companies, administer and execute these plans. GBI has no further payment obligations once the contributions have been paid.

The contributions made to these plans are charged and recognized under the heading "Personnel expenses of the income statement.

Share-based payment transactions

BBVA shares granted by GBI to selected employees are treated as cash-settled share-based payment from GBI's perspective.

GBI recognises and measures the services received from Identified Staff that are subject to share-based payment and the liability to pay for these services at the fair value of the liability. The fair value constitutes an estimate of the variable remuneration, taking into account market conditions. Once the BBVA shares are granted by the ultimate parent company to Identified Staff of GBI, the monetary equivalent thereof (based on fair value at the time of granting the shares) is charged by BBVA to GBI. The fair value of the share-based payment is determined at the grant date.

Any difference between this charge and estimated liability is recognized as a personnel expense in the income statement. The fair value of cash-settled share-based payment transactions are measured at each balance sheet date. Vesting conditions, other than market conditions, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Rights granted will remain valid until the expiry date, even if the share based payment scheme is discontinued

Cash flow statement

The statement of cash flows is prepared in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. In the net cash flow from operating activities, the result before tax is adjusted for those items in the statement of profit or loss and changes in items per the statement of financial position, which do not result in actual cash flows during the year. For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with central banks, treasury bills and other eligible bills, amounts due from other banks, and deposits from banks. Investments qualify as a cash equivalent if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash flows arising from foreign currency transactions are translated into the functional currency using the exchange rates at the date of the cash flows.

Significant accounting policies (continued)

The difference between the net cash flow in accordance with the statement of cash flows and the change in Cash and cash equivalents in the statement of financial position is due to exchange rate differences and is accounted for separately as part of the reconciliation of the net cash flow and the change in Cash and cash equivalents in the statement of financial position.

Notes to the statement of financial position and statement of comprehensive income

1. Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, loans and advances to banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as of 31 December 2021 and 2020, included in the accompanying statements of cash flows are as follows:

	31 December 2021	31 December 2020
Unrestricted balances with central banks	675,396	524,954
Loans and advances to banks	55,286	27,430
Deposits from banks	(28,588)	(62,201)
	<u>702,094</u>	<u>490,183</u>

2. Related party disclosures

For the purpose of this report, the 100 percent shareholder Türkiye Garanti Bankası A.Ş. (GBI's parent company), its controlling shareholder Banco Bilbao Vizcaya Argentaria S.A and all their subsidiaries and key management personnel (being the members of the Supervisory Board and Managing Board of GBI, TGB or BBVA) are referred to as related parties. In the course of conducting its banking business, the Bank engaged in various business transactions with its parent and other related parties. These transactions were carried out on commercial terms and at market rates. Transactions conducted with group companies are banking transactions including lending, borrowing funds, purchase and sale of financial assets, trade finance transactions and rendering international payment, derivative transactions and other banking services.

The Bank had the following balances outstanding from and transactions with related parties.

Transactions with the parent

The outstanding balances and income and expense with the immediate parent and ultimate parent are as follows:

	31 December 2021	31 December 2020
Loans and advances to banks	110,460	42,800
Derivative financial instruments	15	504
Total assets	<u>110,475</u>	<u>43,304</u>
Deposits from banks	27,408	8,403
Derivative financial instruments	6,392	10
Total liabilities	<u>33,800</u>	<u>8,413</u>
Loan commitments, financial guarantees and other commitments	1,977	16,708
Notional amount of derivatives	235,295	3,094
	2021	2020
Interest and similar income	2,105	1,167
Interest and similar expense	(935)	(3,857)
Fee and commission income	1,267	394
Fee and commission expense	(1,517)	(1,562)
Net income/expense	<u>920</u>	<u>(3,858)</u>

2. **Related party disclosures (continued)**

EUR 289 of ECL's have been recorded against balances outstanding at year-end 2021 with the parent company (2020: EUR 125) and none of the exposures are credit impaired.

Transactions with other related parties

The outstanding balances and income and expense with BBVA group companies are as follows:

	31 December 2021	31 December 2020
Loans and advances to banks	6	29
Derivative financial instruments	-	-
Loans and advances to customers	16,177	2,388
Total assets	16,183	2,417
Deposits from banks	-	-
Deposits from customers	1,052	4,740
Total liabilities	1,052	4,740
Loan commitments, financial guarantees and other commitments	536	-
Notional amount of derivatives	-	-
	2021	2020
Interest and similar income	86	327
Interest and similar expense	-	(12)
Fee and commission income	17	85
Other operating expenses	(9)	(18)
Net income	94	382

Various commission rates are applied to transactions involving guarantees and commitments. The pricing in transactions with the related parties is set on an arms-length basis.

EUR 46 of ECL's have been recorded against balances outstanding at year-end 2021 with other related parties (2020: EUR 7) and none of the exposures are credit impaired.

Transactions with key management personnel

Key management personnel compensation

Key management personnel compensation comprises the remuneration of the Supervisory Board and Managing Board, which is disclosed in note 26.

2. **Related party disclosures (continued)**

Key management personnel transactions

The aggregate values of transactions and outstanding balances related to key management personnel were as follows.

	31 December 2021	31 December 2020
Loans and advances to customers	5,250	4,794
Total assets	5,250	4,794
Deposits from customers	6,275	1,053
Total liabilities	6,275	1,053
Off Balance Sheet liabilities	20	20
Notional amount of derivatives	-	-
	2021	2020
Interest and similar income	64	79
Interest and similar expense	(3)	(2)
Fee and commission income	157	113
Fee and commission expense	-	-
Net income	218	190

As at 31 December 2021, the balances with key management personnel are allocated to Stage 1 and have a negligible ECL allowance (2020: negligible). During 2021 the expected credit loss that is recognised in profit or loss in respect of these balances is negligible as well (2020: negligible).

3. **Cash and balances with central banks**

	31 December 2021	31 December 2020
Cash at branches	-	-
Balances with central banks	675,426	524,954
	675,426	524,954
ECL allowance	(30)	(43)
	675,396	524,911

Cash and balances with central banks includes cash on hand and all legal tenders, as well as demand deposits held at the central banks in countries in which GBI's Head Office and its branch are located. Information about the ECL allowance of cash and balances with central banks, their credit quality and the company's exposure to credit risk can be found in the Risk Management section under Credit Risk.

The cash and balances with central banks are freely available since the average minimum reserve requirement was already met at 31 December 2021.

4. **Loans and advances to banks**

Classification of financial assets as loans and advances to banks

Loans and advances to banks are recorded at amortised cost and include the following financial instruments:

	31 December 2021	31 December 2020
Bank placements (cash margins, deposits)	59,733	27,437
Discounts to banks	538,354	472,118
Reverse sale-and-repurchase agreements	25,759	157,237
ECL allowance	(3,195)	(2,551)
Net loans and advances to banks	620,651	654,241

The Bank placements include EUR 55 million (2020: EUR 27 million) of on-demand deposits.

Expected credit loss and risk exposure

Information about the ECL allowance of loans and advances to banks, their credit quality and the company's exposure to credit risk can be found in the Risk Management section under Credit Risk.

Total loans and advances to banks includes non-cash loans amounting to EUR 407 (31 December 2020: EUR 76) for letter of credits that the Bank has provided (note 15).

5. **Loans and advances to customers**

Classification of financial assets as loans and advances to customers

Outstanding loans and advances to customers are recorded at amortised cost and are categorised as follows:

	31 December 2021	31 December 2020
Non-financial corporations	2,368,643	2,073,544
Non-bank financial corporations	157,973	32,198
Households	35,846	11,043
ECL allowance	(27,249)	(24,271)
	2,535,213	2,092,514
Non credit-impaired loans	2,538,714	2,095,260
Credit-impaired loans	23,748	21,525
ECL allowance	(27,249)	(24,271)
	2,535,213	2,092,514

Expected credit loss and risk exposure

Information about the ECL allowance of loans and advances to customers, their credit quality and the company's exposure to credit risk can be found in the Risk Management section under Credit Risk.

Total loans and advances to customers includes non-cash loans amounting to EUR 15,028 (31 December 2020: EUR 17,522) for letter of credits that the Bank has provided (note 15), for which the payment obligation is certain.

5. **Loans and advances to customers (continued)**

Write-offs

The Bank may write-off financial assets that might still be subject to enforcement activity. The outstanding contractual amounts of financial assets written-off during the year ended 31 December 2021 was EUR 402 thousand (2020: EUR 30.3 million). This includes amounts that are written off as a result of disposals as well as amounts that are owed in full by the Bank but which have been (partially) written-off due to no reasonable expectation of full recovery.

6. **Financial assets mandatorily at fair value through profit or loss**

Financial assets mandatorily measured at fair value through profit or loss encompasses a receivable in relation to the sale of shares in 2020. Due to the contractual characteristics of this sale transaction, the receivable did not meet the criteria to be recognised as at amortised cost and hence it is required to be classified as at fair value through profit or loss.

The equity shares that were sold related to one equity participation that results from the partial transition of debt into equity in relation to a debt restructuring.

There are no financial assets designated as fair value through profit or loss by option.

7. **Financial investments at fair value through other comprehensive income**

Financial instruments at fair value through other comprehensive income (FVOCI) comprise the following investments in listed bonds having solely payments of principal and interest:

	31 December 2021	31 December 2020
Bonds issued by financial corporations	44,887	17,144
Bonds issued by non-financial corporations	50,902	22,338
Bonds issued by central governments	154,409	63,291
	<u>250,198</u>	<u>102,773</u>

Upon disposal of these debt investments, any balance within the OCI reserve for these debt investments is reclassified to profit or loss.

Debt securities include securities pledged in relation tot ECB's targeted longer term refinancing operation, DNB borrowing as well as repurchase transactions. Further information is disclosed in note 11 on deposits from banks and note 42 on asset encumbrance.

8. Property and equipment

Movement in tangible assets from 1 January to 31 December 2021 is as follows:

	<u>01</u> <u>January</u>	<u>Additions</u>	<u>Revaluation</u>	<u>Disposals</u> <u>and</u> <u>transfers</u>	<u>31</u> <u>December</u>
Cost					
Land and building	30,672	9	(1)	(509)	30,171
Right of use building	943	106	-	-	1,049
Furniture and equipment	3,818	112	-	(72)	3,858
Right of use equipment	265	62	-	-	327
	35,698	289	(1)	(581)	35,405
<i>Less: Accumulated depreciation</i>					
Land and building	(40)	(521)	-	509	(52)
Right of use building	(460)	(204)	-	-	(664)
Furniture and equipment	(3,148)	(332)	-	65	(3,415)
Right of use equipment	(145)	(61)	-	-	(206)
	(3,793)	(1,118)	-	574	(4,337)
	31,905	(829)	(1)	(7)	31,068

Movement in tangible assets from 1 January to 31 December 2020 is as follows:

	<u>01</u> <u>January</u>	<u>Additions</u>	<u>Revaluation</u>	<u>Disposals</u> <u>and</u> <u>transfers</u>	<u>31</u> <u>December</u>
Cost					
Land and building	30,622	43	514	(507)	30,672
Right of use building	911	32	-	-	943
Furniture and equipment	3,701	132	-	(15)	3,818
Right of use equipment	114	151	-	-	265
	35,348	358	514	(522)	35,698
<i>Less: Accumulated depreciation</i>					
Land and building	-	(547)	-	507	(40)
Right of use building	(250)	(210)	-	-	(460)
Furniture and equipment	(2,666)	(495)	-	13	(3,148)
Right of use equipment	(89)	(56)	-	-	(145)
	(3,005)	(1,308)	-	520	(3,793)
	32,343	(950)	514	(2)	31,905

8. Property and equipment (continued)

Depreciation expense of tangible assets for the year ended 31 December 2021 amounted to EUR 1,118 (2020: EUR 1,308).

An independent valuator was involved to assess the valuation of the land and buildings. As per 31 December 2021 (the effective date of revaluation), the revaluation of land and buildings, net of deferred tax, amounting to EUR 1 was accounted under shareholders' equity (2020: EUR 385).

As of 31 December 2021, the net book value of property under cost model instead of revaluation model is EUR 15,729 (2020: EUR 15,699).

The reconciliation of the revaluation surplus on the building is as follows:

	2021	2020
Opening balance as at 1 January	10,689	10,664
Current year charge in OCI	33	25
Closing balance as at 31 December	10,722	10,689

The revaluation surplus in OCI is part of a legal reserve as, under Dutch law, the balance cannot be distributed to the shareholder.

9. Intangible assets

Movement in intangible assets from 1 January to 31 December 2021 is as follows:

	<u>01</u> <u>January</u>	<u>Additions</u>	<u>Disposals</u> <u>and</u> <u>transfers</u>	<u>31</u> <u>December</u>
<i>Cost</i>				
Software	12,558	1,773	(8)	14,323
	12,558	1,773	(8)	14,323
<i>Less: Accumulated depreciation</i>				
Software	(6,740)	(2,193)	8	(8,925)
	(6,740)	(2,193)	8	(8,925)
	5,818	(420)	-	5,398

Movement in intangible assets from 1 January to 31 December 2020 is as follows:

	<u>01</u> <u>January</u>	<u>Additions</u>	<u>Disposals</u> <u>and</u> <u>transfers</u>	<u>31</u> <u>December</u>
<i>Cost</i>				
Software	10,206	2,352	-	12,588
	10,206	2,352	-	12,588
<i>Less: Accumulated depreciation</i>				
Acquired software	(4,932)	(1,808)	-	(6,740)
	(4,932)	(1,808)	-	(6,740)
	5,274	544	-	5,818

9. *Intangible assets (continued)*

Internally generated software of EUR 2,268 is included in the total software (2020: EUR 2,728). In accordance with the Dutch Civil Code legal reserves have to be established equal to the carrying value of the internally developed software. The legal reserve cannot be distributed to the shareholder.

10. *Other assets*

	31 December 2021	31 December 2020
Prepaid expenses, insurance claims and similar items	1,262	1,189
Miscellaneous receivables	311	4,326
	<u>1,573</u>	<u>5,515</u>

As at 31 December 2020 EUR 3.9 million with regards to the Deposit Guarantee Scheme for the bankrupted DSB Bank was included under miscellaneous receivables. This amount was fully collected in 2021.

11. *Deposits from banks*

GBI's deposits from banks comprise the following element:

	31 December 2021	31 December 2020
On demand deposits	28,588	12,982
Term deposits	14,073	49,233
Obligations under repurchase agreements	-	9,726
Central Bank borrowing	297,452	207,303
Other deposits from banks	69,869	65,370
	<u>409,982</u>	<u>344,614</u>

Obligations under repurchase agreements

The Bank raises funds by selling financial instruments under agreements to repurchasing these instruments at the same price plus interest at a predetermined date. In note 42 further detail is provided in relation to the collateral provided.

Central Bank borrowing: Targeted longer term refinancing operations

In June 2020 and March 2021 the Bank raised funds by participating in respectively the 4th tranche and the 7th tranche of ECB's third targeted longer term refinancing operations (TLTRO III) program that was announced on 22 July 2019. The funds are accounted for as financial liabilities in accordance with IFRS 9, which is further elaborated on the section significant accounting policies.

The TLTRO III funding has a maturity of 3 years. The funding rate for these operations depends on the Bank's eligible net lending, and can go as low as the average deposit facility rate of the ECB (currently -0.50%) over the life of the funding, plus an additional 50 basis points discount applied from 24 June 2020 to 23 June 2022 in order to provide attractive funding conditions that will support banks' efforts to keep credit flowing to the real economy during the Covid pandemic. Hence, if the Bank reaches certain lending performance threshold over pre-defined reference periods, more favourable conditions as presented in the below table will be applied throughout the entire life of the operations.

11. Deposits from banks (continued)

Reference period	Performance threshold	Interest rate
1 March 2020 to 31 March 2021 ¹	0%	From 24 June 2020 to 23 June 2021 the rate will be 50 basis points below the average interest rate on the deposit facility (currently - 0.5%) prevailing over the same period, and in any case not higher than -1%. From 24 June 2021 onwards the average interest rate on the deposit facility over the life of the respective operation will apply.
1 October 2020 to 31 December 2021 ²	0%	From 24 June 2021 to 23 June 2022 the rate will be 50 basis points below the average interest rate on the deposit facility (currently - 0.5%) prevailing over the same period, and in any case not higher than -1%. From 24 June 2022 onwards the average interest rate on the deposit facility over the life of the respective operation will apply.
1 April 2019 to 31 March 2021	1.15%	If GBI did not reach the above performance thresholds, it is still entitled to favourable rates if the eligible net lending exceeds the benchmark net lending over the reference period. The rate applied to TLTRO III operations will be lower compared to the base rate, and can be as low as the average interest rate on the deposit facility prevailing over the life of the respective TLTRO III operation if the performance threshold is exceeded.

Due to the uncertainties in loan growth which might result in GBI's ineligibility for those favorable conditions, the Bank has taken into account an interest of minus 50 basis points per prudentiality. The negative interest accrued in 2021 in relation to TLTRO III amounts to EUR 1,309 (2020: EUR 345) and is recognized as interest income. Additionally, in 2021, GBI met the eligibility criteria for the Special Reference Period (1 March 2020 to 31 March 2021), hence accounted a one-off interest income from the TLTRO operations, amounting to EUR 876.

In note 42 further detail is provided in relation to the collateral provided.

Other deposits from banks

Loans and advances from banks and other institutions are recorded at amortised cost and comprise bilateral loans with a carrying amount of EUR 69,869 (2020: EUR 65,370).

¹ In connection to the Covid pandemic, on 30 April 2020 ECB recalibrated the targeted lending operations to further support real economy and introduced a special reference period to measure the lending performance for the application of favourable interest rates.

² In connection to the Covid pandemic, on 10 December 2020 ECB prolonged the support via targeted lending operations for banks that lend to the real economy and introduced a second special reference period to measure the lending performance for the application of favourable interest rates.

12. Deposits from customers

Deposits from customers comprise the following:

	31 December 2021		
	Demand	Time	Total
Households	1,102,723	757,987	1,860,710
Non-financial corporations	416,769	563,777	980,546
Non-bank financial corporations	64,642	128,924	193,566
	1,587,134	1,450,688	3,037,822

	31 December 2020		
	Demand	Time	Total
Households	1,252,849	661,736	1,914,585
Non-financial corporations	267,135	242,964	510,099
Non-bank financial corporations	3,296	16,477	19,773
	1,523,280	921,177	2,444,457

From the deposits from customers EUR 1,767 million (2020: EUR 1,715 million) is guaranteed under the Deposit Guarantee Scheme.

13. Subordinated liabilities

Subordinated liabilities concerned a subordinated loan received from GBI's shareholder Türkiye Garanti Bankası A.Ş. with a total amount of EUR 50 million that was repaid in 2020. The loan was granted in 2015 with an original maturity of 10 years, callable five years after the issuance and had a yearly interest rate of 4.55%. The subordinated loan was subordinate to the other current and future liabilities of GBI.

In 2020, the interest expense in respect of the subordinated loans amounts to EUR 2,002.

14. Taxation

In the Netherlands, corporate income tax is levied at the rate of 15% (2020: 16,5%) for tax profits up to EUR 245 (2020: EUR 200) and 25% for the excess part over this amount on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the related year. As per 2022 the corporate tax rate is 15% for tax profits up to EUR 395 and 25.8% for the excess part. As per 2022 tax losses can be carried forward indefinitely. However tax losses can only be fully deducted (on an annual basis) up to an amount of EUR 1,000 plus 50% of the taxable profit that exceeds EUR 1,000. The corporate income tax rate for the Germany branch is 30%.

14. Taxation (continued)

Tax assets and liabilities are as follows:

	31 December 2021	31 December 2020
Current tax asset	1,851	7,917
Deferred tax asset	-	-
Tax assets	1,851	7,917
Current tax liability	-	-
Deferred tax liability	(3,711)	(3,429)
Tax liabilities	(3,711)	(3,429)
Net tax assets/(liabilities)	(1,860)	4,488

The tax income and expense are as follows:

	2021	2020
Current tax income/(expense)	(6,376)	(2,625)
Deferred tax income/(expense)	-	41
Tax income/(expense)	(6,376)	(2,584)

The movement of current tax asset/liability is as follows:

	2021	2020
Opening balance as at 1 January	7,917	8,557
Current period taxation charge in the statement of profit or loss	(6,378)	(2,625)
Current period taxation charge in the statement of other comprehensive income	19	(409)
Movement from deferred to current tax	51	16
Advance taxed paid during the period	291	2,390
Corrections related to previous years	(49)	(12)
Closing balance as at 31 December	1,851	7,917

In accordance with the related regulation for prepaid taxes on income, such advance payments during the year are being deducted from the final tax liability for the period. Accordingly, the taxation charge on income is not equal to the final tax liability appearing on the statement of financial position.

14. Taxation (continued)

Deferred tax assets and liabilities are as follows:

	31 December 2021	31 December 2020
Valuation of hedges	56	356
Valuation of (in) tangible fixed assets	94	94
Total deferred tax assets	150	450
Revaluation of building	(3,708)	(3,725)
Other	(154)	(154)
Total deferred tax liabilities	(3,861)	(3,879)
Net deferred tax assets/(liabilities)	(3,711)	(3,429)

Movements in deferred tax assets and liabilities are detailed in the table below:

	2021	2020
Opening balance as at 1 January	(3,429)	(2,690)
Movement from deferred to current tax	(51)	(16)
Deferred tax benefit recognized in the statement of profit or loss	-	41
Deferred tax charge recognized in the statement of other comprehensive income	(231)	(764)
Deferred tax benefit recognized in the statement of other comprehensive income	-	-
Closing balance as at 31 December	(3,711)	(3,429)

The total provision for taxes on income is different than the amount computed by applying the Dutch statutory tax rate to income before provision for taxes as shown in the following reconciliation:

	2021	2020
Profit before tax	24,387	9,388
Tax using the GBI's domestic tax rate	(6,078)	(2,347)
Effect of different tax rates in other countries	(23)	(28)
Disallowable expenses	(226)	(246)
Changes related to previous years taxation	(49)	(4)
Tax income/(expense)	(6,376)	(2,625)
Effective tax rate	26.15%	28.0%

15. Other liabilities

The principal components of other liabilities are as follows:

	31 December 2021	31 December 2020
Non-cash loans for letter of credits (*)	15,435	16,363
Unearned income	2,334	2,044
Short-term employee benefits	1,351	1,355
Withholding taxes	658	165
Vacation pay liability	93	100
Accrued expenses	3,283	2,325
Payables to suppliers	1,799	873
Miscellaneous payables	5,600	2,985
Lease liabilities	505	604
ECL for non-cash loans (note 31)	583	684
	31,641	27,498

* The Bank gives non-cash loans for letter of credits it provides. As of 31 December 2021, non-cash loans provided to banks and customers are EUR 407 (note 4) and EUR 15,028 (note 5), respectively (31 December 2020: EUR 76 and EUR 17,522).

Management recorded a provision in relation to other long term employee benefits (variable remuneration). Part thereof is to be paid within 12 months after the reporting date and the remainder is deferred and to be paid more than 12 months after the reporting date. The amount of provision that is set aside in relation to variable remuneration is based on the actual performance versus the budgets and is approved by the Supervisory Board. The amount set aside for termination benefits is based on management judgement (or Supervisory Board judgement in case of termination of member of the Managing Board) in relation to negotiations between parties involved.

16. Equity

Share capital

As of 31 December 2021, the authorized nominal share capital of the Bank amounts to EUR 500 thousand and is subdivided into 500,000 shares with a nominal value of EUR 1 each, of which 136,836 shares have been issued and fully paid-in. No changes occurred in 2021.

Other reserves

Components of the other reserves are as follows:

	2021	2020
Fair value reserve investments	33	91
Hedging reserve	(163)	(1,067)
Other legal reserves		
Revaluation of building	10,722	10,689
Legal reserve of internally generated software	2,268	2,728
Closing balance as at 31 December	12,860	12,441

16. Equity (continued)

Other comprehensive income/loss that will not to be reclassified to profit or loss in subsequent periods:

- Revaluation of building:

In line with the applicable accounting policy, the Bank performs an annual revaluation of the office building that is reported under buildings in tangible assets (note 8). Under this policy, the revaluation surplus is recognized in the other comprehensive income and shall not be recycled to the statement of profit or loss in the subsequent periods.

The reconciliation of revaluation reserve in other comprehensive income (net of tax) are as follows:

	2021	2020
Opening balance as at 1 January	10,689	10,664
Gains/(losses) during the year	45	33
Deferred tax effect	(12)	(8)
Closing balance as at 31 December	10,722	10,689

- Legal reserve for internally generated software

In accordance with the Dutch Civil Code legal reserves have to be established equal to the carrying value of the internally developed software.

The movement of the legal reserve for internally generated software are as follows:

	2021	2020
Opening balance as at 1 January	2,728	2,144
Movement from/ to retained earnings	(460)	584
Closing balance as at 31 December	2,268	2,728

Other comprehensive income/(loss) to are or may be reclassified to profit or loss in subsequent periods:

- Financial assets at fair value through other comprehensive income reserve (FVOCI) is detailed as follows:
- In 2021, the Bank recognises changes between the amortised cost and market value of the securities measured at fair value through other comprehensive income in the other comprehensive income.
- These changes are accumulated within the FVOCI reserve under equity. The Bank transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

	2021	2020
Opening balance at 1 January	91	(1,135)
Gains/(losses) during the year	(184)	1,415
Change in ECL	107	219
Income tax effect	19	(409)
Other	-	1
Closing balance as at 31 December	33	91

16. Equity (continued)

- Cashflow hedge reserve

The hedging reserve comprises the effective portions of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (refer to note 40 'Derivatives and Hedge Accounting' for the details).

	2021	2020
Opening balance as at 1 January	(1,067)	(1,893)
Effective portion of changes in fair value	940	59
Reclassified to profit or loss	264	1,042
Deferred tax effect	(300)	(275)
Closing balance as at 31 December	(163)	(1,067)

In accordance with the Dutch Civil Code legal reserves have to be established in relation to the revaluation surplus on the building, cash flow hedging reserve, fair value through other comprehensive income (FVOCI) reserve and the legal reserve for internally generated software. Total Legal reserves amounts to EUR 12,860 (2020: EUR 12,441) and are not available for distribution to the Company's shareholders.

Capital management

GBI is part of the BBVA Group. Therefore the European Central Bank (ECB) sets and monitors capital requirements for the Group as a whole and for GBI individually. The banking operations are directly supervised by De Nederlandsche Bank (DNB).

The standards applied for the capital requirements are based on the Capital Requirements Directive (CRD IV) and Capital Requirements Regulation (CRR) of the European Union. In accordance with the CRR, the Bank is using the Foundation Internal Rating Based (F-IRB) approach to calculate the regulatory capital ratios.

These ratios compare GBI's total capital and Common Equity Tier 1 (CET1) with the required pillar I capital for credit risk (based on the total of risk-weighted assets and off-balance sheet items), the market risk associated with the trading portfolios and the operational risk.

GBI's regulatory capital consists of the sum of the following elements.

- Common Equity Tier 1 (CET1) capital, which includes ordinary share capital, related share premiums, retained earnings and reserves after adjustment for dividends proposed after the year end and deductions for goodwill, intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes other Tier 2 capital elements.

16. Equity (continued)

The following table analyzes actual capital in accordance with regulatory requirements:

	31	31
	December,	December,
	2021	2020
Total Equity	591,018	583,376
Prudential filters	(114)	958
Prudent valuation	(114)	958
IRB shortfall of credit risk adjustments to ECL	(1,447)	-
Intangible assets ³	(4,033)	(4,349)
Core Tier 1	585,423	579,985
Perpetual Tier 1 capital	-	-
Transitional adjustments to AT1 Capital	-	-
Additional Tier 1	-	-
Total Tier I capital	585,423	579,985
IRB Provision Excess	3,566	907
Subordinated capital	-	-
Total Tier II capital	3,566	907
Total own funds	588,990	580,892
CET 1 ratio	21.69%	23.84%
Total Capital Ratio (TCR)	21.83%	23.88%

The Common Equity Tier 1 (CET1) ratio and Total Capital Ratio (TCR) does not include the 2021 net result, in line with the reports submitted to the regulatory authorities. When including the audited full year net result of 2021 the CET1 ratio is 22.36 percent (2020: 24.12 percent) and the TCR is 22.49 percent (2020: 24.16 percent).

GBI has preserved its prudent approach to capital and liquidity management in 2021. CET1 has slightly decreased to 21.69 percent from 23.84 percent in 2020, whereas the total capital ratio has decreased to 21.83 percent from 23.88 percent in 2020, in parallel to increase in the loan book. Both ratios are comfortably above the minimum required regulatory levels and provides a strong cushion for the Bank.

As part of the annual Supervisory Review and Evaluation Process (SREP), the regulatory authority sets individual capital guidance for GBI in excess of the minimum capital resources requirement. A key input to the SREP is GBI's internal capital adequacy assessment process (ICAAP).

GBI's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders'

returns is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater earning and the advantages and security afforded by a stronger capital position.

The policies in respect of capital management and allocation are reviewed regularly by the Supervisory Board. Management uses regulatory capital ratios to monitor its capital base. Return on risk-adjusted capital is monitored to assess whether the allocation of the capital is in line with the risk appetite and the long term objectives of the Bank.

³ Under CRD IV regulation, additional items listed below shall be deducted fully by 31 December 2020 to enhance own funds quality: Non-eligible minority interest, Other intangible asset (Non-solvency deductible under Basel II framework) and Deferred tax assets that rely on future profitability and do not arise from temporary differences

17. 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.

The estimated fair values of financial instruments have been determined using available market information by the Bank. In case market information is unavailable the Bank applies appropriate valuation methodologies for fair value determination. However, judgment is necessarily required to interpret market data to determine the estimated fair value. While management uses available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

The Bank analyses financial instruments held at fair value in the three categories described below. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

The fair value hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques supported by unobservable inputs.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities,

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices),

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

17. Fair value information (continued)

Financial assets and liabilities measured at fair value

The table below analyses financial instruments carried at fair value, by valuation method:

31 December 2021	Level 1	Level 2	Level 3	Total
	<i>Quoted prices (unadjusted) in active markets</i>	<i>Valuation techniques - observable inputs</i>	<i>Valuation techniques - significant unobservable inputs</i>	
<i>Financial assets measured at fair value</i>				
Derivative financial assets				
Trading derivatives	-	5,128	-	5,128
Non-trading derivatives	-	3,116	-	3,116
Financial investments at fair value through profit or loss	-	284	-	284
Financial investments at fair value through other comprehensive income				
Financial corporations	44,887	-	-	44,887
Non-financial corporations	50,902	-	-	50,902
Central governments	154,410	-	-	154,410
Total	250,199	8,528	-	258,727
<i>Financial liabilities measured at fair value</i>				
Derivative financial liabilities				
Trading derivatives	-	5,041	-	5,041
Non-trading derivatives	-	21,914	-	21,914
Total	-	26,955	-	26,955

17. Fair value information (continued)

31 December 2020	Level 1	Level 2	Level 3	Total
	<i>Quoted prices (unadjusted) in active markets</i>	<i>Valuation techniques - observable inputs</i>	<i>Valuation techniques - significant unobservable inputs</i>	
<i>Financial assets measured at fair value</i>				
Derivative financial assets				
Trading derivatives	-	2,551	-	2,551
Non-trading derivatives	-	1,714	-	1,714
Financial investments at fair value through profit or loss	-	317	-	317
Financial investments at fair value through other comprehensive income				
Financial corporations	17,144	-	-	17,144
Non-financial corporations	21,249	1,089	-	22,338
Central governments	63,291	-	-	63,291
Total	101,684	5,671	-	107,355
<i>Financial liabilities measured at fair value</i>				
Derivative financial liabilities				
Trading derivatives	-	1,531	-	1,531
Non-trading derivatives	-	7,772	-	7,772
Total	-	9,303	-	9,303

The equity investment that was categorised as level 3 (see note 6) was sold in 2020 and it was agreed to pay the purchase price in instalments. The final instalment was paid in June 2021. The remaining instalment is classified as level 2 in 2020 since the agreed purchase price is considered as an observable input. In 2021 no significant transfers occurred between Level 1 and Level 2 in 2021 and 2020. There were no significant changes in the valuation techniques during 2021 and 2020.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	31 December, 2021	31 December, 2020
Balance as at January 1st	-	1,463
Transfer in/(out of) level 3	-	(317)
Disposal	-	(565)
Gains/(losses) in the statement of profit or loss	-	(581)
Closing as at December 31st	-	-

17. Fair value information (continued)

Financial assets and liabilities not measured at fair value

The bank assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

31 December 2021	Carrying value	Level 1	Level 2	Level 3	Total
		<i>Quoted prices (unadjusted) in active markets</i>	<i>Valuation techniques - observable inputs</i>	<i>Valuation techniques - significant unobservable inputs</i>	
<i>Assets for which fair values are disclosed but not recognised at fair value:</i>					
Loans and advances to banks	620,651	-	-	629,808	629,808
Loans and advances to customers	2,535,213	-	-	2,584,332	2,584,332
Total	3,155,864	-	-	3,214,140	3,214,140
<i>Liabilities for which fair values are disclosed but not recognised at fair value:</i>					
Deposits from banks	409,982	-	-	414,358	414,358
Deposits from customers	2,590,159	-	-	2,602,883	2,602,883
Total	3,000,141	-	-	3,017,241	3,017,241

17. Fair value information (continued)

31 December 2020	Carrying value	Level 1	Level 2	Level 3	Total
		Quoted prices (unadjusted) in active markets	Valuation techniques - observable inputs	Valuation techniques - significant unobservable inputs	
<i>Assets for which fair values are disclosed but not recognised at fair value:</i>					
Loans and advances to banks	6254,241	-	-	661,116	661,116
Loans and advances to customers	2,092,514	-	-	2,139,478	2,139,478
Total	2,746,755	-	-	2,800,495	2,800,495
<i>Liabilities for which fair values are disclosed but not recognised at fair value:</i>					
Deposits from banks	344,614	-	-	346,903	346,903
Deposits from customers	2,148,677	-	-	2,162,731	2,162,731
Total	2,493,291	-	-	2,509,634	2,509,634

Non-interest bearing deposits and cash are excluded from the table as it's carrying value approximates the fair value. For deposits and loans with maturity, the fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. Unobservable inputs mainly relates to discount rates including credit spread.

18. Commitments and contingencies

In the ordinary course of business, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in the accompanying financial statements, including letters of guarantee and letters of credit. Commitments and contingent liabilities comprise the following:

	31 December 2021	31 December 2020
Letters of credit	285,676	362,580
Commitments for loan granting	95,322	170,920
Letters of guarantee	32,319	24,485
Other guarantees	6,722	680
	420,039	558,665

Most of the contingencies have a short term nature and any outflow is normally reimbursed by the clients of the bank.

Letters of credit mainly secure payments to third parties for a customer's foreign and domestic trade transactions in order to finance a shipment of goods. GBI's credit risk in these transactions is limited since these transactions evolve with the shipment of physical commodities shipped and are of a short duration.

Commitments for loan granting mainly relate to the regular lending activities of the bank.

18. Commitments and contingencies (continued)

Guarantees relate both to credit (other guarantees) and non-credit substitute guarantees (letters of guarantee). Many of them are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows.

19. Net interest income

Interest income and expense from various products of the Bank and the transactions engaged are as follows:

	2021	2020
Interest loans to customers	62,032	66,118
Interest on securities	258	1,709
Interest on loans to banks	8,911	7,880
Negative interest on liabilities	2,213	606
Total interest income using effective interest method	73,414	76,313
Interest on deposits from banks	(989)	(126)
Interest on deposits from customers	(5,756)	(9,198)
Interest on subordinated liabilities	-	(2,002)
Negative interest on assets	(3,127)	(3,008)
Total interest expense using effective interest method	(9,872)	(14,334)
Other interest expense (swap funding costs)	(10,421)	(15,086)
Total interest expense	(20,293)	(29,420)
Net interest income	53,121	46,893

20. Net fee and commission income

Disaggregation of fee and commission income

Fees and commissions the Bank charges and incurs due to the transaction engaged are as follows:

	2021	2020
Commissions on documentary credits and non-cash loans	13,300	6,984
Brokerage and advisory fees	1,688	2,309
Custody fees	1,333	1,035
Commissions on account maintenance	2,375	1,617
Commissions on funds transfers	1,754	1,340
Other fees and commissions	495	10
Total fee and commission income	20,945	13,295
Commissions on documentary credits and non-cash loans	(1,060)	(16)
Brokerage and custody fees	(407)	(382)
Commissions and fees paid on foreign correspondents	(358)	(388)
Corporate banking fees	(1,486)	(1,391)
Other fees and commissions	(240)	(176)
Total fee and commission expense	(3,551)	(2,353)
Net fee and commission income	17,394	10,942

20. Net fee and commission income (continued)

Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers.

	31 December 2021	31 December 2020
Receivables included in miscellaneous receivables (note 10)	-	-
Contract liabilities included in other liabilities (note 15)	2,334	2,044

The contract liabilities mainly relate to the fees received from customers in relation to retail and corporate banking services. This is recognised as revenue over the period for which the services are provided.

The amount of EUR 1,986 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2021. The remaining part will be accrued in 2022.

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. GBI recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	<p>GBI provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, brokerage of securities, brokerage of spot foreign exchange, brokerage of derivatives, custody of services, security transfers, third party funds, and servicing fees.</p> <p>Fees for ongoing account management are charged to the customer's account on a monthly basis. GBI sets the rates separately for retail and corporate banking customers at least on an annual basis.</p> <p>Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.</p> <p>Servicing fees are charged on a monthly basis and are based on fixed rates reviewed at least annually by the Bank.</p>	<p>Revenue from account service and servicing fees is recognised over time as the services are provided.</p> <p>Revenue related to transactions is recognised at the point in time when the transaction takes place.</p>
Trade Finance	<p>GBI provides trade finance services to its corporate customers which include letters of credit, standby letters of credit, collection, letters of guarantee</p> <p>The type of services is transaction based and are charged when the transaction takes place.</p>	<p>Revenue from account service and servicing fees is recognised as the services are provided.</p>

21. Valuation results and net trading income

Gains and losses from derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading income including the fair value hedges, whereas gains and losses arising from changes in the effective portion of the fair value of cash flow hedges are reflected as a separate component of equity. Net trading income from trading of financial assets is detailed in the table below:

	2021	2020
Derivatives trading results	701	773
Securities trading results	(84)	(583)
Change in fair value of derivatives relating to fair value hedges	788	(203)
Change in fair value of derivatives relating to cashflow hedges (ineffective portion)	(2)	14
Change in the fair value of hedged items	(878)	212
Foreign exchange transaction results	1,896	1,658
Valuation results and net trading income	2,421	1,871

22. Investment income

GBI has not disposed debt instruments measured at FVOCI (2020: EUR 0).

23. Other income and expenses

The other income and expenses represent contributions to the Deposit Guarantee Scheme (DGS) and National Resolution Fund (NRF) as well as gains or losses arising from the derecognition of financial assets measured at amortised cost where the purchase price deviates from the carrying value.

Total contributions for 2021 amounted to EUR 3.4 million (2020: EUR 3.4 million).

24. Other operating expenses

Operating expenses of the Bank is as follows:

	2021	2020
Electronic data processing	5,455	4,886
Audit & consultancy	1,714	2,061
Communication	1,213	1,377
Supervisory fees	1,317	1,219
Insurance	362	296
Utility	308	262
Advertising	167	120
Repair and maintenance	38	60
Stationary	57	51
Others	294	456
	10,925	10,788

Audit and consultancy expenses include expenses related to services provided by BDO Audit & Assurance B.V. (2020: KPMG Accountants N.V.) as external auditor of GBI and other members of the international BDO network.

24. Other operating expenses (continued)

The breakdown, in which these expenses have been allocated to the relevant period, is as follows:

	2021			2020		
	BDO Audit & Assurance B.V.	Other BDO network	Total BDO network	KPMG Accountants N.V.	Other KPMG network	Total KPMG network
Statutory audit of financial statements	446	-	446	354	12	366
Other assurance services	287	-	287	418	-	418
Tax advisory services	-	-	-	-	-	-
Other non-audit services	-	-	-	-	-	-
	733	-	733	772	12	784

For the period to which our statutory audit relates, in addition to this audit, BDO has provided the following services to the GarantiBank International N.V.:

- audit and review of financial information for consolidation purposes of the parent company;
- audit and audit-related services on prudential returns and other regulatory reporting to Supervisory Authorities.

25. Personnel expenses

	2021	2020
Short-term benefits - salaries	18,994	19,625
Short-term benefits - social security and insurance	2,283	2,474
Short-term benefits - other	906	715
Other benefits	879	630
Post employment benefits (pension insurance premium)	2,573	2,726
Termination benefits	691	600
	26,326	26,770

26. Board remuneration

In accordance with the Articles of Association, the remuneration of the members of the Managing Board is subject for approval by the shareholder at the Annual General Shareholders' Meeting.

The remuneration proposal for the members of the Managing Board will be submitted to the next Annual General Shareholders' Meeting in 2022 for adoption. The objective of the remuneration policy is to attract, motivate and retain a qualified Managing Board with an international mind-set and background.

The remuneration of current and former members of the Managing Board amounted to EUR 2,077 in 2021 (2020: EUR 1,924). The total remuneration consists of:

	2021	2020
short-term benefits	1,927	1,776
post-employment benefits	150	148
other long-term employee benefits	-	-
termination benefits	-	-
	2,077	1,924

26. **Board remuneration (continued)**

The remuneration of current and former independent members of the Supervisory Board amounted to EUR 156 in 2021 (2020: EUR 174). The non-independent (current and former) members of the Supervisory Board did not receive remuneration.

For further details regarding the remuneration, policy reference is made to the Report of the Supervisory Board. In Note 2 Related party disclosures, contracts transacted with key management personnel including the managing board is disclosed and is extension of this note. See also Note 27 Share-based payments.

27. **Share-based payments**

Selected employees of GBI are marked as Identified Staff by the ultimate parent company (BBVA) under its remuneration policy. Consequently, the variable compensation generated by the Identified Staff of GBI is subject to the settlement and payment scheme as laid down in the remuneration policy. The main features of this scheme are:

- A significant percentage of variable remuneration – 60% in the case of Identified Staff members with particularly high variable remuneration (> EUR 500), and 40% for the rest of the Identified Staff– shall be deferred over a three-year period.
- 50% of the variable remuneration of each year (including both upfront and deferred portions), shall be established in BBVA shares.
- The variable remuneration will be subject to ex ante adjustments, so that it will not be accrued, or will be accrued in a reduced amount, should a certain level of profit or capital ratio not be obtained. Likewise, the Annual Variable Remuneration will be reduced upon performance assessment in the event of negative evolution of the Bank's results or other parameters such as the level of achievement of budgeted targets.
- The deferred component of the variable remuneration (in shares and in cash) may be reduced in its entirety, yet not increased, based on the result of multi-year performance indicators aligned with the Bank's fundamental risk management and control metrics, related to the solvency, capital, liquidity, funding or profitability, or to the share performance and recurring results of the Group.
- During the entire deferral period and retention period, variable remuneration shall be subject to malus and clawback arrangements, both linked to a downturn in financial performance of the Bank, specific unit or area, or individual, under certain circumstances.
- All shares shall be withheld for a period of one year after delivery, except for those shares required to honor the payment of taxes.
- No personal hedging strategies or insurance may be used in connection with remuneration and responsibility that may undermine the effects of alignment with sound risk management.
- The deferred amounts in cash subject to multi-year performance indicators that are finally paid shall be subject to updating, in the terms determined by the Bank's Board of Directors, upon proposal of the Remunerations Committee, whereas deferred amounts in shares shall not be updated.
- Finally, the variable component of the remuneration of the Identified Staff members shall be limited to a maximum amount of 100% of the fixed component of total remuneration, unless the General Meeting resolves to increase this percentage up to 200% (due to local regulation in The Netherlands, the maximum amount is capped at 20% of the fixed component of total remuneration).

As part of the variable remuneration granted for 2017 to Identified Staff, a number of 1,612 shares corresponding to the initial payment were delivered to the beneficiaries in 2018. The deferred portion of the variable remuneration granted for 2017 constitutes 1,074 shares have been settled in 2021.

28. Leases

The Bank leases certain properties in The Netherlands (meeting rooms and parking), Germany (Branch office) and Turkey (Representative Office) as well as cars and other office equipment.

Lease payments are recognized upon renewal of the lease contracts and presented under other liabilities. Interest in connection with lease payments are presented under interest expenses. Some leases provide for additional rent payments that are based on changes in certain price indices.

Information about leases for which the Bank is a lessee is presented below.

Right-of-use assets

Right-of-use assets are presented within tangible.

	<i>Property</i>	<i>Equipment</i>	<i>Total</i>
Opening balance as at 1 January 2021	483	120	603
Depreciation charge for the year	(204)	(61)	(265)
Additions to the right-of-use assets	106	62	168
Derecognition of right-of-use assets	-	-	-
Closing balance as at 31 December 2021	385	121	506

	<i>Property</i>	<i>Equipment</i>	<i>Total</i>
Opening balance as at 1 January 2020	661	25	686
Depreciation charge for the year	(210)	(56)	(266)
Additions to the right-of-use assets	32	151	183
Derecognition of right-of-use assets	-	-	-
Closing balance as at 31 December 2020	483	120	603

Risk Management

Introduction

GBI has an overall risk management model tailored to its business and its organization. This model allows GBI to develop its activity in accordance with the risk strategy, risk controls and management policies defined by the governing bodies of the Bank and to adapt to a changing economic and regulatory environment.

GBI follows a clear and proactive risk management strategy and adjusts its risk management structure continuously in an effort to further align with BBVA.

Given BBVA's stake in Türkiye Garanti Bankası A.Ş., GBI's shareholder, GBI is also qualified as a significant supervised entity under the Single Supervisory Mechanism (SSM). Since then, the alignment of risk management policies and practices with those of BBVA has been concluded.

GBI has preserved its prudent approach to capital and liquidity management in 2021 Common Equity Tier 1 (CET1) has slightly decreased to 21.69 percent from 23.84 percent in 2020, whereas the total capital ratio has decreased to 21.83 percent from 23.88 percent in 2020. Both ratios are comfortably above the minimum required regulatory levels and provide a strong cushion for the Bank..

The Bank has continued to operate with a significant liquidity buffer, evidenced by a high LCR of 516.9 percent. The liquidity buffer is composed of placements to European Central Bank and investments in high quality liquid assets.

29. **Overview on Governance Around Risk**

GBI has established a governance structure based on the segregation of duties to facilitate sound and controlled business operations. Risk management is structured at various levels within the organization in the form of various committees at the Supervisory Board and at the Managing Board levels and dedicated departments with specific mandates for risk management and control.

The Supervisory Board (SB) bears the overall responsibility for approving the risk appetite of GBI and monitoring of the adherence thereto. The Risk Committee of the Supervisory Board (RCSB) advises and assists the Supervisory Board in monitoring the Bank's risk profile, risk appetite and effective risk management. The Audit and Compliance Committee of the Supervisory Board (ACSB) is the ultimate authority on independent audit functions, compliance-related risks, and advises the SB in monitoring the integrity of the financial statements and compliance with legal and regulatory requirements.

The Managing Board (MB) of GBI functions as a collegial body, as referred to in Section 2:129 of the Dutch Civil Code that reports to the SB. The MB is responsible for the management, general affairs, and business connected with GBI. The MB develops strategies, policies, and procedures to establish effective risk management and ensure that the Bank is in line with the approved risk appetite. CRO, as a member of the MB, is responsible for developing, implementing, and monitoring the effectiveness of risk policies and practices that strategically support the Bank's risk objectives.

The Risk Management Committee (RMC) is responsible for coordinating and monitoring risk management activities at the Bank level. Other committees at the Bank level manage specific key banking risks: the Credit Committee for credit risk; the Asset and Liability Committee (ALCO) for market, interest rate, and liquidity risks; and the Compliance Committee for compliance risks.

The Operational Risk Admission and Product Governance Committee is responsible for the assessment and introduction of new products and services.

The Credit Division is a separate risk control function, independent of commercial activities, ensuring the proper functioning of the Bank's credit processes.

29. **Overview on Governance Around Risk (continued)**

The Risk Management Department (RMD) of GBI is an independent risk monitoring function, also independent of commercial activities. The RMD develops and implements risk policies, procedures, methodologies, and risk management infrastructures. Risks in relation to the limits established by the Bank are continuously measured and comprehensively reported to the appropriate committees.

The Internal Control-Non Financial Risk Department (IC-NFR) is involved in monitoring and reporting of operational risks and establishing preventive control processes.

The Compliance Department is also an independent body, reporting directly to the ACSB as well as to the Managing Board. The main purpose of the Compliance Department is to support GBI in complying with applicable laws and regulations, GBI policies and standards, and to follow the relevant group entities' policies and principles. Compliance Department is responsible for AML-CTF Compliance, Corporate Compliance, Customer Compliance, Securities Compliance, and conducts its activities in scope of those areas.

The Corporate Information Security Department (CISD) is responsible for identifying risks in the information technology systems and processes at GBI, as well as ensuring that technology-related threats to business continuity are identified and mitigated.

The Internal Audit Department (IAD) monitors the governance frameworks around all risks through regular audits, and provides reports to the Managing Board and the ACSB.

30. **Risk Appetite**

GBI's Risk Appetite Framework, in line with that of the Group, determines the risks and risk levels that GBI is prepared to assume in order to achieve its business objectives. The establishment of the risk appetite has the following purposes:

- To set the maximum risk levels that the Bank is willing to assume.
- To establish guidelines and the management framework to avoid actions that could threaten the future viability of the Bank.
- To establish a common terminology in the organization and to develop a compliance-driven risk culture.
- To ensure compliance with the regulatory requirements
- To facilitate communication with the regulators, investors and other stakeholders

The Risk Appetite Framework is expressed through the following elements;

Risk Appetite Statement: It sets out the general principles of the risk strategy of the Bank and the target risk profile.

GBI's Risk Policy is aimed to promote a responsible banking model, through prudent management and integrity, while targeting sustainable growth, risk adjusted profitability and recurrent value creation. To achieve these objectives, the risk management model is oriented to maintain a moderate risk profile that allows to keep strong financial fundamentals in adverse environments preserving our strategic goals, an integral view of risks, and a portfolio diversification by asset class and client segment, focusing on keeping a long term relationship with our customers.

Core Metrics: They define, in quantitative terms, the target risk profile set out in the risk appetite statement in line with the strategy of the Bank. The core metrics used internally are expressed in terms of solvency (i.e. CET1 ratio), liquidity (i.e. LCR, loan to stable customer deposits ratio) and recurrent income (i.e. return on equity, net margin, cost of risk). Each core metric has three thresholds (the traffic-light approach), ranging from usual management of the business to higher levels of risk: management reference, maximum appetite and maximum capacity. In determining risk appetite, the Supervisory

30. Risk Appetite (continued)

Board seeks a balanced combination of risk and return while paying close attention to the interests of all stakeholders. As such, the Supervisory Board reviews it on an annual basis at minimum.

- GBI's solvency has always remained at an above-adequate level owing to its committed shareholders and risk-averse strategies. The Bank aims to hold a strong capital base with a high Tier 1 component.
- The Bank focuses in particular on ensuring sufficient liquidity and thus safe banking operations and sound financial conditions in both normal and stressed financial environments, while retaining a stable and diversified liquidity profile.
- In terms of financial performance, the Bank targets a return on equity level that is stable in the long-term and satisfies the stakeholders, including the shareholders, while maintaining core competencies and a strategic position in key markets.
- GBI is strongly committed to act with integrity and adhere to the highest ethical principles in its business conduct.

By Type of Risk Metrics: These are defined in conjunction with the risk appetite core metrics. Compliance with the levels of by type of risk metrics ensures the compliance with the core metrics.

Management Limits: The core metrics and metrics by type of risk are supported by an additional layer through the introduction of limits on specific risk types i.e. credit, market, structural interest rate, structural FX, liquidity and operational risk.

The RAF was created to support the Bank's core values and strategic objectives. Accordingly, GBI dedicates sufficient resources to ensure full compliance with all requirements as well as to establish and maintain a strong risk culture throughout the organization. Evaluation, monitoring and reporting is an important element of GBI's RAF, which allows the Bank to ensure the compliance with the Risk Appetite set by the Supervisory Board. The Bank's risk limits are continuously monitored through control functions.

Credit Risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the bank or otherwise fail to perform as agreed. The Bank is exposed to credit risk on various financial assets, including derivative instruments used for hedging and debt investments and on off balance sheet instruments (loan commitments and guarantees issued). GBI is predominantly involved in portfolios such as sovereigns, banks, large corporates and trade finance activities, where limited number of defaults are observed. GBI's objective is to preserve a moderate risk profile by proactively managing an adequate return on available capital.

GBI applies the Foundation Internal Ratings Based (F-IRB) Approach for the calculation of regulatory capital related to credit risk of Corporate, Institutional and Sovereign credit exposures since 2008 based on the permission obtained from DNB. GBI has dedicated internal rating models to assess the credit worthiness of counterparties, which are integrated in the credit decision making and monitoring processes. These models serve as a basis for the calculation of regulatory capital and economic capital that GBI has to maintain to cover expected and unexpected losses from its lending activities. Ratings are also integral parts of pricing and risk based performance measurement processes. Independent third party experts validate all rating models on an annual basis.

For the IFRS-based reporting, the Bank has adopted an ECL methodology that makes use of the credit rating models that also serve as a basis of regulatory requirement under Internal Rating Based (IRB) approach. However, the regulatory rating models produce Through the Cycle (TTC) probability of defaults (PD), therefore certain layers have been introduced to produce Point in Time (PIT) estimates of PDs to be able to leverage these models in line with the IFRS 9 requirements.

31. Approach expected credit loss of financial assets

GBI recognizes an ECL allowance on financial assets and loans measured at amortized cost and financial assets measured at FVOCI, loan commitments and financial guarantee contracts not measured at FVTPL based on IFRS 9. In chapter Significant accounting policies, the approach for ECL allowance is further elaborated.

The breakdown of individually and collectively assessed ECL's for loans, cash and non-cash loans is as follows:

Summary of financial instruments to which the IFRS9 ECL requirements apply

31 December 2021	Stage 1		Stage 2				Stage 3		Total carrying amount	Total ECL allowance
	Collective		Individual		Collective		Individual			
	Carrying amount	ECL allowance	Carrying amount	ECL allowance	Carrying amount	ECL allowance	Carrying amount	ECL allowance		
Cash and balance with Central Banks	675,396	30	-	-	-	-	-	-	675,396	30
Loans and Advances to Banks	620,651	3,195	-	-	-	-	-	-	620,651	3,195
Loans and Advances to Customer	2,464,591	9,920	32,365	6,984	23,570	1,283	14,687	9,062	2,535,213	27,249
Interest-bearing securities (FVOCI)	250,198	80	-	-	-	-	-	-	250,198	80
Total On-balance sheet assets	4,010,836	13,225	32,365	6,984	23,570	1,283	14,687	9,062	4,081,458	30,554
Commitment and Contingencies	420,039	583	-	-	-	-	-	-	420,039	583
Total	4,430,875	13,808	32,365	6,984	23,570	1,283	14,687	9,062	4,501,497	31,137

31 December 2020	Stage 1		Stage 2				Stage 3		Total carrying amount	Total ECL allowance
	Collective		Individual		Collective		Individual			
	Carrying amount	ECL allowance	Carrying amount	ECL allowance	Carrying amount	ECL allowance	Carrying amount	ECL allowance		
Cash and balance with Central Banks	524,911	44	-	-	-	-	-	-	524,911	44
Loans and Advances to Banks	644,364	2,456	-	-	9,877	95	-	-	654,241	2,551
Loans and Advances to Customer	2,023,691	9,114	18,720	6,182	37,000	553	13,103	8,422	2,092,514	24,271
Interest-bearing securities (FVOCI)	102,773	219	-	-	-	-	-	-	102,773	219
Total On-balance sheet assets	3,295,739	11,833	18,720	6,182	46,877	648	13,103	8,422	3,374,439	27,085
Commitment and Contingencies	555,743	671	-	-	2,922	14	-	-	558,665	685
Total	3,851,482	12,504	18,720	6,182	49,799	662	13,103	8,422	3,933,104	27,770

Loans and advances to Banks and Customers in Stage 2 (Collective) has decreased to EUR 23.6 million (2020: EUR 46.9 million) due to the full repayment of the credit exposures. ECL allowance for Stage 3 loans has been increase slightly from EUR 8.4 million to EUR 9.1 million. The table below summarizes the movement of ECL allowance, per stage and balance sheet line item. Finally, the table shows the changes in ECL calculation during 2021 together with the drivers of changes (e.g. write-offs or transfer to Stage 2 or Stage 3).

31. Approach expected credit loss of financial assets (continued)

Expected Credit Loss allowance movements

Financial Asset - 31 December 2021				
	12-month ECL Stage 1	Lifetime ECL not credit- impaired Stage 2	Lifetime ECL credit- impaired Stage 3	Total
<u>Cash and balance with Central Banks</u>				
Balance at 1 January	(44)	-	-	(44)
Net remeasurement of ECL allowance	14	-	-	14
Balance at period end	(30)	-	-	(30)
<u>Loans and advances to banks</u>				
Balance at 1 January	(2,456)	(95)	-	(2,551)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Net remeasurement of ECL allowance	(739)	95	-	(644)
Balance at period end	(3,195)	-	-	(3,195)
<u>Loans and advances to customers</u>				
Balance at 1 January	(9,114)	(6,735)	(8,422)	(24,271)
Transfer to Stage 1	(136)	136	-	-
Transfer to Stage 2	93	(93)	-	-
Transfer to Stage 3	-	78	(78)	-
Net remeasurement of ECL allowance	(637)	(2,462)	(634)	(3,733)
Financial assets that have been derecognised	-	810	-	810
Write-offs	-	-	402	402
Foreign exchange and other movements	(126)	(1)	(330)	(457)
Balance at period end	(9,920)	(8,267)	(9,062)	(27,249)
<u>Financial assets at FVOCI</u>				
Balance at 1 January	(219)	-	-	(219)
Net remeasurement of ECL allowance	139	-	-	139
Balance at period end	(80)	-	-	(80)
<u>Commitment and contingencies</u>				
Balance at 1 January	(671)	(14)	-	(685)
Transfer to Stage 1	(35)	35	-	-
Transfer to Stage 2	-	-	-	-
Net remeasurement of ECL allowance	123	(21)	-	102
Balance at period end	(583)	-	-	(583)

31. Approach expected credit loss of financial assets (continued)

Expected Credit Loss allowance movements

Financial Asset - 31 December 2020				
	12-month ECL Stage 1	Lifetime ECL not credit- impaired Stage 2	Lifetime ECL credit- impaired Stage 3	Total
<u>Cash and balance with Central Banks</u>				
Balance at 1 January	(32)	-	-	(32)
Net remeasurement of ECL allowance	(12)	-	-	(12)
Balance at period end	(44)	-	-	(44)
<u>Loans and advances to banks</u>				
Balance at 1 January	(897)	(1,006)	-	(1,903)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	1	(1)	-	-
Net remeasurement of ECL allowance	(1,560)	912	-	(648)
Balance at period end	(2,456)	(95)	-	(2,551)
<u>Loans and advances to customers</u>				
Balance at 1 January	(8,763)	(1,882)	(43,185)	(53,830)
Transfer to Stage 1	(715)	715	-	-
Transfer to Stage 2	400	(400)	-	-
Transfer to Stage 3	22	61	(83)	-
Net remeasurement of ECL allowance	(425)	(5,241)	1,236	(4,430)
Financial assets that have been derecognised	-	-	3,066	3,066
Write-offs	-	-	30,268	30,268
Foreign exchange and other movements	367	12	276	655
Balance at period end	(9,114)	(6,735)	(8,422)	(24,271)
<u>Financial assets at FVOCI</u>				
Balance at 1 January	(188)	-	-	(188)
Net remeasurement of ECL allowance	(31)	-	-	(31)
Balance at period end	(219)	-	-	(219)
<u>Commitments and contingencies</u>				
Balance at 1 January	(563)	(88)	-	(651)
Transfer to Stage 1	(57)	57	-	-
Transfer to Stage 2	76	(76)	-	-
Net remeasurement of ECL allowance	(127)	93	-	(34)
Balance at period end	(671)	(14)	-	(685)

Sensitivity analysis

GBI's ECL allowance per 31 December 2021 is EUR 31.1 million (2020: EUR 27.8 million), out of which EUR 15.1 million (2020: EUR 13.2 million) is calculated by use of collective assessment. Said collective ECL allowance is sensitive to the forward-looking macroeconomic forecasts used as model inputs, the probability-weights applied to each of the scenarios, the loss given default rates (LGD) and the criteria for identifying a significant increase in credit risk. These elements require management judgement, and are subject to the Bank's internal processes and controls.

31. Approach expected credit loss of financial assets (continued)

Macro-economic models and probability weights

GBI has internal credit risk rating models in place for regulatory capital purposes where the PD's are assessed on a borrower level and refer to the likelihood that a borrower will default. These models consider quantitative and qualitative scoring elements, and the produced PD's are through the cycle (TTC). For IFRS9 purposes, the Bank has adopted an ECL methodology that makes use of the said credit rating models and converts the TTC PD's to lifetime Point in Time (PIT) PD's. IFRS 9 requires preparers to use multiple macroeconomic scenarios to produce probability-weighted lifetime ECL's. GBI has three different macroeconomic models that are used according to the relevant geography of the borrower; Turkey, Europe and Global. These are regression models with one or more independent variables that aim to provide the best fit to the dependent variable, which is the observed default rates. GBI has considered various variables during the model development process and observed that real GDP change is observed to be the most relevant factor that impacts GBI's credit forecast and actual credit losses.

Each macro model consists of three macroeconomic scenarios, namely baseline, upside and downside scenarios, which are determined to reflect an unbiased and probability-weighted ECL amount.

These forward-looking macroeconomic scenarios are subjective and incorporate uncertainty by nature. GBI makes use of BBVA's internal GDP estimates, which are developed by the economic research team of BBVA, for its Baseline Scenario, which is considered a market-neutral view or market consensus for forecasts. Similarly, GBI makes use of BBVA economic research team estimates for the upside and downside scenarios. GBI considers that the baseline macroeconomic scenario presents the current economic cycle the most and therefore assigns the largest probability weight to this scenario, being 60%. Other two scenarios, Upside and Downside, are equally weighted with 20%.

The GDP estimates and the probability weights applied to each of the three scenarios require management judgement. GBI has internal processes and controls in place where the range of possibilities and expectations referring to said judgements, are assessed, discussed, approved and monitored under the four eyes principle concept (three lines of defence). The ECL could change as per the changes in GDP growth. For example, management assessed that in case of a decrease in GDP estimates by 25 basis points, the ECL allowance for collectively assessed loans would increase by EUR 265 thousand (2020: EUR 221 thousand), whereas the increase of 25 basis points would result a decrease by EUR 260 thousand (2020: EUR 242 thousand).

Loss given default

GBI's loan portfolio size is not sufficient to derive statistically significant data on historic losses and hence for most of the portfolio regulatory LGD benchmarks that are used for the regulatory capital requirement calculations, are employed to set the LGD.

Significant increase in credit risk

All assets that are subject to collective ECL assessment are allocated a 12 month ECL if it belongs in Stage 1, or a lifetime ECL in Stage 2. An asset belongs to Stage 2 if it is considered to have experienced a significant increase in credit risk since initial recognition. The staging process involves an assessment against both quantitative and qualitative criteria to determine the relative significance of credit risk deterioration. While qualitative criteria are based on, amongst others, forbearance indicators, the quantitative criterion is based on the assessment of the change in the probability of default (PD) of the borrower since initial recognition of the asset.

The Bank compares the current PD over the life of the transaction with the original adjusted PD, so that both values are comparable in terms of default probability for their residual life. While comparing these PDs, GBI tests whether both the absolute and relative difference in these two PDs are above certain thresholds. The thresholds used for considering a significant increase in risk might differ as per the asset classes (i.e. sovereign, financial institutions, corporates) in line with the differences in the observed

31. **Approach expected credit loss of financial assets (continued)**

default rates. The setting of thresholds requires management judgement, and is a key source of estimation uncertainty. The sensitivity of the thresholds is as follows:

2021:

Main segment	Analysis segment	Relative Threshold (%)	Absolute Threshold (%)	ECL impact with a 50 bps lower Threshold	ECL impact with a 50 bps higher Threshold
LDP	LDP (Banks & Sovereigns)	240	100	-	-
Wholesale	Corporate	150	100	+802 thousand	-

2020:

Main segment	Analysis segment	Relative Threshold (%)	Absolute Threshold (%)	ECL impact with a 50 bps lower Threshold	ECL impact with a 50 bps higher Threshold
LDP	LDP (Banks & Sovereigns)	240	100	-	-
Wholesale	Corporate	150	100	+535 thousand	-104 thousand

It should be noted that the sensitivity is partially mitigated because 78% of the total assets as per year end comprise credit exposures with a maturity up to one year (2020: 75%).

32. **Concentration Risk**

The Bank's Wholesale Credit Risk Policy establishes the Bank's decision-making process in granting credit limits, setting rules and guidelines for exposures that give rise to credit risk. In view of the internal ratings and credit assessment analyses of the obligors, the Credit Committee assigns the credit exposure limit. All obligors have individual credit limits based on their creditworthiness. Groups of connected obligors are subject to regulatory 'group exposure' limits, as well as internal Group Concentration Policy, to manage the concentration risk of the Bank effectively. Furthermore, as per the Country Concentration Policy, limits are in place that cap the maximum exposure to specific countries, to ensure that related risks do not threaten the asset quality or solvency of the Bank. Finally, the Sector Limit Policy is designed to minimize contagion risks. The effectiveness of risk monitoring is supported by internal systems ensuring proper compliance with the principle of segregation of duties and authorization levels. Regular monitoring by the Credit Risk Department of GBI's exposure and compliance with the established credit limits ensures timely management of credit risk. The exposures to various customers, business lines and geographical locations are monitored on a regular basis by the Credit Division to ensure compliance with the established limits.

Breakdown by geographical regions

The geographical breakdown of carrying amounts assets and commitment and contingencies is based on customer domicile as follows in below tables.

The geographical breakdown of financial assets based on domicile⁴

As at 31 December 2021	Cash and Central Banks		Banks		Loans and advances		Interest-bearing securities		Commitments and contingencies		Total	
	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL
– the Netherlands	601,725	27	6,445	7	439,968	3,487	35,578	15	34,881	103	1,118,597	3,639
Stage 1	601,725	27	6,445	7	434,189	1,805	35,578	15	34,881	103	1,112,818	1,957
Stage 2	-	-	-	-	2,777	197	-	-	-	-	2,777	197
Stage 3	-	-	-	-	3,002	1,485	-	-	-	-	3,002	1,485
– Turkey	-	-	398,483	3,048	449,908	6,741	-	-	32,236	35	880,627	9,824
Stage 1	-	-	398,483	3,048	426,785	1,912	-	-	32,236	35	857,504	4,995
Stage 2	-	-	-	-	20,133	1,074	-	-	-	-	20,133	1,074
Stage 3	-	-	-	-	2,990	3,755	-	-	-	-	2,990	3,755
– Great Britain	-	-	36,051	30	188,113	912	10,408	8	7,137	5	241,709	955
Stage 1	-	-	36,051	30	181,856	564	10,408	8	7,137	5	235,452	607
Stage 2	-	-	-	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	6,257	348	-	-	-	-	6,257	548
– Switzerland	-	-	5,089	-	458,496	5,080	-	-	99,159	119	562,744	5,199
Stage 1	-	-	5,089	-	456,058	1,718	-	-	99,159	119	560,306	1,837
Stage 2	-	-	-	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	2,438	3,362	-	-	-	-	2,438	3,362
– Germany	73,671	3	29,374	10	165,748	5,486	16,042	5	12,208	6	297,043	5,510
Stage 1	73,671	3	29,374	10	140,027	642	16,042	5	12,208	6	271,322	666
Stage 2	-	-	-	-	25,721	4,732	-	-	-	-	25,721	4,732
Stage 3	-	-	-	-	-	112	-	-	-	-	-	112
– USA	-	-	35,857	10	190,669	593	-	-	57,179	79	283,705	682
Stage 1	-	-	35,857	10	190,669	593	-	-	57,179	79	283,705	682
– France	-	-	1,105	1	87,996	289	63,146	27	19,778	46	172,025	363
Stage 1	-	-	1,105	1	87,996	289	63,146	27	19,778	46	172,025	363
– Rest of Europe	-	-	53,980	39	337,107	4,051	125,024	25	55,414	153	571,525	4,268
Stage 1	-	-	53,980	39	330,463	1,799	125,024	25	55,414	153	564,881	2,016
Stage 2	-	-	-	-	6,644	2,252	-	-	-	-	6,644	2,252
Stage 3	-	-	-	-	-	-	-	-	-	-	-	-
– Rest of the world	-	-	54,267	50	217,209	610	-	-	102,047	37	373,523	697
Stage 1	-	-	54,267	50	216,549	599	-	-	102,047	37	372,863	686
Stage 2	-	-	-	-	660	11	-	-	-	-	660	11
Stage 3	-	-	-	-	-	-	-	-	-	-	-	-
Total:	675,396	30	620,651	3,195	2,535,213	27,249	250,198	80	420,039	583	4,501,497	31,137

⁴ This table does not include the EUR 284 (2020: EUR 317) receivable in relation to the sale of shares (see note 6 for details). The counterparty for this receivable resides in the United Kingdom.

As at 31 December 2020	Cash and Central Banks		Banks		Loans and advances		Interest-bearing securities		Commitment and contingencies		Total	
	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL
– the Netherlands	450,913	41	891	-	260,141	1,614	17,144	4	85,086	160	814,175	1,819
Stage 1	450,913	41	891	-	249,611	1,119	17,144	4	85,086	160	803,645	1,324
Stage 2	-	-	-	-	10,529	258	-	-	-	-	10,529	258
Stage 3	-	-	-	-	1	237	-	-	-	-	1	237
– Turkey	-	-	284,682	2,351	493,367	6,205	40,343	169	43,057	49	861,449	8,774
Stage 1	-	-	274,805	2,256	478,767	2,387	40,343	169	43,057	49	836,972	4,861
Stage 2	-	-	9,877	95	9,928	78	-	-	-	-	19,805	173
Stage 3	-	-	-	-	4,672	3,740	-	-	-	-	4,672	3,740
– Great Britain	-	-	69,230	15	112,907	1,134	10,572	21	31,062	60	223,771	1,230
Stage 1	-	-	69,230	15	106,707	509	10,572	21	31,062	60	217,571	605
Stage 2	-	-	-	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	6,200	625	-	-	-	-	6,200	625
– Switzerland	-	-	22,210	7	297,035	4,291	-	-	156,893	178	476,138	4,476
Stage 1	-	-	22,210	7	294,806	1,164	-	-	153,971	164	470,987	1,335
Stage 2	-	-	-	-	-	-	-	-	2,922	14	2,922	14
Stage 3	-	-	-	-	2,229	3,127	-	-	-	-	2,229	3,127
– Germany	73,998	3	95,078	10	171,635	907	-	-	8,093	5	348,804	925
Stage 1	73,998	3	95,078	10	159,710	669	-	-	8,093	5	336,879	687
Stage 2	-	-	-	-	11,925	116	-	-	-	-	11,925	116
Stage 3	-	-	-	-	-	122	-	-	-	-	-	122
– USA	-	-	13,518	4	123,135	839	-	-	48,803	72	185,456	915
Stage 1	-	-	13,518	4	123,135	839	-	-	48,803	72	185,456	915
– France	-	-	-	-	79,790	284	12,424	13	19,551	59	111,765	356
Stage 1	-	-	-	-	79,790	284	12,424	13	19,551	59	111,765	356
– Rest of Europe	-	-	30,296	30	364,331	8,391	22,290	12	23,592	39	440,509	8,472
Stage 1	-	-	30,296	30	342,289	1,578	22,290	12	23,592	39	418,467	1,659
Stage 2	-	-	-	-	22,042	6,242	-	-	-	-	22,042	6,242
Stage 3	-	-	-	-	-	571	-	-	-	-	-	571
– Rest of the world	-	-	138,336	134	190,172	606	-	-	142,528	63	471,036	803
Stage 1	-	-	138,336	134	188,876	565	-	-	142,528	63	469,740	762
Stage 2	-	-	-	-	1,296	41	-	-	-	-	1,296	41
Stage 3	-	-	-	-	-	-	-	-	-	-	-	-
Total:	524,911	44	654,241	2,551	2,092,514	24,271	102,773	219	558,665	685	3,933,104	27,770

32. Concentration Risk (continued)

Concentration risk by industry

The Bank uses a common industry classification methodology based on the NACE system (European Statistical Classification of Economic Activities). This methodology has over 600 detailed industry descriptions, which are aggregated into 16 industry classes at the highest level.

31 December 2021					
	Carrying amount				ECL
	Stage 1	Stage 2	Stage 3	Total	
Administrative and support service activities	34,227	-	1,013	35,240	496
Construction	23,639	-	-	23,639	78
Electricity, gas, steam and air conditioning supply	1,804	-	-	1,804	1
Human health services and social work activities	37,486	-	-	37,486	27
Information and communication	13,028	-	-	13,028	6
Manufacturing	542,625	-	2,438	545,063	5,347
Mining and quarrying	-	-	-	-	-
Real estate activities	114,722	-	-	114,722	399
Transport and storage	105,374	23,570	1,176	130,120	2,713
Wholesale and retail trade	1,396,557	14,575	5,244	1,416,376	10,874
Financial and insurance activities	148,189	-	4,816	153,005	4,968
Private Individuals	35,584	-	-	35,584	262
Agriculture, forestry and fishing	5,846	-	-	5,846	30
Professional, scientific and technical activities	5,510	17,790	-	23,300	2,048
Total Loans and Advances to Customers	2,464,591	55,935	14,687	2,535,213	27,249

31 December 2020					
	Carrying amount				ECL
	Stage 1	Stage 2	Stage 3	Total	
Administrative and support service activities	40,419	-	916	41,335	574
Construction	20,633	3,877	-	24,510	102
Electricity, gas, steam and air conditioning supply	34,251	-	-	34,251	79
Human health services and social work activities	56,635	-	-	56,635	49
Information and communication	13,024	-	-	13,024	9
Manufacturing	557,490	554	2,229	560,273	5,231
Mining and quarrying	14,807	-	-	14,807	91
Real estate activities	120,367	11,925	-	132,292	553
Transport and storage	111,370	10,117	1,352	122,839	1,776
Wholesale and retail trade	886,736	18,718	5,286	910,740	11,530
Financial and insurance activities	116,971	6,880	3,320	127,171	3,970
Private Individuals	25,445	-	-	25,445	201
Professional, scientific and technical activities	25,543	3,649	-	29,192	106
Total Loans and Advances to Customers	2,023,691	55,720	13,103	2,092,514	24,271

32. Concentration Risk (continued)

Below is an overview of the portfolios split in Investment Grade (rating BBB- to AAA) and Non-Investment Grade (below BBB-) as of 31 December 2021 and 31 December 2020. All exposures that are covered under the F-IRB approach have a credit rating. Exposures subject to the Standardised Approach (SA) are classified based on the external credit ratings of Moody's, S&P and Fitch, with the 'average' formula prescribed by Article 138 of the CRR are used. Exposures that are subject to SA, but do not have an eligible external credit rating are classified as not rated. Table also shows whether assets measured at Amortised Cost or FVOCI were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit-impaired.

Specialized Lending are distinguished and separately rated according the CRR based on Risk Weights Category.

31 December 2021						
	<i>FVTPL</i>	<i>FVOCI</i>	<i>Amortised cost</i>			<i>Total</i>
			<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	
On-balance assets						
Cash at Central Banks			675,396	-	-	675,396
Investment Grade	-	-	675,396	-	-	675,396
Loans and advances to banks			620,651	-	-	620,651
Investment Grade	-	-	222,162	-	-	222,162
Sub-Investment grade	-	-	398,489	-	-	398,489
Not Rated	-	-	-	-	-	-
Loans and advances to customers			2,464,591	55,935	14,687	2,535,213
Investment Grade	-	-	532,556	-	-	532,556
Sub-Investment grade	-	-	1,474,466	55,935	-	1,530,401
Specialized Lending (RW 50%-90%)	-	-	411,799	-	-	411,799
Specialized Lending (RW 115%-250%)	-	-	45,770	-	-	45,770
Not Rated	-	-	-	-	-	-
Credit Impaired	-	-	-	-	14,687	14,687
Investments		250,198	-	-	-	250,198
Investment Grade	-	250,198	-	-	-	250,198
Sub-Investment grade	-	-	-	-	-	-
Financial assets at fair value through profit or loss	284	-	-	-	-	284
Carrying amount on-balance assets	284	250,198	3,760,638	55,935	14,687	4,081,742
Commitment and contingencies			420,039	-	-	420,039
Investment Grade	-	-	179,495	-	-	179,495
Sub-Investment grade	-	-	129,025	-	-	129,025
Specialized Lending (RW 50%-90%)	-	-	109,582	-	-	109,582
Specialized Lending (RW 115%-250%)	-	-	1,937	-	-	1,937
Not Rated	-	-	-	-	-	-
Carrying amount of total financial assets	284	250,198	4,180,677	55,935	14,687	4,501,781

32. Concentration Risk (continued)

31 December 2020						
	<i>FVTPL</i>	<i>FVOCI</i>	<i>Amortised cost</i>			<i>Total</i>
			<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	
On-balance assets						
Cash at Central Banks	-	-	524,911	-	-	524,911
Investment Grade	-	-	524,911	-	-	524,911
Loans and advances to banks	-	-	644,364	9,877	-	654,241
Investment Grade	-	-	353,297	-	-	353,297
Sub-Investment grade	-	-	291,067	9,877	-	300,944
Not Rated	-	-	-	-	-	-
Loans and advances to customers	-	-	2,023,691	55,720	13,103	2,092,514
Investment Grade	-	-	513,678	-	-	513,678
Sub-Investment grade	-	-	1,202,746	55,720	-	1,258,466
Specialized Lending (RW 50%-90%)	-	-	186,035	-	-	186,035
Specialized Lending (RW 115%-250%)	-	-	84,974	-	-	84,974
Not Rated	-	-	36,258	-	-	36,258
Credit Impaired	-	-	-	-	13,103	13,103
Investments	-	102,773	-	-	-	102,773
Investment Grade	-	62,430	-	-	-	62,430
Sub-Investment grade	-	40,343	-	-	-	40,343
Not Rated	317	-	-	-	-	317
Carrying amount on-balance assets	317	102,773	3,192,966	65,597	13,103	3,374,756
Commitment and contingencies	-	-	555,743	2,922	-	558,665
Investment Grade	-	-	252,913	-	-	252,913
Sub-Investment grade	-	-	172,991	2,922	-	175,913
Specialized Lending (RW 50%-90%)	-	-	120,648	-	-	120,648
Specialized Lending (RW 115%-250%)	-	-	9,155	-	-	9,155
Not Rated	-	-	36	-	-	36
Carrying amount of total financial assets	317	102,773	3,748,709	68,519	13,103	3,933,421

33. Past-due analysis

Loans that are past due are monitored closely, with ECL allowances raised as appropriate and in line with the internal ECL policies. A financial asset is, among others, considered to be defaulted if 90 days have passed since its repayment date (i.e. default starts on the 91st day).

The following table sets out information about the past due status of loans and advances to customers in Stages 1, 2 and 3.

Portfolio Breakdown based on number of days past due

31 December 2021	Stage 1			Stage 2			Stage 3			Total
	Not past due	<=30 days past due	Total Stage 1	Not past due	<=30 days past due	Total Stage 2	Not past due	>= 90 days	Total Stage 3	
Cash and balances with Central Bank	675,396	-	675,396	-	-	-	-	-	-	675,396
Loans and Advances to Banks	620,651	-	620,651	-	-	-	-	-	-	620,651
Loans and Advances to Customer	2,464,591	-	2,464,591	55,935	-	55,935	6,018	8,669	14,687	2,535,213
Financial assets at FVOCI	250,198	-	250,198	-	-	-	-	-	-	250,198
Total carrying amount	4,010,836	-	4,010,836	55,935	-	55,935	6,018	8,669	14,687	4,081,458
<i>Commitment and contingencies</i>	420,039	-	420,039	-	-	-	-	-	-	420,039

31 December 2020	Stage 1			Stage 2			Stage 3			Total
	Not past due	<=30 days past due	Total Stage 1	Not past due	<=30 days past due	Total Stage 2	Not past due	>= 90 days	Total Stage 3	
Cash and balances with Central Bank	524,911	-	524,911	-	-	-	-	-	-	524,911
Loans and Advances to Banks	644,364	-	644,364	9,877	-	9,877	-	-	-	654,241
Loans and Advances to Customer	2,023,691	-	2,023,691	55,720	-	55,720	3,320	9,783	13,103	2,092,514
Financial assets at FVOCI	102,773	-	102,773	-	-	-	-	-	-	102,773
Total carrying amount	3,295,739	-	3,295,739	65,597	-	65,597	3,320	9,783	13,103	3,374,439
<i>Commitment and contingencies</i>	555,743	-	555,743	2,922	-	2,922	-	-	-	558,665

34. Modified loans

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions (e.g. due to the COVID 19 pandemic), customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy as detailed in the Significant Accounting Policies.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms;
- with the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a significant increase in credit risk (i.e. Stage 2), there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

34. **Modified loans (continued)**

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. For financial assets that are modified, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal. As part of this process, the Bank regularly evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the ECL allowance reverts to being measured at an amount equal to Stage 1. Section 'Significant accounting policies' paragraph 'Significant increase in credit risk' explains when there is significant increase or decrease in credit risk.

In relation to the COVID 19 pandemic, various government and private sector debt moratoria were agreed upon. The Bank has not participated in such moratoria.

The following table provides information on financial assets that were modified while they had a ECL allowance measured at an amount equal to lifetime ECL (i.e. stage 2 and stage 3).

Financial Assets modified during the period

	31 December 2021	31 December 2020
Amortised costs of financial assets	45,274	2,774
Net Modification Loss	-	-

No financial assets have been modified for which the ECL allowance has changed to a 12-month measurement during the period.

35. **Collateral held and other credit enhancements**

The bank holds collateral and other credit enhancements against certain of its credit exposures.

Loans and Advances to banks and customers

The general creditworthiness of a counterparty tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security. The Bank may establish collateral in the form of a first charge over real estate, pledged goods, receivables, investments, deposit, and/or any other liens and guarantees.

At 31 December 2021, the net carrying amount of credit-impaired loans and advances to corporate customers amounted to EUR 14.7 million (2020: EUR 13.1 million) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to EUR 9.5 million (2020: EUR 13 million). For each loan, and where appropriate, the value of disclosed collateral is capped at the carrying value of the loan that it is held against.

In addition to the collateral included in the tables above, the Bank holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

The Bank's reverse sale-and-repurchase transactions are covered by master agreements with netting terms similar to those of International Swaps and Derivatives Association (ISDA) master netting agreements.

35. Collateral held and other credit enhancements (continued)

Investments

At 31 December 2021, the maximum exposure to credit risk of the investments as at FVTPL or FVOCI is their carrying amount of EUR 250 million (2020: EUR 103 million). The Bank has not mitigated the credit risk exposure on these investments.

Derivatives

The Bank mitigates the credit risk of derivatives by entering into master netting agreements and holding collateral in the form of cash. Derivative transactions are entered into under ISDA master netting agreements. In general, under these agreements, in certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement with the counterparty are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions with the counterparty. The Bank executes a credit support annex in conjunction with the ISDA agreement, which requires the Bank and its counterparties to post collateral to mitigate counterparty credit risk. Collateral is also posted daily in respect of derivatives transacted on exchanges and with CCPs.

The following table sets out the principal types of collateral held against different types of financial assets. Quantification of the collateral arrangements relating to derivatives, reverse repurchase agreements and repurchase agreements is set out in the next section on offsetting financial assets and liabilities.

As at 31 December 2021	Carrying amount	Cash Collaterals Received	Off Balance sheet financial instruments ⁴	Other collateral ⁵
Assets				
Loans and advances to banks	620,651	25,617	27,434	12,647
Financial assets at fair value through profit or loss				
- Mandatorily at fair value through profit or loss	284			
Financial assets at fair value through other comprehensive income	250,198			
Loans and advances to customers	2,535,213	115,646	11,244	539,508
Total				

As at 31 December 2020	Carrying amount	Cash Collaterals Received	Off Balance sheet financial instruments ⁴	Other collateral ⁵
Assets				
Loans and advances to banks	654,241	154,499	33,306	
Financial assets at fair value through profit or loss				
- Mandatorily at fair value through profit or loss	317			
Financial assets at fair value through other comprehensive income	102,773			
Loans and advances to customers	2,092,514	46,929	19,789	527,386
Total	2,849,845	46,929	53,095	527,386

⁴ Off balance sheet financial instruments includes securities, guarantees and letters of credit.

⁵ Other collateral consists of pledged stocks, receivables and commodities as well as mortgages on real estate and vessels.

36. Offsetting financial assets and liabilities

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

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

The 'similar agreements' include derivative clearing agreements and global master repurchase agreements. 'Similar financial instruments' include derivatives, sale-and-repurchase agreements and reverse sale-and-repurchase agreements. Financial instruments such as loans and deposits (excluding lending related to reverse sale-and-repurchase agreements) are not disclosed in the following tables unless they are offset in the statement of financial position. The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events. In addition, the Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously. The Bank receives and gives collateral in the form of deposits and marketable securities in respect of the following transactions:

- derivatives; and
- sale-and-repurchase, and reverse sale-and-repurchase, agreements.

This collateral is subject to standard industry terms including, when appropriate, an ISDA credit support annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

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

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments (including non-cash collateral)	Cash collateral received	Net amounts
As at 31 December 2021						
Types of financial assets						
Trading & Non-trading derivatives	8,244	-	8,244	-	916	7,328
Reverse sale-and repurchase agreements	25,759	-	25,759	25,617	-	142
Total	34,003	-	34,003	25,617	916	7,470

36. Offsetting financial assets and liabilities (continued)

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments (including non-cash collateral)	Cash collateral pledged	Net amounts
As at 31 December 2021						
Types of financial liabilities						
Trading & Non-trading derivatives	26,955	-	26,955	-	26,525	430
Sale-and repurchase and similar agreements	297,452	-	297,452	297,452	-	-
Total	324,407	-	324,407	297,452	26,525	430

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments (including non-cash collateral)	Cash collateral received	Net amounts
As at 31 December 2020						
Types of financial assets						
Trading & Non-trading derivatives	4,265	-	4,265	-	1,786	2,479
Reverse sale-and repurchase agreements	157,237	-	157,237	154,499	-	2,738
Total	161,502	-	161,502	154,499	1,786	5,217

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments (including non-cash collateral)	Cash collateral pledged	Net amounts
As at 31 December 2020						
Types of financial liabilities						
Trading derivatives & Non-trading derivatives	9,303	-	9,303	-	4,695	4,608
Sale-and repurchase and similar agreements	217,029	-	217,029	217,029	-	-
Total	226,332	-	226,332	217,029	4,695	4,608

36. Offsetting financial assets and liabilities (continued)

The gross amounts of financial assets and financial liabilities and their net amounts disclosed in the above tables have been measured in the statement of financial position on the following bases:

- Trading derivatives: fair value;
- Non-trading derivatives: fair value; and
- assets and liabilities resulting from sale-and-repurchase agreements, reverse sale-and repurchase agreements: amortised cost.

Reconciliation to the net amounts of financial assets and financial liabilities presented in the statement of financial position

The following tables reconcile the 'net amounts of financial assets and financial liabilities presented in the statement of financial position', as set out above, to the line items presented in the statement of financial position.

As at 31 December 2021	Net amount	Line item in statement of financial position	Carrying amount in statement of financial position	Financial assets not in scope of off-setting disclosures	Note
Types of financial assets					
Trading derivatives	5,128	Trading derivatives	5,128	-	40
Non-trading derivatives	3,116	Non-trading derivatives	3,116	-	40
Reverse sale-and repurchase agreements	25,597	Loans and advances to banks	620,650	595,053	4
Types of financial liabilities					
Trading derivatives	5,041	Trading derivatives	50,41	-	40
Non-trading derivatives	21,914	Non-trading derivatives	21,914	-	40
Sale-and repurchase and similar agreements/ Central Bank borrowing	297,452	Deposits from banks	409,982	112,530	11

36. Offsetting financial assets and liabilities (continued)

As at 31 December 2020	Net amount	Line item in statement of financial position	Carrying amount in statement of financial position	Financial assets not in scope of off-setting disclosures	Note
Types of financial assets					
Trading derivatives	2,551	Trading derivatives	2,551	-	40
Non-trading derivatives	1,714	Non-trading derivatives	1,714	-	40
Reverse sale-and repurchase agreements	157,237	Loans and advances to banks	654,246	497,009	4
Types of financial liabilities					
Trading derivatives	1,531	Trading derivatives	1,531	-	40
Non-trading derivatives	7,772	Non-trading derivatives	7,772	-	40
Sale-and repurchase and similar agreements/ Central Bank borrowing	217,029	Deposits from banks	344,614	127,585	11

Market risk

Market risk arises from fluctuations in interest rates, foreign currency exchange rates and security prices. It is GBI's policy to avoid exposure to significant open positions in interest rate and foreign currency risk, while optimising the return.

The main market risks to which GBI is exposed to are interest rate risk and foreign currency risk which would arise through positions in banking book or trading book. GBI uses derivatives to mitigate market risks for trading and banking books. The banking book positions are intended to be held for the long-term (or until maturity) or for hedging other banking book positions. The trading book positions are typically held with a short-term trading intent or in order to hedge other positions in the trading book. GBI assumes limited market risks in trading activities by taking positions in debt securities, foreign exchange, and derivatives. The Bank has historically been conservative in running its trading book. The main strategy is to keep end-of-day trading positions at low levels within the predefined limits.

37. Governance

The Managing Board has the overall responsibility for market risks and implements policies for effective market risk management. The Managing Board delegates its responsibilities to Risk Management Committee (RMC) for the purpose of monitoring market risks. It reviews and sets limits on products and desk levels based on the Bank's risk appetite. GBI's Global Markets unit actively manages market risk arising from the trading book within these limits. The Middle Office (first line) and the IC-NFR (second line) are established as independent control bodies. They monitor and follow up all trading transactions and positions on an ongoing basis. Trading activities are followed-up as per the position, stop-loss, sensitivity and Value at Risk (VaR) limits. RMD is responsible for the maintenance of internal models, monitoring of risk-based limits and performing stress tests and presenting the results to the related committees. VaR is supplemented by stress tests and scenario analyses in order to determine the effects of potential extreme

37. Governance (continued)

market developments on the value of market risk sensitive exposures. Stress tests have the advantage of out-of-model analyses of the trading book. These scenarios are reviewed periodically and updated when necessary. The foreign currency risk and the interest rate risk arising from the banking book is managed by the Asset and Liability Department (ALM) based on the Structural FX Rate and Structural Interest Rate Risk policies set by the Managing Board and monitored by ALCO and RMD. Due to the fact that the bank hedges the market risk for the banking book and the trading book, concentration risk is insignificant. The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios.

Market risk – trading and non-trading portfolios

31 December 2021	Carrying amount	Trading portfolio	Non-trading portfolio
Assets			
Cash and balances with central banks	675,396	-	675,396
Loans and advances to banks	620,651	-	620,651
Financial assets at fair value through profit or loss			
- Mandatorily at fair value through profit or loss	284	-	284
- Trading derivatives	5,128	5,128	-
- Non-trading derivatives	3,116	-	3,116
Financial assets at fair value through other comprehensive income	250,198	-	250,198
Loans and advances to customers	2,535,213	-	2,535,213
Other assets	1,573	-	1,573
Liabilities			
Deposits from banks	409,982	-	409,982
Deposits from customers	3,037,822	-	3,037,822
Financial liabilities at fair value through profit or loss			
- Trading derivatives	5,041	5,041	-
- Non-trading derivatives	21,914	-	21,914
Subordinated liabilities	-	-	-
Other liabilities, accrued expenses and provisions	31,641	-	31,641

31 December 2020	Carrying amount	Trading portfolio	Non-trading portfolio
Assets			
Cash and balances with central banks	524,911	-	524,911
Loans and advances to banks	654,241	-	654,241
Financial assets at fair value through profit or loss			
- Mandatorily at fair value through profit or loss	317	-	317
- Trading derivatives	2,551	2,551	-
- Non-trading derivatives	1,714	-	1,714
Financial assets at fair value through other comprehensive income	102,773	-	102,773
Loans and advances to customers	2,092,514	-	2,092,514
Other assets	5,515	-	5,515
Liabilities			
Deposits from banks	344,614	-	344,614
Deposits from customers	2,444,457	-	2,444,457
Financial liabilities at fair value through profit or loss			
- Trading derivatives	1,531	1,531	-
- Non-trading derivatives	7,772	-	7,772
Subordinated liabilities	-	-	-
Other liabilities, accrued expenses and provisions	27,498	-	27,498

Note 17 Fair Value Hierarchy elaborates on used fair value data by GBI.

38. Interest Rate Risk on the Banking Book (IRRBB)

Interest rate risk is defined as the risk of loss in interest earnings or in the economic value of banking book items as a consequence of fluctuation in interest rates. GBI perceives interest rate risk as a combination of repricing risk, yield curve risk, basis risk and option risk. The asset and liability structure of the Bank creates a certain exposure to IRRBB. Repricing risk is the most relevant one for GBI and the others are at immaterial levels as a result of the business model of the Bank. However, all interest rate risk types are monitored and their impact is assessed regularly. Business units are not allowed to run structural interest mismatch positions. As a result of this policy, day-to-day interest rate risk management is carried out by the ALM Department in line with the policies and limits set by ALCO, with the help of a well-defined internal transfer pricing process.

IRRBB is measured and monitored at each meeting of ALCO by using Duration, Repricing Gap and Sensitivity analyses. Sensitivity analyses are based on both economic value and earnings perspectives. Interest sensitivity is measured by applying standard parallel yield curve shifts, historical simulation and other yield curve twist scenarios. All analyses are based on the interest rate repricing maturities. Behavioral analyses are used for the products that do not have contractual maturities; for GBI the only product that falls under this condition is retail demand deposits. To assess the interest rate related behavior of these liabilities, GBI conducts a demand deposit modelling analysis to predict deposit outflow patterns over time, taking into account historical deposit trends and various factors such as deposit age and market rates. The Repricing Gap analysis shows interest bearing assets and liabilities broken down by when they are next due for repricing. This analysis is used as a supplementary measure to duration in order to point out interest bearing inflows/outflows and their maturities.

The following table provides a maturity calendar of all interest-bearing financial instruments, including derivatives as of 31 December 2021, which is based on remaining days to maturity for fixed rate instruments and next repricing date for floating rate instruments:

IRRBB

	Demand	<= 3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Total
Assets	93,729	2,668,393	903,883	484,280	-	4,150,285
Liabilities	(269,274)	(734,640)	(1,431,441)	(577,128)	-	(3,012,483)
Derivatives	-	16,829	19,375	(55,986)	-	(19,782)
Net interest position 31 December 2021	(175,545)	1,950,582	(508,183)	(148,834)	-	1,118,020
Net interest position 31 December 2020	(98,845)	1,642,021	(565,266)	(39,123)	(16,495)	922,292

The calculation of the Economic Value of Equity (EVE) analysis as at 31 December 2021 shows that, assuming an unchanged structure of assets, liabilities and off-balance sheet items, an interest increase of one percent, taking into account a parallel movement of the risk-free yield curves, would result in an increase in the economic value of the Bank's equity amounting to approximately EUR 1,506 (31 December 2020: EUR 4,573 increase).

GBI also measures interest rate sensitivity of the equity by using historical volatility approach. Historical scenarios are applied to the whole banking book in a systematic manner in order to find the day in history, which would have the maximum negative impact on the economic value of equity. Scenarios are determined based on the interest rates collected at different currencies and maturities for a 5-year historical period.

38. Interest Rate Risk on the Banking Book (IRRBB) (continued)

The Earnings at Risk (EaR) analysis focuses on the effects of interest rate changes on the Bank's reported earnings over one year and two years. The standard gradual shift in the yield curve is applied for the calculation of the regulatory stress test; the interest rates are assumed to increase (or decrease) within one year and to remain at that level in the second year. The Bank has a moderate duration structure. The duration mismatch is stable as a natural consequence of the clear business model of the Bank.

All interest rate sensitivity analyses are also used for evaluating hedging strategies, internal limit setting and portfolio monitoring purposes, enabling GBI to manage interest rate risk in a proactive manner. GBI uses interest rate swaps and forward rate agreements to hedge interest rate risk in major currencies in its banking book, depending on the composition of the balance sheet.

39. Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rate compared to the functional currency (Euro). GBI manages structural currency risk in line with the policies and the risk appetite set by the Supervisory Board. The Bank uses FX hedging derivatives such as currency swaps and currency forward contracts in convertible currencies to manage the currency risk inherent to the balance sheet. For the derivative contracts concluded to mitigate currency risk, GBI applies cashflow hedge accounting as defined under IAS 39.

The total equivalent of net balance in foreign currencies is EUR (15,347) (2020: EUR (4,817)). The currency position is mitigated through derivative instruments. The notional amount of those derivatives is recorded as an off balance sheet position.

Table below shows GBI's exposures for different currencies.

Concentration risk by currency exposure

31 December 2021	USD	TRY	Other	Total
Assets				
Cash and balances with central banks	-	-	-	-
Loans and advances to banks	372,035	622	3,837	376,494
Financial assets at fair value through profit or loss				
- Mandatorily at fair value through profit or loss	284	-	-	284
- Trading derivatives	-	-	-	-
- Non-trading derivatives	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-
Loans and advances to customers	1,387,377	10,538	84,156	1,482,071
Property and equipment	-	-	-	-
Intangible assets	-	-	-	-
Current tax asset	-	-	-	-
Other assets	-	-	-	-
Total Assets	1,759,696	11,160	87,993	1,858,849
Liabilities				
Deposits from banks	87,057	-	20,140	107,197
Deposits from customers	1,040,292	4,167	38,070	1,082,529
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	-	-	-
- Non-trading derivatives	-	-	-	-
Subordinated liabilities	-	-	-	-
Deferred tax liability	-	-	-	-
Other liabilities, accrued expenses and provisions	18,174	3	2	18,179
Shareholder's equity	-	-	-	-
Total Liabilities	1,145,523	4,170	58,212	1,207,905
Net On Balance Sheet Position	614,173	6,990	29,781	650,944
Off Balance Sheet Position	(629,704)	(7,331)	(29,624)	(666,659)
Net Position	(15,531)	(341)	157	(15,715)

39. Currency risk (continued)

31 December 2020	USD	TRY	Other	Total
Assets				
Cash and balances with central banks	-	-	-	-
Loans and advances to banks	343,945	4,767	1,711	350,423
Financial assets at fair value through profit or loss				
- Mandatorily at fair value through profit or loss	317	-	-	317
- Trading derivatives	-	-	-	-
- Non-trading derivatives	-	-	-	-
Financial assets at fair value through other comprehensive income	40,343	-	-	40,343
Loans and advances to customers	901,881	71,496	64,470	1,037,847
Property and equipment	-	-	-	-
Intangible assets	-	-	-	-
Current tax asset	-	-	-	-
Other assets	978	-	-	978
Total Assets	1,287,464	76,263	66,181	1,429,908
Liabilities				
Deposits from banks	183,559	-	5,353	188,912
Deposits from customers	521,907	6,605	30,453	558,965
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	-	-	-
- Non-trading derivatives	-	-	-	-
Subordinated liabilities	-	-	-	-
Deferred tax liability	-	-	-	-
Other liabilities, accrued expenses and provisions	16,688	24	-	16,712
Shareholder's equity				
Total Liabilities	722,154	6,629	35,806	764,589
Net On Balance Sheet Position	565,310	69,634	30,375	665,319
Off Balance Sheet Position	(569,185)	(70,869)	(30,082)	(670,136)
Net Position	(3,875)	(1,235)	293	(4,817)

Sensitivity analysis FX positions

Sensitivity analysis specifically on FX positions are not presented as result of effective risk mitigation whereby the net positions reported in the preceding table are immaterial.

40. Derivatives and Hedge Accounting

Derivatives

The breakdown of the fair value of GBI's derivative portfolio to product type is as follows:

	31 December 2021		31 December 2020	
	Carrying value assets	Carrying value liabilities	Carrying value assets	Carrying value liabilities
Derivatives held for trading				
Foreign currency swaps	4,789	4,756	1,179	156
Foreign currency forwards	307	254	710	656
Foreign currency options (purchased)	-	-	601	-
Foreign currency options (sold)	-	-	-	601
Other derivatives	32	31	61	118
<i>Subtotal</i>	<i>5,128</i>	<i>5,041</i>	<i>2,551</i>	<i>1,531</i>
Derivatives held for risk management - economic hedge relationships				
Foreign currency swaps	115	15,122	1,154	704
Foreign currency forwards	9	-	88	0
Other derivatives	-	-	-	3
<i>Subtotal</i>	<i>124</i>	<i>15,122</i>	<i>1,242</i>	<i>707</i>
Derivatives held for risk management - fair value hedge accounting relationships				
Interest rate swaps	-	583	-	1,435
<i>Subtotal</i>	<i>-</i>	<i>583</i>	<i>-</i>	<i>1,435</i>
Derivatives held for risk management - cash flow hedge accounting relationships				
Interest rate swaps	-	1,702	-	2,650
Foreign currency swaps	2,735	4,240	472	2,887
Foreign currency forwards	257	267	-	93
<i>Subtotal</i>	<i>2,992</i>	<i>6,209</i>	<i>472</i>	<i>5,630</i>
Total	8,244	26,955	4,265	9,303

Derivatives held for trading

Derivatives held for trading relate to client-driven derivative sales and trading activities, and associated market risk hedging. Typical derivative transactions with clients mostly encompass standardised derivative products (so called "plain vanilla"). Any derivative transaction that is conducted with clients, is offset by GBI with a similar derivative transaction with a professional counterparty in order mitigate risks. Any realized and unrealized gains or losses on derivatives used for client driven trading business are recognized immediately in Valuation results and net trading income (see Note 21).

Derivatives held for risk management

GBI also uses derivatives for purposes other than trading, primarily for hedging, in conjunction with the management of interest rate and foreign exchange risk related to the funding, lending, and asset/liability management. This involves interest rate swaps to manage our exposures to interest rate risk and currency swaps to manage our foreign currency risk.

40. **Derivatives and Hedge Accounting (continued)**

Certain derivatives are specifically designated and qualify for hedge accounting (see 'Hedge Accounting' section below). From time to time, we also enter into derivative transactions to economically hedge certain exposures that do not otherwise qualify for hedge accounting, or where hedge accounting is not considered economically feasible to implement. In such circumstances, changes in fair value are presented in Valuation results and net trading income (see Note 21).

Hedge Accounting

Fair value hedges of interest rate risk

GBI uses interest rate swaps to hedge its exposure to changes in the fair values of fixed rate bonds in our FVOCI portfolio. Pay-fixed/receive-floating interest rate swaps are matched to specific issuances of fixed-rate notes. GBI's approach to managing market risk, including interest rate risk, is discussed in market risk section of these disclosures. Interest rate risk to which GBI applies hedge accounting arises from fixed-rate bonds whose fair value fluctuates when benchmark interest rates change.

Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

Before fair value hedge accounting is applied by GBI, it first determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk. Occasionally, where deemed necessary, this is supported by quantitative analysis. GBI considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. In addition to this qualitative assessment, the prospective hedge effectiveness is assessed with a sensitivity analysis approach. This method consists of measuring the effect of a parallel shift in the underlying hedged risks (a flat shift of 200 base points) on both the hedging instrument and the hedged item.

The Bank establishes a hedge ratio by aligning the par amount of the fixed-rate bonds and the notional amount of the interest rate swap designated as a hedging instrument. At each reporting period the effectiveness of the hedge relationship is assessed with a dollar off-set method on a cumulative basis. The hedge is demonstrated to be effective by dividing the cumulative change on the clean fair value (i.e. excluding accrued interest) of the hedging instrument with the cumulative change in clean fair value of the hedged items attributable to the hedged risk. If the ratio is within the range of 80%-125%, the hedge relationship is considered to be effective.

In these hedge relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and GBI's own credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- differences in maturities of the interest rate swap and the loans or the notes.

There were no other sources of ineffectiveness in these hedge relationships.

As at 31 December 2021, GBI held interest rate swaps as hedging instruments in fair value hedges of interest risk with the following maturity profile:

Risk category	Maturity 2021			Maturity 2020		
	Less than 1 year	1-5 years	More than 5 years	Less than 1 year	1-5 years	More than 5 years
Interest rate risk						
Hedge of bonds in FVOCI						
Nominal amount	-	20,000	-	-	40,427	-
Average fixed interest rate	-	1.13%	-	-	1.50%	-

40. Derivatives and Hedge Accounting (continued)

The amounts relating to items designated as hedging instrument and hedge ineffectiveness are as follows:

	Nominal amount	Carrying amount		Line item in the statement of financial position where the hedging instrument is included	Changes in fair value used for calculating hedge ineffectiveness		Line item in profit or loss that includes hedge ineffectiveness
		Assets	Liabilities		Hedge ineffectiveness recognised in profit or loss		
Interest rate risk							
2021							
Interest Rate Swaps – bonds in FVOCI	20,000		583	Financial liabilities at FVTPL – non trading derivatives	(577)	(63)	Valuation results and net trading income
2020							
Interest Rate Swaps – bonds in FVOCI	40,427		1,435	Financial assets / liabilities at FVTPL – non trading derivatives	(1,364)	25	Valuation results and net trading income

The amounts relating to items designated as hedged item are as follows:

	Nominal amount	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedge item		Line item in the statement of financial position where the hedged item is included	Changes in fair value used for calculating hedge ineffectiveness	Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
		Assets	Liabilities	Assets	Liabilities			
2021	Bonds in FVOCI	20,000	20,514	-	514	Financial Assets at Fair Value Through Other Comprehensive income	514	-
2020	Bonds in FVOCI	40,427	41,530	-	1,392	Financial Assets at Fair Value Through Other Comprehensive income	1,392	-

Cash flow hedges of interest rate risk and foreign currency

GBI uses pay-fixed/receive-floating interest rate swaps to hedge the interest rate risks in respect of the benchmark interest rate (mainly Euribor or Libor) from the received floating-rate EURO deposits. The Bank hedges interest rate risk to the extent of benchmark interest rate exposure on its floating-rate EURO deposits to mitigate variability in its cash flows. The Bank also use currency swaps to hedge against the foreign currency exposure. These swaps enable GBI to fix exchange rate and eliminate variability in cash flows the external parties (both borrowers and lenders) as a result of currency fluctuations. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

GBI's approach to managing market risk, including foreign currency risk, is discussed in note 37. GBI's exposure to market risk is disclosed in notes 38 and 39. GBI determines the amount of the exposure to which it applies hedge accounting by assessing the potential impact of changes in foreign currency exchange rates on the future cash flows from its issuance of floating-rate notes denominated in foreign currencies. This assessment is performed using analytical techniques, such as cash flow sensitivity analysis.

40. Derivatives and Hedge Accounting (continued)

As noted above for fair value hedges, by using derivative financial instruments to hedge exposures to changes in foreign currency exchange rates, GBI exposes itself to credit risk of the counterparties to the derivatives, which is not offset by the hedged items. This exposure is managed similarly to that for fair value hedges.

GBI determines whether an economic relationship exists between the cash flows of the hedged item and hedging instrument based on an evaluation of the qualitative characteristics of these items and the hedged risk. Occasionally, where deemed necessary, this is supported by quantitative analysis. GBI considers whether the critical terms (being: notional amount, contract currency, maturity date) of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship.

At each reporting date (i.e. monthly) the effectiveness of the hedge relationship is assessed using the same approach as used for prospective testing.

In these hedge relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and GBI's own credit risk on the fair value of the swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate and foreign currency; and
- differences in maturities or timing of cash flows of the swap and the hedged item.

There were no other sources of ineffectiveness in these hedge relationships.

As at 31 December 2021, GBI held the following instruments to hedge exposures to changes in interest rates and foreign currency.

	Maturity 31 December 2021			Maturity 31 December 2020		
	Less than 1 year	1-5 years	More than 5 years	Less than 1 year	1-5 years	More than 5 years
Interest Rate Risk						
Interest rate swaps						
Nominal amount	-	35,000	-	-	35,000	-
Average fixed rate	-	1.17%	-	-	1.17%	-
Foreign Currency Risk						
Currency swaps (EUR:TRY)						
Nominal amount	11,078	1,629	-	66,915	-	-
Average EUR-TRY exchange rate	12.87	12.28	-	9.29	-	-
Currency swaps (EUR:USD)						
Nominal amount	97,073	-	-	-	-	-
Average EUR-USD exchange rate	1.19	-	-	-	-	-
Currency swaps (EUR against other currencies)						
Nominal amount	4,398	-	-	8,735	-	-

40. Derivatives and Hedge Accounting (continued)

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows.

	Carrying amount		Line item in the statement of financial position where the hedging instrument is included	Cumulative changes in fair value used for calculating hedge ineffectiveness	Change in the value of the hedging instrument recognised in OCI in the period	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from the hedge reserve to profit or loss	Line item in profit or loss affected by the reclassification	
	Nominal amount	Assets								Liabilities
Interest rate risk										
2021										
Interest rate swaps	35,000	-	1,702	Financial liabilities at FVTPL Non-trading derivatives	(186)	(186)	-	Valuation results and net trading income	-	Valuation results and net trading income
2020										
Interest rate swaps	35,000	-	2,650	Financial liabilities at FVTPL Non-trading derivatives	(1,156)	(1,156)	13	Valuation results and net trading income	-	Valuation results and net trading income
Foreign currency risk										
2021										
(EUR:TRY)	12,707	2,873	-	Financial assets/liabilities at FVTPL Non-trading derivatives	233	233	-	Valuation results and net trading income	251	Valuation results and net trading income
(EUR:Other)	101,471	119	4,508	Financial assets/liabilities at FVTPL Non-trading derivatives	(265)	(265)	-	Valuation results and net trading income	13	Valuation results and net trading income
2020										
(EUR:TRY)	66,915	173	2,888	Financial assets/liabilities at FVTPL Non-trading derivatives	(246)	210	-	Valuation results and net trading income	976	Valuation results and net trading income
(EUR:Other)	8,735	273	93	Financial assets/liabilities at FVTPL Non-trading derivatives	(13)	(13)	-	Valuation results and net trading income	73	Valuation results and net trading income

The amounts relating to items designated as hedged items were as follows.

	Line item in the statement of financial position in which the hedged item is included	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
Interest rate risk				
2021				
EUR deposits	Deposits from customers	(186)	-	-
2020				
EUR deposits	Deposits from customers	(1,156)	-	-
Currency risk				
2021				
TRY Loans	Loans and advances to customers	233	-	-
Other loans	Loans and advances to customers	(265)	-	-
2020				
TRY Loans	Loans and advances to customers	246	-	-
Other loans	Loans and advances to customers	13	-	-

40. Derivatives and Hedge Accounting (continued)

Reconciliation of components of equity

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items resulting from hedge accounting.

	Cash flow hedge reserve	
	2021	2020
Balance at 1 January	(1,066)	(1,893)
Effective portion of changes in fair value:		
- Interest rate risk	972	(138)
- Currency risk	(32)	197
Net amount reclassified to statement of profit or loss:		
- Interest rate risk	-	-
- Currency risk	264	1,049
Related tax	(300)	(281)
Balance at 31 December	(162)	(1,066)

Liquidity and Funding Risk

Liquidity risk is defined as the risk that the Bank may not be able to fulfil its payment obligations in a timely manner due to the lack of available cash or cash inflows in quality and in quantity to cover the cash outflows in a complete and timely manner due to imbalances in the cash flows of the Bank. Thus liquidity risk management focuses primarily on short-term scenarios and solutions. Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required or at extensive cost. Thus funding risk management focuses primarily on long term scenarios and solutions.

The main objective of GBI's liquidity and funding risk policy is to maintain sufficient liquidity to ensure safe banking operations, a stable long-term liquidity profile, and a sound financial condition, both in normal and stressed financial environments. The liquidity and funding risk policy is approved by the Supervisory Board, and aims to mitigate GBI's on and off-balance sheet risks that are associated with liquidity mismatches, while complying with the related regulatory framework. The policy describes the governance of liquidity risk at GBI, and provides high level principles for day-to-day and long-term liquidity management.

GBI carries out an extensive Internal Liquidity Adequacy Assessment Process (ILAAP), where all qualitative and quantitative aspects of liquidity risk management at the Bank are monitored using established limits and early warning indicators. The ILAAP framework details the liquidity risk appetite and funding strategy and is continuously reviewed. The funding strategy is also reviewed annually through the budget process with the establishment of the funding plan. The Supervisory Board monitors whether the Bank remains in line with the strategy and plan.

At the bank level, ALCO monitors liquidity risk, implements the appropriate policies as defined by the Supervisory Board, makes pricing decisions through the Internal Transfer Pricing (ITP) process, and directs the Bank's overall liquidity strategy. In case of a liquidity squeeze or an emergency situation, GBI has a detailed contingency funding plan, enabling the Bank to govern crisis management.

ALCO has delegated day-to-day liquidity management to the ALM, the department responsible for managing the overall liquidity risk position of the Bank. It also manages intraday liquidity as per the principles of

intraday liquidity management established in the ILAAP Framework. The ALM manages all cash flows along with expected changes in business-related funding requirements. A related operations unit, independent from the front office, performs the role of collateral management and executes the settlements of all transactions.

The RMD performs liquidity risk assessment and analyses, develops required methodologies, and conducts regular stress tests to ensure the Bank is operating with sufficient liquidity. The RMD also reports comprehensively on liquidity risk directly to ALCO and to the Supervisory Board.

41. Funding concentration

GBI aims for a diversified funding mix in terms of instrument types, fund providers, geographic markets, and currencies. In general, retail funding is the primary funding source, owing to the Bank's well-established position in Dutch and German retail markets. This funding structure enables the Bank to have a positive liquidity gap even when the wholesale funding market dries up. Non-financial corporations, with which the Bank has established long-lasting relationships through its various financial services offerings, constitute the major part of the non-retail deposits. Behavioral analyses of retail deposits held at the Bank show high stickiness ratios, even during times of stress in local and global markets, indicating the resilience of this funding base. Similarly, deposits by non-financial counterparties exhibit a high proportion of non-retail deposits which are held at the Bank over long periods of time, contributing to the stability of the Bank's unsecured funding.

The Bank's funding from other financial institutions includes money market borrowings and transactional and structured instruments on bilateral or syndicated bases. These funding sources leverage the Bank's trade finance franchise and transaction flow reciprocity. The Bank also makes use of secured funding from time to time in order to increase the diversity of resources.

GBI aims primarily for a stable funding profile and conducts business activities that are characterized by short-term lending. This strategy enables the quick accumulation of a liquidity buffer in stressed financial environments, and the equally efficient build-up of short-term assets once the stress has passed.

42. Asset encumbrance

The following table sets out the total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities as at 31 December 2021 and 2020 as well as the availability of the Bank's financial assets to support future funding.

As at 31 December 2021	Carrying amount of encumbered assets		Carrying amount of non-encumbered assets		Total	
		Of which: ECB eligible		Of which: ECB eligible		Of which: ECB eligible
Loans and advances to banks	26,525	-	594,126	-	620,651	-
Loans and advances to customers	36,700	36,700	2,498,513	-	2,535,213	36,700
Financial assets at fair value through other comprehensive income	250,198	250,198	-	-	250,198	250,198
Total	313,423	286,898	3,092,639	-	3,406,062	286,898

As at 31 December 2020	Carrying amount of encumbered assets		Carrying amount of non-encumbered assets		Total	
		Of which: ECB eligible		Of which: ECB eligible		Of which: ECB eligible
Loans and advances to banks	4,695	-	649,551	-	654,246	-
Loans and advances to customers	49,713	49,713	2,042,801	-	2,092,514	49,713
Financial assets at fair value through other comprehensive income	62,430	62,430	40,343	-	102,773	62,430
Total	116,838	112,143	2,732,695	-	2,849,533	112,143

Financial assets are pledged as collateral as part of sales and repurchases, secured funding transactions and derivative transactions under terms that are usual and customary for such activities. In addition, as part of these transactions, the Bank has received collateral that it is also permitted to sell or repledge in the absence of default.

At 31 December 2021, the fair value of financial assets accepted as collateral that the Bank is permitted to sell or repledge in the absence of default was EUR 25.6 million (2020: EUR 154.5 million).

At 31 December 2021, the fair value of financial assets accepted as collateral that had been sold or repledged was EUR 25.6 million (2020: EUR 154.5 million). The Bank is obliged to return equivalent securities.

At 31 December 2021, for derivative liabilities that are classified as trading liabilities and derivatives liabilities held for risk management, the Bank had posted cash collateral with its counterparties for which it had recognised receivables of EUR 26.5 million (2020: EUR 4.7 million). These receivables are regarded as encumbered and included in loans and advances to banks.

The encumbered assets have been pledged as collateral for the following financial liabilities:

Liabilities for which assets have been pledged

Carrying amounts of financial liabilities	31 December 2021	31 December 2020
Deposits from banks	297,452	217,029
Derivatives	6,345	9,303
Total	303,797	226,332

43. Regulations

Compliance with regulatory requirements related to liquidity risk is an integral part of liquidity risk management at GBI. As such, the Bank ensures that it is in line with all regulations in place in its jurisdiction.

In this context, the Bank monitors and reports the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as per the Capital Requirement Regulation (CRR). Hence, GBI actively manages the level and composition of its High Quality Liquid Asset (HQLA) buffer, which is composed of various types of assets including cash held at central banks as well as freely available central bank-eligible or investment grade-marketable securities.

Furthermore, GBI frequently monitors liquidity risk through various analyses including loan-to-deposit ratios, contractual maturity gap analyses, and stress tests that are designed according to a variety of scenarios. These allow the Bank to assess the impacts of diverse shocks on its liquidity position. Shock factors are based on bank- or market-specific liquidity squeezes. Shocks are applied to all on- and off-balance sheet items, including derivatives, to estimate cash flows under different stress scenarios. By using regulatory and internally developed stress tests, the Bank aims to hold a sufficient liquidity buffer in order to meet any sudden liquidity needs in times of stress.

44. Exposure to liquidity risk

The following table provides a maturity analysis of assets and liabilities according to their contractual remaining maturity at the reporting date. The amounts are gross and undiscounted and exclude the impact of netting agreements.

The inflows/(outflows) disclosed in this table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are not usually closed out before contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash-settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement.

Maturity analysis (contractual) assets and liabilities

31 December 2021	On demand	<= 3 months	3 months - 1 year	1 - 5 years	> 5 years	Undistributed¹	Total
Cash and balances with central banks	675,396	-	-	-	-	-	675,396
Loans and advances to banks	55,287	251,511	284,448	29,405	-	-	620,651
Financial assets at fair value through profit or loss							
- Mandatorily at fair value through profit or loss	284	-	-	-	-	-	284
- Trading derivatives	-	3,886	1,242	-	-	-	5,128
- Non-trading derivatives	-	741	1,610	765	-	-	3,116
Financial assets at fair value through other comprehensive income	-	53,067	74,399	122,732	-	-	250,198
Loans and advances to customers	66,931	1,394,458	287,275	600,781	171,081	14,687	2,535,213
Total Assets	797,898	1,703,663	648,974	753,683	171,081	14,687	4,089,986
Deposits from banks	28,588	66,331	17,611	297,452	-	-	409,982
Deposits from customers	1,587,134	741,100	425,642	283,104	841	-	3,037,822
Financial liabilities at fair value through profit or loss							
- Trading derivatives	-	3,811	1,230	-	-	-	5,041
- Non-trading derivatives	-	18,494	1,136	2,284	-	-	21,914
Subordinated liabilities	-	-	-	-	-	-	-
Total Liabilities	1,615,722	829,736	445,619	582,841	841	-	3,474,759

44. Exposure to liquidity risk (continued)

31 December 2020	On demand	<= 3 months	3 months - 1 year	1 - 5 years	> 5 years	Undistributed¹	Total
Cash and balances with central banks	524,911	-	-	-	-	-	524,911
Loans and advances to banks	22,752	345,744	272,370	13,375	-	-	654,241
Financial assets at fair value through profit or loss							
- Mandatorily at fair value through profit or loss	-	-	317	-	-	-	317
- Trading derivatives	-	2,257	294	-	-	-	2,551
- Non-trading derivatives	-	1,658	56	-	-	-	1,714
Financial assets at fair value through other comprehensive income	-	-	22,948	79,825	-	-	102,773
Loans and advances to customers	44,974	961,184	329,085	708,442	35,726	13,103	2,092,514
Total Assets	592,637	1,310,843	625,070	801,642	35,726	13,103	3,379,021
Deposits from banks	12,982	126,881	58,754	145,997	-	-	344,614
Deposits from customers	1,523,281	441,612	300,443	161,107	18,014	-	2,444,457
Financial liabilities at fair value through profit or loss							
- Trading derivatives	-	1,261	270	-	-	-	1,531
- Non-trading derivatives	-	3,571	116	4,085	-	-	7,772
Subordinated liabilities	-	-	-	-	-	-	-
Total Liabilities	1,536,263	573,325	359,583	311,189	18,014	-	2,798,374

¹ Represent assets and liabilities for which does not have a maturity date

Country by country reporting

In line with Article 89 of the Capital Requirements Directives (CRD IV), the information on country-by-country reporting is as follows:

31 December 2021	Country	Location	Turnover	Average number of FTE	Result before Tax	Tax on result	Public subsidies received
Name GarantiBank International N.V., Head Office	The Netherlands	Amsterdam	66,823	208	23,925	6,224	-
GarantiBank International Dusseldorf Branch	Germany	Dusseldorf	2,812	16	462	152	-
31 December 2020							
Name GarantiBank International N.V., Head Office	The Netherlands	Amsterdam	53,002	223	8,840	2,412	-
GarantiBank International Dusseldorf Branch	Germany	Dusseldorf	3,304	17	547	171	-

Next to the abovementioned countries GBI also has representative offices in Turkey and Switzerland. These offices do not perform any activities themselves. All transactions are recorded by GBI's Head Office or GBI's branch in Germany.

Subsequent Events

From 1 January 2022 to the date when these financial statements was authorized, no other events have occurred that significantly affect GBI's earnings or its equity position, and that are not mentioned in the notes to the financial statements.

Amsterdam, 23 February 2022

The Managing Board:

Mr S.E. Zeyneloğlu
Mr M.Ö. Şişman
Mr M. Witteveen
Mr C.B. Mutlu

The Supervisory Board:

Mr. R. Baştuğ (Chairman)
Mr A. Düren (Vice Chairman)
Mr P.R.H.M. van der Linden
Ms M.A. Halverhout
Mr. J.H. de Roo

OTHER INFORMATION

Provisions in the Articles of Association governing the appropriation of profit

The profit appropriation has been proposed in conformity with article 31 of the Articles of Association, which states:

45. Article 31

1. The profits shall be at the disposal of the general meeting.
2. Dividends may be paid only up to an amount which does not exceed the amount of the distributable part of the net assets.
3. Dividends shall be paid after adoption of the financial statements from which it appears that payment of dividends is permissible.

The general meeting may resolve to pay an interim dividend provided the requirement of the second paragraph has been complied with as shown by interim accounts drawn up in accordance with the provision of the law.

4. The general meeting may, subject to due observance of the provision of paragraph 2, resolve to make distributions to the charge of any reserve which need not be maintained by virtue of the law.

Independent auditor's report

The independent auditor's report is set forth on the following pages.

Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of GarantiBank International N.V.

A. Report on the audit of the financial statements 2021 included in the annual report

Our opinion

We have audited the financial statements 2021 of GarantiBank International N.V. ('the company') based in Amsterdam.

WE HAVE AUDITED	OUR OPINION
The financial statements comprise: 1. the statement of financial position as at 31 December 2021; 2. the following statements for 2021: the statements of comprehensive income, changes in equity and cash flows; and 3. the notes comprising a summary of the significant accounting policies and other explanatory information.	In our opinion, the accompanying financial statements give a true and fair view of the financial position of GarantiBank International N.V. as at 31 December 2021 and of its result and its cash flows for 2021 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of GarantiBank International N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

B. Information in support of our opinion

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion was addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 5,000,000. The materiality is based on a benchmark of total equity (representing 0.8% of reported total equity) which we consider to be one of the principal considerations for stakeholders of the company in assessing the financial performance of the company. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of € 250,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Audit Approach fraud risks and non-compliance with laws and regulations

We identified and assessed the risks of material misstatements of the financial statements due to fraud and non-compliance with laws and regulations. During our audit we obtained an understanding of the company and its environment and the components of the system of internal control, including the risk assessment process and management's process for responding to the risks of fraud and monitoring the system of internal control and how the supervisory board exercises oversight, as well as the outcomes.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as among others the code of conduct, whistle blower procedures and incident registration. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated whether these factors indicate that a risk of material misstatement due fraud is present.

In all of our audits, we address the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. Relating to the use of estimates for the expected credit loss we refer to section 'Use of estimates and judgement' on page 31 and Note 31 'Approach expected credit loss of financial assets' of the financial statements. For the performed specific procedures we refer to the key audit matters on the expected credit loss (collective provision and individual provision).

Relating to the risk of fraud and non-compliance with laws and regulations we performed the following specific procedures:

- We inspected minutes of the meetings of several committees within GarantiBank International N.V. among which the Supervisory Board and the Managing Board.
- We obtained sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements, where we also included a specialist in the area of corporate tax law.
- Relating to other laws and regulations we performed the following procedures:
 - We made inquiries with relevant personnel, including the Managing Board, the Internal Audit Department, Head of Legal and the Chief compliance officer regarding compliance with laws and regulations.
 - We inspected minutes of the meetings of several committees within GarantiBank International among which the Supervisory Board and the Managing Board.
 - We inspected correspondence with regulators (Dutch Authority for the Financial Markets (AFM), Dutch Central Bank (DNB) and Federal Financial Supervisory Authority (BaFin)).
 - We inspected the register of complaints.

- We used specialists to test the design and existence of anti-money laundering and countering the financing of terrorism (AML/CFT) procedures through interviews, a documentation study and walkthroughs.
- We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks.
- Supplementary to reliance on the internal controls, we performed substantive audit procedures, including detailed testing of journal entries with a risk-based approach.
- We remained alert for indications of fraud throughout our other audit procedures and evaluated whether identified findings or misstatements were indicative of fraud.
- We assessed matters reported on the company’s whistleblowing and complaints procedures with the entity and assessed, where deemed necessary, results of management’s follow-up of such matters.
- We reviewed significant accounting estimates, specifically those relating to the expected credit loss provision, for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. For more information, please refer to our Key Audit Matters.
- We obtained written representations that all known instances of (suspected) fraud or non-compliance with laws and regulations have been disclosed to us.

We incorporated elements of unpredictability in our audit. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. We considered available information and made enquiries of relevant executives (including internal audit, legal, compliance), Management Board and the Supervisory Board. The above mentioned risk assessment and audit approach did not lead to indications of potential material misstatements due to fraud.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EXPECTED CREDIT LOSS - COLLECTIVE ALLOWANCE	OUR AUDIT APPROACH
<p>We consider the valuation of the portfolio of loans and advances to customers and banks as disclosed in note 4 and 5 of the financial statements, combined representing in total 76% of the balance sheet total, a key audit matter. The carrying amount of the portfolio of loans and advances to customers and banks that are collectively assessed amounts to € 3.1 billion. The allowance for these collective assessed expected credit losses amounts to € 14.4 million.</p> <p>The company uses Expected Credit Loss ('ECL') models for the ECL calculations for the portfolio of loans and advances to customers and banks as a whole. The ECL model is a forward-looking model that takes</p>	<p>We have performed the following audit procedures to mitigate the risk:</p> <ul style="list-style-type: none"> ▪ We evaluated the design and tested the operating effectiveness of the internal controls relating to the ECL collective allowance process. ▪ We involved credit risk professionals with specialised skills and knowledge who assisted in evaluating the assumptions to determine the PD, LGD, and EAD parameters in models used by the Company to determine the collective allowances, and assessed management overlays recorded to the ECL.

<p>into consideration expected future developments with respect to the Probability of Default, Loss Given Default and Exposures at Default.</p> <p>We identified this as a key audit matter as several aspects of the accounting for loan losses require significant judgment of management.</p> <p>The COVID-19 pandemic has meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgement required by the company in determining the ECL allowances.</p> <p>Additionally we identified this as a key audit matter due to the size of the loans issued and advances to customers provided and due to the material impact a possible impairment may have on the income statement.</p> <p>Key judgmental areas include the identification of loans that experienced a significant increase in credit risk, the forecasting of forward looking economic guidance for use in ECL models, the modelling of assumptions and parameters, and the use of manual, post-model adjustments to reflect risks not captured in models for financial reporting (if any).</p> <p>Initially, loans and advances to customers and banks are recognized at its fair value and subsequently carried at amortized cost using the effective interest method. Management recognized the expected credit loss allowance with regard to the loans issued to loans and advances to customers and banks in accordance with IFRS 9.</p>	<ul style="list-style-type: none"> ▪ We assessed the company’s methodology to determine the macroeconomic forecasts used in the ECL. ▪ We evaluated the identification of significant increase in credit risk (‘SICR’) in loans by challenging the scope of management’s criteria used in staging assessments, the thresholds applied within each criterion, and the ability of staging criteria to identify SICR prior to loans being credit impaired. ▪ We performed back-testing of certain models to evaluate current model performance. ▪ We assessed the adequacy and appropriateness of the disclosures related to ECL collective allowances within the financial statements.
<p>EXPECTED CREDIT LOSS - SPECIFIC ALLOWANCE</p>	<p>OUR AUDIT APPROACH</p>
<p>We consider the valuation of the portfolio of loans and advances to customers as disclosed in note 5 of the financial statements, representing in total 61% of the balance sheet total, a key audit matter. The carrying amount of the portfolio of loans and advances to customers that are individually assessed amounts to</p>	<p>We have performed the following audit procedures to mitigate the risk:</p> <ul style="list-style-type: none"> ▪ We evaluated the design and implementation of the internal controls relating to the ECL specific allowance process. ▪ We examined the methodologies, cash flows and collateral values

<p>€ 47.1 million. The allowance for individually assessed expected credit losses amounts to € 16.0 million. For credit-impaired exposures (Stage 3) and exposure with significant increase in credit risk greater than € 10.0 million, the company determines the ECL allowance individually.</p> <p>We identified this as a key audit matter as several aspects of the accounting for loan losses require significant judgment of the Management Board. Additionally we identified this as a key audit matter due to the size of the loans issued and advances provided and due to the material impact a possible impairment may have on the income statement. Key judgmental areas include the identification of loans that are underperforming or credit-impaired, the amount of recovery cash flows, including expected collateral recovery, and the probability weights applied to different recovery scenarios for these individually assessed loans.</p> <p>Initially, loans and advances to customers are recognized at its fair value and subsequently carried at amortized cost using the effective interest method. The Managing Board recognized the expected credit loss provision with regard to the loans issued to loans and advances to customers in accordance with IFRS 9.</p>	<p>used in expected future recovery cash flow assessments of specific loan allowances for impaired loans.</p> <ul style="list-style-type: none"> ▪ We challenged management’s use of recovery scenarios and expected cash flows considering industry trends and comparable benchmarks, and recalculated recovery amounts. ▪ We evaluated the competence, capabilities and objectivity of the valuation experts, appointed by management, that were involved in the valuation of collaterals. ▪ We performed back-testing procedures by evaluating historical sales of collaterals. ▪ We assessed the adequacy and appropriateness of the disclosures related to ECL specific allowances within the financial statements.
<p>RELIABILITY AND CONTINUITY OF ELECTRONIC DATA PROCESSING</p>	<p>OUR AUDIT APPROACH</p>
<p>The processes within the company are largely automated. As a result, the company is highly dependent on the reliability and continuity of the automated data processing for the continuity of its processes. For this reason, we consider this a key point in our audit.</p>	<p>The general IT controls for the applications that are relevant to our audit have been tested for design, existence and effectiveness by IT specialists who are part of the audit team.</p> <p>The design, existence and effectiveness of the general IT controls and application controls were tested by conducting interviews, performing walkthroughs, assessing third-party reports from parties to whom parts of the automated environment have been outsourced.</p>

C. Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- ▶ the chapter 'Who we are';
- ▶ the report of the Managing Board;
- ▶ the chapter Corporate Governance;
- ▶ the report of the Supervisory Board;
- ▶ other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- ▶ is consistent with the financial statements and does not contain material misstatements;
- ▶ contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Managing Board is responsible for the preparation of the other information, including the Managing Board report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

D. Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of GarantiBank International N.V. on 17 February 2021, as of the audit for financial year 2021.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

E. Description of responsibilities regarding the financial statements

Responsibilities of the Managing Board and the Supervisory Board for the financial statements

The Managing Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Managing Board is responsible for such internal control as the Managing Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Managing Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Managing Board should prepare the financial statements using the going concern basis of accounting, unless the Managing Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Managing Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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.
- ▶ Obtaining 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 entity's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding 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 entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- ▶ Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amstelveen, 23 February 2022

For and on behalf of BDO Audit & Assurance B.V.,

sgd.
drs. M.F. Meijer RA
