Garanti BBVA
International

ANNUAL REPORT 2022

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GARANTIBANK
INTERNATIONAL N.V.

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

WHO WE ARE

KEY FIGURES

EUR 1,000	2022	2021	2020	2019	2018
TOTAL ASSETS	5,105,720	4,129,876	3,430,176	3,615,038	4,288,512
CASH AND BALANCES WITH CENTRAL BANKS	1,533,188	675,396	524,911	721,128	836,208
LOANS AND ADVANCES TO BANKS	753,633	620,651	654,246	325,733	324,599
LOANS AND ADVANCES TO CUSTOMERS	2,552,939	2,535,213	2,092,514	2,433,408	2,847,874
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	220,562	250,198	102,773	75,114	206,040
DEPOSITS FROM BANKS	333,829	409,982	344,614	194,917	803,199
DEPOSITS FROM CUSTOMERS	3,995,313	3,037,822	2,444,457	2,731,363	2,801,236
EQUITY	653,322	619,765	600,875	591,995	582,562
TOTAL INCOME	98,553	69,635	56,306	61,015	75,439
PROFIT FOR THE YEAR	40,793	18,011	6,803	6,612	12,020
RATIOS					
COMMON EQUITY TIER 1 RATIO %	21.70	21.69	23.84	23.89	21.27
TOTAL CAPITAL RATIO %	21.70	21.83	23.88	26.42	23.58
LCR - LIQUIDITY COVERAGE RATIO %	753.8	516.9	509.3	769.9	583.3
COST TO INCOME RATIO % [1]	46	58	72	71	62
RETURN ON AVERAGE EQUITY % [2]	6.62	3.00	1.15	1.13	2.10
NON-PERFORMING LOANS % [3]	0.60	0.93	1.02	2.78	3.14
COST OF RISK % [4]	(0.07)	0.20	0.30	0.32	0.43
RETURN ON AVERAGE ASSETS %	0.88	0.48	0.19	0.18	0.29
STAFF & NETWORK					
TOTAL AVERAGE NUMBER OF EMPLOYEES	221	224	240	244	251
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

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ABOUT US

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

GarantiBank International N.V., aka Garanti BBVA International (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 Bankasi 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 under the supervision of the European Central Bank (ECB), De Nederlandsche Bank (DNB) and De Autoriteit Financiële Markten (AFM).

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 one of Türkiye's largest industrial groups, on September 6, 2019 he was appointed as CEO at Garanti BBVA and serves as a board member. He is also the chairman of the board of directors of various Garanti BBVA subsidiaries. In addition to his responsibilities, he also serves as the board member in the Banks Association of Türkiye and as the board of trustees member of Teachers Academy Foundation.
Mr. Baştuğ has 33 years of experience in banking and business administration.

Mr. René van der Linden
(until September 2022)
Chairman of Remuneration Committee

Mr. van der Linden served as the member of the supervisory board of Eureko 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. Aydın Düren
Member of Audit and Compliance Committee
Member of Risk Committee

Mr. Düren graduated from the Faculty of Law at Istanbul University and earned his graduate degree in international law from the American University, Washington College of Law. 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 on February 1, 2009 as executive vice president in charge of legal services and collections. On June 17, 2020 he was appointed as a board member and an Audit Committee member. Since June 2015, serving as the corporate secretary of the Bank, Mr. Düren is also the member of the board of directors, responsible for legal services. Furthermore, Mr. Düren serves as a board member at various Garanti BBVA subsidiaries. At the same time, Mr. Düren is a member of the board of directors of Türk Telekomünikasyon A.Ş. and LYY Telekomünikasyon A.Ş.. Since June 2015, Mr. Düren also serves as the corporate secretary of the Bank. Mr. Düren has 31 years of work experience in banking and business administration.

Mr. John Boyles
(since January 2023)
Chairman of Remuneration Committee

Mr. Boyles joined the supervisory board in 2023 with nearly 40 years of experience in corporate finance, wholesale banking, corporate funding and management. For nearly 23 years he was a senior leader at ING Bank where he was globally responsible for a number of sector business and lending products, as well as the CEO of the Bank's banking platform in North America from 2008-2013. Prior to moving to the Netherlands, Mr. Boyles worked in New York City for Canadian Imperial Bank of Commerce in the securitization, asset finance and sector coverage areas. He also spent three years at Barclays Bank in the corporate lending, leverage finance and asset-based finance businesses. Mr. Boyles is a graduate of Ithaca College with a degree in economics.

Mr. Harry de Roo
Chairman of Risk Committee

Mr. de Roo serves as the board member of Stichting Agri3. Previously he held various positions including the board treasurer of Stichting Nationaal Warmtefonds until 2022, non-executive member of the board and various committees of Rabobank Pensioenfonds from 2017 until February 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
Chairman of Audit and Compliance Committee

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

MANAGING BOARD

Mr. Erhan Zeyneloğlu
Chief Executive Officer

Mr. Zeyneloğlu started his career at Garanti BBVA credits department in 1992. He joined GBI in 1995 where he held various managerial positions such as executive director of credits, executive director of structured finance and retail banking. He was appointed as CEO in 2015. Mr. Zeyneloğlu holds a Bachelor of Arts degree in Economics from Boğaziçi University.

Dr. Övünç Şişman
Chief Financial Officer

Dr. Şişman began his career in 1999 and held risk management positions at Garanti BBVA. He joined GBI in 2003 and before being appointed at GBI's managing board in 2015, 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. Marco Witteveen
Chief Operating Officer

Mr. Witteveen's professional life began in 1985. He has since enjoyed a 37-year banking career. He was involved in expatriate assignments in Jakarta, London, New York and Geneva. During this time, he 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.

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 29-year banking career, Mr. Mutlu has held various positions in several Turkish banks. He holds a Bachelor of Arts 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

GBI has improved
its financial performance in 2022

REPORT OF THE MANAGING BOARD

ECONOMIC DEVELOPMENTS

The year 2022 has been marked by multi-decade high global inflation and consequent monetary policy response from major central banks. There was a deceleration in GDP growth in major economies, especially in the second half of the year, in the wake of tighter monetary conditions. Zero-COVID policy in China has been another factor further weighing on global growth in 2022.

In the light of these developments, global growth has been moderate at level of 3.4 percent for 2022, per IMF World Economic Outlook. As the flagship of global economic activity, the US GDP has grown by around 2.1 percent in 2022 . The Euro area GDP growth, on the other hand, is estimated at 3.5 percent by Eurostat. Global economic activity is set to slowdown in 2023 as US and Euro Area are expected to observe marginal growth levels in the year to come.

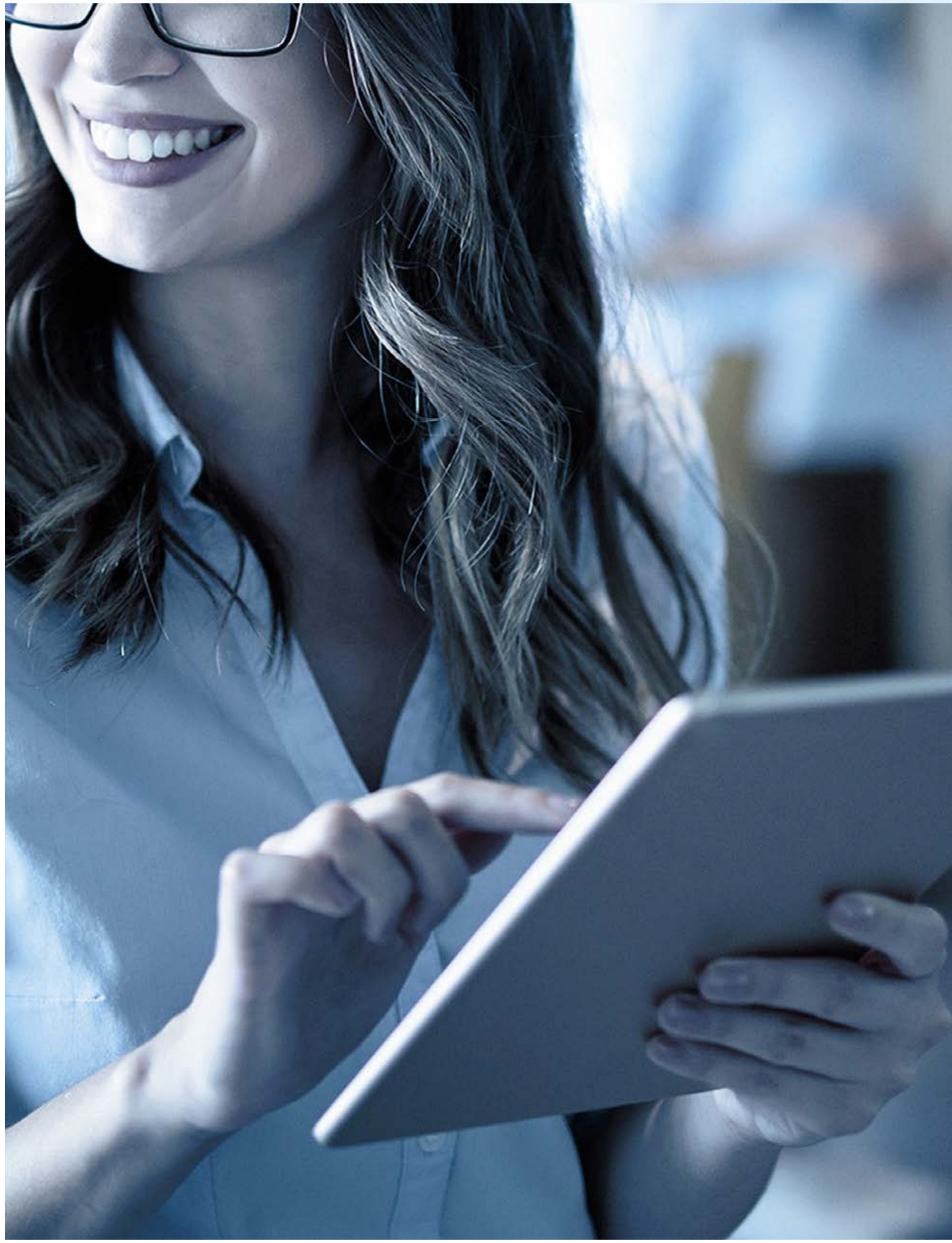
Increasing global inflation trend continued in 2022, most notably due to persistent post-pandemic imbalances and Russian invasion of Ukraine. Commodity prices remained high overall, especially in the first half of the year. Notably, European natural gas prices rose to record levels during summer, among energy security concerns due to the Russian invasion.

The US inflation ended the year at 6.5 percent y/y in 2022, down from 9.1 percent in June. Similarly, the Euro area inflation rose as high as 10.6 percent y/y in October, before ending the year at 9.2 percent. The Euro area inflation figures are expected decline further to 2.9 percent in 2023.

Persistently soaring inflation prompted swift monetary policy response by nearly all major central banks. The Federal Reserve raised the target range for the Federal Funds Rate by a total of 4.25 percent. Similarly, the ECB raised policy interest rates by 2.50 percent in total in 2022. Uncertainties in the inflation and monetary policy outlook kept interest rate volatility high throughout the year.

Global monetary tightening is set to continue in 2023, albeit perhaps at a more moderate pace. Inflation still remains far from target inflation in most countries. Although the impact of front-loaded tightening on inflation has been, to some extent, visible.

Emerging markets saw substantial outflows as tighter economic conditions weighed on risk sentiment. Overall risk appetite will probably remain somewhat muted, at least until the rate hike cycle of major central banks come to a pause. Effects of tighter monetary policy and sluggish growth may weigh on credit outlook, impacting debt service in countries with more pronounced imbalances. Still, easing of geopolitical tensions and China re-opening prospects pose upside risks for these economies.



FINANCIAL ANALYSIS

The year 2022 has been a year for growth for GBI where the economic dynamics have been heavily under pressure of the war between Russia and Ukraine, increasing energy prices and high global inflation. In this regard, and as a member of the BBVA Group, our priorities have remained distinct and unaltered: delivering an important service to the economy; and offering financial support to individuals and businesses, safeguarding the health of our staff, clients, and society at large.

GBI HAS SIGNIFICANTLY IMPROVED ITS FINANCIAL PERFORMANCE IN 2022

Despite the uncertainty surrounding the global economy, GBI produced strong financial results in 2022 thanks to its solid business model, with total assets growing by 24 percent and total income growing by 42 percent. Our prudent approach with regards to capital and liquidity position has continued throughout 2022.

The Bank's income before tax has continued to improve steadily in 2022 and has increased notably by 125 percent versus last year. A strong income generation led to a significant improvement in cost-to-income ratio to 46 percent from 58 percent. Thanks to our selective approach and sound credit risk practices, NPL ratio has decreased to 0.60 percent from 0.93 percent in 2021 and as a result of recoveries the cost of risk has decreased to -0.07 bps compared to 20 bps of 2021. Finally, we have maintained our strong capitalization, with a CET1 capital ratio of 21.70 percent (2021: 21.69 percent).

SUBSTANTIAL GROWTH IN BUSINESS VOLUMES WHILE IMPROVING ASSET QUALITY

GBI continues to see major advances in the execution of its strategy. In 2022 the Bank has been able to increase its total assets to EUR 5.1 billion from the level of EUR 4.1 billion at the end of 2021. The growth has been funded by stable funding resources through the increase in Deposits From Customers by EUR 957 million. The Loans and Advances to Banks also increased by EUR 133 million attributable to higher trade finance volumes. The Marketable Securities portfolio held in FVOCI has decreased by EUR 30 million to EUR 220 million as a result of disposal of bonds and new purchases have been executed in line with the guidelines of the Group ALM Investment Policy. Although the Loans and Advances to Customers have sharply increased at the beginning of 2022, they have decreased in parallel to the decrease in commodity prices and volumes in the second half of 2022 and closed the year almost at the same level compared to 2021 year-end. Deposits from Banks has decreased by EUR 76 million because of reduced funding needs in an effort to optimize funding cost. As a result of all these actions, Cash and Balances with Central Banks has increased by EUR 858 million to EUR 1,533 million (or to 30 percent of the balance sheet), providing a strong liquidity position.

GBI's asset quality has remained strong during 2022. With active NPL management, Stage 3 loans decreased to EUR 15.5 million (2021: EUR 23.7 million) in 2022, NPL ratio has improved to 0.60 percent (2021: 0.93 percent). GBI has increased its ECL allowance for Stage 1 exposures by EUR 3.6 million in line with the expected macroeconomic slowdown in 2023. However total ECL allowance has decreased by EUR 7.5 million, from EUR 31.1 million in 2021 to EUR 23.6 million in 2022 due to the decrease in Stage 2 and Stage 3 loans as a result of recoveries through collections and disposals, whereas no new loans have been classified to Stage 3 in 2022.

Contingent Liabilities has increased by EUR 132 million to EUR 552 million (2021: EUR 420 million) as a result of an increase in the letters of credit and guarantees by EUR 69 million, as well as an increase in commitments for loan granting by EUR 62 million.

The Net Income stands at EUR 40.8 million in 2022, which is an increase of 126 percent compared to 2021 (EUR 18.0 million). The profitability increase has been achieved through a combination of improvement in all operational areas, but mainly driven by increase in total income as well as lower cost of risk. As a result, GBI has improved its return on average equity (ROE) to 6.72 percent in 2022 (2021: 3.00 percent).

Total Income amounted to EUR 98.6 million, which is 42 percent higher than in 2021 (EUR 69.6 million). This is mainly explained by the improvement in Net Interest Income (NII) due to the growth in loans to banks and higher annual average loans and advances to customers coupled with low cost of funding through deposits from customers. Increase in policy interest rate in EUR has also led to improved revenue generation in high-quality liquid asset portfolio of the bank, which is mostly composed of placements to ECB. The Bank has managed to keep the cost of funding at low level throughout the year thanks to its resilient deposit base. The change in the pricing conditions of TLTRO III has led to a one time adjustment of EUR 5.7 million in the carrying amount, which is recognized as an interest expense. As a result, NII has increased to EUR 85.5 million in 2022 (2021: EUR 53.1 million). Consequently, the Net Interest Margin (NIM) has improved to 1.85 percent (2021: 1.41 percent).

The Net Commission Income has slightly increased from EUR 17.4 million in 2021 to EUR 17.9 million in 2022. Valuation results and Net Trading Income has increased to EUR 3.2 million in 2022 driven by higher valuation differences of derivative transactions (2021: EUR 2.5 million). The Bank has disposed a significant amount of its marketable securities in FVOCI portfolio in an effort to strategically position its portfolio to the increasing interest rate environment, which has led to a realization of an investment loss of EUR 4.7 million loss (2021: EUR 0).

Other income and expenses, which are mostly driven by the contributions to the Deposit Guarantee Scheme and National Resolution Fund has increased from EUR 3.3 million in 2021 to EUR 3.7 million in 2022 in line with the increase in funding level.

In an environment of higher prices at a global level, total operating expenses increased to EUR 45.4 million (2021: EUR 40.6 million), which is an increase of 12 percent, in line with 11.6 percent increase in Harmonized Index of Consumer Prices (HICP) in the Netherlands. GBI has improved for its employees, surpassing what is established in the collective agreement for the sector in order to help alleviate the effects of inflation. Continuous efforts for digitalization have also result in a higher level of operational expenses. Thanks to a good performance of total income, jaws remained positive. The efficiency ratio stood at 46 percent in 2022, which represents an improvement of 12 percent over the previous year.

Change in expected credit losses led to a gain of EUR 1.8 million in 2022 (2021 EUR 4.7 million loss) which is mainly driven by the recoveries of stage 2 and Stage 3 loans. GBI has continued to be cautious in the calibration of collective expected credit loss (ECL) models to reflect the potential impacts of the global macroeconomic outlook as well as in the individually assessed loans.

Income tax expense is increased to EUR 14.2 million for 2022 (2021: EUR 6.4 million) with an effective tax rate of 25.8 percent (2021: 26.1 percent).

GBI produced strong financial results in 2022 thanks to its solid business model.

BUSINESS STRATEGY & DEVELOPMENTS

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 an established market position as a savingsbank 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 year we added Stichting AAP Foundation to our donation program. This feedback mechanism helps us constantly improve on our customer experience and contributes to our corporate social responsibility projects. This year's survey results continue to be positive and show significant improvements due to enhancements in digital channels.

As digital channels are getting more attraction from customers, we see this effect in our digital dashboard where we closely watch and measure our digital metrics. Newly added DIY (Do-It-Yourself) functions provided our digital customers with the opportunity of not having to contact our call centers for all their needs.

Throughout the year, with customer-focused campaigns, we attracted new time deposits with a great success. These campaigns also helped us onboard new customers to our portfolio, where we were able to increase retail time deposits in 2022.

In 2023, we plan to increase our digital footprint by launching a new mobile app and decreasing onboarding time to just a few minutes to serve our existing and new customers. Apart from that we will upgrade our call center with the support of latest cloud technology and establish a new mid-office to further increase our operational excellence.

TRADE & COMMODITY FINANCE

A promising start of the year was rocked by the war in Europe; with only marginal exposure to affected markets, we did not face immediate adverse impact as commodity prices - notably of energy and fertilizers – continued their upward trajectory. In the secondhalf of the year, things became more uncertain due to rising interest rates, the ongoing Russian-Ukrainian conflict, slowdowns in China over prolonged lockdowns and, in Europe, over inflationary pressures.

For some commodities, the volumes dropped in the second half of the year because of the new market realities whereas others remained more resilient price and volume wise. All the same, our overall trade finance volumes were strong thanks to solid turnovers in, among others, Asia and EMEA, across our vanilla commodity finance and cross-border trade product offering to clients. Asset quality remained very high with no addition to stage 3 and some releases from stage 2.

To strengthen efficiency and ensure an even better TCF customer journey, we joined Komgo. This digital platform, for managing exchanges with TCF clients, boosts key deliverables such as processing of documentary products, Know Your Customer (KYC) checks and receivables financing. We observe that many major players in commodity markets are already on Komgo - and more are joining, to enjoy simplified, significantly improved transaction cycles.

We are also supporting our customers' Environmental, Social and Governance (ESG) efforts. For example, facilities with social-impact discounts for a reputable soft commodity trader. We will further increase our focus on this point 2023, in line with the increased commitment level of BBVA Group.

Overall, our aim remains to selectively chase opportunities in Trade and Commodity Finance that fit our risk appetite, while taking advantage of synergies with other parts of BBVA Group.

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 Türkiye. Our well-structured products, that can be categorized under transactional banking include, but are not limited to; working capital loans, trade loans, term loans, receivable finance, shipping 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 mostly denominated in USD that provides a low-cost funding base for our USD business.

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 2022, despite the volatile and challenging economic conditions, GBI Corporate Banking proved its resistance and flexibility in adjusting to the new environment and achieved 25 percent growth in average corporate banking loan book and 115 percent increase in average corporate deposit base, compared to 2021. For the year ahead, we will continue our prudent strategy to further improve our tailor-made product offerings and client coverage in our target markets.

FINANCIAL INSTITUTIONS

GBI has had successful relationships and good cooperation with other reputable global and regional financial institutions since its establishment 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. It 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 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.

In addition, as of 2022, FI&IR has assumed the responsibility of coordinating GBI's bank-wide efforts related to "Sustainability", and ESG risks and opportunities.

GLOBAL MARKETS

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

The Global Markets team provides market access to GBI's Global Markets Sales business line, which in turn supports corporate and individual investor clientele and manages proprietary 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.

In 2022, GMS's Assets Under Management reached a new high despite the volatility in global markets. Along with our digitalization strategy, GMS has managed to deliver its first multi-asset trading platform, GarantiBBVA iTrader, which enables our clients to follow the markets and execute trades whenever they like on their computer, tablet or smartphone. In 2023, GMS is aimed to add more financial products to its platform for its clients.

In line with our Group's sustainability agenda and Sustainable Finance Disclosure Regulation (SFDR), GMS has opted to add Sustainable Investing themes (ESG) in its monthly investment committees to give our clients a more complete view on these issues. Our advisory clients can look for opportunities and financial return in companies and investment themes with strong environmental, social and governance policies, in line with growing investor and stakeholder expectations.

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

The Bank'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 priorities 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.

GBI's Capital Management strategy is driven by our strategic priorities and risk appetite.

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, fraud, 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.

Fraud risk is a common risk in the financial sector. GBI has a set of operational controls to mitigate fraud risk, such as four-eye principle, access authentications, authorisation checks, segregation of duties and transaction monitoring for lending and payment systems. All these controls are continuously monitored by Risk Control Assurers (1st line of defense) and relevant Risk Control Specialists (2nd line of defense) in accordance with their responsibilities within the Bank's Non-Financial Risk Management model, whereas the Internal Audit Department, as the 3rd line of defense, provide independent assurance over these activities in accordance with their audit planning. Additional measures such as internal training and awareness are in place and GBI has pre- and in-employment procedures resulting in a low-risk culture in relation to internal fraud. The code of conduct is signed by each employee and periodically brought to attention.

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 2022, GBI has also started a very important project in order to further enhance its Sustainability approach. With this project, GBI defines ESG as part of its strategic priorities, establishes a roadmap for the implementation of strategic initiatives, enhances accountability and improves its ICAAP by defining its risk appetite, performing materiality assessments and stress tests.

During the year 2022, we have further 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.

SIRA

In 2022, we updated and improved the Systematic Integrity Risk Analysis (SIRA) which assesses inherent and residual integrity risks related to financial crime the bank may be exposed to, based on the customers, geographical presence, distribution channels and the activities of the bank. The SIRA also evaluates the effectiveness of the processes and controls GBI has in place. This gives us information on the risks associated with financial crime to which GBI may be subject to, enabling us to manage such risks in a way that is consistent with our risk tolerance.

Code of Conduct

GBI is committed to upholding strict compliance with all relevant legal and ethical codes at all times, as well as following high standards of behaviour. In order to accomplish this goal, the GBI Compliance system relies on a Code of Conduct that sets out guidelines for every aspect of their operations. The Code of Conduct establishes the ethical standards for all GBI employees, ensuring that they adhere to applicable laws and regulations in a manner that is transparent and professional. In doing so, they have an obligation to protect the social impact of their financial activities as well as the trust shareholders and customers place in GBI. In 2022 GBI has revised and further developed its Code of Conduct in line with the Group policies.

AML and Sanctions

As part of the banks' gatekeeper function GBI pays particular attention to compliance with AML regulations and the restrictions imposed by national or international organizations on activities with certain jurisdictions, individuals or legal entities, to avoid any sanction breaches. In 2022, the new sanctions imposed by both EU and OFAC resulted in stricter transaction filtering processes.

Other developments

GBI Compliance Department has further worked on improving its policies and procedures with regards to MiFID II, SFDR, conduct in the securities market, product governance and conflict of interests. GBI Compliance has further organized various trainings for GBI employees in the area of Sanctions, Sound Business Conduct and MiFID II.

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

DIGITAL TRANSFORMATION

Although the northern part of Europe still has the highest ranking when it comes to digitalization of banking services, there is a trend visible across Europe and also in the world that provision of digital services is on the rise and starting to become more and more integrated into our daily lives; not only in terms of banking services, but throughout all sectors.

In 2022, we further streamlined our value chains, and reduced manual processes as much as possible. While maintaining a strong customer intimacy model, GBI significantly maximized a seamless integration between front and back-end systems to ensure straight-through-processing. GBI experienced in 2022 that our ecosystem with our selected partners is unburdening the organization, enabling us to focus on what we are good at: providing banking services to our customers.

Also, GBI continued to build on the foundation laid over the years and prepared itself for what we see as the last step in GBI's digitalization journey: replacement of our back-end systems and application rationalization of our retail business lines. Furthermore, GBI started a "Microsoft Azure Cloud Native" journey in order to tap into innovation-out-of-the-box and simplification wherever possible. Certainly, these major overhauls will follow the same digitalization principles which GBI has embedded over the years.

Last but not least, GBI achieved major improvements in the way our services are provided to our customers by enhancing our portals and introducing apps. Providing Do-it-Yourself services significantly improved GBI's customer engagement score. Overall, we are proud of our achievements in 2022 and going forward, we will continue to enhance our portals and apps with additional services and products.

While the organizational changes embedded earlier are really starting to pay off, we are also thankful to all of our partners for their support of our digital journey.

In 2022, we further streamlined our value chains, and reduced manual processes.

SUSTAINABILITY

The fight against climate change is one of the greatest disruptions in history, with extraordinary economic consequences to which all players in our environment (governments, regulators, businesses, consumers and the whole of society) have to adapt.

Climate change and the transition to a low-carbon economy have significant implications for the value chains of most productive sectors, and may require significant investment in many industries. On the other hand, technological advances around energy efficiency, renewable energy, efficient mobility and the circular economy are a source of new opportunities for all.

GBI's parents BBVA and Garanti BBVA have been very active in sustainable finance and ESG space already for several years and they are aiming to be leaders of this initiative in the markets they operate. Accordingly, sustainability is a strategic priority for GBI. As one of the founding banks signing the Principles for Responsible Banking, BBVA has made many strides in recent years with regard to sustainable development financing. In 2018, BBVA announced its first sustainable financial target: EUR100 billion until 2025. As of 2022, BBVA had reached €112 billion at a pace that has pushed the Group to raise the goal, to €300 billion, three times its initial commitment. This figure makes BBVA one of the most ambitious banks in Europe in terms of its sustainable finance goal. But above all, it is a tangible example of the Group's commitment to sustainability - one of its strategic priorities.

The BBVA Group renewed its presence on the world's most renowned sustainability indexes: the Dow Jones Sustainability Index World and Europe. Meanwhile Garanti BBVA was once again included in the DJSI Emerging Markets. Garanti BBVA is the only bank in Türkiye to appear in this index. BBVA had a total score of 86 points out of 100. This recognition as Europe's most sustainable bank for the third consecutive year reaffirms the success of the Group's strategy for a greener and more inclusive future.

As part of BBVA Group we believe that joining the race against global warming is non-negotiable and it is possible to achieve. In line with the expectations of ECB and DNB, during the course of 2022, GBI performed a thorough self-assessment of its position in terms of sustainability and ESG, and also developed a detailed roadmap with action plans for the near as well as foreseeable future.

Some of the Bank's achievements in 2022 are outlined below:

- Development of a Sustainability Policy and update of Credit Risk Policy
- Awareness sessions and training programs for the Supervisory Board, the Managing Board and all employees
- Explicit allocation of roles and responsibilities for E&S (environmental and social) risks through ESG governance structures
- Qualitative materiality assessment of E&S risks, and update of qualitative risk appetite statement to include E&S risks
- Incorporation of initial qualitative statement on E&S risk materiality in the ICAAP as well as initial stress testing
- Update of Business Continuity Plan to consider the impact of C&E (climate related and environmental) events and the Bank's response to such events.

GBI will continue to address all the steps committed in its roadmap.

TALENT AND CULTURE

GBI is committed to a diverse and engaged team knowing that diversity, in all its many forms, can empower an organization. It is important for us to work with employees who share our corporate values. By implementing robust onboarding process, performance evaluations system, and continuous learning and development program, GBI aims to have the best and most engagement team.

Employee health is a top priority at GBI. To support the wellbeing of the employee and to increase the engagement carefully designed vitality programs and events are launched regularly.

GBI seeks to promote the diversity and inclusion while emphasising the corporate culture that focuses on equality, equity and freedom. During the recruitment process, one of the focus points of the team is to find the candidates that are selected based on generational, gender diversity. Currently a quarter of the management positions are occupied by females and GBI targets to increase this percentage.

The bank continuously provide its employees with access to enhanced training and professional development opportunities, helping to establish clear path for career growth. We promote continuous learning culture which fully prepares the employees for the competencies of the present and the future according to their needs.

The performance evaluation system at GBI measures employee performance based on the achievement of clearly defined goals while continuously assessing the adherence to the core values and competencies. This transparent system also plays a key role in setting a fair remuneration model at GBI as well as supporting the career and development of our team.

OUTLOOK 2023

In 2023, weaker global growth, less inflation will eventually lead central banks to slow down and stop the rate hike cycles. Financial volatility is expected to remain where US is likely to have a soft landing, Eurozone most probably is already in recession but is expected to grow marginally in 2023 as the region has managed to reduce Russian energy dependency without crushing activity. China will benefit from reopening of the economy as is predicted to grow more than 4%. However global growth deceleration is expected to be rather sharp due to higher inflation, tighter monetary policy, impact of gas disruptions in Europe and real-estate stress in China. Recession episodes will eventually emerge, at least in the US and in the Eurozone.

The long term inflation outlook will depend on geopolitics, energy and consumer demand. In the near term it is expected to remain elevated until Q1 2023 however a return to central bank targets is expected in 2024. Monetary tightening will help expectations anchored, second-round effects can be avoided and ongoing shocks will likely lose steam.

The war between Russia and Ukraine will continue to be the largest factor for uncertainty on the economic activity in Europe in 2023. The recent earthquake in Türkiye will likely to put pressure on the economic Outlook of Türkiye.

Sustainability will continue to be our strategic priority together with establishing strong customer satisfaction. We will continue to optimize our business composition, where trade finance, corporate banking, retail banking and global market sales activities will still to be the main business lines of the Bank. We will improve our digitalization efforts in delivering services to our customers and to enhance the efficiency of our internal processes.

Our prudent risk management approach will remain as a key component of our strategy to sustain strong solvency, sufficient liquidity and low leverage to maintain our asset quality while targeting a cost-effective funding structure. We will continue with our stable funding strategy, which is aimed at preserving the retail franchise and diversifying our non-retail deposit base. Further improving the efficiency will remain as a focus point given the challenges due to the increased price level for goods and services. Working with the best and most engaging team will be at the core of our operating model.

Despite the current environment of uncertainty, GBI's strengths and strategy -based on prudence and agility- will allow the bank to continue to grow and create opportunities for its customers, shareholders, employees and society as a whole in a responsible manner.

GBI's internal control over financial reporting is a process designed under the supervision of management.

CORPORATE GOVERNANCE

FINANCIAL REPORTING PROCESS

As GBI is a wholly-owned subsidiary of Türkiye Garanti Bankasi A.S. (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.

GBI's internal control over financial reporting is a process designed under the supervision of management.

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 2022. 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 COMPOSITION

GBI needs to balance several relevant selection criteria when composing the Supervisory Board. We strive 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 (20 percent women as of July 2022). 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 MANAGING 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 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.

The Supervisory Board comprises the following members:

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. J.H. DE ROO	1956	MEMBER	2020	2024
MS. M. HALVERHOUT	1961	MEMBER	2021	2025
MR. J.H. BOYLES III	1961	MEMBER	2023	2027

In 2022, the following change was made to the composition of the Supervisory Board:

- Mr. R. van der Linden resigned from the Supervisory Board following the expiry of his last term.

It is proposed that Mr. J.H. Boyles III will be appointed as new member of the Supervisory Board as soon as possible. to replace Mr. R. van der Linden. On January 4, 2023, ECB notified GBI of its decision not to object to the appointment of Mr. J.H. Boyles III as a member of the Supervisory Board and Chair of the Remuneration Committee.

FUTURE - ORIENTED BANKING

GBI applies the principles of Future-Oriented Banking by embedding the assumptions of the Social Charter, the Dutch Banking Code and the Rules of Conduct associated with the banker's oath in its Code of Conduct and by embedding the principles of the updated Dutch Banking Code in the governance structure.

During 2022 GBI complied with the principles of the Dutch Banking Code. When applying the principles of the Dutch Banking Code, GBI considered its entire operational environment. GBI complies with all the Banking Code topics (unless otherwise stated herein): ' Supervisory Board, Executive Board, Risk Management, Audit and Remuneration Policy'.

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 2023

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

FINANCIAL STATEMENTS

The Supervisory Board has voted to adopt the Managing Board's proposal to transfer the net profit of 2022, which totals EUR 40.8 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 Ernst & Young Accountants LLP (E&Y).
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 2022.

In accordance with Article 29 of the Articles of Association, the Supervisory Board advises and proposes that the shareholder adopts the 2022 financial statements at the next Annual General Meeting of Shareholders to be held in 2023. 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 2022.

FINANCIAL STATEMENTS AND PROPOSED DIVIDEND

The Supervisory Board has voted to adopt the Managing Board's proposal to transfer the net profit of 2022, which totals EUR 40.8 million, to the other reserves rather than paying a dividend.

ANNUAL REPORT 2022

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) and Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); 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 2021 annual figures and all related reports were assessed in the presence of our external auditor during the Supervisory Board meeting held on 17 February 2022. The budget for 2023 was discussed and approved during the Supervisory Board meeting held on 16 December 2022. The Board agreed with appointing Ernst & Young Accountants LLP as the external auditor starting from the year 2022. Subsequently the external audit plan has been approved and the independence of the external auditor has been confirmed for 2022. The Managing Board's presentation incorporated the key developments around the implementation of the strategy, 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.

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: Ms. M. Halverhout, Chairman, and Mr. A. Düren

In 2022, the Audit and Compliance Committee of the Supervisory Board (ACSB) met six 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 any deficiencies identified are remedied within the appropriate time frames;
(g) overseeing external auditor independence and fees.

During 2022, 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, sanctions 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 special attention has also been paid to the implementation of laws and regulations, such as the updated MiFID II and SFDR and the SIRA of the bank has been reviewed.

The Supervisory Board is regularly provided with follow-up reports on the progress made regarding GBI's ongoing commitment to meet regulatory recommendations. The Committee has discussed the external audit plan for 2022 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 2021 financial statements, including the management letter observations.

RISK COMMITTEE

Members: Mr. H. de Roo, Chairman, and Mr. A. Düren

The Risk Committee of the Supervisory Board met six times in 2022. 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 the conflict between Russia and Ukraine, and major developments in the jurisdictions relevant to GBI's business model have 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. The Committee has also reviewed and advised on the ESG Roadmap.

REMUNERATION COMMITTEE

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

The Remuneration Committee of the Supervisory Board met four times in 2022. 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 2022 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.

The Risk Committee monitors and periodically assesses the effectiveness of GBI's risk governance.

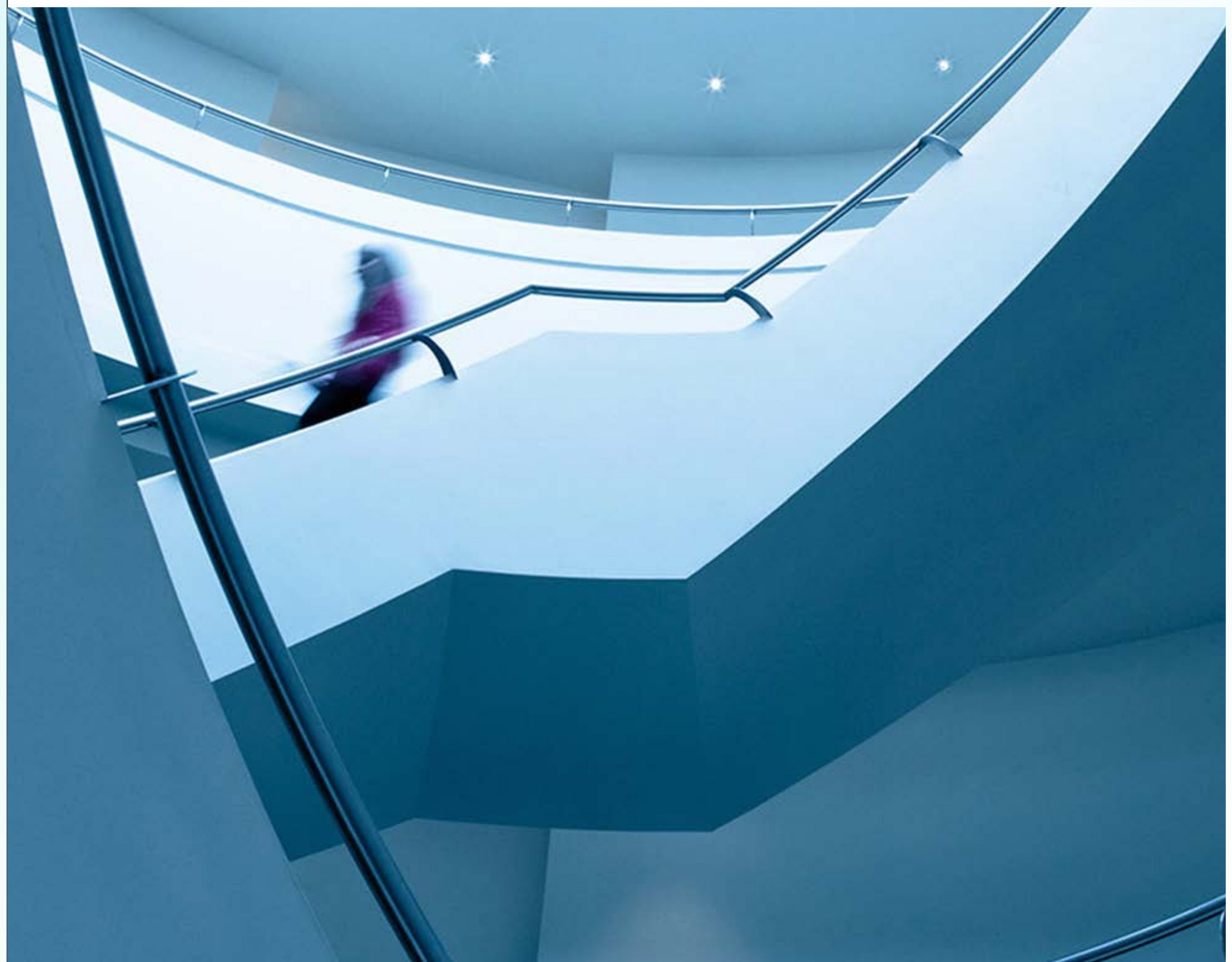
GOVERNANCE

Effective corporate governance in accordance with high international standards is fundamental for GBI. 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
- Checks and balances
- 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 Dutch Banking Code. The content of this charter is taken from the Articles of Association, Dutch legislation, Capital Requirements Directive and the respective EU directives, EBA guidelines on internal governance and the Dutch 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 cooperation 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 Supervisory Board is in compliance with the principles of the Dutch Banking Code.

The annual self-evaluation form for the past year has been circulated in line with the requirements prescribed by the Dutch Banking Code and has been discussed accordingly.



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 in accordance with the Dutch Banking Code and the principles of Future Oriented Banking. 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 Dutch Banking Code. Each year, a subject is touched upon in the form of a workshop. GBI has organized online training sessions 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 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 and the client, and not 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 reject the introduction of a new product or a service. 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 including the Dutch Banking Code, 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, and;
- 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 2023, 60 percent of the annual variable compensation, as shares or as cash, will be paid in 2022 and the remaining 40 percent will be deferred over a period of three years, latest payable, if applicable, in 2025. Amounts deferred from the 2022 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 2022, 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 1.14 million in 2022, which includes the deferred payments of the previous performance years amounting to EUR 0.18 million. As of 2022, 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 2022.

Amsterdam, 23 February 2023

THE SUPERVISORY BOARD

Mr. R. Baştuğ (Chairman)
Mr. A. Düren (Vice Chairman)
Mr. J.H. de Roo
Ms. M. Halverhout
Mr. J.H. Boyles III

Our risk policy is characterized by its comprehensive approach.

CONTACT INFORMATION

HEAD OFFICE

KEIZERSGRACHT 569-575
1017 DR AMSTERDAM
THE NETHERLANDS

TELEPHONE: + 31 20 553 9700
FACSIMILE: + 31 20 624 2466
SWIFT: UGBINL2A
WWW.GARANTIBANK.EU
INFO@GARANTIBANK.EU

DÜSSELDORF BRANCH

TERSTEEGENSTRASSE 28
40474 DÜSSELDORF
GERMANY

TELEPHONE: + 49 211 86 222 400
FACSIMILE: + 49 211 86 222 350
SWIFT: UGBIDEDD
WWW.GARANTIBANK.DE
INFO@GARANTIBANK.DE

REPRESENTATIVE OFFICES

TÜRKİYE REPRESENTATIVE OFFICE

MR. BERAT İÇİNSEL
REPRESENTATIVE & EXECUTIVE DIRECTOR

NISPETIYE MAH. AYTAR CAD.NO: 2, KAT: 1
34340 LEVENT/BESIKTAS, ISTANBUL, TÜRKİYE
ISTANBULREPOFFICE@GARANTIBANK.EU

SWITZERLAND REPRESENTATIVE OFFICE

MS. ŞİRİN YÜCE
REPRESENTATIVE

RUE DE LA CONFÉDÉRATION 5 GENEVA,
1204, SWITZERLAND

TELEPHONE: + 41 22 591 18 92
FACSIMILE: + 41 22 591 18 99
GENEVAREPOFFICE@GARANTIBANK.EU

garantibank.eu

Financial Statements 2022

GarantiBank International N.V.

Content of Financial Statements

(Currency: Thousands of Euros)

Financial Statements

Statement of Financial Position

As at 31 December 2022

	Notes	**31 December 2022**	**31 December 2021**
Assets			
Cash and balances with central banks	*3*	1,533,188	675,396
Loans and advances to banks	*4*	753,633	620,651
Financial assets at fair value through profit or loss			
- Mandatorily at fair value through profit or loss	*6*	-	284
- Trading derivatives	*38*	3,917	5,128
- Non-trading derivatives	*38*	5,141	3,116
Financial assets at fair value through other comprehensive income	*7*	220,562	250,198
Loans and advances to customers	*5*	2,552,939	2,535,213
Property and equipment	*8*	28,158	31,068
Intangible assets	*9*	5,858	5,398
Current tax asset	*13*	-	1,851
Other assets	*10*	2,324	1,573
Total Assets		**5,105,720**	**4,129,876**
Liabilities			
Deposits from banks	*11*	333,829	409,982
Deposits from customers	*12*	3,995,313	3,037,822
Financial liabilities at fair value through profit or loss			
- Trading derivatives	*38*	3,282	5,041
- Non-trading derivatives	*38*	469	21,914
Current tax liability	*13*	6,109	-
Deferred tax liability	*13*	3,434	3,711
Other liabilities	*14*	109,962	31,641
Total Liabilities		**4,452,398**	**3,510,111**
Equity			
Share capital	*15*	136,836	136,836
Retained earnings	*15*	511,210	470,069
Other reserves	*15*	5,276	12,860
Total Equity attributable to owners of the Bank		**653,322**	**619,765**
Total Liabilities and Equity		**5,105,720**	**4,129,876**
Commitments and Contingencies	*17*	**551,543**	**420,039**

(Currency: Thousands of Euros)

Statement of Comprehensive Income

For The Year Ended 31 December 2022

	Notes	**2022**	**2021**
Statement of Income:			
Interest income using effective interest method	*18*	117,524	73,414
Interest expense	*18*	(32,065)	(20,293)
Net interest income		**85,459**	**53,121**
Fee and commission income	*19*	22,998	20,945
Fee and commission expense	*19*	(5,080)	(3,551)
Net fee and commission income		**17,918**	**17,394**
Valuation results and net trading income	*20*	3,208	2,459
Investment income	*21*	(4,678)	-
Other income	*22*	353	70
Other expenses	*22*	(3,707)	(3,409)
Total income		**98,553**	**69,635**
Expected credit losses on financial instruments	*30*	1,779	(4,687)
Personnel expenses	*24*	(29,499)	(26,326)
Depreciation and amortisation	*8/9*	(2,899)	(3,310)
Other operating expenses	*23*	(12,977)	(10,925)
Total expenses		**(43,596)**	**(45,248)**
Income before tax		**54,957**	**24,387**
Income tax expense	*13*	(14,164)	(6,376)
Net Income		**40,793**	**18,011**
Other Comprehensive Income			
Items that will not be reclassified to profit or loss			
Property and equipment			
Revaluation	*8*	(2,082)	45
Tax effect (deferred)		537	(12)
Net gain on revaluation of property and equipment		**(1,545)**	**33**
Items that may subsequently be reclassified to profit or loss:			
Cash flow hedges			
Effective portion of changes in fair value	*39*	1,700	940
Reclassified to profit or loss	*39*	(296)	264
Tax effect (deferred)		(362)	(300)
Net gain on cash flow hedges		**1,042**	**904**

(Currency: Thousands of Euros)

	Notes	2022	2021
Debt instruments at fair value through other comprehensive income			
Valuation results	7	(9,054)	(77)
Tax effect (current)		2,336	19
Net gain/ (loss) on debt instruments at fair value through other comprehensive income		**(6,718)**	**(58)**
Total other comprehensive income for the year, net of tax attributable to the shareholder		**(7,221)**	**879**
Total comprehensive income for the year, net of tax attributable to the shareholder		**33,572**	**18,890**

(Currency: Thousands of Euros)

Statement of Changes in Equity

	Share Capital and Share Premium	Fair value reserve	Hedging Reserve	Other legal reserves	Retained Earnings	Total Equity
Balance as at 1 January 2022	**136,836**	**33**	**(163)**	**12,990**	**470,069**	**619,765**
Profit for the year					40,793	40,793
Other comprehensive income						
Net unrealised gains/(losses) on fair value assets portfolio		(6,695)				(6,695)
Net gains/(losses) on fair value assets and cash flow hedges transferred to profit or loss						
Foreign currency translation differences on fair value portfolio						
Net fair value gains/(losses) from cash flow hedges			1,042			1,042
Net change in expected credit losses on FVOCI instruments		(23)				(23)
Revaluation surplus on building				(1,545)		(1,545)
Total comprehensive income	**-**	**(6,718)**	**1,042**	**(1,545)**	**40,793**	**33,572**
Translation differences						
Other movements				(363)	348	(15)
Balances as at 31 December 2022	**136,836**	**(6,685)**	**879**	**11,082**	**511,210**	**653,322**

(Currency: Thousands of Euros)

	Share Capital and Share Premium	Fair value reserve	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
Other comprehensive income						
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 instruments		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**

(Currency: Thousands of Euros)

Statement of Cash flows

For the year ended 31 December 2022

	Notes	1 January 2022 - 31 December 2022	1 January 2021 - 31 December 2021
Cash flows from operating activities:			
Profit for the year		40,793	18,011
Adjustments for:			
Depreciation and amortisation	*8, 9*	2,899	3,310
Expected credit losses on financial instruments	*30*	(1,779)	4,687
Tax expense	*13*	14,164	6,376
		56,077	**32,384**
Changes in:			
Loans and advances to banks	*4*	(125,171)	61,447
Financial assets at fair value through profit or loss	*6, 39*	875	(3,946)
Loans and advances to customers	*5*	(15,947)	(447,386)
Other assets	*10*	(751)	3,937
Deposits from banks	*11*	(62,433)	98,981
Deposits from customers	*12*	957,491	593,365
Financial liabilities at fair value through profit or loss	*39*	(23,204)	17,652
Other liabilities, accrued expenses and provisions	*14*	78,321	4,143
		865,258	**360,577**
Income taxes paid	*13*	(3,986)	(28)
Net cash from / (used in) operating activities		**861,272**	**359,366**
Cash flows from investing activities:			
Acquisitions in investment portfolio	*7*	(410,586)	(210,716)
Proceeds from investment portfolio	*7,15*	431,169	63,291
Purchase of tangible and intangible assets	*8,9*	(2,529)	(2,061)
Net cash from / (used in) investing activities		**18,054**	**(149,486)**

(Currency: Thousands of Euros)

Statement of Cash flows (continued)

	Notes	1 January 2022 - 31 December 2022	1 January 2021 - 31 December 2021
Cash flows from financing activities:			
Net cash from/ (used in) financing activities		**-**	**-**
Effect of exchange rate changes		**(1,974)**	**848**
Net increase / (decrease) in cash and cash equivalents		**877,352**	**211,911**
Cash and cash equivalents at the beginning of the period	*1*	702,094	490,183
Cash and cash equivalents at the end of the period	*1*	**1,579,446**	**702,094**
Additional information on operational cash flows from interest			
Interest received		130,401	95,601
Interest paid		(29,829)	(26,448)

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. (Garanti BBVA), incorporated in Türkiye, 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 85.97% 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 2023, the Managing Board prepared the annual accounts of GBI as at and for the year ended 31 December 2022 and the Supervisory Board adopted a resolution, to propose that the Shareholder adopt the 2022 financial statements at the next Annual General Meeting of Shareholders to be held in 2023.

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 Part 9 of Book 2 of the Dutch Civil Code.

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 29 to 34:

  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, if any 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 management has also chosen to apply haircuts in relation to the valuation of collateral, in order to incorporate any additional uncertainty (i.e. related to post-pandemic developments). 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.

Use of estimates and judgements (continued)

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.

- 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 2022:

- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The above changes did not have significant impact on the Bank's financial statements.

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 2023 and have been endorsed by the EU and have not been early adopted by GBI.

- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021).
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued in May 2021).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosures of Accounting policies (issued in February 2021).
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued in February 2021).
- IFRS 17 Insurance Contracts (issued on 18 May 2017) including Amendments to IFRS 17 (issued in June 2020).

The expected impact of these changes on the financial statements is insignificant.

New and revised IFRSs in issue but not yet effective (continued)

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:

The amendments do not have an impact on the Bank's financial statements in 2022.

- 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 in January 2020 and in July 2020 respectively)
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued in September 2022)

Changes to prior year financial statements and disclosures

Certain figures reported in the 2022 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 2021 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 statement as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the statement of profit or loss as realized during the period.

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 impairment 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
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 improvements of intangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

Amortisation

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

The estimated useful lives, residual values and amortisation 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.

Significant accounting policies (continued)

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 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 reduction is recorded in income statement 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 lease liability in 'other liabilities' 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 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.

Significant accounting policies (continued)

Financial instruments

Recognition and derecognition of Financial instruments

Recognition of financial assets

Financial assets are initially recognised in the balance sheet at fair value plus, for an item not measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition 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 the statement of profit or loss.

Recognition of financial liabilities

Financial liabilities are initially recognised in the balance sheet at fair value minus transaction costs for an item not measured at fair value through profit or loss 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 the statement of 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 the statement of 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 the statement of 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 the statement of profit or loss.

<u>Debt instruments</u>

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.

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:

Significant accounting policies (continued)

- *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 the statement of 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 income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the statement of 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.
- *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 the statement of 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 valuation results and net trading 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 recognized in equity. All trading derivatives in a net receivable position (positive fair value) are reported as trading assets. All trading 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 ECL 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 used for the calculation of the regulatory capital requirement. Those credit rating models have been modified to meet the requirements of IFRS 9.

Significant accounting policies (continued)

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 forborne 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 forborne exposures. An exposure is reported as forborne for a minimum of two years. An additional one year probation period is observed for forborne 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 days on any material credit obligation, indications that the borrower is experiencing significant financial difficulty, a breach of contract, bankruptcy or distressed restructuring.

Significant accounting policies (continued)

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 under-performing (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 x EAD x 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 require 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
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

Significant accounting policies (continued)

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 the statement of 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 profit or loss 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 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).

Significant accounting policies (continued)

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

As permitted by IFRS 9 paragraph 7.2.21, the Bank has elected to continue applying the requirements of IAS 39 instead of applying the hedge accounting requirements of IFRS 9.

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 the statement of profit or loss.

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 the statement of profit or loss.

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 the statement of profit or loss 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 the statement of profit or loss 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 paid 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.

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.

Employee benefits

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 is provided below.

Significant accounting policies (continued)

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.

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.

(Currency: Thousands of Euros)

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 2022 and 2021, included in the accompanying statements of cash flows are as follows:

	31 December 2022	*31 December 2021*
Unrestricted balances with central banks	1,499,083	675,396
Loans and advances to banks	95,231	55,286
Deposits from banks	(14,868)	(28,588)
	1,579,446	702,094

2. *Related party disclosures*

For the purpose of this report, the 100 percent shareholder Türkiye Garanti Bankasi 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, Garanti BBVA 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 2022	*31 December 2021*
Loans and advances to banks	62,002	110,460
Derivative financial instruments	4,253	15
Total assets	**66,075**	**110,475**
Deposits from banks	8,527	27,408
Derivative financial instruments	58	6,392
Total liabilities	**4,608**	**33,800**
Loan commitments, financial guarantees and other commitments	-	1,977
Notional amount of derivatives	193,420	235,295

	2022	*2021*
Interest and similar income	2,699	2,105
Interest and similar expense	(21)	(935)
Fee and commission income	1,025	1,267
Fee and commission expense	(2,301)	(1,517)
Net trading income	(55)	-
Net income/expense	**1,347**	**920**

EUR 338 of ECL's have been recorded against balances outstanding at year-end 2022 with the parent company (2021: EUR 289) and none of the exposures are credit impaired.

(Currency: Thousands of Euros)

2. *Related party disclosures (continued)*

Transactions with other related parties

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

	31 December 2022	*31 December 2021*
Loans and advances to banks	480	6
Loans and advances to customers	9,262	16,177
Total assets	**9,742**	**16,183**
Deposits from customers	3,451	1,052
Total liabilities	**3,451**	**1,052**
Loan commitments, financial guarantees and other commitments	-	536

	2022	*2021*
Interest and similar income	334	86
Interest and similar expense	(12)	-
Fee and commission income	82	17
Other operating expenses	(5)	(9)
Net income	**399**	**94**

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 33 of ECL's have been recorded against balances outstanding at year-end 2022 with other related parties (2021: EUR 46) 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 25.

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

	31 December 2022	*31 December 2021*
Loans and advances to customers	811	5,250
Total assets	**811**	**5,250**
Deposits from customers	6,233	6,275
Total liabilities	**6,233**	**6,275**
Off Balance Sheet liabilities	-	20

	2022	*2021*
Interest and similar income	97	64
Interest and similar expense	(39)	(3)
Fee and commission income	90	157
Net income	**148**	**218**

As at 31 December 2022, the balances with key management personnel are allocated to Stage 1 and have a negligible ECL allowance (2021: negligible). During 2022 the expected credit loss that is recognised in the statement of profit or loss in respect of these balances is negligible as well (2021: negligible).

(Currency: Thousands of Euros)

3. *Cash and balances with central banks*

	31 December 2022	*31 December 2021*
Balances with central banks	1,533,274	675,426
	1,533,274	**675,426**
ECL allowance	(86)	(30)
	1,533,188	**675,396**

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.

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 2022	*31 December 2021*
Discounts to banks	618,937	538,354
Bank placements (cash margins, deposits)	95,290	59,733
Reverse sale-and-repurchase agreements	43,159	25,759
ECL allowance	(3,753)	(3,195)
Net loans and advances to banks	**753,633**	**620,651**

The Bank placements include EUR 60,231 (2021: EUR 55,286) 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 41,349 (31 December 2021: EUR 407) for letter of credits that the Bank has provided (note 14), for which a contractual obligation exists to deliver cash.

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 2022	*31 December 2021*
Non-financial corporations	2,426,745	2,368,643
Non-bank financial corporations	119,792	157,973
Households	26,100	35,846
ECL allowance	(19,698)	(27,249)
	2,552,939	**2,535,213**
Non credit-impaired loans	2,557,090	2,538,714
Credit-impaired loans	15,547	23,748
ECL allowance	(19,698)	(27,249)
	2,552,939	**2,535,213**

(Currency: Thousands of Euros)

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

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 41,567 (31 December 2021: EUR 15,028) for letter of credits that the Bank has provided (note 14), for which a contractual obligation exists to deliver cash.

Write-offs

The Bank may write-off financial assets that might still be subject to enforcement activity. The Bank has not written off any financial assets which are still subject to enforcement activity during the year ended 31 December 2022. The outstanding contractual amounts of financial assets written-off during 2021 was EUR 402 as at 31 December 2021. 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*

The Bank does not have any financial assets mandatorily measured at fair value through profit or loss (2021: 284).

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 2022	*31 December 2021*
Bonds issued by financial corporations	31,607	44,887
Bonds issued by non-financial corporations	12,203	50,902
Bonds issued by central governments	176,752	154,409
	220,562	**250,198**

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

Debt securities include securities pledged in relation to ECB's targeted longer term refinancing operation. Further information is disclosed in note 11 on deposits from banks and note 41 on asset encumbrance.

(Currency: Thousands of Euros)

8. *Property and equipment*

Movement in tangible assets from 1 January to 31 December 2022 is as follows:

	01 January	*Additions*	*Revaluation*	*Disposals and transfers*	*31 December*
Cost					
Land and building	30,173	7	(2,082)	(525)	**27,573**
Right of use building	1,048	34	-	-	**1,082**
Furniture and equipment	3,857	49	-	(120)	**3,786**
Right of use equipment	327	65	-	-	**392**
	35,405	**155**	**(2,082)**	**(645)**	**32,833**
Less: Accumulated depreciation					
Land and building	(53)	(536)	-	525	**(64)**
Right of use building	(664)	(202)	-	-	**(866)**
Furniture and equipment	(3,416)	(63)	-	-	**(3,479)**
Right of use equipment	(205)	(61)	-	-	**(266)**
	(4,338)	**(862)**	**-**	**525**	**(4,675)**
	31,067	**(707)**	**(2,082)**	**(120)**	**28,158**

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

	01 January	*Additions*	*Revaluation*	*Disposals and transfers*	*31 December*
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**
Less: Accumulated depreciation					
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**

Notes to the Financial Statements (Currency: Thousands of Euros)

8. *Property and equipment (continued)*

Depreciation expense of tangible assets for the year ended 31 December 2022 amounted to EUR 862 (2021: EUR 1,118).

An independent valuator was involved to assess the valuation of the land and buildings. As per 31 December 2022, the revaluation of land and buildings, net of def tax, amounting to EUR (1,545) was accounted under shareholders' equity (2021: EUR 33).

The fair value measurements of land and building have been categorized as Level 3 fair value measurements.

As of 31 December 2022, the net book value of property under cost model instead of revaluation model is EUR 15,756 (2021: EUR 15,729).

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

	2022	*2021*
Opening balance as at 1 January	**10,722**	**10,689**
Current year charge in OCI – gross amount	(2,082)	45
Current year charge in OCI – related tax	537	(12)
Closing balance as at 31 December	**9,177**	**10,722**

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 2022 is as follows:

	01 January	*Additions*	*Disposals and transfers*	*31 December*
Cost				
Software	14,323	2,502	(8)	16,817
	14,323	**2,502**	**(8)**	**16,817**
Less: Accumulated depreciation				
Software	(8,922)	(2,037)	-	(10,959)
	(8,922)	**(2,037)**	**-**	**(10,959)**
	5,401	**465**	**(8)**	**5,858**

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

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

Internally generated software of EUR 1,904 is included in the total software (2021: EUR 2,268). 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.

(Currency: Thousands of Euros)

10. *Other assets*

	31 December 2022	***31 December 2021***
Prepaid expenses, insurance claims and similar items	1,281	1,262
Miscellaneous receivables	1,038	311
Other	5	-
	2,324	**1,573**

11. *Deposits from banks*

GBI's deposits from banks comprise the following element:

	31 December 2022	***31 December 2021***
Central Bank borrowing	300,201	297,452
Term deposits	18,760	14,073
On demand deposits	14,868	28,588
Other deposits from banks	-	69,869
Obligations under repurchase agreements	-	-
	333,829	**409,982**

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 41 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 depending on the Bank's eligible net lending, and can go as low as the average deposit facility rate of the ECB 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. GBI met the eligibility criteria for the Special Reference Period (1 March 2020 to 31 March 2021) and Additional Special Reference Period (1 October 2020 and 31 December 2021).

On the meeting of ECB dated 27 October 2022, The Governing Council decided to change the terms and conditions of TLTRO III. ECB therefore decided to adjust the interest rate calculation method of TLTRO III from 23 November 2022 onwards and to offer additional voluntary early repayment dates to banks. GBI evaluated the changes in the terms and conditions of TLTRO III and their impact on the cash flows of the instrument. The Bank assessed the changes in the terms and conditions of the instrument as a modification to financial instrument since these changes were not anticipated when the Bank utilized the funds. The Bank performed quantitative and qualitative analysis in accordance with the accounting policies described in the section 'Significant Accounting Policies' and concluded that the changes are non-substantial modification. Therefore, the Bank adjusted the carrying amount to reflect the modification in expected future cash flows and recognized a modification loss of EUR 5,693 under interest expense.

In note 41 further detail is provided in relation to the collateral provided.

(Currency: Thousands of Euros)

11. *Deposits from banks (continued)*

Other deposits from banks

The Bank does not have any bilateral loans as at 31 December 2022 (2021: EUR 69,869).

12. *Deposits from customers*

Deposits from customers comprise the following:

	31 December 2022		
	Demand	**Time**	**Total**
Households	1,043,774	1,020,878	2,064,652
Non-financial corporations	424,187	1,091,909	1,521,735
Non-bank financial corporations	51,469	363,096	408,926
	1,519,430	**2,475,883**	**3,995,313**

	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**

From the deposits from customers EUR 1,888 million (2021: EUR 1,767 million) is guaranteed under the Deposit Guarantee Scheme.

13. *Taxation*

In the Netherlands, corporate income tax is levied at the rate of 15% (2021: 15%) for tax profits up to EUR 395 (2021: EUR 245) and 25.8% (2021: 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. The corporate income tax rate for the Germany branch is 30%.

Tax assets and liabilities are as follows:

	31 December 2022	*31 December 2021*
Current tax asset	-	1,851
Deferred tax asset	-	-
Tax assets	**-**	**1,851**
Current tax liability	(6,109)	-
Deferred tax liability	(3,434)	(3,711)
Tax liabilities	**(9,543)**	**(3,711)**
Net tax assets/(liabilities)	**(9,543)**	**(1,860)**

(Currency: Thousands of Euros)

13. *Taxation (continued)*

The tax income and expense are as follows:

	2022	*2021*
Current tax income/(expense)	(14,261)	(6,376)
Deferred tax income/(expense)	97	-
Tax income/(expense)	**(14,164)**	**(6,376)**

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

	2022	*2021*
Opening balance as at 1 January	**1,851**	**7,917**
Current period taxation charge in the statement of profit or loss	(14,261)	(6,378)
Current period taxation charge in the statement of other comprehensive income	2,336	19
Movement from deferred to current tax	(5)	51
Advance tax paid during the period	3,833	291
Corrections related to previous years	137	(49)
Closing balance as at 31 December	**(6,109)**	**1,851**

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.

Deferred tax assets and liabilities are as follows:

	31 December 2022	*31 December 2021*
Valuation of hedges	-	56
Valuation of (in)tangible fixed assets	51	94
Total deferred tax assets	**51**	**150**
Revaluation of building	(3,030)	(3,708)
Valuation of hedges	(306)	-
Other	(149)	(154)
Total deferred tax liabilities	**(3,485)**	**(3,861)**
Net deferred tax assets/(liabilities)	**(3,434)**	**(3,711)**

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

	2022	*2021*
Opening balance as at 1 January	**(3,711)**	**(3,429)**
Movement from deferred to current tax	5	(51)
Deferred tax benefit recognized in the statement of profit or loss	97	-
Deferred tax charge recognized in the statement of other comprehensive income	(362)	(231)
Deferred tax benefit recognized in the statement of other comprehensive income	537	-
Closing balance as at 31 December	**(3,434)**	**(3,711)**

Notes to the Financial Statements (Currency: Thousands of Euros)

13. Taxation (continued)

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:

	2022	***2021***
Profit before tax	54,957	24,387
Tax using the GBI's domestic tax rate	(14,179)	(6,078)
Effect of different tax rates in other countries	(14)	(23)
Disallowable expenses	(151)	(226)
Effect of the tax rate of 15%	43	-
Changes related to previous years taxation	137	(49)
Tax income/(expense)	**(14,164)**	**(6,376)**
Effective tax rate	25.77%	26.15%

14. Other liabilities

The principal components of other liabilities are as follows:

	31 December 2022	***31 December 2021***
Non-cash loans for letter of credits (*)	82,916	15,435
Accrued expenses	5,265	3,283
Prepayments received	4,962	2,334
Payables to suppliers	3,292	1,799
Short-term employee benefits	2,413	1,351
ECL for non-cash loans (note 30)	1,124	583
Withholding taxes	827	658
Lease liabilities	340	505
Vacation pay liability	115	93
Miscellaneous payables	8,708	5,600
	109,962	**31,641**

** The Bank gives non-cash loans through letter of credits it provides. As of 31 December 2022, non-cash loans provided to banks and customers are EUR 41,349 (note 4) and EUR 41,567 (note 5), respectively (31 December 2021: EUR 407 and EUR 15,028).*

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 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.

(Currency: Thousands of Euros)

15. Equity

Total equity

	31 December 2022	*31 December 2021*
Share capital and share premium	**136,836**	**136,836**
Share capital	136,836	136,836
Share premium	-	-
Retained Earnings	**511,210**	**470,069**
Other reserves	**5,276**	**12,860**
Fair value reserve	(6,685)	33
Hedging reserve	879	(163)
Other legal reserves	11,082	12,990
Revaluation reserve	*9,177*	*10,722*
Legal reserve of internally generated software	*1,905*	*2,268*
Total Equity	**653,322**	**619,765**

Share capital

As of 31 December 2022, 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 2022.

Retained Earnings

	2022	*2021*
Opening balance as at 1 January	**470,069**	**451,598**
Transfer to/from other reserves	363	460
Result for the year	40,793	18,011
Dividend and other distributions	-	-
Other	(15)	-
Closing balance as at 31 December	**511,210**	**470,069**

Other reserves

Components of the other reserves are fair value reserve, hedging reserve and other legal reserves for revaluation of building and legal reserve of internally generated software

Other comprehensive income/loss that will not to be reclassified to the statement of 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:

	2022	*2021*
Opening balance as at 1 January	**10,722**	**10,689**
Gains/(losses) during the year	(2,082)	45
Deferred tax effect	537	(12)
Closing balance as at 31 December	**9,177**	**10,722**

(Currency: Thousands of Euros)

15. *Equity (continued)*

- 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:

	2022	*2021*
Opening balance as at 1 January	**2,268**	**2,728**
Movement from/ to retained earnings	(363)	(460)
Closing balance as at 31 December	**1,905**	**2,268**

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:

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.

	2022	*2021*
Opening balance at 1 January	**33**	**91**
Gains/(losses) during the year	(9,023)	(184)
Change in ECL	(31)	107
Income tax effect	2,336	19
Closing balance as at 31 December	**(6,685)**	**33**

- 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 39 ‘Derivatives and Hedge Accounting’ for the details).

	2022	*2021*
Opening balance as at 1 January	**(163)**	**(1,067)**
Effective portion of changes in fair value	1,700	940
Reclassified to the statement of profit or loss	(296)	264
Deferred tax effect	(362)	(300)
Closing balance as at 31 December	**879**	**(163)**

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 5,276 (2021: EUR 12,860) 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.

(Currency: Thousands of Euros)

15. *Equity (continued)*

Capital management

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.

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

	31 December 2022	*31 December 2021*
Total Eligible Equity	**621,567**	**591,018**
Prudent valuation	(1,109)	(114)
IRB shortfall of credit risk adjustments to ECL	(1,617)	(1,447)
Intangible assets	(4,383)	(4,033)
Core Tier 1	**614,458**	**585,424**
Perpetual Tier 1 capital	-	-
Transitional adjustments to AT1 Capital	-	-
Additional Tier 1	-	-
Total Tier I capital	**614,458**	**585,424**
IRB Provision Excess	-	**3,566**
Subordinated capital	-	**-**
Total Tier II capital	**-**	**3,566**
Total own funds	**614,458**	**588,990**
CET 1 ratio	**21.70%**	**21.69%**
Total Capital Ratio (TCR)	**21.70%**	**21.83%**

The Common Equity Tier 1 (CET1) ratio and Total Capital Ratio (TCR) does not include the second half 2022 net profit results, in line with the reports submitted to the regulatory authorities. When including the audited full year net result of 2022 the CET1 ratio is 22.50 percent (2021: 22.36 percent) and the TCR is 22.50 percent (2021: 22.49 percent).

GBI has preserved its prudent approach to capital and liquidity management in 2022. CET1 has slightly increased to 21.70 percent from 21.69 percent in 2021, whereas the total capital ratio has decreased to 21.70 percent from 21.83 percent in 2021. 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).

Capital management

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' return 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.

16. *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.

(Currency: Thousands of Euros)

16. *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 2022	***Level 1*** *Quoted prices (unadjusted) in active markets*	***Level 2*** *Valuation techniques-observable inputs*	***Level 3*** *Valuation techniques - significant unobservable inputs*	***Total***
Financial assets measured at fair value				
Derivative financial assets				
Trading derivatives	-	3,917	-	3,917
Non-trading derivatives	-	5,141	-	5,141
Financial investments at fair value through profit or loss	-	-	-	-
Financial investments at fair value through other comprehensive income				
Financial corporations	31,607	-	-	31,607
Non-financial corporations	12,203	-	-	12,203
Central governments	176,752	-	-	176,752
Total	**220,562**	**9,058**	**-**	**229,620**
Financial liabilities measured at fair value				
Derivative financial liabilities				
Trading derivatives	-	3,282	-	3,282
Non-trading derivatives	-	469	-	469
Total	**-**	**3,751**	**-**	**3,751**

(Currency: Thousands of Euros)

16. Fair value information (continued)

31 December 2021	***Level 1*** *Quoted prices (unadjusted) in active markets*	***Level 2*** *Valuation techniques - observable inputs*	***Level 3*** *Valuation techniques - significant unobservable inputs*	***Total***
Financial assets measured at fair value				
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	154,409	-	-	154,409
Total	**250,198**	**8,528**	-	**258,726**
Financial liabilities measured at fair value				
Derivative financial liabilities				
Trading derivatives	-	5,041	-	5,041
Non-trading derivatives	-	21,914	-	21,914
Total	**-**	**26,955**	**-**	**26,955**

No transfers occurred between Level 1 and Level 2 in 2022 and 2021. There were no significant changes in the valuation techniques during 2022 and 2021.

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.

	2022	***2021***
Balance as at January 1	**-**	**-**
Transfer in/(out of) level 3	-	-
Disposal	-	-
Gains/(losses) in the statement of profit or loss	-	-
Closing as at December 31	-	-

(Currency: Thousands of Euros)

16. *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 2022	***Carrying value***	***Level 1***	***Level 2***	***Level 3***	***Total***
		Quoted prices (unadjusted) in active markets	*Valuation techniques - observable inputs*	*Valuation techniques - significant unobser-vable inputs*	
Assets for which fair values are disclosed but not recognised at fair value:					
Loans and advances to banks	753,633	-	-	758,265	758,265
Loans and advances to customers	2,552,939	-	-	2,562,335	2,562,335
Total	**3,306,572**	**-**	**-**	**3,320,600**	**3,320,600**
Liabilities for which fair values are disclosed but not recognised at fair value:					
Deposits from banks	333,829	-	-	332,715	332,715
Deposits from customers	3,576,394	-	-	3,551,546	3,551,546
Total	**3,910,223**	**-**	**-**	**3,884,261**	**3,884,261**

(Currency: Thousands of Euros)

16. *Fair value information (continued)*

31 December 2021	***Carrying value***	***Level 1***	***Level 2***	***Level 3***	***Total***
		Quoted prices (unadjusted) in active markets	*Valuation technique s - observable inputs*	*Valuation techniques - significant unobser-vable inputs*	
Assets for which fair values are disclosed but not recognised at fair value:					
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**
Liabilities for which fair values are disclosed but not recognised at fair value:					
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**

Non-interest bearing deposits and cash and cash equivalents 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.

17. *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 2022	***31 December 2021***
Letters of credit	305,117	285,676
Commitments for loan granting	157,718	95,322
Letters of guarantee	64,431	32,319
Other guarantees	24,277	6,722
	551,543	**420,039**

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.

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.

(Currency: Thousands of Euros)

18. Net interest income

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

	2022	*2021*
Interest loans to customers	94,718	62,032
Interest on securities	789	258
Interest on loans to banks	22,017	8,911
Negative interest on liabilities	-	2,213
Total interest income using effective interest method	**117,524**	**73,414**
Interest on deposits from banks	(3,129)	(989)
Interest on deposits from customers	(19,475)	(5,756)
Negative interest on assets	(2,675)	(3,127)
Total interest expense using effective interest method	**(25,279)**	**(9,872)**
Other interest expense (swap funding costs)	(6,786)	(10,421)
Total interest expense	**(32,065)**	**(20,293)**
Net interest income	**85,459**	**53,121**

19. 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:

	2022	*2021*
Commissions on documentary credits and non-cash loans	14,884	13,300
Brokerage and advisory fees	1,703	1,688
Custody fees	1,721	1,333
Commissions on account maintenance	2,597	2,375
Commissions on funds transfers	1,994	1,754
Other fees and commissions	99	495
Total fee and commission income	**22,998**	**20,945**
Commissions on documentary credits and non-cash loans	(1,774)	(1,060)
Brokerage and custody fees	(386)	(407)
Commissions and fees paid on foreign correspondents	(377)	(358)
Corporate banking fees	(2,229)	(1,486)
Other fees and commissions	(314)	(240)
Total fee and commission expense	**(5,080)**	**(3,551)**
Net fee and commission income	**17,918**	**17,394**

(Currency: Thousands of Euros)

19. *Net fee and commission income (continued)*

Contract balances

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

	31 December 2022	*31 December 2021*
Receivables included in miscellaneous receivables (note 10)	5	-
Contract liabilities included in other liabilities (note 14)	4,962	2,334

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 3,669 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2022. The remaining part will be accrued in 2023.

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	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. 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. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed at least annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Trade Finance	GBI provides trade finance services to its corporate customers which include letters of credit, standby letters of credit, collection, letters of guarantee. The type of services is transaction based and are charged when the transaction takes place.	Revenue from account service and servicing fees is recognised as the services are provided.

(Currency: Thousands of Euros)

20. *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:

	2022	***2021***
Derivatives trading results	1,250	701
Securities trading results	(14)	(84)
Change in fair value of derivatives relating to fair value hedges	2,844	788
Change in fair value of derivatives relating to cashflow hedges	296	(2)
Change in the fair value of hedged items	(1,984)	(878)
Foreign exchange transaction results	816	1,896
Valuation results and net trading income	**3,208**	**2,421**

21. *Investment Income*

GBI has realized a net loss of EUR 4,678 on the disposal of debt instruments measured at FVOCI (2021: EUR 0).

22. *Other income and expenses*

Other income represents gains from the derecognition of financial assets measured at amortised cost where the sale price deviates from the carrying value.

Other expenses represent contributions to the Deposit Guarantee Scheme (DGS) and National Resolution Fund (NRF). Total contributions for 2022 amounted to EUR 3,707 (2021: EUR 3,409).

23. *Other operating expenses*

Operating expenses of the Bank is as follows:

	2022	***2021***
Electronic data processing	6,371	5,455
Audit & consultancy	1,963	1,714
Communication	1,213	1,213
Supervisory fees	1,435	1,317
Insurance	556	362
Utility	381	308
Advertising	411	167
Repair and maintenance	68	38
Stationary	32	57
Others	547	294
	12,977	**10,925**

Audit and consultancy expenses include expenses related to services provided by Ernst & Young Accountants LLP (2021: BDO Audit & Assurance B.V.) as external auditor of GBI and other members of the international E&Y network.

(Currency: Thousands of Euros)

23. *Other operating expenses (continued)*

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

	2022			2021		
	Ernst & Young Accountants LLP.	**Other E&Y network**	**Total E&Y network**	**BDO Audit & Assurance B.V.**	**Other BDO network**	**Total BDO network**
Statutory audit of financial statements	510	-	510	589	-	**589**
Other assurance services	122	-	122	143	-	**143**
Tax advisory services	-	-	-	-	-	**-**
Other non-audit services	-	-	-	-	-	**-**
	632	**-**	**632**	**732**	**-**	**732**

For the period to which our statutory audit relates, in addition to this audit, E&Y 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.

24. ***Personnel expenses***

	2022	***2021***
Short-term benefits - salaries	20,816	18,994
Short-term benefits - social security and insurance	2,484	2,283
Short-term benefits - other	1,379	906
Other benefits	2,050	879
Post employment benefits (pension insurance premium)	2,520	2,573
Termination benefits	250	691
	29,499	**26,326**

25. ***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 2023 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 2,283 in 2022 (2021: EUR 2,077). The total remuneration consists of:

	2022	***2021***
Short-term benefits	2,128	1,927
Post-employment benefits	155	150
Other long-term employee benefits	-	-
Termination benefits	-	-
	2,283	**2,077**

25. Board remuneration (continued)

The remuneration of current and former independent members of the Supervisory Board amounted to EUR 156 in 2022 (2021: EUR 156). 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 26 Share-based payments.

26. 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 four-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 honour 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.

(Currency: Thousands of Euros)

27. Leases

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

Lease liabilities 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.

	Property	*Equipment*	*Total*
Opening balance as at 1 January 2022	**385**	**121**	**506**
Depreciation charge for the year	(202)	(62)	(264)
Additions to the right-of-use assets	35	65	100
Derecognition of right-of-use assets	-	-	-
Closing balance as at 31 December 2022	**217**	**124**	**341**

	Property	*Equipment*	*Total*
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**

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 Bankasi 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 2022. Common Equity Tier 1 (CET1) has increased to 21.70 from 21.69 in 2021. Because there is no provision excess in tier 2 capital and total capital ratio equals CET1 in 2022, the total capital ratio has decreased to 21.70 percent from 21.83 percent in 2021. 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 753.8 percent. The liquidity buffer is composed of placements to European Central Bank and investments in high quality liquid assets.

28. 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.

28. 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.

29. 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 is focused on promoting a multichannel and responsible universal banking model, based on values, committed to sustainable development and operational excellence and focused on customer's needs. To achieve these goals, the risk model of GBI is aimed at maintaining a moderate risk profile, facilitating its commitment with sustainability and obtaining a sound risk-adjusted profitability throughout the cycle, a sound financial position and a solid through-the-cycle risk-adjusted profitability, as the best way to face adverse situations without jeopardizing the strategic goals. Risk management at GBI is based on prudent management, an integral and forward looking view of risks, that allows GBI to adapt to the disruption risk inherent to the banking business and includes the climate risk driver, portfolio diversification by asset class and client segment, anti-money laundering and combating the financing of terrorism and focusing on keeping a long term relationship with the client; thus contributing to sustainable and profitable growth and recurrent value creation.

29. Risk Appetite (continued)

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 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 credit risk 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.

(Currency: Thousands of Euros)

29. Risk Appetite (continued)

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.

30. 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 2022	*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	1,533,188	86	-	-	-	-	-	-	**1,533,188**	**86**
Loans and Advances to Banks	753,633	3,752	-	-	-	-	-	-	**753,633**	**3,752**
Loans and Advances to Customer	2,503,111	12,435	18,379	992	21,836	337	9,613	5,934	**2,552,939**	**19,698**
Interest-bearing securities (FVOCI)	220,562	64	-	-	-	-	-	-	**220,562**	**64**
Total On-balance sheet assets	**5,010,494**	**16,337**	**18,379**	**992**	**21,836**	**337**	**9,613**	**5,934**	**5,060,322**	**23,600**
Commitment and Contingencies	551,543	1,124	-	-	-	-	-	-	**551,543**	**1,124**
Total	**5,562,037**	**17,461**	**18,379**	**992**	**21,836**	**337**	**9,613**	**5,934**	**5,611,865**	**24,724**

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**

Loans and advances to customers in Stage 2 (Individual) has decreased to EUR 18.4 million (2021: EUR 32.3 million) due to the repayment of the credit exposures. ECL allowance for Stage 3 loans has been decreased from EUR 9.1 million to EUR 5.9 million due to the repayments. 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 2022 together with the drivers of changes (e.g. write-offs or transfer to Stage 2 or Stage 3).

(Currency: Thousands of Euros)

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

Expected Credit Loss allowance movements

Financial Asset - 31 December 2022	**12-month ECL Stage 1**	**Lifetime ECL not credit-impaired Stage 2**	**Lifetime ECL credit-impaired Stage 3**	**Total**
Cash and balance with Central Banks				
Balance at 1 January	**(30)**	-	-	**(30)**
Net remeasurement of ECL allowance	(56)	-	-	(56)
Balance at period end	**(86)**	-	-	**(86)**
Loans and advances to banks				
Balance at 1 January	**(3,195)**	-	-	**(3,195)**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Net remeasurement of ECL allowance	(557)	-	-	(557)
Balance at period end	**(3,752)**	-	-	**(3,752)**
Loans and advances to customers				
Balance at 1 January	**(9,920)**	**(8,267)**	**(9,062)**	**(27,249)**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	149	(149)	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of ECL allowance	(2,427)	2,819	3,062	3,454
Financial assets that have been derecognised	-	4,267	330	4,597
Write-offs	-	-	-	-
Foreign exchange and other movements	(237)	1	(264)	(500)
Balance at period end	**(12,435)**	**(1,329)**	**(5,934)**	**(19,698)**
Financial assets at FVOCI				
Balance at 1 January	**(80)**	-	-	**(80)**
Net remeasurement of ECL allowance	16	-	-	16
Balance at period end	**(64)**	-	-	**(64)**
Commitments and contingencies				
Balance at 1 January	**(583)**	-	-	**(583)**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Net remeasurement of ECL allowance	(541)	-	-	(541)
Balance at period end	**(1,124)**			**(1,124)**

(Currency: Thousands of Euros)

30. 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**
Cash and balance with Central Banks				
Balance at 1 January	**(44)**	**-**	**-**	**(44)**
Net remeasurement of ECL allowance	14	-	-	**14**
Balance at period end	**(30)**	**-**	**-**	**(30)**
Loans and advances to banks				
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)**
Loans and advances to customers				
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)**
Financial assets at FVOCI				
Balance at 1 January	**(219)**	-	-	**(219)**
Net remeasurement of ECL allowance	139	-	-	139
Balance at period end	**(80)**	**-**	**-**	**(80)**
Commitments and contingencies				
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)**

Sensitivity analysis

GBI's ECL allowance per 31 December 2022 is EUR 24.7 million (2021: EUR 31.1 million), out of which EUR 17.8 million (2021: EUR 15.1 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.

Notes to the Financial Statements (Currency: Thousands of Euros)

30. 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 IFRS 9 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; Türkiye, 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 table below shows the projections for the abovementioned model parameters under three scenarios.

	Downside Scenario			**Base scenario**			**Upside Scenario**		
GDP	**Türkiye**	**Global**	**EU**	**Türkiye**	**Global**	**EU**	**Türkiye**	**Global**	**EU**
2023	(0.8%)	(0.7%)	(0.9%)	3.0%	0.5%	(0.1%)	6.6%	1.7%	0.7%
2024	(2.5%)	1.2%	1.6%	(1.5%)	1.6%	2.0%	(0.7%)	1.9%	2.2%
2025	3.7%	2.6%	2.3%	3.8%	2.6%	2.3%	3.9%	2.7%	2.4%

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 exposures would increase by EUR 600 thousand (2021: EUR 265 thousand), whereas the increase of 25 basis points would result a decrease by EUR 580 thousand (2021: EUR 260 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.

(Currency: Thousands of Euros)

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

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 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:

2022:

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	-	-

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	-

It should be noted that the sensitivity is zero in 2022 because credit exposures classified or declassified as stage 2 as a result of changes in thresholds are with a maturity up to one year.

31. 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.

Notes to the Financial Statements (Currency: Thousands of Euros)

The geographical breakdown of financial assets based on domicile

As at 31 December 2022	Cash and Central Banks Carrying amount	ECL	Banks Carrying amount	ECL	Loans and advances Carrying amount	ECL	Interest-bearing securities Carrying amount	ECL	Commitments and contingencies Carrying amount	ECL	Total Carrying amount	ECL
— the Netherlands	**1,522,169**	**85**	**1,115**	**-**	**444,014**	**2,499**	**29,641**	**14**	**34,667**	**57**	**2,031,606**	**2,655**
Stage 1	*1,522,169*	*85*	*1,115*	*-*	*441,688*	*2,393*	*29,641*	*14*	*34,667*	*57*	*2,029,280*	*2,549*
Stage 2	*-*	*-*	*-*	*-*	*2,326*	*106*	*-*	*-*	*-*	*-*	*2,326*	*106*
Stage 3	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
— Türkiye	**-**	**-**	**372,927**	**3,506**	**540,304**	**6,199**	**-**	**-**	**53,261**	**516**	**966,492**	**10,221**
Stage 1	*-*	*-*	*372,927*	*3,506*	*519,837*	*3,234*	*-*	*-*	*53,261*	*516*	*946,025*	*7,256*
Stage 2	*-*	*-*	*-*	*-*	*18,575*	*915*	*-*	*-*	*-*	*-*	*18,575*	*915*
Stage 3	*-*	*-*	*-*	*-*	*1,892*	*2,050*	*-*	*-*	*-*	*-*	*1,892*	*2,050*
— Great Britain	**-**	**-**	**83,165**	**14**	**145,068**	**826**	**-**	**-**	**7,634**	**6**	**235,867**	**846**
Stage 1	*-*	*-*	*83,165*	*14*	*139,905*	*689*	*-*	*-*	*7,634*	*6*	*230,704*	*709*
Stage 2	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Stage 3	*-*	*-*	*-*	*-*	*5,163*	*137*	*-*	*-*	*-*	*-*	*5,163*	*137*
— Switzerland	**-**	**-**	**35,869**	**2**	**454,778**	**5,498**	**-**	**-**	**181,371**	**202**	**672,018**	**5,702**
Stage 1	*-*	*-*	*35,869*	*2*	*452,220*	*1,845*	*-*	*-*	*181,371*	*202*	*669,460*	*2,049*
Stage 2	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Stage 3	*-*	*-*	*-*	*-*	*2,558*	*3,653*	*-*	*-*	*-*	*-*	*2,558*	*3,653*
— Germany	**11,019**	**1**	**76,180**	**24**	**139,110**	**660**	**14,207**	**5**	**1,224**	**-**	**241,740**	**690**
Stage 1	*11,019*	*1*	*76,180*	*24*	*138,524*	*484*	*14,207*	*5*	*1,224*	*-*	*241,154*	*514*
Stage 2	*-*	*-*	*-*	*-*	*586*	*82*	*-*	*-*	*-*	*-*	*586*	*82*
Stage 3	*-*	*-*	*-*	*-*	*-*	*94*	*-*	*-*	*-*	*-*	*-*	*94*
— USA	**-**	**-**	**46,739**	**8**	**213,537**	**1,248**	**-**	**-**	**41,724**	**73**	**302,000**	**1,329**
Stage 1	*-*	*-*	*46,739*	*8*	*194,808*	*1,021*	*-*	*-*	*41,724*	*73*	*283,271*	*1,102*
Stage 2	*-*	*-*	*-*	*-*	*18,729*	*227*	*-*	*-*	*-*	*-*	*18,729*	*227*
— France	**-**	**-**	**-**	**-**	**65,069**	**254**	**43,773**	**15**	**8,850**	**21**	**117,692**	**290**
Stage 1	*-*	*-*	*-*	*-*	*65,069*	*254*	*43,773*	*15*	*8,850*	*21*	*117,692*	*290*
— Rest of Europe	**-**	**-**	**39,640**	**66**	**302,041**	**1,620**	**132,941**	**30**	**95,022**	**192**	**569,644**	**1,908**
Stage 1	*-*	*-*	*39,640*	*66*	*302,041*	*1,620*	*132,941*	*30*	*95,022*	*192*	*569,644*	*1,908*
— Rest of the world	**-**	**-**	**97,998**	**132**	**249,018**	**894**	**-**	**-**	**127,790**	**57**	**474,806**	**1,083**
Stage 1	*-*	*-*	*97,998*	*132*	*249,018*	*894*	*-*	*-*	*127,790*	*57*	*474,806*	*1,083*
Total:	**1,533,188**	**86**	**753,633**	**3,752**	**2,552,939**	**19,698**	**220,562**	**64**	**551,543**	**1,124**	**5,611,865**	**24,724**

(Currency: Thousands of Euros)

	Cash and Central Banks		Banks		Loans and advances		Interest-bearing securities		Commitment and contingencies		Total	
As at 31 December 2021	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*
— Türkiye	-	-	**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**

(Currency: Thousands of Euros)

31. 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 2022	Carrying amount				ECL
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
Wholesale and retail trade	1,361,854	-	5,163	1,367,017	6,542
Manufacturing	709,629	18,729	2,558	730,916	7649
Financial and insurance activities	148,578	-	956	149,534	2,765
Transport and storage	62,999	20,118	936	84,053	1,848
Real estate activities	53,758	-	-	53,758	94
Construction	52,353	782	-	53,135	246
Administrative and support service activities	42,046	-	-	42,046	210
Private Individuals	25,912	-	-	25,912	187
Human health services and social work activities	25,031	-	-	25,031	17
Electricity, gas, steam and air conditioning supply	11,724	-	-	11,724	54
Professional, scientific and technical activities	5,536	586	-	6,122	85
Agriculture, forestry and fishing	3,691	-	-	3,691	1
Information and communication	-	-	-	-	-
Total Loans and Advances to Customers	**2,503,111**	**40,215**	**9,613**	**2,552,939**	**19,698**

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

(Currency: Thousands of Euros)

31. *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 2022 and 31 December 2021. 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 2022	*FVTPL*	*FVOCI*	*Amortised cost*			*Total*
On-balance assets			**Stage 1**	**Stage 2**	**Stage 3**	
Cash at Central Banks	**-**	**-**	**1,533,188**		**-**	**1,533,188**
Investment Grade	-	-	1,533,188		-	1,533,188
Loans and advances to banks	**-**	**-**	**753,633**	**-**	**-**	**753,633**
Investment Grade	-	-	325,993	-	-	325,993
Sub-Investment grade	-	-	427,640	-	-	427,640
Not Rated	-	-	-	-	-	-
Loans and advances to customers	**-**	**-**	**2,503,111**	**40,215**	**9,613**	**2,552,939**
Investment Grade	-	-	703,683		-	703,683
Sub-Investment grade	-	-	1,396,920	40,215	-	1,437,135
Specialized Lending (RW 50%-90%)	-	-	307,779	-	-	307,779
Specialized Lending (RW 115%-250%)	-	-	94,729	-	-	94,729
Not Rated	-	-	-	-	-	-
Credit Impaired	-	-	-	-	9,613	9,613
Investments	**-**	**220,562**	**-**	**-**	**-**	**220,562**
Investment Grade	-	220,562	-	-	-	220,562
Sub-Investment grade	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Carrying amount on-balance assets	**-**	**220,562**	**4,789,932**	**40,215**	**9,613**	**5,060,322**
Commitment and contingencies	**-**	**-**	**551,543**	**-**	**-**	**551,543**
Investment Grade	-	-	286,002	-	-	286,002
Sub-Investment grade	-	-	137,510	-	-	137,510
Specialized Lending (RW 50%-90%)	-	-	128,031	-	-	128,031
Specialized Lending (RW 115%-250%)	-	-	-	-	-	-
Not Rated	-	-	-	-	-	-
Carrying amount of total financial assets	**-**	**220,562**	**5,341,475**	**40,215**	**9,613**	**5,611,865**

(Currency: Thousands of Euros)

31. Concentration Risk (continued)

31 December 2021	***FVTPL***	***FVOCI***	***Amortised cost***			***Total***
On-balance assets			**Stage 1**	**Stage 2**	**Stage 3**	
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**

(Currency: Thousands of Euros)

32. 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 2022	Stage 1			Stage 2			Stage 3			
	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	Total
Cash and balances with Central Bank	1,533,188	-	1,533,188	-	-	-	-	-	-	**1,533,188**
Loans and Advances to Banks	753,633	-	753,633	-	-	-	-	-	-	**753,633**
Loans and Advances to Customer	2,503,111	-	2,503,111	40,215	-	40,215	1,892	7,721	9,613	**2,552,939**
Financial assets at FVOCI	220,562	-	220,562	-	-	-	-	-	-	**220,562**
Total carrying amount	**5,010,494**	**-**	**5,010,494**	**40,215**	**-**	**40,215**	**1,892**	**7,721**	**9,613**	**5,060,322**
Commitment and contingencies	*551,543*	-	*551,543*	-	-	-	-	-	-	551,543

31 December 2021	Stage 1			Stage 2			Stage 3			
	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	Total
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**
Commitment and contingencies	*420,039*	-	*420,039*	-	-	-	-	-	-	***420,039***

33. Modified loans

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, 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.

(Currency: Thousands of Euros)

33. *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 where 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 2022	**31 December 2021**
Amortised costs of financial assets	-	45,274
Net Modification Loss	-	-

34. *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 2022, the net carrying amount of credit-impaired loans and advances to corporate customers amounted to EUR 9.6 million (2021: EUR 14.7 million) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to EUR 9.5 million (2021: EUR 9.5 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 collaterals 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.

(Currency: Thousands of Euros)

34. Collateral held and other credit enhancements (continued)

Investments

At 31 December 2022, the maximum exposure to credit risk of the investments in FVOCI is their carrying amount of EUR 220,562 (2021: EUR 250,198). 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 2022	Carrying amount	Cash Collaterals Received	Off Balance sheet financial instruments[1]	Other collateral[2]
Assets				
Loans and advances to banks	753,633	41,088	63,732	-
Financial assets at fair value through other comprehensive income	220,562	-	-	-
Loans and advances to customers	2,552,939	85,072	87,439	435,513
Total	**3,527,134**	**126,160**	**151,171**	**435,513**

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	**3,406,346**	**141,263**	**38,678**	**552,155**

[1] Off balance sheet financial instruments includes, guarantees and letters of credit.

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

Notes to the Financial Statements (Currency: Thousands of Euros)

35. 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 agreements

				Related amounts not offset in the statement of financial position		
As at 31 December 2022	**Gross amounts of recognised financial assets**	**Gross amounts of recognised financial liabilities offset in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**Financial instruments (including non-cash collateral)**	**Cash collateral received**	**Net amounts**
Types of financial assets						
Trading & Non-trading derivatives	9,058	-	9,058	-	7,671	1,387
Reverse sale-and repurchase agreements	43,159	-	43,159	38,436	2,652	2,071
Total	**52,217**	**-**	**52,217**	**38,436**	**10,323**	**3,458**

(Currency: Thousands of Euros)

35. Offsetting financial assets and liabilities (continued)

As at 31 December 2022	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		Net amounts
				Financial instruments (including non-cash collateral)	Cash collateral pledged	
Types of financial liabilities						
Trading & Non-trading derivatives	3,751	-	3,751	-	385	3,366
Sale-and repurchase and similar agreements	300,201	-	300,201	300,201	-	-
Total	**303,952**	**-**	**303,952**	**300,201**	**385**	**3,366**

As at 31 December 2021	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		Net amounts
				Financial instruments (including non-cash collateral)	Cash collateral received	
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**

As at 31 December 2021	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		Net amounts
				Financial instruments (including non-cash collateral)	Cash collateral pledged	
Types of financial liabilities						
Trading derivatives & 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**

(Currency: Thousands of Euros)

35. *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 2022	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	3,917	Trading derivatives	3,917	-	39
Non-trading derivatives	5,141	Non-trading derivatives	5,141	-	39
Reverse sale-and repurchase agreements	43,159	Loans and advances to banks	753,633	710,474	4
Types of financial liabilities					
Trading derivatives	3,282	Trading derivatives	3,282	-	39
Non-trading derivatives	469	Non-trading derivatives	469	-	39
Sale-and repurchase and similar agreements/ Central Bank borrowing	300,201	Deposits from banks	333,829	33,628	11

(Currency: Thousands of Euros)

35. Offsetting financial assets and liabilities (continued)

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	-	38
Non-trading derivatives	3,116	Non-trading derivatives	3,116	-	38
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	-	38
Non-trading derivatives	21,914	Non-trading derivatives	21,914	-	38
Sale-and repurchase and similar agreements/ Central Bank borrowing	297,452	Deposits from banks	409,982	112,530	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.

36. 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

(Currency: Thousands of Euros)

36. 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 2022	**Carrying amount**	**Trading portfolio**	**Non-trading portfolio**
Assets			
Cash and balances with central banks	1,533,188	-	1,533,188
Loans and advances to banks	753,633	-	753,633
Financial assets at fair value through profit or loss			
- Mandatorily at fair value through profit or loss	-	-	-
- Trading derivatives	3,917	3,917	-
- Non-trading derivatives	5,141	-	5,141
Financial assets at fair value through other comprehensive income	220,562	-	220,562
Loans and advances to customers	2,552,939	-	2,552,939
Other assets	2,324	-	2,324
Liabilities			
Deposits from banks	333,829	-	333,829
Deposits from customers	3,995,313	-	3,995,313
Financial liabilities at fair value through profit or loss			
- Trading derivatives	3,282	3,282	-
- Non-trading derivatives	469	-	469
Other liabilities, accrued expenses and provisions	109,962	-	109,962

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

Note 16 Fair Value Hierarchy elaborates on used fair value data by GBI.

(Currency: Thousands of Euros)

37. *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. Behavioural 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 behaviour 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 2022, 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	139,217	3,404,181	1,250,643	344,209	-	5,138,250
Liabilities	(163,567)	(2,008,823)	(1,544,243)	(198,203)	(5)	(3,914,841)
Derivatives	-	59,992	(24,466)	(36,140)	-	(614)
Net interest position 31 December 2022	(24,350)	1,455,350	(318,066)	109,866	(5)	1,222,795
Net interest position 31 December 2021	(175,545)	1,950,582	(508,183)	(148,834)		1,118,020

The calculation of the Economic Value of Equity (EVE) analysis as at 31 December 2022 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 2,883 (31 December 2021: EUR 1,506 increase).

Notes to the Financial Statements (Currency: Thousands of Euros)

37. 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.

38. 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 (3,470) (2021: EUR (15,347)). 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 2022	**USD**	**TRY**	**Other**	**Total**
Assets				
Cash and balances with central banks	-	-	-	-
Loans and advances to banks	442,593	27	4,343	446,963
Financial assets at fair value through profit or loss				
- Trading derivatives	-	-	-	-
- Non-trading derivatives	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	-
Loans and advances to customers	1,346,123	21,184	17,982	1,385,289
Property and equipment	-	-	-	-
Intangible assets	-	-	-	-
Current tax asset	-	-	-	-
Other assets	52	-	-	52
Total Assets	**1,788,768**	**21,211**	**22,325**	**1,832,304**
Liabilities				
Deposits from banks	24,936	-	314	25,250
Deposits from customers	1,726,426	2,386	32,367	1,761,179
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	-	-	-
- Non-trading derivatives	-	-	-	-
Current tax liability	-	-	-	-
Deferred tax liability	-	-	-	-
Other liabilities, accrued expenses and provisions	89,459	-	448	89,907
Shareholder's equity	-	-	-	-
Total Liabilities	**1,840,821**	**2,386**	**33,129**	**1,876,336**
Net On Balance Sheet Position	**(52,053)**	**18,825**	**(10,804)**	**(44,032)**
Off Balance Sheet Position	**51,832**	**(19,280)**	**8,010**	**40,562**
Net Position	**(221)**	**(455)**	**(2,794)**	**(3,470)**

Notes to the Financial Statements (Currency: Thousands of Euros)

38. *Currency risk (continued)*

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)**

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.

(Currency: Thousands of Euros)

39. Derivatives and Hedge Accounting

Derivatives

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

	31 December 2022		31 December 2021	
	Carrying value assets	**Carrying value liabilities**	**Carrying value assets**	**Carrying value liabilities**
Derivatives held for trading				
Interest rate swaps	3,617	3,009	-	-
Foreign currency swaps	-	-	4,789	4,756
Foreign currency forwards	299	272	307	254
Foreign currency options (purchased)	-	-	-	-
Foreign currency options (sold)	-	-	-	-
Other derivatives	1	1	32	31
Subtotal	*3,917*	*3,282*	*5,128*	*5,041*
Derivatives held for risk management - economic hedge relationships				
Interest rate swaps	103	-	-	-
Foreign currency swaps	163	-	115	15,122
Foreign currency forwards	478	79	9	-
Other derivatives	-	-	-	-
Subtotal	*744*	*79*	*124*	*15,122*
Derivatives held for risk management - fair value hedge accounting relationships				
Interest rate swaps	2,275	-	-	583
Subtotal	*2,275*	-	-	*583*
Derivatives held for risk management - cash flow hedge accounting relationships				
Interest rate swaps	-	-	-	1,702
Foreign currency swaps	2,122	353	2,735	4,240
Foreign currency forwards	-	37	257	267
Subtotal	*2,122*	*390*	*2,992*	*6,209*
Total	**9,058**	**3,751**	**8,244**	**26,955**

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 20).

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 manager our foreign currency risk.

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 20).

(Currency: Thousands of Euros)

39. Derivatives and Hedge Accounting (continued)

Hedge Accounting

Fair value hedges of interest rate risk

GBI uses pay-fixed/receive-floating interest rate swaps to hedge its exposure to changes in the fair values of fixed rate bonds in FVOCI portfolio. 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 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 2022, GBI held interest rate swaps as hedging instruments in fair value hedges of interest risk with the following maturity profile:

	Maturity 2022			**Maturity 2021**		
Risk category	**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	5,000	35,000	-	-	20,000	-
Average fixed interest rate	1.13%	1.17%	-	-	1.13%	-

	Maturity 2022			**Maturity 2021**		
Risk category	**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 loans						
Nominal amount	64,000	-	-	-	-	-
Average fixed interest rate	1.63%	-	-	-	-	-

(Currency: Thousands of Euros)

39. Derivatives and Hedge Accounting (continued)

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

	Nominal amount	Carrying amount **Assets**	**Liabilities**	**Line item in the statement of financial position where the hedging instrument is included**	**Changes in fair value used for calculating hedge ineffectiveness**	**Hedge ineffectiveness recognised in profit or loss**	**Line item in profit or loss that includes hedge Ineffectiveness**
Interest rate risk							
2022							
Interest Rate Swaps – bonds in FVOCI	40,000	1,500	-	Financial liabilities at FVTPL – non trading derivatives	842	62	Valuation results and net trading income
Interest Rate Swaps – loans	64,000	775	-	Financial liabilities at FVTPL – non trading derivatives	784	93	Valuation results and net trading income
2021							
Interest Rate Swaps – bonds in FVOCI	20,000		583	Financial assets / liabilities at FVTPL – non trading derivatives	(577)	(63)	Valuation results and net trading income

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

		Nominal amount	Carrying amount **Assets**	**Liabilities**	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedge item **Assets**	**Liabilities**	**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**
2022	Bonds in FVOCI	39,700	37,624	-	780	-	Financial Assets at Fair Value Through Other Comprehensive income	(780)	-
2022	Loans	64,500	63,724	-	691	-	Loans and advances to customers	(691)	-
2021	Bonds in FVOCI	20,000	20,514	-	514	-	Financial Assets at Fair Value Through Other Comprehensive income	514	-

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 uses 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 36. GBI's exposure to market risk is disclosed in notes 37 and 38. 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. This assessment is performed using analytical techniques, such as cash flow sensitivity analysis.

(Currency: Thousands of Euros)

39. 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 2022, GBI held the following instruments to hedge exposures to changes in interest rates and foreign currency.

	Maturity 31 December 2022			**Maturity 31 December 2021**		
	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	-
Foreign Currency Risk						
Currency swaps (EUR:TRY)						
Nominal amount	21,817	-	-	11,078	1,629	-
Average EUR–TRY exchange rate	19.37	-	-	12.87	12.28	-
Currency swaps (EUR:USD)						
Nominal amount	21,691	-	-	97,073	-	-
Average EUR–USD exchange rate	1.01	-	-	1.19	-	-
Currency swaps (EUR against other currencies)						
Nominal amount	4,528	2,743	-	4,398	-	-

(Currency: Thousands of Euros)

39. Derivatives and Hedge Accounting (continued)

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

	Nominal amount	Carrying amount: Assets	Carrying amount: Liabilities	Line item in the statement of financial position where the hedging instrument is included	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
Interest rate risk										
2022										
Interest rate swaps	-	-	-	Financial liabilities at FVTPL Non-trading derivatives	-	-	-	Valuation results and net trading income	296	Valuation results and net trading income
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
Foreign currency risk										
2022										
(EUR:TRY)	21,817	756	43	Financial assets/liabilities at FVTPL Non-trading derivatives	(20)	(20)	-	Valuation results and net trading income	(253)	Valuation results and net trading income
(EUR: Other)	28,962	1,366	347		(13)	(13)	-		252	
2021										
(EUR:TRY)	12,707	2873	-	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	4508		(265)	(265)	-		13	

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				
2022	-	-	-	1,219
2021				
EUR deposits	Deposits from customers	(186)	-	-
Currency risk				
2022				
TRY Loans	Loans and advances to customers	20	-	-
Other loans	Loans and advances to customers	13	-	-
2021				
TRY Loans	Loans and advances to customers	233	-	-
Other loans	Loans and advances to customers	(265)	-	-

Notes to the Financial Statements (Currency: Thousands of Euros)

39. 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.

	2022	2021
Balance at 1 January	**(163)**	**(1,066)**
Effective portion of changes in fair value:		
- Interest rate risk	1,701	972
- Currency risk	(1)	(32)
Net amount reclassified to statement of profit or loss:		
- Interest rate risk	(296)	-
- Currency risk	-	264
Related tax	(362)	(300)
Balance at 31 December	**879**	**(163)**

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.

(Currency: Thousands of Euros)

40. 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. Behavioural 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.

41. 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 2022 and 2021 as well as the availability of the Bank's financial assets to support future funding.

As at 31 December 2022	**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	385	-	752,857	-	753,242	
Loans and advances to customers	60,940	60,940	2,491,999	-	2,552,939	60,940
Financial assets at fair value through other comprehensive income	220,562	220,562	-	-	220,562	220,562
Total	**281,887**	**281,502**	**3,244,856**	**-**	**3,526743**	**281,502**

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**

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 2022, 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 38.4 million (2021: EUR 25.6 million).

At 31 December 2022, the fair value of financial assets accepted as collateral that had been sold or repledged was EUR 38.4 million (2021: EUR 25.6 million). The Bank is obliged to return equivalent securities.

Notes to the Financial Statements (Currency: Thousands of Euros)

41. *Asset encumbrance*

At 31 December 2022, 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 0.4 million (2021: 26.5 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 2022***	***31 December 2021***
Deposits from banks	300,201	297,452
Derivatives	87	6,345
Total	**300,288**	**303,797**

42. *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.

43. *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.

(Currency: Thousands of Euros)

43. Exposure to liquidity risk (continued)

Maturity analysis (contractual) assets and liabilities

31 December 2022	On demand	< = 3 months	3 months - 1 year	1 - 5 years	> 5 years	Undistri-buted[1]	Total
Cash and balances with central banks	34,106	1,499,082	-	-	-	-	1,533,188
Loans and advances to banks	60,231	360,456	331,168	1,778	-	-	753,633
Financial assets at fair value through profit or loss							
- Mandatorily at fair value through profit or loss	-	-	-	-	-	-	-
- Trading derivatives	-	143	157	3,617	-	-	3,917
- Non-trading derivatives	-	1,397	2,346	1,398	-	-	5,141
Financial assets at fair value through other comprehensive income	-	-	87,901	132,661	-	-	220,562
Loans and advances to customers	78,276	1,342,819	431,865	525,007	165,359	9,613	2,552,939
Total Assets	**172,613**	**3,203,897**	**853,437**	**664,461**	**165,359**	**9,613**	**5,069,380**
Deposits from banks	14,868	18,760	128,582	171,619	-	-	333,829
Deposits from customers	1,519,430	1,717,638	552,426	205,064	755	-	3,995,313
Financial liabilities at fair value through profit or loss							
- Trading derivatives	-	124	149	3,009	-	-	3,282
- Non-trading derivatives	-	156	221	92	-	-	469
Total Liabilities	**1,534,298**	**1,736,678**	**681,378**	**379,784**	**755**	**-**	**4,332,893**

31 December 2021	On demand	< = 3 months	3 months - 1 year	1 - 5 years	> 5 years	Undistri-buted[1]	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
Total Liabilities	**1,615,722**	**829,736**	**445,619**	**582,841**	**841**	**-**	**3,474,759**

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

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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 2022	Country	Location	Turnover	Average number of FTE	Result before Tax	Tax on result	Public subsidies received
GarantiBank International N.V., Head Office	The Netherlands	Amsterdam	100,399	202	54,620	14,063	-
GarantiBank International Dusseldorf Branch	Germany	Dusseldorf	2,832	16	337	101	-
31 December 2021							
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	-

Next to the abovementioned countries GBI also has representative offices in Türkiye 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 2023 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 2023

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. J.H. de Roo
Ms M.A. Halverhout
Mr. J.H. Boyles III

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:

44. 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.
4. 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.
5. 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 shareholder and supervisory board of GarantiBank International N.V.

Report on the audit of the financial statements 2022 included in the annual report

Our opinion

We have audited the financial statements for the financial year ended 31 December 2022 of GarantiBank International N.V. (the company) based in Amsterdam.

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 2022 and of its result and its cash flows for 2022 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.

The financial statements comprise:

- The statement of financial position as at 31 December 2022
- The following statements for 2022: the statements of comprehensive income and changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

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.

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 and any findings were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Our understanding of the business

GarantiBank International N.V. is a bank with focus on corporate lending to trade and commodity finance, corporate and retail banking. The company is wholly-owned subsidiary of Türkiye Garanti Bankasi A.Ş. and the ultimate parent is Banco Bilbao Vizcaya Argentaria S.A. Funding is predominantly attracted through retail saving and deposits in the Netherlands and its branch in Germany as well as deposits from non-retail clients. We paid specific attention in our audit to areas driven by these operations and our risk assessment.

We determined materiality and identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error in order to design audit procedures responsive to those risks and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	€8 million
Benchmark applied	1.2% (rounded) of total equity
Explanation	Based on our professional judgment, a benchmark of 1% of shareholder's equity is an appropriate quantitative indicator of materiality as it best reflects the financial position of GarantiBank International N.V.

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 €0.4 million, 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.

Scope of the audit

In order to obtain sufficient and appropriate audit evidence to provide an opinion about the financial statements, we have performed a full-scope audit on the financial information of GarantiBank International N.V. as a whole and by one audit team.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for the company and its German branch. Decisive were the size and/or the risk profile of the operations. On this basis, we selected the operations for which an audit or review had to be carried out on the complete set of financial information or specific items.

By performing the procedures for the company and its German branch, together with additional procedures at the financial statements level, we have been able to obtain sufficient and appropriate audit evidence about financial information of GarantiBank International N.V. as a whole to provide an opinion on the financial statements.

Teaming and use of specialists

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a client in the banking industry. We included specialists in the areas of IT audit, forensics and income tax and have made use of our own experts in the areas of valuations of real estate, derivatives, and credit risk modelling.

Our focus on climate-related risks and the energy transition

Climate change and the energy transition are high on the public agenda and lead to significant change for many businesses and society. We refer to section Sustainability of the report of the managing board for the managing board's risk assessment after consideration of potential climate-related and environmental risks and the energy transition, also taking into account related regulatory and supervisory guidance and recommendations.

As part of our audit of the financial statements, we considered the impact of climate-related risks and the effects of the energy transition on our identification and assessment of risks of material misstatement in estimates and significant assumptions. Furthermore, we read the report of the managing board and considered whether there is any material inconsistency between the non-financial information and the financial statements.

Based on the audit procedures performed, we do not deem climate-related risks to have a material impact on the financial reporting judgements, accounting estimates or significant assumptions as at 31 December 2022.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and we cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. 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.

Our audit response related to fraud risks

We identified and assessed the risks of material misstatements of the financial statements due to fraud. 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 refer to section Risk Management of the report of the managing board for the managing board's risk assessment after consideration of potential fraud risks and section Risk Management of the supervisory board report in which the supervisory board reflects on this risk assessment.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as the code of conduct, whistleblower regulation 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 in close co-operation with our forensic specialists. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present.

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.

As in all of our audits, we addressed the risks related to management override of controls. For these risks we have performed procedures among others to evaluate key accounting estimates for management bias that may represent a risk of material misstatement due to fraud, in particular relating to important judgment areas and significant accounting estimates as disclosed in Section Use of estimates and judgements in the notes to the financial statements. As described in our key audit matter Estimation of expected credit losses on loans and advances to customers, we specifically considered the risk of management override in relation to the expected credit loss allowance for defaulted (stage 3) loans and advances.

We have also used data analysis to identify and address high-risk journal entries and evaluated the business rationale (or the lack thereof) of significant extraordinary transactions, including those with related parties. We did not identify a risk of fraud in revenue recognition.

We considered available information and made enquiries of relevant executives, directors, internal audit, legal, compliance, human resources, and the supervisory board.

The fraud risks we identified, enquiries and other available information did not lead to specific indications for fraud or suspected fraud potentially materially impacting the view of the financial statements.

Our audit response related to risks of non-compliance with laws and regulations
We performed appropriate audit procedures regarding compliance with the provisions of those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. Furthermore, we assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the managing board, inspection of the integrity risk analysis (SIRA), reading minutes, inspection of internal audit and compliance reports, and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally, we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Our audit response related to going concern

As disclosed in section Basis of preparation in the notes to the financial statements, the financial statements have been prepared on a going concern basis. When preparing the financial statements, the managing board made a specific assessment of the company's ability to continue as a going concern and to continue its operations for the foreseeable future.

We discussed and evaluated the specific assessment with the managing board exercising professional judgment and maintaining professional skepticism. We considered whether the managing board's going concern assessment, based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, contains all relevant events or conditions that may cast significant doubt on the company's ability to continue as a going concern, also focusing on whether the company will continue to meet the regulatory solvency requirements. To this end, we also inspected the most recent Supervisory Review and Evaluation Process letter that the regulator sent to the bank at the end of 2022.

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.

Based on our procedures performed, we did not identify material uncertainties about going concern. 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.

Our key audit matters

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

Estimation of expected credit losses on loans and advances to customers	
Risk	The portfolio of loans and advances to customers of GarantiBank International N.V. is measured at amortized cost, less an allowance for expected credit losses. At 31 December 2022 total gross loans and advances to customers of €2,573 million and €20 million of expected credit loss allowance are reported and disclosed in note 5 to the note to the statement of financial position and further disclosed in the Risk Management section under Credit Risk. In accordance with IFRS 9 Financial Instruments and as disclosed in sections Use of estimates and judgements and Expected credit losses of financial assets in the notes to the financial statements, the allowance is based on expected credit losses which includes assumptions such as the probability of default, the loss given default, the allocation of loans to stages and the use of macro-economic scenarios and forward looking information. These models are updated, validated and enhanced periodically. The appropriateness of the expected credit loss allowance is a key area of judgment for the managing board. The identification of a significant increase in credit risk and the determination of recoveries are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, the value of collateral and the assessment of whether a default has occurred with regard to loans and advances to customers.

Estimation of expected credit losses on loans and advances to customers	
	The use of different assumptions could produce significantly different estimates of the expected credit loss allowance. The modeling assumptions are disclosed in the section Credit risk in the Risk Management chapter. Given the materiality of the loans and advances to customers of GarantiBank International N.V., the complex accounting requirements with respect to calculating allowances for expected credit losses and the subjectivity involved in the judgments made as well as the identified risk of management override in relation to the expected credit loss allowance for defaulted (stage 3) loans and advances, we considered this to be a key audit matter.
Our audit approach	Our audit procedures included, amongst others, evaluating the appropriateness of GarantiBank International N.V.'s accounting policies related to expected credit losses in accordance with the relevant paragraphs and application guidance of IFRS 9. We also obtained an understanding of the impairment allowance process, evaluated the design and tested operating effectiveness of internal controls relevant to the expected credit loss calculations including monitoring of arrears and the period-end estimation process for determining expected credit loss allowances and the governance over the calculations. We performed substantive procedures, including the reconciliation of the data used in the allowance calculations and disclosures, to source systems. Regarding the application of macro-economic scenarios and forward-looking information, we involved our modeling specialist. This included challenging probability weights and the severity and magnitude of modelled downside scenarios, as well as assessing the sensitivity of changes in the assumptions in the calculations. We analyzed the expected credit losses in relation to developments in the loans and advances to customers and the composition of the portfolio. Further, with the support of our own modelling specialists, we assessed the appropriateness of the models used by GarantiBank International N.V. for collectively assess expected credit loss allowances and verified whether the models were adequately designed, implemented and periodically validated. We performed an overall assessment of the allowance levels by risk stage to determine if they were reasonable considering the risk profile of the loans and advances to customers, arrears management and credit risk management practices. We challenged the criteria used to allocate loans to risk stage 1, 2 or 3 in accordance with IFRS 9 and tested a sample of loans on appropriate stage allocation. Finally, we assessed the retrospective review procedures performed by management which compare modelled predictions to actual results. For the calculation of the expected credit loss allowance per 31 December 2022, we selected a sample of individual loans and performed detailed credit file reviews and challenged the internal assessment of impairment identification and measurement. In addition we assessed the assumptions underlying the impairment identification and quantification, including forecasts of future cash flows and valuation of underlying collateral. We applied professional judgment in selecting those exposures for our detailed inspection of the reasonableness of the managing board's valuation of collateral for certain loans.

Estimation of expected credit losses on loans and advances to customers	
	We tested the data used in the expected credit losses calculation by reconciliation to source systems. Additionally, in order to respond to the identified fraud risk, we specifically paid attention to any deviations from the expected credit loss allowance for stage 3 provisions, as approved by the Restructuring Credit Committee, as this may be indicative for management override of controls. Finally, we evaluated the completeness and accuracy of the relevant disclosures in accordance with the relevant paragraphs and application guidance of IFRS 7 Financial instruments: disclosures.
Key observations	Based on our procedures performed we consider the expected credit loss allowances for loans and advances to customers to be reasonable. The related disclosures are considered adequate and appropriate and meet the relevant requirements under IFRS 7.

Reliability and continuity of information technology	
Risk	The activities and financial reporting of GarantiBank International N.V. are highly dependent on the reliability and continuity of the IT environment. Effective general IT controls with respect to change management, logical access, infrastructure and operations, support the integrity and continuity of the IT systems as well as the operating effectiveness of the automated controls. The reliability and continuity of electronic data processing is disclosed in the Risk Management chapter to the notes of the financial statements. There is a risk that the general IT control measures may not always operate as intended and, as a result, internal controls are ineffective. The dependency on IT environment could lead to undetected misstatements in financial reporting. Considering the importance of information technology to the continuity of the bank's operations and the increasing data granularity in financial reporting, we identified the reliability and continuity of the IT environment to be a key audit matter.
Our audit approach	IT audit specialists are an integral part of the engagement team and assess the reliability and continuity of the IT environment to the extent necessary for the scope of our audit of the financial statements. In this context, with help of our IT specialists, we obtained an understanding of the company's IT environment, evaluated the design of the IT processes and tested the operating effectiveness of general IT controls, as well as application controls over data processing, data feeds and interfaces where relevant for the financial reporting. As GarantiBank International N.V. has outsourced a part of their IT organization we also inspected the outsourcing agreement with the third party. We also evaluated the outsourced IT processes and IT general controls from service provider in the context of the financial audit of GarantiBank International N.V. Furthermore we inspected the ISAE 3402 type 2 report from this party, evaluated testing exceptions and how complementary user entity control considerations have been addressed which were all tested effective.

Reliability and continuity of information technology	
Key observations	Our testing of the IT general controls and the substantive tests performed, provided sufficient evidence to enable us to rely on the adequate and continued operation of the IT systems relevant for our audit of the financial statements.

Report on other information included in the annual report

The annual report contains other information in addition to the financial statements and our auditor's report thereon.

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 for the management report and the other 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 management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the supervisory board as auditor of GarantiBank International N.V. on 28 January 2022, as of the audit for the year 2022 and have operated as statutory auditor since that financial year.

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.

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 framework 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 judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The 'Information in support of our opinion' section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion. Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- 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 company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the managing board
- 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

Communication

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 and compliance committee of the supervisory board 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.

Amsterdam, 23 February 2023

Ernst & Young Accountants LLP

signed by R. Koekkoek