# ANNUAL REPORT 2022

VakıfBank International AG

# ANNUAL REPORT

About the 2022 financial year

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VAKIFBANK INTERNATIONAL AKTIENGESELLSCHAFT

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## GOVERNING BODIES OF THE COMPANY

### AUFSICHTSRAT

Ferkan MERDAN
Chair since 30.12.2020

Şuayyip İLBİLGİ
Deputy Chair Member

Alp Tolga Simsek Member
Member since 07.07.2017

Neslihan TONBUL
Member since 20.10.2017

Dr Gero Volker Dittrich, MBA
Member since 01.03.2021

## EXECUTIVE

Taner Ayhan
Chair of the Executive Board
since 01.06.2022

Mag.a Manuela Döller-Hauner
Executive Board member
since 06.04.2021 to 28.02.2023

Mag. Horst Gottsnahm
Executive Board member
from 01.03.2023

## DIVISION

Muhammet AYDIN
Division Manager & Authorised Signatory

Sema YURTYAPAN - BERGER BSc.
Area manager

## DEPARTMENT

Mag. Christoph LEITNER
Financial Management

Mag. Fatih Özdemir
IT & Data Management

Mag. Sezgin INCE
Internal auditing

Florian Resch
Risk management

Kurt FÖRSTER
Credit Operations Management

Fatih USLU
Treasury

## VIENNA

Coskun TANSEL
Branch Manager

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Phone: + 43 1 512 15 57
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## ZWEIGNIEDERLASSUNG DEUTSCHLAND

Aysegül DULKADIROGLU Branch Manager

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# BUSINESS PHILOSOPHY AND OWNERSHIP STRUCTURE

The inaugural meeting of VakifBank International AG took place on 23 July 1999. A full banking licence was granted by the Federal Ministry of Finance on 4 August 1999.
The bank is 100% owned by Türkiye Vakıflar Bankası T.A.O.

VakifBank International AG has made it its business to serve European and Turkish exporters and importers, drawing on the experience, financial strength and international market standing of the parent company, and in particular to support them in their foreign trade transactions. VakifBank International AG thereby strives to make a positive contribution to the intensification of the existing mutual trading and investment volume.

The main focus lies on the areas of financing of trade transactions (by granting loans to exporters and importers in the form of syndication, forfaiting, discounting, etc.) and trade services (letter of credit, documentary and guarantee business, payment transactions).

In addition, we offer all traditional banking services such as accounts and savings accounts, corporate and personal loans and transfer transactions. A special service is our fast and inexpensive payment transaction offer for transfers from Austria to Turkey.

Through a direct connection with our parent company T. Vakıflar Bankası T.A.O., we can guarantee very short transfer times for transfers to approx. 940 branches in Turkey.

Besides the natural first regional focus on Turkey, we concentrate on the European Union as well as Central and Eastern Europe.

T. Vakıflar Bankası T.A.O. was founded in 1954. It is the third largest Turkish bank under the influence of the state and operates over 948 branches in Turkey as well as one branch in New York, Bahrain, and Erbil.

The shareholders of Türkiye Vakıflar Bankası T.A.O. are:

- 20.57% Republic of Türkiye - Ministry of Finance and Treasury
- 64.84% Turkey Wealth Fund
- 5.66% Pension Fund of Türkiye Vakiflar Bankasi TAO
- 8.93% Other

## SELECTED FIGURES FROM THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT 2021-2022

(in EUR million)

| | 2022 | 2021 |
|---|---|---|
| Receivables from customers | 471.7 | 470.6 |
| Receivables from credit institutions | 13.2 | 39.0 |
| Liabilities to credit institutions | 301.8 | 293.8 |
| Liabilities to customers | 408.9 | 423.7 |
| - of which savings deposits: | 263.3 | 275.8 |
| Net interest income | 16.2 | 14.7 |
| Operating income | 16.8 | 15.2 |
| Operating expenses | 14.1 | 9.8 |
| Operating result | 2.8 | 5.4 |
| Income from business activities | 9.7 | 8.1 |
| Annual surplus | -9.6 | 6.2 |
| Equity resources as per Part 2 of EU regulation no. 575/213 | 159 | 162.2 |

**Basic information and framework conditions**

VakifBank International AG was incorporated on 23 July 1999 and was granted a full banking licence by the Federal Ministry of Finance on 4 August 1999. VakifBank International AG (VakifBank) is an economically strong and well capitalised bank and is 100% directly owned by Türkiye Vakiflar Bankasi T.A.O. (TVB). TVB is listed on the Istanbul Stock Exchange and is one of the companies with the highest sales in Turkey, which is not only economically but also socially strongly committed in this state. TVB is also included in the most important Turkish share index ISE-100 and has external ratings. It was founded in 1954 and is the second largest state-controlled bank in Turkey. The main branch in Istanbul operates more than 900 branches in Turkey, as well as a branch in New York, among others. VakifBank has a hard letter of comfort from TVB. VakifBank is a Less Significant Institution within the meaning of the EU’s Single Supervisory Mechanism. In addition to the headquarters and a branch in Vienna, VakifBank is represented in Germany with a branch in Cologne (since 2005) and activities in the former branch in Frankfurt were resumed in the 2022 financial year. In addition, VakifBank has also had a representative office in Hungary (Budapest) since 2021.

**Economic framework conditions**

Global economic growth in 2022 was the weakest in decades. The recovery in economic growth following the containment of the pandemic slowed again in 2022. Global economic growth fell to 3.2% in 2022, below expectations at the beginning of the year. The ongoing Russo-Ukrainian war and its far-reaching consequences affecting inflation rates and drastically rising energy costs are one of the main problems. In 2022, too, the global economy was confronted with rising inflation rates due to disruptions in supply chains, increasing demand for goods and rising commodity prices. To combat high inflation, the European and US central banks repeatedly raised key interest rates in 2022. Further interest rate hikes are expected for 2023. This marked the end of the zero interest rate policy and the rise in long-term interest rates. Economic growth in the euro zone also fell significantly in 2022 to 3.1%. GDP growth of 0.8% is forecast for 2023 and 1.6% for 2024 (0.9% and 1.5% in the euro area). Headline inflation in the EU is projected to rise from 9.2% in 2022 to 6.4% in 2023 and 2.8% in 2024, while in the euro area it is projected to increase from 8.4% per year 2022 to 5.6% in 2023 and 2.5% in 2024. The EU unemployment rate remained at an all-time low of 6.1% in December 2022, the lowest it has been in decades.

Turkey, like all other markets, could not escape the negative development. However, even in this challenging environment, no default has occurred with our Turkish borrowers.

**Business activity by country and sector**

VakifBank prioritises traditional banking and wins the trust of its customers with a moderate risk and return policy.

The main income of VakifBank comes from the interest income attributable to the main institution in Vienna. The majority of this income is again attributable to large companies and financial institutions in the regions of Austria and Germany, with the net interest income coming from both lending and bond transactions. In line with the business model, the largest expense items are interest expenses on deposits in Austria and Germany and general administrative expenses.

On the liability side, there is a broadly diversified financing structure and this is to be retained in the future.
In the deposit-taking business, the customer offering is largely determined by the competitive environment. VakifBank has stable sources of refinancing on the interbank market and customer deposits.
Furthermore, additional liquidity that would be provided by its parent company TVB can be accessed.

**Organisational structure, risk management organisation and internal control system**

In order to minimise conflicts of interest, VakifBank pursues a clear structural separation (separation of duties) between market and back office areas. The separation of market and back office areas (structural organisation) and a clear definition of tasks and responsibilities (procedural organisation) ensure that activities that are incompatible with each other are carried out by different organisational units. The control functions such as risk management, compliance and internal audit are performed independently of the front office functions. This is reflected in the bank's organisation chart and in the division of responsibilities within the Executive Board. An internal control system (ICS) has been set up, which includes regulations for structural and process organisation as well as for risk management and controlling processes.

The central responsibility for risk management in VakifBank lies with the entire Executive Board. In fulfilling this task, the entire Executive Board is supported by various departments. In addition, there are several committees at different levels in VakifBank for the standardisation and effective coordination of risk management.

The Executive Board of VakifBank is responsible for both risk management and risk controlling within the framework of overall bank risk management. In connection with the management of all risks relevant to the bank, it defines the strategic framework. All parts of the company must subsequently comply with the relevant specifications. In addition, the Executive Board defines appropriate risk limits (preliminary control) and makes formal decisions in matters relevant to risk management.

The main role and responsibility of the Supervisory Board of VakifBank is to control, advise and monitor the Executive Board.

The Strategic Risk Management & Risk Controlling department ensures the implementation of the specifications and requirements regarding the methodology and system of risk management. As part of overall bank risk management (ICAAP & ILAAP), risk management aims to set up a risk control system for identifying, quantifying, limiting, monitoring and controlling all relevant risks. It is responsible for implementing the framework in line with the business and risk strategy.

Strategic Risk Management & Risk Controlling is responsible for preparing the risk report (four times a year). This includes all defined key risk indicators and is reported to the Supervisory Board.

**Overall bank management system**

The overall bank management of VakifBank is carried out taking into account a balanced relationship between the key ratios of equity, income, costs, liquidity and risks. The Executive Board is regularly informed about the positive and negative result drivers in order to identify and counteract unplanned developments at an early stage if necessary.

The holistic control with the aim of the optimal development of the bank is significantly influenced, among other things, by the ongoing changes in external framework conditions and regulatory requirements. VakifBank observes the regulatory requirements laid down for the individual types of risks when recording, assessing, controlling, monitoring and limiting the risks of banking business and banking operations in accordance with § 39 (2) BWG. This is done taking into account the type, scope and complexity of the banking business, including when implementing the guidelines of the European supervisory authorities.

**Goals and strategies**

The diversification strategy defined in 2016 with regard to the home countries of the credit customers or securities issuers was successfully completed, so VakifBank only had an exposure to Turkey of 6.5% of the total exposure as of 31 December 2022. Expiring financing from Turkish borrowers was largely substituted with investments in the European bond and promissory note market.

The primary focus of new business is the purchase of government bonds, corporate bonds, bank bonds, as well as a diversified allocation of promissory note loans and syndicated loans to well-established companies and banks. As a bank in the EU, VakifBank prefers investments in companies and banks within the EU. Care is taken to ensure that the risk weights of these are not higher than those of the assets to be replaced. With regard to the planned lending and securities business, all new commitments should have internal ratings of up to 13. This strategy should also take into account the regulatory liquidity ratios and the liquidity potential as well as a broadly diversified refinancing structure.
VakifBank has a coherent business and risk strategy approved by the Executive Board and the Supervisory Board, as well as associated limit systems. The business strategy was operationalised within the framework of derived capital and strategic limits.

**Business performance 2022**

The Russian-Ukrainian War and its consequences for the economy, especially the interest rate environment, had an impact on the valuation of securities held as fixed and current assets and led to an additional need for depreciation. However, the operating result adjusted for one-off effects increased compared to the previous year.

The many years of positive business development in the past have shown that VakifBank has the necessary specialist knowledge and good customer contacts to successfully continue the current strategy of the bank.

**Research and development**

VakifBank does not conduct any research and development within the meaning of § 243 Para. 3 Z 3 UGB.

**Information on the environment and workers' issues**

When it comes to employee concerns, particular attention was paid to protecting the health of employees during the Covid-19 pandemic. Extensive home office arrangements were made and structural and organisational measures were taken in the VakifBank premises so that social distancing rules could be complied with. The transformation steps to flexible and digital work processes introduced since 2020 have also proven their worth this year.

For health and climate awareness, the offer of bike leasing for the employees of VakifBank was introduced in 2022. This environmentally friendly form of mobility promotes healthy movement and sustainability amongst employees. The offer is available to every employee.

**Risk report**

Various risks arise from the business activities of VakifBank, which are systematically identified and evaluated as part of the annual risk inventory together with the responsible departments. The risks identified as part of the risk inventory and classified as material are described and explained in more detail below.
The risks identified as part of the risk inventory are described and explained in more detail below.

**Risk types**

The following key risk types are quantified as part of the ICAAP or ILAAP and monitored according to the limits assigned to the risk types.

In addition, a number of stress tests are carried out, the results of which form the basis for bank management, along with the results of the risk-bearing capacity calculation. The results of the risk measurement are reported to the Executive Board on a monthly basis, and reports are also made to the Supervisory Board at the Supervisory Board meetings.

**Credit risk**

Credit risk (also known as default risk) arises from possible losses that arise from a partial or complete default of contractually agreed payments. VakifBank uses a CVaR approach for this.

In the CreditMetrics model, which is used to quantify credit risk, the credit risk potential corresponds to the unexpected loss (UL) from the items relevant to credit risk. The Bank has internal ratings for all customers above the rating relevance limit. These ratings are based on the published ratings of international rating agencies. For customers who do not have such a rating, Moody's, one of the largest international rating agencies, uses a rating program specially developed for this customer segment. For loss ratios, the specifications from the Basel III Regulation CRR are generally used. In addition, cluster risks are also limited by operational limits. To determine the 90-day delay (according to Article 178 CRR), the bank uses an automated counter, which triggers specified measures. Furthermore, the creditworthiness of the debtor is to be continuously monitored through permanent risk monitoring and, in case of doubt, an unlike-to-pay (UTP) analysis is to be carried out.

**Credit concentration risk**

VakifBank defines concentration risk as the risk of occurrence of large losses resulting from the following events: (i) default events of a counterparty with large exposure, (ii) simultaneous default events within an industry due to intra-industry correlations, (iii) simultaneous default events due to correlations between two interdependent industries and (iv) simultaneous default events within a group of connected customers. Concentration risks in the ICAAP are quantified using a multi-factor CVaR model.

**Overall bank interest rate risk**

The interest rate risk includes the risk that the expected or planned balance sheet value or present-value long-term income will not be achieved due to a change in market interest rates. Interest rate risk generally contains both an income effect (net interest income) and a present-value effect. Future activities are designed to keep interest rate risk at a low level. Interest rate risk is reflected in the ICAAP using a simulated change in present value with a 200 bp interest rate shift and backed accordingly with economic capital.

The basis for this is the regulatory report on interest rate risk statistics (VERA A3b) scaled according to the confidence interval used.

In VakifBank, the regulatory scenarios of the standardised EVE and NII Outlier Tests (according to EBA guidelines) are also calculated and monitored on a monthly basis.

**Currency risk**

The currency risk describes the risk of changes in the value of the foreign currency item due to shifts on the foreign exchange spot markets. The currency risk of VakifBank results mainly from the open currency position in USD.

No other currencies are used in the operations of VakifBank. Banking transactions may be carried out in Turkish lira for non-essential individual transactions. For significant USD receivables items, the necessary currency risk hedging is performed using FX swaps to directly fund these USD items in foreign currency. This risk category is measured and limited in the ICAAP using a simple value-at-risk approach.

**Foreign currency credit risk**

A foreign currency loan is a loan that is taken out and repaid in a currency other than the borrower's domestic currency. The devaluation of the domestic currency against the currency of the loan increases the customer's credit commitment and thus also the loss potential. Furthermore, the increased loan commitment can lead to an increased risk of default by the borrower. For such commitments, the resulting foreign currency credit risk is quantified in the ICAAP and backed with economic capital.

**Credit spread risk**

Spread risk (credit spread risk) is the risk of loss due to changing market prices or market prices of securities held by the company, caused by changes in credit spreads or the spread curve.

To quantify the credit spread risk in the ICAAP, VakifBank uses an internal model, with the simulation being carried out in the sDIS+ module of the THINC software. To this end, each security is assigned to an index according to its maturity, rating and industry. The credit spread shocks are derived empirically using historical data from the indices.

**Country risk**

The country risk is expressed in the risk that claims from cross-border transactions may default due to government measures (transfer and conversion risk), as well as in the risk that the economic or political situation in the country will have a negative impact on the creditworthiness of the debtors in this risk country. The country risk includes the insolvency or unwillingness to pay of the country itself or of the country to which the business partner/counterparty is assigned. This allocation is made in the overall bank management (ICAAP) according to the country of domicile principle (political country risk) or according to the principle of liability allocation, e.g. in the case of corporate links of the business partner.

Country risk management at VakifBank aims to limit the risks taken by the bank through appropriate diversification across countries, with the home market (Germany and Austria) being prioritized. To this end, a number of qualitative and quantitative country risk management measures are employed. These measures are intended to mitigate the (1) political -, (2) economic - and (3) transfer risk of VakifBank. The transfer risk is a component of the credit risk and the quantification of the credit risk is carried out in VakifBank with the downgraded ratings according to the country - ceiling principle. Therefore, the transfer risk is included in the credit risk amount and is not reported separately.

**Operational risk**

Operational risk means the risk of loss as a result of inadequate governance or failed internal processes and systems, intentional or negligent actions by employees or as a result of external events and includes legal risk. Among the risks from systems, cyber security risks, IT risks and business continuity risks are worth highlighting. Systems and processes also include all arrangements relating to money laundering and terrorist financing. In accordance with the CRR, the basic indicator approach is used to measure operational risk in the ICAAP, with the internal control system being further expanded in order to reduce the main risks by means of suitable internal controls. In particular, outsourcing risks are addressed through increased internal controls and availability risks are minimised. VakifBank assesses and manages its operational risk and operates a hedge against rare events with serious consequences on this basis. VakifBank also has contingency and business continuity plans in place to ensure continuity of operations and mitigation of potential losses from operational risks at all times in the event of a serious business interruption.

**Liquidity risk**

Liquidity risk and the corresponding liquidity risk tolerance are defined as the maximum amount of liquidity risk the bank is willing to take in normal business and in potential stress situations.

The liquidity risk tolerance is intended to ensure that the company manages its liquidity in normal times in such a way that it can also withstand a longer period of stress.

The most important parameters for determining the liquidity risk tolerance are:

• **Liquidity Buffer / CBC**: The higher the liquidity buffer and the better the quality of the assets in the buffer, the lower the risk appetite.

• **Survival period**: The higher the goal for the survival period, the lower the willingness to take risks.

• **Stress scenarios**: The more conservative the chosen scenarios are, the more risk-averse the bank is.

Liquidity risk management is of great importance at VakifBank. This is reflected, among other things, in the close involvement of management. The central instrument is the daily liquidity progress report (LAB), which is supplemented by liquidity stress tests and emergency plan indicator monitoring.

Based on this, liquidity risk management pursues the following goals:

• Ensuring the solvency of VakifBank at all times

• Optimisation of the refinancing structure with special consideration of the strategic business goals

The following core elements are used:

• Daily preparation of the liquidity progress report

• Daily liquidity monitoring and reports to the full Executive Board

• Liquidity risk measurement, control and limitation

• Conducting stress tests

• Contingency plan for liquidity risks

• Ensuring data quality

• Weekly liquidity meetings

• Monthly ALCO meetings

• Continuous further development of the liquidity risk model and the ILAAP

**Macroeconomic risk**

The macroeconomic risk results from macroeconomic deteriorations within the framework of the classic economic cycle and any associated increases in risk parameters. The Bank's goal for this risk is also to initially have sufficient risk cover funds after such an economic period without massive interventions and measures.

The macroeconomic risk in VakifBank is calculated for the significant countries whose share in the bank's assets is at or above 10%. As of 31.12.2022, Austria, Germany, France and Turkey (share below 10%, but still taken into account for reasons of conservatism) are classified as significant.

In VakifBank, the volatility of sovereign credit default swap spreads (CDS) is used to measure the macroeconomic risk arising from economic uncertainty. Sovereign CDS volatility is proving to be a powerful indicator of economic uncertainty, serving either as a primary measure of economic uncertainty or as an additional measure of uncertainty when other indicators of economic uncertainty are already available. Using CDS volatility as a measure of uncertainty has several advantages: It is easily calculated, is available for a large number of countries, and allows for high-frequency uncertainty assessments.

**Overall risk profile and regulatory framework**

The risk management system and the processes for identifying, measuring, assessing, controlling, monitoring and communicating the individual types of risk are described in the ICAAP Policy and ILAAP Policy, various other guidelines of VakifBank and in supplementary work instructions. A materiality assessment is documented for all risk types and, if necessary, for their individual characteristics.

**Earnings, financial and asset situation**

Development of key balance sheet items

The most important sectors in which loans exist at the end of 2022 are sovereigns, financial institutions and manufacturing companies. The remainder of the portfolio is mainly divided between healthcare, construction, energy, transport, retail and information technology.

Receivables from customers and banks fell from EUR 510 million to EUR 485 million. The volume of bonds and other fixed-income securities fell from EUR 250 million to EUR 249 million (-0.5%). The German branch is primarily active in the deposit business and has total assets of EUR 117 million. Customer deposits in Germany amounted to EUR 113 million at the end of 2022.

**Balance sheet equity**

Compared to the previous year, the balance sheet equity fell by around EUR 10 million to a total of around EUR 159 million. The liability reserve is EUR 6.9 million.

**Assets and financial position**

The financial year thus closed with a balance sheet total of EUR 879 million. Receivables from customers increased by EUR 1 million in the year under review and amounted to EUR 472 million. Receivables from banks fell from EUR 39 million to around EUR 13 million. Bonds and other fixed-income securities had a value of EUR 249 million at the end of the reporting year. A year earlier, they amounted to EUR 250 million.

Liabilities to customers fell by 3% and amount to EUR 409 million. In the previous year, they amounted to EUR 424 million. Other liabilities including prepaid expenses and provisions increased to EUR 8.5 compared to the previous year (EUR 5.4 million). Overall, the financial year, including the balance sheet profit, closed with equity on the balance sheet of EUR 159 million. This continues to represent a solid and sufficient capital base for the Bank's development. Due to the penalty interest for possibly exceeding the large loan limit, there was an increase in other provisions.

The CET-1 ratio is 22.79% (previous year 21.30%).

**Earnings situation**

In the reporting year, higher net interest income of EUR 16.2 million (previous year: EUR 14.7 million) was achieved.
Net commission income contributes EUR 0.46 million to the result. Compared to the previous year, general administrative expenses increased by 6% and amounted to EUR 9.1 million at the end of the year. The reasons for this are higher personnel costs and higher material expenses. The operating result adjusted for one-off effects increased from EUR 5.4 million in the previous year to EUR 7.4 million. The result of the valuation of the financial assets is EUR 1.9 million. The result of the valuation of the current assets consists of valuation losses from securities and loan receivables as well as capital gains from the sale of securities and amounts to -14.4 million. This includesiIndividual value adjustments on customer receivables in the amount of EUR 11.6 million.

The liability reserve in the amount of EUR 1.4 million was reversed for the appropriation of losses.

The result of VakifBank from ordinary activities was EUR -9.7 million. Overall, the 2022 financial year ended with a net loss of EUR -9.6 million.

**Liquidity situation**

The solvency of VakifBank was ensured at all times during the financial year 2023 due to a planned and balanced liquidity provision, and the regulatory liquidity ratios were always clearly exceeded. VakifBank continued to have various refinancing facilities available to carry out new business during the financial year under review.

**Overall situation and outlook**

Taking into account the increased regulatory requirements and the volatile market conditions, VakifBank was able to meet its operational goals

As in previous years, the 2023 financial year will be characterised by the implementation of the agreed business and risk strategy as well as further organisational improvements. Despite the continuing uncertainties associated with the Russian-Ukrainian war, the first half of 2023 has been positive for VakifBank. Therefore, due to our good capital and liquidity position, we are confident that we will successfully manage the challenging situation of the 2023 financial year.

Vienna, 20 June 2023

VakifBank International AG

Taner Ayhan e.h.
Chair of the Executive Board, CEO Board member

Mag. Horst Gottsnahm e.h.

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board held regular meetings in the 2022 financial year. At these meetings, but also through ongoing reporting by the Executive Board, the Supervisory Board kept itself informed about the essential matters of management, the course of business and the situation of the company. The reports of the Executive Board were noted and the necessary resolutions were passed. The Supervisory Board has thus fulfilled the duties incumbent upon it according to the law and the Articles of Association.

The annual financial statements including the notes and management report for the 2022 financial year were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft mbH, who were appointed auditors of the annual financial statements and bank, and an unqualified audit opinion was given.

According to the final result of the audit of the annual financial statements, the notes and the management report carried out by the Supervisory Board in accordance with § 92 (4) of the Stock Corporation Act (AktG), there is no cause for objection.

The Supervisory Board concurred with the results of the audit, agreed to the annual financial statements and management report presented by the Executive Board and approved the annual financial statements for 2022 at its meeting on 22 June 2023, which were thus adopted in accordance with § 96 (4) of the German Stock Corporation Act.

The Supervisory Board agrees to the proposal for the appropriation of profits presented by the Executive Board and thanks the Executive Board and the employees for the successful work done in 2022.

Vienna, 22 June 2023

Ferkan MERDAN e.h.
Chair of the Supervisory Board

## Report on the annual financial statements Audit opinion

We have audited the financial statements, which comprise the balance sheet as at 31 December 2022, and the profit and loss account for the year then ended, and the notes to the financial statements.

**VakifBank International AG, Vienna,**

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In our opinion, the accompanying annual financial statements comply with the legal requirements and give a true and fair view of the company's net assets and financial position as of 31 December 2022 and the results of operations of the company for the financial year then ended in accordance with Austrian company and banking law.

**Basis for the audit opinion**

We conducted our audit in accordance with EU Regulation No. 537/2014 (hereinafter EU Regulation) and Austrian Generally Accepted Standards on Auditing. These principles require the application of International Standards on Auditing (ISA). Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the annual financial statements" section of our auditor's report. We are independent of the company in accordance with Austrian commercial and professional regulations and we have performed our other professional duties in accordance with these requirements. We believe that the audit evidence we have obtained as of the date of the auditor's report is sufficient and appropriate to provide a basis for our audit opinion as of that date.

**Particularly important audit matters**

Audit issues of particular importance are those that, in our judgement, were most important for our audit of the annual financial statements of the financial year. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In the following, we present what we consider to be a particularly important audit matter:

## 1. Valuation of loans to customers, including the creation of risk provisions for the lending business

Description:

Receivables from customers are reported in the annual financial statements of VakifBank International AG as of 31 December 2022 at an amount of EUR 471.7 million. Specific valuation allowances (EUR 14.3 million) and general valuation allowances (EUR 2.3 million) have been made to account for risks of loss in the loan portfolio.

The Executive Board of VakifBank International AG explains the accounting and valuation methods for receivables from customers in the notes to the annual financial statements. In this regard, we refer to the information in point I. “Accounting and valuation methods”.

The assessment of the recoverability of customer receivables and thus their valuation includes the identification of value adjustments requirements and the estimation of any value adjustments requirements.
We have identified this area as a key audit matter due to the volume of receivables from customers and the estimation uncertainties associated with the amount of value adjustments.

How we addressed the matter during the audit:

We surveyed the company’s credit monitoring process and assessed whether this is suitable for recognising the need for value adjustments in good time.
To this end, we held talks with responsible employees and acknowledged the relevant internal guidelines to that effect. As part of a walkthrough, we examined the design and implementation of the key control activities. We also checked the effectiveness of selected controls on the basis of random samples.

n addition, we examined the loan portfolio on a sample basis to determine whether individual value adjustments had been made to a sufficient extent.
When examining the general allowance, we assessed the valuation models used and the parameters applied to determine whether they are suitable for determining appropriate provisions. We also examined the underlying data (statistical default probabilities) for their data quality and verified the arithmetical accuracy of the value adjustment.

We have examined whether the information provided by the legal representatives of the company in the notes is complete and accurate.

**Other Information**

The legal representatives are responsible for the other information. The other information includes all information in the annual report, with the exception of the annual financial statements, the management report and the auditor’s report. The annual report is expected to be made available to us after the date of the auditor’s report.

Our opinion on the annual financial statements does not cover this other information, and we do not provide any form of assurance thereon.

In connection with our audit of the annual financial statements, our responsibility is to read that other information when it is available and, in doing so, to evaluate whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit, or otherwise appears to be misrepresented.

**Responsibilities of the legal representatives and the Executive Board for the annual financial statements**

The legal representatives are responsible for the preparation of the annual financial statements and for ensuring that they give a true and fair view of the assets, liabilities, financial position and results of operations of the company in accordance with Austrian company law and banking law. Furthermore, the legal representatives are responsible for the internal controls that they consider necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of the annual financial statements, it is the responsibility of the legal representatives to assess the company's ability to continue business activities; provide information related to the continuity of the company's business activities, where applicable; and to apply the accounting principle of continuity of the company's business activities, unless the legal representatives intend either to liquidate the company or cease business or have no realistic alternative to doing so.

The Supervisory Board is responsible for the monitoring the group’s accounting process.

**Auditor’s responsibilities for the audit of the annual financial statements**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our audit opinion. Sufficient certainty is a high level of assurance, but not a guarantee that an audit conducted in accordance with the EU REG and Austrian Standards on Auditing of Financial Statements, which require the application of ISAs, will always reveal material misstatements, if any exist. Misstatements may result from fraud or errors and are deemed to be material if, individually or collectively, they can reasonably be expected to affect the economic decisions made by users on the basis of these annual financial statements.

In conducting an audit in accordance with the EU REG and Austrian principles of proper auditing, which require compliance with the ISA, we exercise due care and diligence and maintain professional scepticism throughout the entire engagement.

Furthermore:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that material misstatements resulting from fraudulent acts will not be detected is higher than that resulting from errors, as fraudulent acts may include collusion, forgery, intentional omissions, misleading representations or override of internal controls.
- We gain an understanding of the internal control system relevant to the audit in order to plan audit procedures that are appropriate under the specific circumstances; however, our objective is not to issue an opinion on the effectiveness of the company's internal control system.
- We assess the appropriateness of the accounting methods used by the legal representatives and evaluate whether the estimated values are reasonable as presented by the legal representatives in the financial statements and related information.
- We assess the appropriateness of the legal representatives' use of the going concern basis of accounting; we also determine, based on the audit evidence obtained, whether material uncertainty exists in connection with events or circumstances that may cast significant doubt on the Company's capacity to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our audit opinion to the related disclosures in the financial statements or, if such disclosures are inappropriate, to modify our opinion. We make our determination on the basis of the audit evidence obtained by the date of our audit opinion. However, future events or circumstances may result in the company's inability to continue as a going concern.

- We assess the overall presentation, structure and content of the annual financial statements, including the information as well as whether the annual financial statements reflect the underlying transactions and events in such a way as to achieve the most representation possible.

- 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 deficiencies in internal controls that we identify during our audit.

- From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the annual financial statements of the financial year and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulations preclude public disclosure of the matter or, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh its public interest benefits.

**Other statutory and other legal requirements**

**Report on the management report**

Pursuant to Austrian commercial law, the management report is to be audited as to whether it is consistent with the annual financial statements and as to whether it has been prepared in accordance with the applicable legal requirements.

The legal representatives are responsible for the preparation of the management report in accordance with Austrian company and banking law regulations. We conducted our audit in accordance with professional standards on auditing of management reports.

*Opinion*

In our opinion, the management report has been prepared in accordance with the applicable legal requirements
and is consistent with the annual financial statements.

*Explanation*

In light of the knowledge gained during the audit of the annual financial statements and the understanding gained of the company and its environment, no material misstatements were identified in the management report.

**Additional information according to Article 10 of the EU Regulation**

We were elected as auditor by the general assembly on 30 July 2021. We were engaged by the Supervisory Board on 30 July 2021. In addition, we were elected as auditor for the following financial year by the general assembly on 29 July 2022 and commissioned by the Supervisory Board on 29 July 2022 to audit the financial statements. We have been auditors without interruption since the 2021 financial year.

We declare that the audit opinion in the “Report on the annual financial statements” section is consistent with the additional report to the audit committee pursuant to Article 11 of the EU REGULATION.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 of the EU Regulation) and that we have maintained our independence from the audited company when conducting the audit.

Vienna, 20 June 2023

Ernest & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Andrea Stippl
Auditor

ppa MMag. Roland Unterweger
Auditor

VAKIFBANK INTERNATIONAL AG BALANCE SHEET AS AT 31

DECEMBER 2022 PROFIT AND LOSS ACCOUNT 2022

NOTES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

## BALANCE SHEET AS OF 31 DECEMBER 2022

**ASSETS**

| | 31.12.2022 EUR | 31.12.2022 EUR | 31.12.2021 EUR | 31.12.2021 EUR |
|---|---|---|---|---|
| 1. Cash on hand and balances with central banks | | 11,617,410.53 | | 15,434,223.80 |
| 2. Public sector debt instruments | | 128,982,942.27 | | 112,910,013.79 |
| 3. Receivables from credit institutions | | | | |
| a) Due daily | 13,200,929.06 | | 8,918,121.20 | |
| b) Other receivables | 0.00 | 13,200,929.06 | 30,041,011.11 | 38,959,132.31 |
| 4. Receivables from customers | | 471,736,094.39 | | 470,584,657.65 |
| 5. Bonds and other fixed-income securities | | | | |
| a) Issued by public entities | 103,312,657.79 | | 105,617,652.40 | |
| b) Issued by other entities | 145,376,530.99 | 248,689,188.78 | 144,275,626.58 | 249,893,278.98 |
| 6. Participations | | 2,950.00 | | 2,950.00 |
| 7. Intangible fixed assets | | 476,392.40 | | 535,739.23 |
| 8. Tangible assets<br>Including:<br>Land and buildings used by the credit institution for its own activities: EUR 0 (previous year: EUR 0) | | 123,304.79 | | 85,409.93 |
| 9. Other assets | | 3,552,169.35 | | 2,975,556.74 |
| 10. Accruals and deferrals | | 189,079.60 | | 491,387.78 |
| | | **878,570,461.17** | | **891,872,350.21** |

Items under the balance sheet

| | | 31.12.2022 | 31.12.2021 |
|---|---|---|---|
| 1. | Foreign assets | 725,575,559.81 | 764,681,323.29 |

| | 31.12.2022 | | 31.12.2021 | |
|---|---|---|---|---|
| | EUR | EUR | EUR | EUR |
| 1. Liabilities to credit institutions | | | | |
| a) Due daily | 2,905,432.61 | | 3,941,133.84 | |
| b) with agreed maturity or period of notice | 298,877,182.75 | 301,782,615.36 | 289,861,514.70 | 293,802,648.54 |
| 2. Liabilities to customers | | | | |
| a) Savings | | | | |
| Including: | | | | |
| aa) Due daily | 99,795,500.74 | | 106,913,753.04 | |
| ab) With agreed term or period of notice | 163,528,332.19 | | 168,867,948.75 | |
| b) Other liabilities | | | | |
| Including: | | | | |
| ba) Due daily | 13,940,289.37 | | 15,237,080.46 | |
| bb) With agreed term or period of notice | 131,635,836.19 | 408,899,958.49 | 132,640,160.53 | 423,658,942.78 |
| 3. Other liabilities | | 2,280,215.32 | | 2,069,339.95 |
| 4. Accruals and deferrals | | 41,975.74 | | 217,253.28 |
| 5. Provisions | | | | |
| a) Provisions for severance payments | 319,000.00 | | 376,000.00 | |
| b) Tax provisions | 604,000.00 | | 1,925,000.00 | |
| Of which provisions for deferred tax liabilities | 54,000.00 | | 270,000.00 | |
| c) Other | 5,212,575.50 | 6,135,575.50 | 826,854.58 | 3,127,854.58 |
| 6. Subscribed capital | | 100,000,000.00 | | 100,000,000.00 |
| 7. Retained earnings | | | | |
| a) Legal reserve | 6,800,000.00 | | 6,800,000.00 | |
| b) Other reserves | 45,296,311.08 | 52,096,311.08 | 48,226,528.13 | 55,026,528.13 |
| 8. Liability reserve pursuant to § 57 (5) BWG | | 6,900,000.00 | | 8,250,000.00 |
| 9. Balance sheet profit | | 433,809.68 | | 5,719,782.95 |
| | | **878,570,461.17** | | **891,872,350.21** |
| Items under the balance sheet | | | | |
| 1. Contingent liabilities | | 89,712.28 | | 92,412.28 |
| a) Liabilities from guarantees and Liabilities from collateral orders | | 89,712.28 | | 92,412.28 |
| 2. Credit risks | | 137,844.29 | | 265,375.95 |
| 3. Equity resources as per Part 2 of Regulation (EU) No 575/2013 | | 158,953,728.36 | | 162,240,788.90 |
| Including: Supplementary capital pursuant to Part 2 Chapter 4 of Title I of Regulation (EU) No 575/2013 | | 0.00 | | 0.00 |
| 4. Capital requirements pursuant to Art. 92 of Regulation (EU) No 575/2013 | | 697,462,675.88 | | 761,803,950.01 |
| Including: Capital requirements pursuant to Art. 92 para. 1 letters a to c of Regulation (EU) No. 575/2013 (CRR) | | | | |
| Hard core capital ratio | | 22.8% | | 21.3% |
| Core capital ratio | | 22.8% | | 21.3% |
| Total capital ratio | | 22.8 % | | 21.3% |
| 5. Foreign liabilities | | 175,816,341.89 | | 171,366,039.61 |
| Overall return on assets | | 0.70% | | 0.75% |

BALANCE SHEET AS OF 31 DECEMBER 2022

## PROFIT AND LOSS ACCOUNT FOR FINANCIAL YEAR 2022

| | | 2022 | | 2021 | |
|---|---|---|---|---|---|
| | | EUR | EUR | EUR | EUR |
| 1. | Interest and similar income | | 19,635,052.13 | | 17,738,873.40 |
| | Including: | | | | |
| | From fixed-interest securities:<br>EUR 10,018 thousand (previous year: EUR 9,432 thousand) | | | | |
| 2. | Interest and similar expenses | | -3,456,811.41 | | -3,070,839.53 |
| **I.** | **NET INTEREST INCOME** | | **16,178,240.72** | | **14,668,033.87** |
| 3. | Commission income | | 615,111.37 | | 530,889.11 |
| 4. | Commission expenses | | -150,553.58 | | -139,372.07 |
| 5. | Income/expenses from financial transactions | | 116,530.38 | | 19,848.89 |
| 6. | Other operating income | | 87,902.09 | | 77,915.22 |
| **II.** | **OPERATING INCOME** | | **16,847,230.98** | | **15,157,315.02** |
| 7. | General administrative expenses | | | | |
| a) | Personnel expenses | | | | |
| | Including: | | | | |
| | aa) Wages and salaries | -3,080,031.69 | | -3,185,672.25 | |
| | bb) Expenses for statutory social security contributions and levies dependent on the remuneration and compulsory contributions | -816,831.92 | | -780,547.47 | |
| | cc) Other social expenses | -115,056.83 | | -109,398.30 | |
| | dd) Expenses for retirement benefits and support | -61,482.61 | | -73,006.34 | |
| | ee) Expenses for severance payments and benefits to occupational pension funds | -420,991.41 | -4,494,394.46 | -99,490.45 | -4,248,114.81 |
| b) | Other administrative expenses (material expenses) | | -4,586,165.34 | | -4,320,382.93 |
| 8. | Valuation adjustments on the assets included in the asset items 7 and 8 | | -103,453.00 | | -92,807.74 |
| 9. | Other operating expenses | | -4,891,461.97 | | -1,135,213.05 |
| **III.** | **OPERATING EXPENSES** | | **-14,075,474.77** | | **-9,796,518.53** |
| **IV.** | **OPERATING RESULT** | | **2,771,756.21** | | **5,360,796.49** |
| 10./11. | Income/expense balance from the sale and the valuation of loans and securities | | -14,360,700.95 | | 2,737,558.68 |
| 12./13. | Income/expense balance from the sale and | | | | |

| | | | | |
|---|---|---|---|---|
| | | the valuation of securities, that are valued like financial assets, as well as shares in affiliated companies and holdings | 1,882,392.37 | 0.00 |
| **V.** | **RESULT FROM ORDINARY BUSINESS ACTIVITIES** | | **-9,706,552.37** | **8,098,355.17** |
| | 14. | Taxes on income and earnings<br>Of which:<br>Expenses from deferred taxes:<br>EUR 0 thousand (previous year: EUR 110 thousand) | 183,607.00 | -1,836,949.00 |
| | 15. | Other taxes not included in Item 14 to be reported | -43,244.95 | -41,623.22 |
| **VI.** | **ANNUAL SURPLUS** | | **-9,566,190.32** | **6,219,782.95** |
| | 15. | Movement in reserves<br>Including: Allocation of the liability reserve according to § 57 (5) BWG<br>EUR 1,350; (previous year: EUR 0) | 10,000,000.00 | -500,000.00 |
| **VII.** | **ANNUAL PROFIT** | | **433,809.68** | **5,719,782.95** |
| | 16. | Profit carried forward | 0.00 | 0.00 |
| **VIII.** | **BALANCE SHEET PROFIT** | | **433,809.68** | **5,719,782.95** |

# DEVELOPMENT OF FIXED ASSET ITEMS

| in EUR | Acquisition value as at 01.01.2022 | Inflows | Disposals | Reclassifications | Acquisition values | Accumulated depreciation as at 01.01.2022 | Appreciations of the current financial year | Depreciations for the current financial year | Disposals | Accumulated appreciations and depreciations as at 31.12.2022 | Book value as at 31.12.2021 | Book value as at 31.12.2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR | | EUR | EUR | EUR | EUR | EUR | EUR |
| **I. FINANCIAL ASSETS** | | | | | | | | | | | | |
| a) Securities | | | | | | | | | | | | |
| aa) Debt instruments issued by public authorities | 113,286,705.22 | 18,394,400.00 | -1,999,768.04 | 0.00 | 129,681,337.18 | -1,297,705.27 | 183,073.70 1) | -700,967.51 2) | 0.00 | - 1,815,599.08 | 111,988,999.95 | 127,865,738.10 |
| bb) Other fixed-interest securities | 186,576,422.12 | 20,265,372.83*) | --35,459,170.89 | 38,357,429.38 | 209,740,053.44 | 5,319,135.19 | 1,183,165.59 1) | -2,155,238.67 2) | -492,804.01 | 3,854,258.09 | 191,895,557.30 | 213,594,311.53 |
| | **299,863,127.34** | **38,659,772.83** | **-37,458,938.93** | **38,357,429.38** | **339,421,390.62** | **4,021,429.91** | **1,366,239.29** | **-2,856,206.18** | **-492,804.01** | **2,038,659.01** | **303,884,557.25** | **341,460,049.63** |
| **II. PARTICIPATIONS** | **2,950.00** | **0.00** | **0.00** | **0.00** | **2,950.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **2,950.00** | **2,950.00** |
| **III. INTANGIBLE ASSETS** | | | | | | | | | | | | |
| a) Rights and licences | 912,574.89 | 0.00 | 0.00 | 0.00 | 912,574.89 | -376,835.66 | 0.00 | -59,346.83 | 0.00 | -436,182.49 | 535,739.23 | 476,392.40 |
| b) Start-up expenses | - | 0.00 | 0.00 | 0.00 | - | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | **912,574.89** | **0.00** | **0.00** | **0.00** | **912,574.89** | **-376,835.66** | **0.00** | **-59,346.83** | **0.00** | **-436,182.49** | **535,739.23** | **476,392.40** |
| **IV. PROPERTY, PLANT AND EQUIPMENT** | | | | | | | | | | | | |
| a) Adaptations in third-party buildings | 1,122,349.69 | 0.00 | 0.00 | 0.00 | 1,122,349.69 | -1,122,349.69 | 0.00 | 0.00 | 0.00 | -1,122,349.69 | 0.00 | 0.00 |
| b) Operating and office equipment | 1,306,091.35 | 78,566.08 | 0.00 | 0.00 | 1,384,657.43 | - -1,220,681.42 | 0.00 | -40,671.22 | 0.00 | -1,261,352.64 | 85,409.93 | 123,304.79 |
| c) Vehicle fleet | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| d) Low-value assets | 0.00 | 3,434.95 | -3,434.95 | 0.00 | 0.00 | 0.00 | 0.00 | -3,434.95 | **3,434.95** | 0.00 | 0.00 | 0.00 |
| | **2,428,441.04** | **82,001.03** | **-3,434.95** | **0.00** | **2,507,007.12** | **-2,343,031.11** | **0.00** | **-44,106.17** | **3,434.95** | **- 2,383,702.33** | **85,409.93** | **123,304.79** |

1) Proportional appreciation of the differences of securities valued as financial assets pursuant to § 56 (3) BWG

2) Proportional depreciation of differences of securities valued as financial assets pursuant to § 56 (2) BWG

*) Additions include price differences of EUR 2.4 million from securities denominated in foreign currencies.

**General provisions**

The annual financial statements of VakifBank International AG (VakifBank) have been prepared in accordance with generally accepted accounting principles and the general standard of giving a true and fair view of the assets, liabilities, financial position and profit or loss of the company. The accounting, valuation and disclosure of the individual items in the annual financial statements were carried out in accordance with the provisions of the Austrian Commercial Code and the Banking Act, as amended.

**Accounting and valuation methods**

The structure of the balance sheet and the profit and loss account corresponds to Annex 1 and 2 to § 43 BWG. Individual items that did not show an amount in either the financial year or the previous year are not listed. In the preparation of the annual financial statements, the principle of completeness was adhered to and the continuation of the company was assumed. The principle of the individual valuation was applied when assessing the individual assets and liabilities.

The principle of prudence was taken into account, taking into account the special features of the banking business, in that only profits realised on the balance sheet date were reported and all recognisable risks and impending losses were taken into account in the valuation.

Foreign currency amounts are valued at the quoted mean foreign exchange rates in accordance with § 58 (1) BWG, while currency holdings are valued at the quoted mean foreign exchange rates on the balance sheet date of 31.12.2022.

Accrued interest is allocated to the appropriate balance sheet items.

Securities that are not classified as fixed assets are recognised at the lower of cost or market value on the balance sheet date, taking into account the strict lower of cost or market principle. When valuing fixed asset securities, the accounting options pursuant to § 56 (2) second sentence BWG and § 56 (3) BWG are used and the moderate lower of cost or market principle is applied.

Property, plant and equipment as well as intangible assets are valued at acquisition cost less scheduled straight-line depreciation.

**Name and registered office of the parent company**

VakifBank is included in the consolidated financial statements of Türkiye Vakiflar Bankasi T.A.O. (TVB), Finanskent Mah. Finans Cad. No: 40/ Ümraniye, Istanbul. The annual financial statements are available at the registered office of the parent company.

**Share capital**

The share capital amounts to EUR 100 million and is divided into 66 million registered shares with a nominal value of EUR 1.52 each. Türkiye Vakıflar Bankası T.A.O., Saray Mahallesi Dr. Adnan Büyükdeniz CaddesiNo:7/A-B 34768 Ümraniye/İstanbul holds 100% of the shares.

**Notes to the balance sheet and the profit and loss account**

Breakdown by term (§ 64 (1) (4) BWG)

The receivables that are not payable on demand included amounts with the following maturity (remaining term):

**Receivables**

| | Vis-à-vis credit institutions 31.12.2022 | 2021 | Vis-à-vis non-banks 31.12.2022 | 2021 |
|---|---|---|---|---|
| | in € | in thousand € | in € | in thousand € |
| Up to 3 months | 0 | 0 | 1,138,803 | 502 |
| More than 3 months up to 1 year | 0 | 30,041 | 11,533,331 | 74,475 |
| More than 1 year up to 5 years | 0 | 0 | 441.458.540 | 299,214 |
| More than 5 years | 0 | 0 | 15,038,558 | 78,522 |
| **Total** | **0** | 30,041 | **469,169,232** | 452,714 |

The total amount of assets denominated in other currencies is EUR 18.9 million (previous year EUR 26.5 million).

The obligations not due daily included amounts with the following maturities (remaining term):

| | Vis-à-vis credit institutions 31.12.2022 | 2021 | Vis-à-vis non-banks 31.12.2022 | 2021 |
|---|---|---|---|---|
| | in € | in thousand € | in € | in thousand € |
| Up to 3 months | 142,525,581 | 16,328 | 39,707,201 | 43,178 |
| More than 3 months up to 1 year | 93,923,756 | 44,540 | 115,060,882 | 105,640 |
| More than 1 year up to 5 years | 62,427,845 | 228,994 | 136,785,324 | 146,703 |
| More than 5 years | 0 | 0 | 3,610,761 | 5,987 |
| **Total** | **298,877,182** | 289,862 | **295,164,168** | 301,508 |

The total amount of liabilities denominated in other currencies is EUR 0.7 million (previous year EUR 0.5 million).

**Public-sector debt instruments, bonds and other fixed-income securities and shares**

Debt instruments issued by public authorities amounted to EUR 129 million and increased by EUR 16.1 million compared to the previous year (EUR 113.1 million). Bonds and other fixed-income securities fell by EUR 1.2 million from EUR 249.9 million to EUR 248.7 million.

EUR 48 million (previous year: EUR 44 million) of the bonds will mature in 2023. As of the balance sheet date, there were bonds (including debt securities) with acquisition costs of EUR 339 million (previous year EUR 300 million), which are valued as fixed assets in accordance with § 56 (1) BWG.

For bonds (incl debt instruments), which are assessed as financial assets and for which acquisition costs are higher than the repayment amount, the difference is depreciated on a time-apportioned basis pursuant to § 56( 2) of the BWG. In 2022, depreciation amounted to EUR 1,098 thousand (previous year: EUR 864 thousand). The difference to be distributed over the remaining term is EUR 4,366 thousand (previous year: EUR 5,288 thousand).

In the case of bonds (including debt instruments) that are accounted for as financial assets and whose acquisition costs are lower than the repayment amount, the difference is recognised in profit or loss over the remaining term in accordance with § 56 (3) BWG. In 2022, the appreciations amounted to EUR 1,260 thousand (previous year: EUR 1,410 thousand). The difference to be distributed over the remaining term is EUR 5,766 thousand (previous year: EUR 3,538 thousand).

The securities reported under the item bonds and other fixed-income securities are all listed on the stock exchange. Bonds (including debt instruments) that are not accounted for as fixed assets show a difference between the acquisition costs and the higher market value on the balance sheet date of EUR 0.8 thousand (previous year: EUR 847 thousand) in accordance with § 56 (4) BWG.

A securities trading book is not maintained.
The allocation pursuant to § 64 (1) (11) BWG was made in accordance with the resolutions passed by the Executive Board, whereby, in accordance with the business strategy, securities held as current assets are earmarked for the liquidity reserve, but securities held as fixed assets are retained for long-term investment.

As of the balance sheet date, marketable securities with a book value of EUR 38 million were reclassified to fixed assets. The redesignated and existing instruments of the financial assets should continue to be retained permanently. The reclassification led to appreciations in fixed assets in the amount of EUR 3.6 million.

The valuation result of the financial assets consists of valuation gains and losses and amounts to EUR 2 million.

The valuation result from current assets consists of valuation losses from securities and loan claims as well as capital gains from the sale of securities and amounts to EUR -14.4 million.

**Notes on financial instruments pursuant to § 237a (1) (1) UGB**

Financial instruments of the financial assets, which are reported above their fair value, break down as follows:

| in million | **Book value 31.12.2022** | **Unlrealised losses** | **Book value 31.12.2021** | **Unlrealised losses** |
|---|---|---|---|---|
| Bonds and other fixed-income securities | 294.2 | -26.6 | 98.9 | -2.4 |

The reasons for the unrealised losses incurred on the bonds relate exclusively to market price-related fluctuations. A sustained deterioration in the creditworthiness of the issuers could not be ascertained.

The total of forward transactions not yet settled as of the balance sheet date, which consist entirely of FX swaps, is EUR 18.67 million (pervious year EUR 26.42 million), the fair value measured at the mean exchange rate on the balance sheet date is EUR 0.34 million (previous year EUR 0.11 million). This value is booked under other assets.

**Information on participations and relationships with affiliated companies (§ 45 BWG)**

The receivables from affiliated companies included in asset items 2 to 5 amount to EUR 14.1 million (previous year EUR 13.5 million). Compared to our parent company, TVB, the assets side is EUR 14.1 million (previous year EUR 13.2 million), of which in foreign currency EUR 14.1 million (previous year EUR 13.2 million). These mainly relate to securities.
The liability items include liabilities to our parent company in the amount of EUR 19.4 million (previous year EUR 11.94 million), thereof EUR 0.55 million (previous year EUR 0.36 million) in foreign currency. These consist entirely of deposits and clearing balances.

The participations shown in the balance sheet relate to the shares in S.W.I.F.T. SCRL, Belgium as well as Einlagensicherung AUSTRIA GmbH.

With a letter of comfort dated 18 March 1999, the parent company Türkiye Vakiflar Bankasi TAO, Istanbul, has irrevocably committed itself to managing and financially supporting VakifBank International AG in such a way that VakifBank International AG is always able to meet its obligations due to the Banking Act and their customers. Türkiye Vakiflar Bankasi TAO assumes this obligation for the duration of its participation in VakifBank International AG.

**Information on other assets**

The other assets item shows a balance sheet value of EUR 3.55 million (previous year EUR 2.98 million), of which EUR 267.3 thousand (previous year EUR 429.2 thousand) is income that only becomes payable after the balance sheet date.

**Deferred taxes**

The income tax item amounts to EUR 184 thousand (previous year: EUR -1,837 thousand), of which EUR 121 thousand is income from the reversal of tax provisions not used as intended.

The deferred tax liability created in accordance with § 198 (9) UGB amounts to TEUR 54 and is shown under the item "Provisions for deferred tax liabilities". The deferred tax liabilities in the previous year amounted to EUR 270 thousand. Deferred tax liabilities arise from temporary differences in the treatment under company and tax law of the provision for severance payments, the provision for IT expenses, the securities portfolio and the portfolio valuation allowance. The option to recognise the tax loss carry-forward standardised in accordance with § 198 (9) sentence 3 UGB was selected. It was offset against the amount of deferred tax liabilities remaining after considering the total difference, taking into account the 75% carry-forward limit within the meaning of § 8 (4) Z 2 lit. a KStG. A corporate income tax rate of 23% was applied. In principle, deferred taxes would also have to be formed for the German branch and these would also have to be determined using a different tax rate. However, since there are no material differences, no deferred taxes are reported.

**Information on other liabilities**

The other liabilities item shows a balance sheet value of EUR 2.28 million (previous year EUR 2.07 million), of which EUR 1 million (previous year EUR 1.2 million) are expenses that only become payable after the balance sheet date. Other liabilities include capital gains tax liabilities of EUR 0.3 million (previous year EUR 0.4 million).

**Provisions**

The provisions for severance payments developed as follows in the reporting period:

| | Status on 01.01.2022 | Use | Resolution | Addition | Status on 31.12.2022 |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| Provision for severance payments | 376,000.00 | 23,424.76 | 69,417.97 | 35,842.73 | 319,000.00 |

Other provisions developed as follows in the reporting period:

| | As at 01.01.2022 | Utilisation | Reversal | Allocation | As at 31.12.2022 |
|---|---|---|---|---|---|
| | € | € | € | € | € |
| Holiday accrual | 381,609.53 | 14,848.81 | 156,316.11 | 48,130.89 | 258,575.50 |
| Legal, auditing and consulting costs | 161,000.00 | 151,608.39 | 0.00 | 256,608.39 | 266,000.00 |
| Legal proceedings | 0.00 | 0.00 | 0.00 | 4,600,000.00 | 4,600,000.00 |

| | | | | | |
|---|---|---|---|---|---|
| Other short-term provisions | 151,940.05 | 41,940.05 | 90,000.00 | 0.00 | 20,000.00 |
| Provisions for IT expenses | 132,305.00 | 0.00 | 64,305.00 | 0.00 | 68,000.00 |
| | 826,854.58 | 208,397.25 | 310,621.11 | 4,904,739.28 | 5,212,575.50 |

Own resources

| Hard core capital (EUR) | 31.12.2022 | 31.12.2021 |
|---|---|---|
| 1. Paid-up share capital pursuant to Article 26 (1a) CRR | 100,000,000 | 100,000,000 |
| 2. Open reserves pursuant to Article 26 (e) CRR | | |
| Capital reserves (with share capital with premium) | | |
| Liability reserves | 8,250,000 | 8,250,000 |
| 3. Reserves as per Art 26 (1) (c) | | |
| Retained earnings | 60,746,311 | 54,526,528 |
| Deductions pursuant to Article 36 (1) (b) CRR - Of which | -9,566,190 | |
| 1. Intangible assets | -476,392 | -535,739 |
| **Total Tier 1 capital (EUR)** | 158,953,728 | 162.240.789 |

**Below-line items**

The below-line items include guarantees in the amount of EUR 0.09 million (previous year EUR 0.092 million). The unused credit lines amount to EUR 0.138 million (previous year EUR 0.265 million).

The total amount of assets denominated in other currencies is EUR 18.9 million (previous year EUR 26.5 million).

The total amount of liabilities denominated in other currencies is EUR 0.7 million (previous year EUR 0.5 million).

**Value adjustments on receivables from customers**

Individual value adjustments of EUR 14.3m (previous year EUR 5.2m) were made on receivables from customers amounting to EUR 18.8 million (previous year EUR 25.9 million). The strong increase in individual value adjustments is due to a loan, Orpea, for which an individual value adjustment of EUR 10.5 million was created.

The balance of value adjustments on receivables and contingent liabilities resulted in a negative effect of EUR 8.2 million, of which EUR 0.8 million net general value adjustment was reversed

**Expenses for the bank auditor**

Expenses for our bank auditor Ernst & Young Wirtschaftsprüfungsgesellschaft mbH in 2022, including allocations to provisions, amounted to EUR 173 thousand (previous year EUR 146 thousand) gross less input tax according to the input tax key and are divided into the following areas of activity:

| | 2022 EUR thousand | 2021 EUR thousand |
|---|---|---|
| Audit of the annual financial statements | **105** | **100** |
| Other confirmation services | **68** | **46** |
| Tax consulting services | **0** | **0** |

| | | |
|---|---|---|
| Other services | **0** | **0** |

**Other information**

VakifBank is included in the consolidated financial statements of Türkiye Vakiflar Bankasi T.A.O. (TVB), Finanskent Mah. Finans Cad. No: 40/1 Ümraniye, Istanbul. The annual financial statements are available at the registered office of the parent company.

Obligations from the use of property, plant and equipment not shown in the balance sheet amount to around EUR 373 thousand for the following financial year (previous year: EUR 334 thousand). The total amount of obligations for the next 5 years is around EUR EUR 2.0 million (previous year: EUR 1.7 million).

Furthermore, there is still an obligation from the membership of Einlagensicherung AUSTRIA GmbH, which is required under § 93 BWG for deposit protection. In 2022, the payment of contributions for deposit insurance led to a payment to the deposit insurance fund (EiSi) amounting to EUR 283 thousand (previous year EUR 1,123 thousand), which was recorded as part of other operating expenses.

The leasing expenses for motor vehicles amount to approximately EUR 1 thousand (previous year EUR 0 thousand) for the following business year and approximately EUR 0 thousand (previous year EUR 0 thousand) for the following 5 years.

The disclosure, required under art. 431 of the CRR et seqq. is available on our homepage (www.vakifbank.at).

The item expenses for severance payments and payments to company employee pension funds includes transfers to provisions for severance payments in the amount of EUR 36 thousand, payments to the company pension fund amount to EUR 39 thousand (previous year: EUR 36 thousand). The pension expenses include expenses for commitments for which exclusive contributions of EUR 61 thousand (previous year EUR 73 thousand) have to be paid.

Expenses for severance payments to members of the Board of Management and executives amounted to EUR 350 thousand (previous year: EUR 44 thousand) in this financial year.

The Executive Board will propose to the general assembly that the unappropriated profit of EUR 0.4m be allocated to retained earnings.

The total return on assets according to § 64 paragraph 1 Z 19 BWG is - 1.09% (previous year 0.70%). VakifBank maintains a branch in Germany. The key figures of the branch are as follows:

| | |
|---|---|
| Name: | Branch in Germany (DE) |
| Net interest income: | EUR 72 thousand |
| Operating income | EUR 139 thousand |
| Number of employees: | 6 |
| Profit before tax for the year: | EUR - 899 thousand |
| Taxes on income: | EUR 0 thousand |
| Public aid received | EUR 0 |

From its business on the Turkish market, VakifBank generated interest income from the lending business in the amount of EUR 0.5 million and from the securities business in the amount of EUR 3 million.

**Events after the balance sheet date**

There were no significant events between the end of the financial year and the preparation of the annual financial statements.

**Information on governing bodies and employees**

The average number of employees in 2022 was 51 (previous year: 46).

The Executive Board is be composed of the following persons:

Taner Ayhan

Chair of the Executive Board since 1.06.2022
Mag. Horst Gottsnahmen Deputy Chair since 1.03.2023
Mag. [a] Manuela Döller-Hauner Deputy Chair since 06.04.2021 – 28.2.2023
Ahmet Vural Biyik Chair of the Executive Board from 20.10.2017 – 31.05.2022

The Supervisory Board is composed as follows:

Ferkan Merdan Chair since 30.12.2020
Suayyip Ilbiligi Deputy Chair since 30.12.2020
Alp Tolga Simsek Member since 7.07.2017
Neslihan Tonbul Member since 120.10.2017
Dr Gero Volker Dittrich, MBA Member since 1.03.2021

Remuneration for members of the Executive Board and Supervisory Board was paid in the financial year:

| | **2022 EUR thousand** | **2021 EUR thousand** |
|---|---|---|
| Executive Board members | **373** | **389** |
| Supervisory Board members | **48** | **45** |

Vienna, 20 June 2023

VakifBank International AG

Taner AYHAN e.h. Mag. Horst GOTTSNAHM e.h.

Chair of the Executive Board, CEO Executive Board member