Annual Report 2023

Anadolubank Nederland

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Anadolubank Nederland

Vision

To become the bank of choice for customers

As the international banking arm of Habas Group/Anadolubank A.S., our vision is to be recognized for our quality, reliability and excellence and to become the bank of choice for customers.

Mission

Setting new standards

In order to become the bank of choice for customers, we must set new standards for banking operations that benefit our customers, shareholders, society, employees and our own organization. Our principal commitment is to deliver a return on equity on a sustainable basis.

New standards will therefore be at the core of everything we do in the future. The Bank will focus on setting new standards in four areas: the expertise of our team, our knowledge of local and global markets, by carefully building exceptional customer relations, and strong and conservative risk management.

Values

- Integrity
- Working together
- Products & services

Integrity
Be fair, honest, and sincere in all of our business relationships.

Working together
We firmly believe that working together, inspiring each other and to achieve collective strength is essential for banking. We can support each other and serve our clients as one. We want long-term relationships with our customers that create value for both parties.

Products and services
We will always strive for excellence in serving our internal and external customers, through professionalism, innovation and creativity.

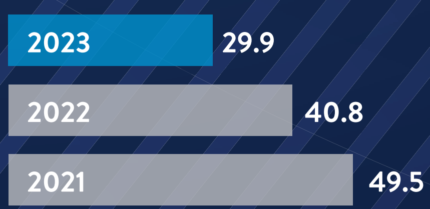
THREE-YEAR KEY FIGURES

in EUR thousand	2023	2022	2021
Total assets	1,004,845	833,065	636,315
Loans	583,614	468,305	430,375
Bank loans	300,581	262,889	253,663
Corporate loans	283,033	205,416	176,712
Securities	124,167	113,929	78,709
Deposits	827,032	572,774	417,970
Shareholders' equity (including results after tax)	132,769	112,068	103,093
Operating result before tax and impairments	26,767	12,217	8,202
Expected credit losses	(1,172)	(958)	(873)
Result after tax and impairments	19,005	8,397	5,521
%			
Net return on average equity	15.5	7.8	5.5
Loans/deposits	70.6	81.8	103.0
Cost/income ratio	29.9	40.8	49.5
Cost/average assets	1.1	1.2	1.4
Capital adequacy ratio	20.6	22.3	22.9
Liquidity coverage ratio	385	369	549
Net stable funding ratio	195	188	172

Net return on average equity is calculated using average shareholders' equity.
Cost/income ratio is calculated using total expenses and total income. Expected credit losses are excluded.
Cost/average assets ratio is calculated using total expenses and average assets. Expected credit losses are excluded.
The following ratios are defined in accordance with capital requirements regulation ("CRR"):
- Capital adequacy ratio
- Liquidity coverage ratio
- Net stable funding ratio

Net return on average equity %

Cost / income ratio %



Capital adequacy ratio %

SUPERVISORY BOARD REPORT

General

The most important role of the Supervisory Board is supporting, challenging and assisting management while ensuring effective governance. Among other duties, it is an impartial arbiter of corporate conduct and compliance. In general, the Supervisory Board is very much engaged in its advisory role in the setting of risk appetite of the Bank, the strategy and define the culture in the organization. Members of the Supervisory Board, in particular the Chairman of the Supervisory Board, have – next to the contacts with the Members of the Management Board in the formal meetings – also many informal contacts with the Management Board as a whole or the individual members.

The year 2023

Anadolubank N.V. continued the transformation program into a diversified client-based bank concentrating on providing financial services to Dutch and European customers. The significant impact on several economies through inflationary pressures had limited impact on Anadolubank N.V. following its consistent conservative approach on lending. The Bank was still able to maintain a high level of liquidity and solid capital ratios in 2023.

The key priorities for 2023 were:

- Strategy of continued expansion diversification of lending, where feasible;
- Preserve a solid, capitalized and liquid bank to weather the difficult economic environment effects of the Russian-Ukrainian conflict;
- Adjust the risk appetite, maintain a very conservative approach towards new customers;
- Start up the activities to meet the regulatory requirements Climate and Environmental risks;

As Supervisory Board we are pleased and confident that Anadolubank N.V. has been able to remain in control through the careful management by the Management Board supported by the Supervisory Board, assisting its clients, continue business as usual with teleworking and ensure all ratio's remained positive and closing the year with a solid net profit.

Dutch Corporate Governance Code

While the code is applicable to listed companies, Anadolubank N.V. uses the principles in the code as guideline for its structure, policies and procedures.

The Supervisory Board discusses the Corporate Governance Code and the impact of the code on the bank regularly. The Supervisory Board supports the way in which the Bank applies the principles as guideline.

Culture

Supervisory Board and Management Board consider an open and transparent communication structure in the bank of utmost importance. During the past years much time was spent to analyze the culture of the Bank and which improvements are needed, or to be considered. We are pleased to note that almost all recommendations have been implemented. However it remains high on the agenda of the Supervisory Board and the Management Board. It is therefore that we have started a refreshed culture program in 2023, as we have a few changes on Board level and it is important to have all in the bank focused that a open and sound culture is of utmost importance.

Strategy

During the year 2023, the Supervisory Board was actively involved in discussions with the Management Board on the strategic focus, and the difficult circumstances surrounding the Bank, assisting, supporting and monitored the execution of the strategy, and the challenges faced in these strange times. The strategy of Anadolubank N.V. Is to diversify and focus more on the diversified corporate lending, while retaining the existing portfolio. The effective implementation of the new strategy has been a key priority for the past, and the coming, years. Special meetings between Supervisory Board and Management Board together with senior staff are dedicated to discuss the strategy and to define next steps for implementation, being:

- The Supervisory Board has emphasized one of the Bank's key objectives for the longer term is sustainable profitability;
- Supported by prudent and stringent risk management;
- Successful execution of the strategy is followed and monitored by the Supervisory Board

The Supervisory Board concludes that good progress is being made on the implementation of the strategy.

Risk Appetite

Every year the Supervisory Board discusses the risk appetite with the Management Board.

In its 2-monthly meetings with the Management Board, the Supervisory Board discusses the various risk types and monitors the actual risk profile by means of an integrated performance & risk dashboard. It is the Supervisory Board's opinion that a conservative risk appetite protects the Bank>s reputation and ensures the continuity and sustainability of the Bank for its stakeholders.

Control Framework

Banking may be considered one of the most heavily regulated industries. However, as Anadolubank N.V. is well capitalized and maintains high liquidity ratios, the Bank is well positioned to meet all necessary requirements.

The Bank continuously evaluates the design and effectiveness of risk management, compliance and internal controls to oversee the embedded risks and also enable the right business growth. The Management Board is responsible for the control, the actual daily routines framework and the staff mindset, whilst working in close collaboration with the Supervisory Board. The Supervisory Board is satisfied with the strength, stability and performance of all those functions that are part of the control framework.

Management Board

In January 2023 Mr. **Ozgur Sakizlioglu** resigned as CEO of the bank.

Mrs. **Nuriye Plotkin** was appointed as interim CEO for the year 2023,

As per 28 March 2023 Mr. **Nedim Sabah** was appointed as member of the Management Board. As per January 1, 2024 Mr. Nedim Sabah became the new CEO.

We thank Mrs Nuriye Plotkin for willing to take up the position of interim CEO during 2023 next to her existing responsibilities.

We believe that the new management heralds a new era for our bank and Anadolubank NV will continue its successful course under the leadership of new Management Board

Cooperation with the Management Board

The Supervisory Board is closely involved, in its advisory role, in the company>s business, especially regarding the Bank's strategy and the risk appetite. The Chairman of the Supervisory Board and Management Board have frequent contact outside of formal meetings. The other Supervisory Board members and Management Board members also have regular contact outside the meetings.

Supervisory Board structure

The Supervisory Board has formulated a membership profile that defines its size and composition. The Supervisory Board consists of four Members of which two are independent and two are dependent according to the principles of the Governance code. This composition is in line with the requirement of DNB. All members are jointly and severally liable for the execution of the Supervisory Board's functions. Due to the size of the Supervisory Board and its composition, no separate committees are installed. Instead, all members have been assigned specific attention areas. Each attention area is in principle assigned to two members, an independent member together with a dependent member.

As per January 1, 2023 Mr. **Johan Buitenga** resigned from the Supervisory Board for personal reasons.

As per July, 13 2023, Mr. **Maarten Rosenberg** was appointed as new member of the Supervisory Board. Mr. Rosenberg brings in a wealth of expertise in the (international) financial industry so we are glad he joined the Supervisory Board.

Between January 2023 and August 2023 the Supervisory Board existed of three members, one independent and two dependent members. Therefor the Chairman of the Supervisory Board was re-appointed for an other term of two years, which will bring his total years in the Supervisory Board, when he will step down in 2025, to 12 years the maximum term according to the Governance Code.

Supervisory Board meetings

During the year 2023 the Supervisory Board met six times (in principle once per two months) with the Management Board to review the interim figures, management reports, reports of the internal and external auditors and audits by DNB. Further the Supervisory Board meets at least once a year with the external auditor. In all these meeting the members of the Management Board were present. Further the Supervisory Board meets at least once a year without the presence of the Management Board to perform a self-evaluation. During all these Supervisory Board meetings, all appointed members of the Supervisory Board were present.

Life-long training

The Supervisory Board members, members of the Management Board and senior officers do participate in a permanent education program to stay on top of new developments in the industry like new regulations, technological developments and culture issues. In 2023 the topics of the training were:

- Value of cloud
- Fraud in lending
- Environment, Social and Governance
- IFRS 9

Self-evaluation of the Supervisory Board

One of the principles of the Dutch Corporate Governance Code states that the Supervisory Board is collectively responsible for its own functioning and that an annual self-assessment needs to be conducted. Every three years this self-evaluation should be performed under the guidance of an independent advisor. It had been decided that the self-evaluation under the guidance of an independent advisor would be postponed initially due to all limitations related to Covid-19 but also due to the recent changes in the Supervisory Board.

The self-evaluation has been performed internally in 2023 but the self-evaluation under the guidance of an independent advisor is now scheduled for mid 2024.

Priorities for 2024

We will continue to concentrate on corporate banking products, trade finance, and marine and vessel financing while keeping an eye on country concentration. Next to this the Bank will also analyze the consequences and impact on banking of the regulations in relation to the ESG factors (Environment, Social and Governance). Also the strengthening of the HR frame work will have a high priority in 2024. We realize that these projects will create a heavy burden on the organization and staff, but we are confident that these projects can be managed properly.

Adoption of financial statements

We hereby present the annual report and financial statements for the 2023 financial year, as prepared by the Managing Board. The achievements and overall results of 2023 are in line with our vision and with our continuing efforts to maximize the Bank's performance and stability.

The Bank has a business model and a structure that is straightforward. The Bank reported net profit of EUR 19 million for 2023. This is a result the Bank can be extremely proud of, especially in light of the current market conditions. This is an all-time high profit for the bank.

The Supervisory Board has discussed the 2023 financial statements with the Management Board and the independent auditor, Deloitte Accountants B.V., who issued an unqualified opinion. The Supervisory Board members have signed the financial statements in conformity with their statutory obligation. We recommend that the General Meeting of Shareholders adopt the financial statements for 2023 at the General Meeting of Shareholders to be held on 22 May 2024. We propose that the profit after tax and impairments be added to the Bank's reserves. Furthermore, we propose that the General Meeting of Shareholders discharge the members of the Management Board from responsibility for their management and the Supervisory Board from responsibility for their supervision in the 2023 financial year.

Conclusion

The Supervisory Board wishes to express its appreciation to our shareholders and clients for their trust, as well as to our Management Board and our employees for their ongoing commitment to create value and to participate in the long-term growth of our business.

Amsterdam, 14 June 2024

A.J. Smith, Chairman

F. Canbay, Vice Chairman

G. Taran Ünver, Member

M. Rosenberg, Member

From left to right:

M. Rosenberg, Member
A.J. Smith, Chairman
F. Canbay, Vice Chairman

MANAGEMENT BOARD REPORT

2023 was a year with significant number uncertainties such as persistent inflation, interest rate hikes and geopolitical tensions which has not interrupted the bank to focus and implement its own strategy.

The Management board is pleased to report that the Bank has exceeded all financial targets for the year 2023. The bank reached a net profit of 19 million Euros, an increase of 10.6 million Euros compared to the previous year. These results were driven by the strength of our core business activities, our prudent approach to credit risk management and the progress we've made in execution according to our plan. With a CET1 (Common Equity Tier 1) of 20.6% and a high liquidity, our healthy bank balance sheet maintains its strength. The improved efficiency of 29.9%, an increase of 10.9% represents the optimum management in our institution. We are incredibly proud of what our team has accomplished. While doing so the funding diversification, high liquidity has been also one of the key measures that the bank has focused.

Looking forward to 2024 we would like to pursue the momentum that is achieved. Whilst keeping the above at the top of our agenda, our priority will be keeping our customers at heart of strategy.

The Bank will focus on the following elements and key priorities:

- Implementing the loan portfolio to more sustainable commodities and sectors
- Focus on trade finance, marine and vessel finance and corporate banking products; whilst focusing on country concentration diversification.
- Increase organizational and operational efficiency with solid performance management and financial performance reporting.
- Improvement in information technologies to better serve the needs of the employees.
- Introduce leadership programs for the employees to shape the future of Anadolubank Nederland N.V.

In terms of our responsibilities towards the environment, the Management Board initiated the project in 2023 to implement measures to improve Environmental and Climate risk management. The bank has invested significantly both to external and internal advice and trainings to be able to pursue the implementation. We have implemented our Environmental and Climatic risk roadmap, which defines the Bank>s climate-related priorities and aims to better understand the impact of climate-related risks on our business.

As the Management Board, we would like to express our gratitude to the trust of our Supervisory Board and our shareholders, the loyalty of our customers and, finally, to our esteemed colleagues who are with us every day on this path we have embarked on.

The Management Board is composed of the following members:

Name	*Position*	*Membership Since*
N. Sabah	CEO	2023
N. Plotkin	Managing Director	2013
A.H. Otten	Managing Director	2013

2.1 Outlook

Global economic activity continues to soften, amid the effects of tight monetary policies, restrictive financial conditions, and weak global trade growth. After a sharp slowdown in 2022 and another decline last year, global output growth is set to edge down in 2024, marking the third consecutive year of deceleration. The recent conflict in the Middle East has heightened geopolitical risks and raised uncertainty in commodity markets, with potential adverse implications for global growth. This comes while the world economy is continuing to cope with the lingering effects of the overlapping shocks of the past four years—the COVID-19 pandemic, the Russian Federation's invasion of Ukraine, and the rise in inflation and subsequent sharp tightening of global monetary conditions.

Growth in advanced economies as a whole and in China is projected to slow in 2024 to well below its 2010-19 average pace. Meanwhile, aggregate growth is set to improve in EMDEs (Emerging markets and developing economies) with strong credit ratings, remaining close to pre-pandemic average rates. Although overall growth is also expected to firm somewhat from its 2023 low in EMDEs with weak credit ratings, the outlook for many such countries remains precarious, given elevated debt and financing costs, and idiosyncratic headwinds such as conflict.

Global headline and core inflation have continued to decline from 2022 peaks. Nonetheless, inflation remains above target in most advanced economies and about half of inflation-targeting EMDEs. Global inflation is projected to remain above its 2015-19 average beyond 2024. Monetary tightening in advanced economies is concluding, but real policy interest rates are expected to remain elevated for some time, as inflation returns to target only gradually. This will keep the stance of advanced-economy monetary policies restrictive in the near-term, following the largest and fastest increase in U.S. real policy rates since the early 1980s.

2023 has been a very successful year for Anadolubank Nederland NV benefiting from widening spreads, which had, and still having a positive impact on the banking sector profits. Anadolubank Nederland NV's total balance sheet exceeded EUR one billion for the first time in bank's history and total realized net profit was just below EUR 20 million, another important milestone for the bank. Despite higher interest expenses, net interest income almost doubled as well as fee and commission income. Thanks to prolonged period of high interest rates, Anadolubank Nederland NV managed to add EUR 46 million nominal of new securities to its portfolios in line with the banks appetite of high yielding medium term Eurobonds. This also contributed to record high interest income levels. Given the uncertainty of the markets for 2024 and beyond, without being very ambitious Anadolubank will keep its agile conservative management style with prudent balance sheet management considering any possible negative impacts of these risks on the financial sector.

2.2 Economic Developments

The global context still remains challenging. Global trade growth has been weak because of subdued global demand, the continued post-pandemic shift of consumption from goods toward services, and more restrictive trade policies. Regardless of the recent volatility, prices of most commodities have fallen back from their 2022 peaks but remain above pre-pandemic levels. This moderation has contributed to a decline in global headline inflation. Core inflation, on the other hand, has been more persistent, especially in some advanced economies where labor markets remain tight. This suggests that policy rates in advanced economies will decline only gradually, contributing to higher longer-term market rates than those that prevailed before the pandemic. EMDE financial conditions remain restrictive as reflected in sharp currency depreciations and capital outflows.

Global growth is forecast to slightly slow from 3.4% in 2022 to 3.1% in 2023, 3.1% in 2024 and 3.2% in 2025 according to IMF. The projections remain below the historical (2000–19) average of 3.8%. For advanced economies, the expected slowdown is from 2.5% in 2022 to 1.5% in 2023, 1.2% in 2024 and 1.6% in 2025, amid stronger-than-expected US momentum but weaker-than-expected growth in the euro area. Emerging market and developing economies are projected to have growth slightly picking up from 3.7% in 2022 to 4.0% in 2023, 3.9% in 2024 and 4.0% in 2025. Global inflation is forecast to decline steadily, from 8.8%, in 2022 to 6.8% in 2023, 5.8% in 2024 and 4.6% in 2025.

Global trade in goods and services was virtually flat in 2023, growing by an estimated 0.2%, the slowest expansion outside global recessions in the past 50 years. Goods trade contracted last year, reflecting declines in key advanced economies and deceleration in EMDEs, and mirroring the sharp slowdown in the growth of global industrial production. After lagging the pace of global growth in 2023, global trade is projected to pick up to 2.3% in 2024, mirroring projected growth in global output.

Inflation and interest rates

Global headline consumer price inflation declined substantially in 2023. Moderating energy and food price inflation, along with slowing consumer demand for goods and the recovery of global supply chains, exerted significant downward pressure on goods inflation. Nonetheless, inflation remains above targets in most advanced economies and in about half of inflation-targeting. In the major advanced economies, the rotation of demand from goods to services continued. Declining goods inflation amid easing import prices was partly offset, however, by persistent services inflation tied to tight domestic labor markets. As a result, core inflation, which surged less than headline inflation in 2021- 22, has also declined less since its 2022 peak.

In the United States, disinflation has occurred alongside resilient activity and low unemployment, thanks partly to increasing labor supply, improving supply chains, and falling oil prices. The decline in the euro area inflation was accompanied by weak growth, reflecting the negative supply shocks from earlier sharp energy price increases. In most EMDEs, headline and core inflation receded last year as growth weakened. Nevertheless, in countries facing financial stress, inflation remained very high, in association with currency depreciations.

In 2024-25, global inflation is expected to decline further, underpinned by the projected weakness in global demand growth and slightly lower commodity prices. Subdued demand reflects the effects of tight monetary and credit conditions and softening labor markets. Thus, global headline inflation, on a year-on-year basis, is forecast to recede however still cruising above the pre-pandemic (2015-19) average but closer to central bank inflation targets.

Policy makers at the national level also face formidable challenges, which will require careful calibration of competing priorities. With inflation projected to continue moderating, policy interest rates are set to ease across many EMDEs starting from mid-2024 through 2025. However, monetary policy easing in EMDEs could be constrained by narrowing interest rate differentials relative to advanced economies, which could heighten the risk of capital outflows and currency depreciations. Careful attention to risks is therefore required to ensure that monetary policy supports sustainable growth while helping to bring down inflation durably, and to maintain financial stability, particularly in EMDEs with large fiscal and current account deficits.

Dutch Economy

After a very strong recovery from the Covid-19 pandemic in 2021 and 2022 that was driven by strong private consumption(mostly for services) and good results from foreign trade, economic growth in 2023 and 2024 should be noticeably slower in the Netherlands. In 2023, private consumption is unlikely to maintain the pace of the last two years – although the inflation rate eased noticeably during the year – due to a fall in European energy prices.

The translation between energy prices and inflation is swift as gas is the main source of heating in the Netherlands and 3.5 million households (44%) have only have a short-term heating contract (6 months) so that prices adapt quickly. The Dutch government previously implemented an electricity and gas price cap, which also helped to bring down energy prices. Production in the Groningen gas field of has deteriorated markedly and will end in October 2023. However, by then, two LNG terminals in Eemshaven and Rotterdam will secure energy supply. In combination with full gas storage levels (88% in late July 2023), scarcity of natural gas in winter 2023-2024 and the related increase in natural gas prices will be less likely. This means that the inflation rate should even out to between 3.0 and 2.5% in 2024 when the basis effects from the energy crisis will have disappeared and the impact of ongoing high service and food prices should hold the inflation rate at a relatively high level.

Household purchasing power will have strengthened and is expected to continue increasing in 2023 and 2024, thanks to higher collective bargaining agreements that have included wage rises of around 10% for many sectors in 2023 and will be supplemented by further smaller increases in 2024. The ongoing low level of unemployment has prompted and should further encourage unions to ask for higher wages. The minimum wage grew by 10% in January 2023, and by another 3.1% in July 2023. It is expected to increase further in January and July 2024, albeit by a lower margin. Nevertheless, private consumption (43% of GDP) should remain subdued, as it has chiefly relied on a reduction in the savings rate in recent years.

Foreign trade – exports account for 89% of GDP, and imports 77% in GDP – should represent only a modest growth factor in 2023 due to stagnating activity in Western Europe, but could pick up somewhat in 2024. Taken together, the quarterly growth rates of the Dutch economy should be noticeably higher in 2024 than in 2023. However, due to a positive carry-over effect from the year 2022 to 2023, this is not directly visible in the yearly GDP growth rates for 2023 and 2024.

Turkish Economy

For Turkish economy, growth is forecast to slow down to 4.0% in 2023 and 3.0% in 2024 after recording 5.3% in 2022. For 2025, minor recuperation is expected with 3.2% growth. Inflation on the other hand is expected to slow down in 2023 with 52% levels after slightly increasing back in 2024 to 60% levels according to IMF. At the December 2023 meeting, Turkish Central Bank set the policy rate at 42.5% as expected by the markets. Additionally, regulatory changes slowed credit expansion, which started to weigh on growth. Nonetheless, activity expanded more than previously anticipated, thanks to resilient private consumption and substantial post-earthquake fiscal outlays.

Although the new economy management team is following solid orthodox policies, investors still seem hesitant to fully trust economic management just before the local elections in March 2024. However, positive impact of the new policies can be observed via Turkish 5Y CDS, ending 2023 just below 290 levels, lowest since the start of the pandemic in the beginning of 2020.

Following monetary tightening as well as the supportive measures of selective credit and quantitative tightening, loan growth has begun to be rebalanced. In response to the simplification steps taken in macro prudential policies, commercial loans have shown a steady growth, and the commercial loan composition has been improving on the back of the increase in the share of export and investment loans. The retail loan growth has markedly slowed down.

While FX indebtedness continues to fall, the number of firms with FX debt is also declining. Firms have strong balance sheets that can cover their short-term FX liabilities thanks to their abundant FX liquidity. Despite tight global financial conditions, companies' financing from abroad has been increasing and the external debt rollover ratio remains robust.

2.3 Financial Institutions

The Financial Institution department (FI) assumes the crucial role of steering business development across pertinent geographical regions and emerging markets. Operating within the risk framework and appetite guidelines of the Bank, FI diligently fosters and expands relationships with both domestic and foreign Financial Institutions, as well as central banks. In addition, it plays a pivotal role in supporting the bank›s strategic repositioning efforts amid a dynamically changing competitive landscape.

Since its inception in 2008, FI has been actively engaged in asset generation within the bank›s core markets, procuring long-term wholesale funding through syndications and trade-related transactions, and participating in the distribution of trade-related assets in the secondary markets. Collaborating closely with Treasury, Trade Finance, Corporate Banking, Operations, and Credit Risk departments FI ensures seamless and efficient services for the bank›s esteemed customers.

FI places a significant emphasis on the forfaiting business model, offering a range of products such as Letters of Credit, Promissory Notes, Bills of Exchange, Bank Guarantees, Schuldschein, Syndicated and Bilateral Loans in both primary and secondary markets. As a proud member of the International Trade & Forfaiting Association (ITFA), the Bank leverages a diverse array of business and partnership options in the realm of trade finance.

In 2023, a key focus for the department was to expand network of counterparties, with a particular emphasis on European countries. These objective has been accomplished successfully through the establishment of new Relationship Management Agreements (RMAs) with several prominent European banks. This achievement has not only diversified our network but has also opened up a range of compelling business opportunities within the European sector. The initiation of these new partnerships has led to a significant uptick in our department›s trading volume and, subsequently, our overall profits. This demonstrates the tangible benefits of fostering strategic alliances and actively seeking new collaboration.

Continuing into the future, FI remains dedicated to exploring the most efficient ways to deliver highly competitive services while ensuring strict compliance with the latest regulations. We look forward to further leveraging international relationships to drive continued growth and success for the bank as a whole.

2.4 Trade Finance

Trade Finance business has been one of the key business lines consistently adding value to Anadolubank N.V. financially and reputation-wise. While diversifying Trade Finance product range, execution and understanding of customer requirements have also improved drastically. The Trade Finance team's expertise aims for applying the appropriate structure for each transaction with timely and efficient handling of the underlying financial instruments and other related documents. 2023, just as 2022, witnessed a series of major events and conflicts. The earthquakes that happened in Turkey and Syria caused massive destruction. The war between Ukraine and Russia has been continuing for more than two years now and recently a military conflict started in Gaza which is unfortunately leading to more instability in the Middle East. Both conflicts exerted widespread pressures and disruptions on trade finance and global energy prices.

Anadolubank Nederland NV keeps closely monitoring the aggression in Ukraine and exited from all kind of trade finance activities as well as appetite due to geopolitical issues. Anadolubank Nederland N.V doesn't have a single direct exposure in Russia or Ukraine as of 2023 year end.

Anadolubank N.V. Trade Finance team had an excellent year in 2023 in terms of commission income, trade finance volume as well operating income. Trade Finance department demonstrated another record year in terms of both volume and operating income. For the first time in its history Trade Finance department's income commission exceeded EUR 4mn at the end of the year representing 35% increase compared to the previous year. Addition of new clients to the customer portfolio as well as activation of some existing inactive customers had a strong positive impact on trade finance volumes. Despite lower economic activity and lower commodity prices Anadolubank Nederland NV's annual trade finance volume exceeded EUR 2.5 billion in 2023 which was EUR 2bn in 2022, recording a year-on-year growth of over 33%. Increased volume and record commission income were supported by increased corporate deposits as well.

2.5 Corporate Banking

Anadolubank N.V. Corporate Banking serves domestic corporations and international companies operating mainly in Europe and Turkey. We aim to differentiate Corporate Banking by offering high quality services, tailor-made products, consultancy, and excellent service to our customers.

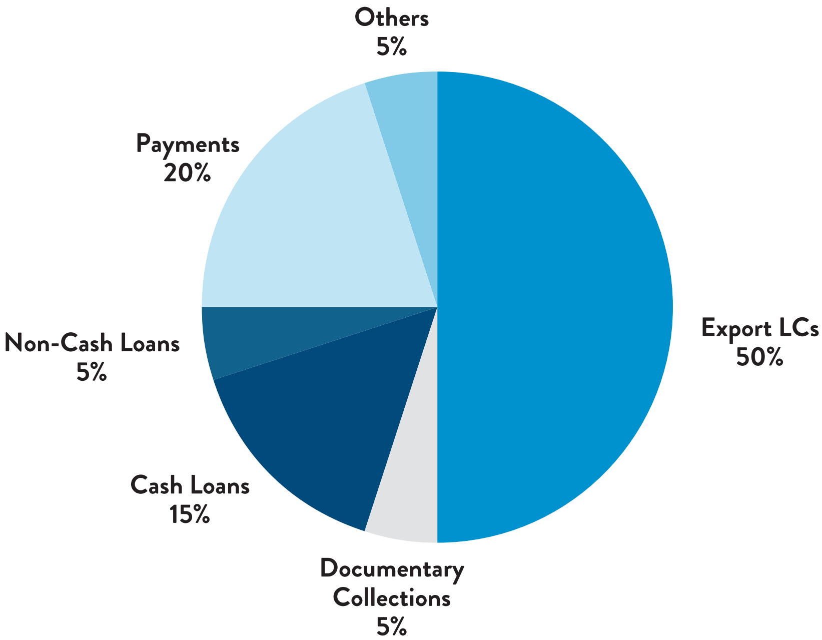
Central banks increased their interest rates in 2022 and interest rates remained high and stable in 2023. Thus, the corporate banking team had a good year both enjoying the market conditions and increasing its clientele by welcoming new clients.

Aside from our core business, we also focused on our studies in ESG related topics. We have concluded a financial materiality analysis and updated our policies and loan origination processes. We have conducted environmental risk identification and materiality assessments on selected pilot companies. In 2024, we are planning to apply the afore-mentioned environmental risk analysis to all our corporate loan portfolio.

In 2024, it is expected that interest rates will still be high despite gradually declining. We believe, this will also bring us new opportunities. Corporate banking will keep contributing Anadolubank NV's continuous growth by increasing the corporate loans portfolio and acquiring new projects and clients.

2.6 Retail Banking

Retail deposits provide us stable funding base and have been a key focus area for us since commencing operations. The retail banking products of Anadolubank N.V. are straightforward. The Bank offers its customers a savings account and a range of term deposit options with market rates. Retail deposits are collected primarily via Internet and call center channels. In 2023, the Retail Banking Department maintained its focus on fast, reliable and consistent customer service.



2.7 Compliance

International sanctions did continuously develop in 2023. The checks on sanctions were a dominant factor of activities of the compliance department. Particular Trade finance related business activities were in this scope. Relevant training on sanctions was given by an external expertise party. The total Know Your Customer and Customer Due Diligence activities of the bank did result in more time consuming for these topics. The Management Board decided to expand the capacity of the Compliance department. This will lead to the establishment of a dedicated AML/ sanctions unit and a Regulatory unit within this department, effective as from first quarter 2024.

The annual Systematic Integrity Risk Analysis was performed and the outcome was discussed in depth with the Management Board.

The Compliance Department remains focused on the fight against money laundering and the finance of terrorism. Specific trainings on AML were given for relevant staff.

Frequently meetings with the MB were in place. Compliance reports also on regular basis to the Supervisory Board.

In 2023 further digitalization possibilities of the Compliance function will be investigated, as already started in 2024.

IBOR Transition

The Financial Stability Board made a fundamental reform of major interest rate benchmarks. In the second quarter of 2020, Anadolubank N.V. formed a team to oversee the transition to IBOR. Our impact analysis indicated minimal financial implications.

The Belgian Financial Services and Markets Authority granted authorization to EURIBOR under the EU Benchmarks Regulation. As a result, EONIA ceased publication on January 3, 2022, and Anadolubank N.V. seamlessly shifted to ESTR.

Until June 2023, the ICE Benchmark Administration continued to publish 1, 3, 6, and 12-month LIBOR rates, exclusively for legacy trades. Any new trades executed from January 1, 2022, required to be referenced to the new RFR (Risk Free Rate).

Anadolubank N.V. amended relevant legal contracts and adhered to the ISDA 2020 IBOR Fallback Protocol. Legacy transaction volume was limited beyond June 2023. All legacy trades are smoothly transitioned to Fallback rates and new trades are referenced to the new RFR. The project was successfully concluded with a smooth transition and overall effect is immaterial.

2.8 Financial Performance Summary

Anadolubank N.V. posted EUR 19 million net profit in 2023, EUR 10.6 million higher than 2022 (2022: EUR 8.4 million).

Net interest income rose to EUR 31.9 million from EUR 17.3 million in 2022, aligned with the increase on the interest bearing assets and interest rates. Net commission income increased by 35 %, the increase was mainly from high volume trade finance activities.

The Bank's total assets at 31 December 2023 were EUR 1,005 million, %21 higher than previous year (2022: EUR 833 million). The major increases relate to cash and loans.

Cash and cash equivalents are EUR 290 million (2022: EUR 245 million). The Bank continues to emphasize the maintenance of a sound level of liquidity. Through a high level of stable financing and a well-managed maturity profile, the Bank easily meets the liquidity requirement.

Interest bearing securities closed the year with a balance of EUR 124.2 million at the end of 2023.

On the back of a conservative risk appetite and strong capital structure, the Tier 1 ratio was 20.6% in 2023. (2022:22.3%)

Deposits from customers increased by %44 and reached to EUR 823 million due to increase in corporate funding (2022: EUR 573 million).

The cost/income ratio is 29.9% at December 31, 2023, is down significantly compared with 40.8% at December 30, 2022. The cost/income ratio is improved YoY, as a result of an increase in total revenue and limited increase in operational expenses.

ECL is realized EUR 1.1 million , EUR 0.5 million is related to Stage3 loans. NPL coverage ratio is 86%.

2.9 Risk Governance and Management

The Bank has two tier management system, the Management Board (MB) that is responsible for the day-to-day management of the Bank and the Supervisory Board (SB) that is responsible for the supervision of the Bank. The Supervisory and Management Boards have set policy-level standards in accordance with the regulations of the Dutch Central Bank (De Nederlandsche Bank – DNB) and European Union, and the guidelines published by the Basel Committee and the European Banking Authority.

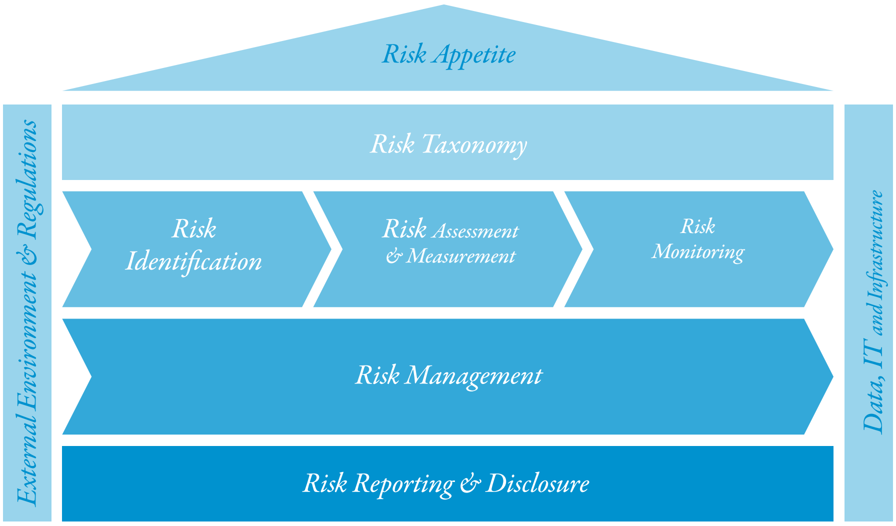
With the approval of the Supervisory Board, the Management Board has drawn up a Charter which includes its duties, powers and working methods and information on its relationships with the Supervisory Board, the shareholders and the external auditors. The Supervisory Board has also drawn up a Charter which includes its duties, powers and working methods and information on its relationships with the Management Board and the Shareholders.

The risk management is based on the three lines of defense principles for segregation of duties. Business units form the first line of defense, Risk Management, Financial Control & Reporting and Internal Control, along with the Compliance departments form the second line of defense. Those departments support the business units in their decision-making, but have also appropriate independence and countervailing power to avoid risk. Internal Audit, as the third line of defense, oversees and assesses the functioning and effectiveness of the first two lines. The risk appetite is established upon the external environment and regulations, and data, IT and infrastructure. It covers the rules and regulations imposed by the national and international regulatory bodies, and provides data aggregation, transparency and consistency. A risk taxonomy is created to provide a common set of definitions on the risk types within the organization. As a result, definition and classification of risks are comparable across the organization. Risk identification is performed to detect the external and internal events that might affect the realization of the strategic objectives. Identified risks are further analyzed through risk assessment & measurement. This process consists of assessing each identified risk using qualitative or quantitative techniques and also demonstrates the interaction of the risk types. Then, risk monitoring helps the business units and boards to understand whether the risks are within acceptable level. The Risk Management Department is responsible for the oversight of the process according to implemented policies and procedures. Risk reporting and disclosure ensures that the identified risks are accurately and timely communicated with the internal and external parties. The graph displayed below describes each building block of the risk management framework.

The Supervisory Board has the final authority to approve the risk appetite statement proposed by the Management Board, exercising its oversight of risk management. The oversight of the policies and processes of the Audit Department, the Risk Management Department and the Compliance Department, is the responsibility of the Supervisory Board. They define the risk assessment and management to be carried out within the governance structure. The Supervisory Board also reviews internal control and financial reporting systems that are relied upon to ensure integrated risk measurement and disclosure processes.

In the area of risk management, the Management Board is supported by various committees. The Asset and Liability Committee (ALCO) and Credit Committee are also responsible for the structure of the risk organization and for determining and/or adjusting powers in the context of risk and capital policy. Within the Risk Appetite Framework, the Committees have the following duties:

- Assessing risk policies that are in line with the Bank's risk appetite;



- Assessing specific standards, authorizations and limits for various risks.

The risk appetite established by the Management Board provides the boundaries within which the Bank has to operate. The Management Board acknowledges that the regulators will continue to challenge financial institutions and for that reason continued effort is required to maintain high quality standards in the area of risk management. In this respect, the Bank puts an emphasis on the DNB Supervisory Themes. Also, the Bank initiates yearly objectives to improve the current framework. Building on the previous years, the risk culture will be further developed by improving risk knowledge and awareness throughout the organization.

2.10 Risk and Capital Management

The Bank performs Internal Capital Adequacy Assessment Process (ICAAP) on a yearly basis which is reviewed and approved by the Management Board and Supervisory Board. All risks that the Bank is exposed to such as credit, market and operational risk, are defined and the impact on the Bank>s profitability, equity position and solvency ratio of those risks are calculated. In order to address the credit concentration risk, the Bank has established concentration limits in terms of both nominal and capital consumption, over (i) single name concentrations of large (connected) individual counterparties, (ii) significant exposures to sectors and (iii), country concentration to manage concentration risk in its loan portfolio. Extensive stress tests are conducted to analyze the worst case scenarios that the Bank and/or markets may experience. In addition to ICAAP, Internal Liquidity Adequacy Assessment Process (ILAAP) is also performed on a yearly basis which is also reviewed and approved by the Management Board and Supervisory Board. It is acknowledged that an accurate ILAAP reduces an institution's and its supervisors' uncertainty concerning the risks that the institution is or may be exposed to, and gives supervisors an increased level of confidence in the institution's ability to continue by maintaining an adequate liquidity buffers and stable funding and by managing its risks effectively. This requires the institution, in a forward-looking manner, to ensure that all material risks are identified, effectively managed (using an appropriate combination of quantification and controls) and covered by a sufficient level of high-quality liquidity buffers.

The Bank established a Recovery Plan which is also updated regularly. The Recovery Plan presents the conditions, requirements and the applicable procedures regarding the recovery options that are subject to the activation. The Recovery Plan is embedded in its business-as-usual operations, and is built on existing governance, frameworks, processes and plans. In this way one can regard it as a continuum of the ICAAP and ILAAP plans that include measures and strategic considerations to ensure the Bank's readiness to tackle crises on its own strength.

Capital and Risk Management Pillar III Disclosures contain information that enables an assessment of the risk profile and capital adequacy of the Bank. This publication fulfils the requirements of the Basel III framework, as stipulated in the Capital Requirements Regulation and Directive IV (CRR/CRDIV). The Bank also publishes its disclosures on its website.

Security in finance is a significant topic for the operations. When mentioning about cyber security, we know it is an extremely hot topics for all the banks. We at Anadolubank Nederland N.V. consider not only how customer data is valuable but also think about integrity and resilience. We follow global trends and establish required controls powering a layered approach to deal with security issues. We protect all of our assets obtaining foundational security principles and new technologies in a continuous manner.

2.11 Credit Committee

Credit Risk Management expresses the usual three lines of defense model. Decisions about individual proposals stem from the Bank's own business analyses and independent risk assessments.

The Tier-1 Credit Committee (consisting of three managing directors and head of credit risk management as voting members) is concerned with both the approval of new credit proposals and the renewal of existing facilities (including any type of credit exposure such as loans and bonds), and also decides on sector & country risk proposals within its delegated authorities.

Tier-1 Credit Committee recommends the Tier-2 Credit Committee (composed of a member of the Board of the Parent Bank, a manager of the Parent Bank's

Credit Risk Department and Managing Director/CEO of the Bank) with respect to individual proposals that exceed its approval authorities. As such, Tier-1 Credit Committee is the initiator and Tier-2 Credit Committee is the highest approval authority regarding individual credit proposals that exceeds the approval authorities of Tier-1 Credit Committee. Regarding Credit Risk Policies, Tier-2 may be consulted for advice by the Supervisory Board.

IFRS 9 reporting and maintenance is being managed jointly by Financial Control and Reporting Department and Credit Risk Department. Relevant reports are being presented and discussed at Credit Committees quarterly.

2.12 Asset & Liability Committee

The Asset & Liability Committee "ALCO" typically comprise the member of the Management Board, head of Risk Management and CFO, and the head of Treasury, Corporate and Institutional Banking activities and business heads. The ALCO formally meets on a biweekly basis to review the exposures that lie within the statement of financial position together with market conditions, and decide on strategies to mitigate any undesirable liquidity and market risk. If necessary, additional meetings may be convened.

The Treasury Department is mandated to holistically manage the liquidity mismatch and interest rate risk arising from our asset and liability portfolios on a day-to-day basis. The Treasury Department is required to exercise tight control of funding, liquidity, concentration and interest rate risk on banking book within parameters defined by the board-approved risk appetite policy. The Risk Management Department monitors daily business operations according to risk appetite limits. Daily reporting to ALCO and the Board includes details of performance against relevant Risk Appetite Statement and key metrics (breaches and trends).

The ALCO discusses a wide variety of issues at its meetings throughout the year including realization of business plan, solvency, liquidity and results of the Bank, projected loans and loan repayments, interest rate risk, foreign currency risk, foreign exchange and main equity markets, macro-economic developments and market outlook in the main markets where the Bank operates and the savings market. The ALCO reviews the results of and progress in implementation of the decisions made in the previous meetings.

The Bank finds it prudent to keep a high level of liquidity and maintains liquidity significantly above the minimum requirements of the Dutch Central Bank. It also keeps an eye on diversification, cost robustness of funding sources and current and new funding structure.

2.13 Corporate Governance, Supervisory Board and the Management Board

Supervisory Board

The Supervisory Board of Anadolubank N.V. is comprised of four members, two dependent members, having positions in Anadolubank Turkey, and two independent members. The chairman of the Supervisory board is one of the independent members.

Currently the board consists of one female and three male members:

A.J. Smith, *Chairman*

F. Canbay, *Vice Chairman*

G. Taran Ünver, *Member*

M. Rosenberg, *Member*

The Supervisory Board had a specific focus on supervising the activities of the Management Board with respect to:

- Review and further implementation and maintenance of the Risk Management Framework and our internal control system;
- Review risk appetite, limits and authority levels;
- Review of the Compliance monitoring plan and the internal Audit year plan;
- Review the engagement of the external Auditors, particularly in respect of their independence.

Management Board

The Management Board of Anadolubank N.V. is comprised of three members. One of them holds the title of CEO.

The board consists of one female and two male members:

N. Sabah, *CEO*

N. Plotkin, *Managing Director*

A.H. Otten, *Managing Director*

Each member has specific attention areas and together the Management Board is responsible for the day-to-day executive management of the Bank. This includes amongst others the development of strategies, active balance sheet management and the fulfilment of the Bank's obligations towards regulatory bodies.

Although the Dutch Corporate Governance Code is formally not applicable to our Bank, the main topics of the code are followed voluntarily by us. The way Anadolubank N.V. complies or explains the way the Governance Code is implemented, is published on the website of the Bank.

The Dutch Banking code (Code Banken) is initiated in 2009 by the Dutch Banking association (NVB). Anadolubank N.V. is a member of the NVB since its activities started in 2008 so the Banking code is followed by the Bank.

2.14 Remuneration

Our remuneration policy complies with Dutch and European legislation, the regulations and guidelines issued by De Nederlandsche Bank (DNB), the Authority for the Financial Markets (AFM) and the European Banking Authority (EBA) and self-regulation codes.

Every year the internal Auditor releases a report on Remuneration. This report identifies the following four key principles: Remuneration is:

- Aligned with business strategy of the Bank;
- Appropriately balanced between short term and long term;
- Differentiated and relative to the realization of performance objectives and the results of the Bank;
- Externally competitive and internally fair.

Payments are made only in cash, based on the internal risk assessment which consists of:

- Bank remains unlisted and non-cash payments are not possible or convenient;
- Risks arising from the cash payment are adequately managed; using a calculation of variable remuneration which is based on the sustainable income of the Bank and safeguarding the Bank's right to claim back paid remuneration under certain circumstances.

Where employees do receive a variable remuneration, the average amounts remain relatively modest, while at the same time the variable remuneration remains below the maximum of 20% of the fixed income of the employee in question. Remuneration policy of the Bank can be found on the corporate website.

The total variable remuneration in 2023 was EUR 469 thousand and fix remuneration for SB was EUR 85 thousand and for MB was EUR 788 thousand. None of the employees have received remuneration over EUR one million and the Bank complies with the requirements of Wbfo.

Reference is made to note 23 'Personnel expenses' for details on the remuneration.

2.15 Internal Audit

The Internal Audit Department is an essential part of the control mechanism of Anadolubank Nederland N.V. and plays an important role in ensuring ever-better governance at the Bank level. The Internal Audit Department represents an independent and objective assurance and consulting function as a third line of defence. Within the organization the Internal Audit Department occupies an independent position of the audited activities, which requires the internal audit function to have sufficient standing and authority within the Bank, thereby enabling internal auditors to carry out their assignments with objectivity.

The purpose of the Internal Audit is to provide assurance that the activities of the Bank are conducted in accordance with the law and other applicable legislation and with the internal strategies, policies, principles, and targets of the Bank and that the internal control and risk management systems are effective and adequate. The Internal Audit Department oversees the efficiency and adequacy of internal control and risk management systems and audits the Bank operations. The audit reports, that are results of the audits performed in line with the risk focused annual audit plan, are submitted to the relevant departments, senior management, and Supervisory Board to ensure the taking of necessary actions.

Within the scope of internal audit activities in 2023, business and IT processes were prioritized as a result of the risk assessment conducted. The related risk assessment is based on a broad risk analysis of the Bank's processes, taking into account the possible risks that may occur (including operational and fraud risks) and the current controls to avoid all types of risks. Internal Audit Department have also completed the audits that are required to be carried out every year in accordance with the legislation which are ICAAP, ILAAP and others, as well as risk-based process audits.

2.16 Climate and Environment (C&E) risk

In 2023, Anadolubank N.V., supported by a consulting company, started to work very intensively on the Climate and Environment (C&E) Risk Management Project. A project team was formed comprising both internal and external staff. It was acknowledged that achieving full compliance with the ECB expectations would be a large task. Therefore, a phased approach was taken. The first two project phases consisted of the activities listed in Table below.

1	Gap analysis and action plan	A detailed gap analysis was performed in which the compliance of the risk management framework of Anadolubank N.V. per June 2023 was assessed against the ECB expectations. The gap analysis was complemented with an action plan to address the observed gaps.
2	Risk identification & materiality assessment	To better understand the C&E risks Anadolubank N.V. is exposed to, a sector-level risk identification & materiality assessment (RI&MA) was performed for all relevant risk types. Next, using the outcomes of the sector-level RI&MA, a framework for a counterparty-level RI&MA was developed. This has been applied to a selection of counterparties where the Bank. was expecting material C&E risks.
3	Governance	To embed the management of C&E risks in the overall risk management framework of the Bank , several existing policy documents were updated. This included for example the Risk Appetite Framework and the Collateral Management Procedure. Next to that, the C&E Risk Policy was introduced, describing the governance and principles for the measurement, management and reporting of C&E risks within the Bank.
4	Data requirements & collection	Managing C&E risks requires a lot of new data fields. An overview has been compiled of all relevant data requirements stemming from both (expected) regulatory requirements and internal processes. For all required data fields, potential data sources were identified. Finally, a data collection process was designed.
5	Loan origination process	Based on the sector- and counterparty-level RI&MAs, Anadolubank N.V. increased its understanding of the C&E risks involved in the loan portfolio. To embed this knowledge in the loan origination process, changes have been made to the Credit Risk Policy and the loan approval process to account for these risks.
6	Financed emissions	The financed emissions of Anadolubank N.V. have been determined in accordance with the PCAF methodology. Data on counterparty emissions (scope 1, 2, and 3) has been collected to the extent possible. When not available, (sector) proxies have been used to complement the data set.

Main activities executed as part of the C&E risk management project

The disclosures on the Bank's management of C&E risks are structured around the four disclosure themes introduced in the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD):

1. Governance
2. Business model and strategy
3. Risk management
4. Targets and metrics

1. Regulatory requirements and external guidance

Regulatory requirements with respect to the disclosure of non-financial information have increased a great deal over the past couple of years. The recommendations introduced in June 2017 by the TCFD, have formed the basis for many regulatory requirements for the disclosure of climate-related and environmental risks across the world. ECB expectation 13 for example concerns disclosures and states that "[...] institutions are expected to publish meaningful information and key metrics on climate-related and environmental risks that they deem to be material, with due regard to the European Commission's Guidelines [...] on reporting climate-related information." The Guidelines from the European Commission are aligned with the TCFD Recommendations.

Next to the ECB expectations, the TCFD recommendations and the EC's Guidelines, more general disclosure requirements have been introduced in Europe by the Non-Financial Reporting Directive (NFRD) and its successor, the Corporate Sustainability Reporting Directive (CSRD). These directives require companies to report from both a financial materiality and impact materiality perspective. Anadolubank N.V. is currently not subject to the NFRD, nor the CSRD. It is expected, however, that Anadolubank N.V. will be subject to the CSRD as of the fiscal year 2025 (with the first reporting due in 2026).

The EC's Guidelines, which are referred to in the ECB expectations, are "intended for use by companies that fall under the scope of the Non-Financial Reporting Directive". Consequently, strictly speaking they are not intended for the Bank. Still, these Guidelines and the TCFD Recommendations have been taken into account as much as possible.

The European Banking Authority (EBA) has also published binding standards on Pillar 3 disclosures on Environmental, Social, and Governance (ESG) risks. These requirements do not apply to Anadolubank N.V. as they only cover "large institutions with securities traded on a regulated market".

Finally, external guidance is available for the calculation of financed emissions. The disclosure of financed emissions is required by the ECB expectations (in sub-expectation 13.5) but no methodology is prescribed. Anadolubank N.V. has selected the methodology developed by the Partnership for Carbon Accounting Financials (PCAF) to determine its financed emissions.

Please note that the disclosures in this report focus on the management of C&E risks from a financial materiality (or outside-in) perspective, which is required by the ECB expectations and which has been the scope of the C&E risk management project that started in July 2023. The extension to the impact materiality, as required by the CSRD, will be implemented when this regulation becomes effective for the Bank.

2. Governance

The successful management of C&E risks greatly depends on a sound (risk) governance structure. Earlier in the annual report, the general risk governance framework has already been explained. In short, Anadolubank N.V. applies a two-tier management system consisting of the Management Board and the Supervisory Board. Further, the risk management framework is based on the three lines of defense (3LoD) principle for segregation of duties. In this section, it is explained how this governance structure has been applied to the management of C&E risks.

2.1. Project team

Acknowledging the substantial effort required to achieve compliance with the ECB expectations, Anadolubank N.V. formed a C&E risk management project team in July 2023, comprising both internal and external staff. The goal is to integrate C&E risks into the existing risk management framework of the Bank, and this is still a work in progress. From an internal staff perspective, the C&E risk management project team consist of around eight representatives from the 1st and 2nd line of defense, a representative from the Management Board, and (a standing invitation for) a representative from the 3rd line of defense.

The project team has been formed to facilitate information sharing, problem-solving, and policy development in the context of C&E risks and it will remain in place until the integration of C&E risks has been completed and embedded in the business-as-usual processes. The objectives of the project team include:

- **Achieve compliance with the ECB expectations**

  The main responsibility of the project team is to execute the project to integrate C&E risks into the existing risk framework in line with the requirements as laid down in the ECB expectations.

- **Sounding board and quality assurance**

  By including representatives from the Commercial departments, Financial & Operational Risk Management, Credit Risk Management, and the Management Board, the project team serves as a sounding board for the development of new procedures, policies, and approaches for the management of C&E risks. By including the various perspectives and roles, project deliverables are actively reviewed to assure a sufficient level of quality.

- **Knowledge development**

  C&E risk management is a new topic to many. It is therefore important to build up the relevant knowledge. To raise awareness about C&E risks, the bank conducted internal knowledge sessions. These sessions addressed greenhouse gas (GHG) emissions from office operations, including Scope 1 and 2 emissions, and touched on employee commuting (Scope 3 emissions). Each department participated in these interactive sessions, learning about the environmental impact of activities like printing, waste production, commuting, business trips, and energy usage. Proposed solutions to mitigate these impacts were discussed and refined based on feedback. The Management Board was also briefed on these measures, including ideas generated by employees. Overall, these sessions were instrumental in educating staff about the environmental impact of office operations and how to address them.

  Furthermore, all members of the project team, as well as other employees from the Bank, have participated in an in-house online training with INSEAD consisting of five training days in 2023. This training focused on topics like sustainable finance, decarbonization (strategies), double materiality, ESG ratings, and disclosures.

  Finally, two members of the C&E project team – the project lead and the Management Board representative – have started with the Executive Programme from the ESG Academy at the University of Amsterdam (UvA).

2.2 Roles and responsibilities

The governance surrounding the measurement, management and reporting of C&E risks within Anadolubank N.V. has been documented in the C&E Risk Policy. The governance structure is linked to the two-tier management system and the 3LoD principles described earlier. The main roles and responsibilities are discussed below, and a schematic overview of the governance structure is presented in below figure.

Supervisory Board (SB)

The Supervisory Board is responsible for exercising oversight to ensure that Anadolubank effectively manages C& E risks in alignment with its strategic objectives, regulatory requirements, and stakeholder expectations.

Management Board (MB)

The Management Board is responsible for embedding C&E risks in the business strategy and risk management framework, allocation of roles and responsibilities, and exercising of the management of C&E risks.

C&E risk management project team

The project team, with representatives from 1st and 2nd line of defense, works jointly on the integration of C&E risks into the risk framework. Over time, responsibilities are transferred to the business-as-usual organization.

1st line of defense	2nd line of defense	3rd line of defense
Commercial departments Financial Control & Reporting	**Financial & Operational Risk Mgt Credit Risk Management Compliance**	**Internal audit**
Key responsibilities include the execution of risk identification and materiality assessments, both an sector- and counterparty-level, and the collection of C&E-related data. Risks need to be managed within the Risk Appetite Statement.	Key responsibilities include the monitoring and review of the C&E risk management by the 1st line of defense, the development of risk policies and frameworks, and stress testing and scenario analysis.	Key responsibilities include conducting independent reviews and assessments of the bank's C&E risk management practices, as well as giving the assurance of accuracy and reliability of C&E risk-related data and reporting.

The governance structure for the management of C&E risks

- **Supervisory Board**

  The Supervisory Board is responsible for exercising oversight to ensure that Anadolubank N.V. effectively manages C&E risks in alignment with its strategic objectives, regulatory requirements, and stakeholder expectations.. The topic of C&E risks is discussed regularly in the meetings between the Management Board and the Supervisory Board.

- **Management Board**

  The Management Board is responsible for an effective management of C&E risks by ensuring these risks are accounted for in the business strategy and the risk appetite, and by ensuring the C&E risks are properly integrated in Bank's general risk management framework. This includes the allocation of roles and responsibilities for the management of C&E risks. Furthermore, the Management Board is responsible for exercising oversight of the management of C&E risks. This for example includes monitoring whether internal policies are followed, assessing the reporting on C&E risks, and taking appropriate action in case the C&E risks are no longer in line with the formulated risk appetite. Finally, the Management Board is responsible for regularly reporting to the Supervisory Board on its exposure to and the management of C&E risks.

- **1st line of defense**

  Bank's 1st line of defense consists, among others, of the Commercial departments. The Commercial departments are responsible for identifying and assessing C&E risks specific to their operations, including physical risks, regulatory changes, and transition risks. The implementation via sector- and counterparty-level RI&MAs on the business model and strategy and risk management, respectively. In line with their responsibilities for the other risk types, the Commercial departments are also responsible to ensure C&E risks are within any limits set as part of the Risk Appetite Statement (RAS) and to monitor compliance of any agreement with counterparties related to C&E risks.

- **2nd line of defense**

  The second line of defense consists of three departments: Financial & Operational Risk Management, Credit Risk Management, and Compliance. The Risk Management departments are responsible for overseeing and providing independent review and guidance to the Commercial departments (1st line of defense) in their management of C&E risks. This includes for example a review on the sector- and counterparty-level RI&MAs, the quarterly risk reporting to the Management Board related to C&E risks, and the development of scenario analysis and stress testing capabilities in this area. They are also responsible for developing and maintaining the bank's C&E risk management policies, procedures, and frameworks. The Compliance department monitors the compliance of the Bank with all relevant regulatory requirements related to C&E risk management.

- **3rd line of defense**

  The third line of defense consists of the Internal Audit department. Their role is to independently assess and provide assurance regarding the effectiveness of the C&E risk management within the Bank. They do so by conducting independent reviews and assessments of the bank's C&E risk management practices, as well as giving the assurance of accuracy and reliability of C&E risk-related data and reporting. Any findings and recommendations are reported to both the Management Board and Supervisory Board.

3. Internal risk policies

The Bank's C&E Risk Policy has been introduced in 2023. The policy describes the approach with respect to the measurement, management and reporting of C&E risks within the Bank. As C&E risks are considered by Anadolubank N.V. to be drivers of existing (classical) risk types like credit and market risk, C&E risks also need to be accounted for in existing internal risk policies. During 2023, some policies have already been reviewed. Changes for those policies have been proposed and these will be taken into account during the annual policy review cycle that takes place in the first quarter of the year. The reviewed policies include:

- **Risk Appetite Framework**

  The Risk Appetite Framework describes the governance and principles for the Risk Appetite Framework (RAF) of the Bank. Limited changes were made given the high-level character of the document. As C&E risks are not considered a stand-alone risk type, no update was required to the high-level Risk Taxonomy.

- **Credit Risk Policy**

  The Credit Risk Policy describes the requirements with respect to the management of credit risks at the Bank. C&E risks have been included as one of the (sub-)risk types that have a relationship with credit risk. It has been stipulated that C&E risks need to be considered in the management of credit risk. In particular the responsibilities of the Credit Committees with respect to C&E risks have been detailed.

- **Collateral Management Procedure**

  Anadolubank N.V. regularly takes in collateral to limit its credit risk. In the Collateral Management Procedure it is described what procedures need to be followed. New requirements have been included for example to account for the potential impact of C&E risks on the collateral's value.

For the remaining policies, like the Operational Risk Policy, the Market & ALM Risk Policy, and the Liquidity Risk Policy, Anadolubank N.V. is planning to review them during 2024.

4. Business model and strategy

The impact of C&E risks is expected to materialise over the next decades. Some impacts, like extreme weather events and technological changes in specific sectors, are already observable while others will play out over a longer time horizon. In any case, C&E risks and the (potential) policy measures to address them may have far-reaching and long-lasting impacts on the economy. For a bank, it is vital to understand the potential consequences of these changes as they can directly influence its risk profile.

Every three years, the Management Board of Anadolubank N.V. performs a full review of its business model and strategy. The next review is planned for 2024. Hence, this will be the first time that the Management Board of Anadolubank N.V. will account for the potential impact of C&E risks stemming from both physical and transition risks. This will include the potential changes in the general macroeconomic and regulatory environment. In preparation for this business model and strategy update, Anadolubank N.V. has performed a sector-level RI&MA in 2023 to understand how C&E risks can affect the sectors and counterparties that are relevant for the Bank.

5. Sector-level RI&MA

The goal of the sector-level risk identification & materiality assessment is to understand, for the sectors most relevant to the Bank, how environmental risk factors (like extreme weather events or new environmental policies) could impact the financial position of the Bank. Hence, this concerns the financial materiality perspective only. It is acknowledged, however, that the impact that Anadolubank N.V. has on the environment could result in an (outside-in) impact to the bank stemming from a reputational or strategic viewpoint.

The general approach for executing the RI&MA is described below:

- **High-level assessment based on the existing Risk Taxonomy**

  C&E risks are assessed in the context of the Bank's existing Risk Taxonomy; in line with earlier statement that C&E risks are considered drivers of traditional risk types like credit risk, market risk, and liquidity risk. For all risk types and sub-risk types currently identified by the Bank, a high-level (qualitative) assessment has been performed to identify which of these risk types could potentially be affected or aggravated by C&E risks. The detailed sector-level RI&MA has subsequently focussed on these (sub-)risk types. Only the two risk types Pension risk and IT and security risk were excluded from the sector-level RI&MA.

- **Portfolio scope and sector classification**

  All on- and off-balance sheet positions of Anadolubank N.V. have been in scope for the sector-level RI&MA. The derivatives portfolio has only been placed out of scope for the purpose of determining the sector weights. If these positions would be taken into account when determining the relative importance of the Bank's sectors, this would artificially inflate the share of the 'Financials' sector.

  The sector-level RI&MA has been performed for all sectors that are material to the Bank. A sector-level approach allows for a proper assessment of C&E risks as these often differ from sector to sector. Instead of classifying all positions based on NACE codes, it has been decided to construct a product-based sector classification to group all counterparties with similar activities. All sectors with an exposure exceeding 1.5% of the total lending portfolio have subsequently been included in the sector-level RI&MA. In total, this results in a 94% coverage, exceeding the threshold of 85% that has been specified in the C&E Risk Policy.

  Depending on the risk type analysed, different portfolio breakdowns have been applied. First of all, for the credit and market risk types, the product-based sector classification has been used.

  For the market risk type, the RI&MA has been performed separately for the funding and liquidity portfolios. Finally, for the operational and compliance risk types, no sector split has been applied.

- **Environmental risk factors and transmission channels**

  C&E risks cover a broad range of different risk types. This includes for example different physical risks and transition risks. To ensure that all relevant C&E risks are identified in the process, a list of environmental risk factors to be considered has been compiled. The list has been developed based on internal discussions and publications by external (regulatory) bodies. An overview of the selected environmental risk factors has been included in table below.

  The environmental risk factors can materialize (and impact the Bank's financial position) through transmission channels. Again, to ensure that all relevant transmission channels are identified in the process, a list of transmission channels has been compiled. Examples of transmission channels considered are that the Bank's counterparties are subject to lower turnover, reduced asset value, or increased legal costs due to an environmental risk factor materialising. Anadolubank N.V. itself could be directly impact by transmission channels like decreased funding availability or losses from inadequate or failed internal processes.

Risk category	Sub-risk category	Environmental risk factors
Physical risks	Acute physical risks	Extreme weather events
	Chronic physical risks	Sea level rise & climate change
		Water usage / scarcity
		Waste production & pollution
		Biodiversity & ecosystems
Transition risks	Policy changes & legal risks	Emissions
		Energy efficiency
		Environmental policies
		Legal risk
	Strategic & business risks	Technological changes
		Consumer & investor sentiment

Table 3: Overview of environmental risk factors considered in the sector-level RI&MA

- **Likelihood and impact categories**

  Each environmental risk factor is scored and categorized in likelihood- and impact buckets. The likelihood determines the probability of the environmental risk factor materializing. The impact buckets show the expected impact given that the environmental risk factor materializes. The combination of the two buckets allows for the creation of a heatmap that indicates the impact and likelihood of an environmental risk factor per sector.

- **Time horizons and climate scenarios**

  We further differentiate between time horizons and climate scenarios in the RI&MA. Three time horizons have been introduced: the short-term (less than three years), the medium-term (three to ten years), and the long-term (more than ten years).

  The likelihood of the environmental risk factors in the RI&MA is assessed for two climate scenarios: the Nationally Determined Contributions (NDCs) scenario (in which all countries adhere to their self-defined national climate pledges under the Paris Agreement) and the Net Zero 2050 (NZ 2050) scenario (in which global warming is limited to 1.5 degrees). The latter climate scenario is assessed for the long-term time horizon only.

- **Risk identification & materiality assessment per sector**

  The RI&MA is performed for each combination of risk type, environmental risk factor and sector (or portfolio). For each combination, potential transmission channels have been listed and an assessment of the materiality has been included. These assessments result in heatmaps in which environmental risk factors are distinguished in terms of likelihood and impact. Four heatmaps per combination of sector and risk type are produced – one each for the short and medium time horizons and two for the long time horizon (considering the two climate scenarios). An example heatmap, showing different levels of materiality, is presented below. The environmental risk factors occurring in the level 3 and level 4 materiality levels are considered the material by the Bank.

<table>
<tr><th colspan="4">Heatmap - Credit risk - Metals & machinery</th><th>Long-term (NDC)</th></tr>
<tr><td>Certain</td><td rowspan="4">Level 0</td><td></td><td></td><td>Level 4</td></tr>
<tr><td>Likely</td><td></td><td colspan="2">Level 3</td></tr>
<tr><td>Unlikely</td><td colspan="3">Level 2</td></tr>
<tr><td>Rare</td><td colspan="3">Level 1</td></tr>
<tr><td></td><td>None</td><td>Low</td><td>Medium</td><td>High</td></tr>
</table>

Example of a RI&MA heatmap, divided into several 'Levels' of total risk.

The main results and conclusions from the sector-level RI&MA per risk type are discussed below:

- **Credit risk**

  Given the different characteristics of the sectors the Bank is active in, a large variety in terms of impact of environmental factors is observed over the different sectors.

  The sectors that are considered most vulnerable to environmental risk factors are the sectors that have large environmental footprints. This concerns the following sectors: mining & fuels, metals & machinery, motor vehicles, transport & storage, marine financing, and agriculture. Counterparties in these sector can generate substantial amounts of waste, pollution and greenhouse gas emissions as part of their production process. Therefore, legal risks, energy efficiency requirements, environmental policies, carbon taxes, changes in consumer or investor sentiment, and technological changes can severely impact these sectors. The agricultural sector is considered to be highly vulnerable to almost all environmental risk factors considered (in the long-term time horizon). Together, these sectors make up approximately a third of the Bank's loan portfolio.

  The financials sector on the other hand, is considered least exposed to the environmental risk factors. Only in the long-term heatmaps, extreme weather events and GHG emissions are expected to have a potentially significant impact on their creditworthiness. The exposure is also relatively limited for Government bonds.

- **Liquidity risk**

  For the liquidity portfolio, most environmental risk factors are expected to have a limited impact. All physical transition risks involve a gradual process by definition; therefore, no sudden outflows or additional liquidity premiums through sudden shocks to the market are expected to be incurred. Similarly, with regulatory policies and emission pricing, there is no potential impact expected on both the funding portfolio and liquidity portfolio.

  For the funding portfolio, in particular extreme weather events is considered a material environmental risk factor. This risk factor can cause a sudden increase in withdrawals through household needs, as well as increased liquidity premiums if the extreme weather event has a system-wide impact. Changes in consumer and investor sentiment are also considered a material environmental risk factor. If reputational risks would occur related to the lending portfolio of the Bank, swift changes in the availability (or pricing) of the funding could occur.

- **Market risk**

  Generally, the risk associated with market risk is not considered significant, since the impact of environmental risk factors does not exceed the 'Low'-impact bucket. The assessments itself are comparable to the credit risk assessments as the focus for the market risk type is on the credit spread risk sub-risk type, which is only relevant for the FVOCI securities in the Bank's portfolio.

- **Operational risk**

  Most of the environmental risk factors do not have any direct relationship with operations, IT systems, or business processes that could potentially impact the risk profile of the Bank. Hence, operational risk is only expected to be affected by extreme weather events and legal risks even though these are not considered material.

- **Compliance risk**

  From a compliance risk perspective, the environmental risk factors GHG emissions, energy efficiency, environmental policies, legal risks, and consumer & investor sentiment are considered relevant. The overall risk is assessed to be low, however, since Anadolubank N.V. is already actively controlling its environmental impact and aims to keep improving its position, also in regards to potential future regulation.

- **Strategic risk**

  The heavy industries sectors and the agricultural sector can be important sources of strategic risk for the Bank. The assessment shows that the following sectors pose a high risk from a strategic risk perspective: metals & machinery, motor vehicles, transport & storage, mining & fuels, and agriculture.

These sectors have several environmental risk factors that score high on both likelihood and impact for the different time horizons. Consequently, future reputational damage is conceivable. The potential reputational damage stems from continuing investments into these sectors, that after some period could lead to negative attention and loss of customers.

Furthermore, potential business risk is present for most of these sectors, as environmental policies or the introduction of carbon taxes could negatively impact the business models of these counterparties. For the marine financing and chemicals sectors, both reputational risk and business risk is expected. Impacts generally are expected to be less than the heavy industries and agriculture sectors mentioned above. For the financials sector and government bonds portfolio no environmental risk factors are considered material.

6. Next steps

In 2024, Anadolubank N.V. will account for the outcomes of the sector-level RI&MA in the update of its business model and strategy. As part of the same update cycle, Anadolubank N.V. will also formulate its ambitions with respect to the impact it wants to make on the environment, if any. It will be decided whether Anadolubank N.V. is committed to meeting the goals of the Paris Agreement and if so, what targets are set to contribute to this ambition. The formulated ambitions will be an important driver to assess what strategy updates are required. In the end, the ambitions need to be reflected in the strategic choices on the products, sectors, and regions Anadolubank N.V. is targeting. Consequently, the updated strategy needs to be cascaded down to the rest of the Bank's risk management framework, for example by adjusting or introducing new Key Risk Indicators (KRIs) and/or limits in the Risk Appetite Statement. It may also be considered to introduce KPIs related to C&E risks in the remuneration of the Management Board, which is currently not the case. In next year's disclosures, accounting for the business model and strategy update, the resilience of the strategy to C&E risks will be included as well.

Finally, from a strategic perspective, the C&E risk management project will continue its work to close the gaps with the ECB expectations in 2024. After the recent work on improving the disclosures on C&E risks (including the calculation of the financed emissions), attention will be paid to the integration the C&E data collection in the existing data architecture and enhancing the scenario analysis and stress testing capabilities.

7. Risk management

The sector-level RI&MA is the foundation for the identification, assessment, and management of C&E risks within the Bank.

7.1 C&E risks

In line with market practice, Anadolubank N.V. distinguishes between the following two categories of C&E risks:

1. **Physical risks**

   Physical risks are defined as the potential negative financial impacts stemming from the direct or indirect consequences of climate change and environmental factors. A further distinction is made between acute physical risks and chronic physical risks. Acute physical risks are extreme weather events, like floods, wildfires or storms. Chronic physical risks can be climate-related (e.g., rising sea levels or changes in climatic conditions), or environmental, like the impact from pollution, water scarcity, or the loss of biodiversity.

2. **Transition risks**

   Transition risks are defined as the potential negative impacts stemming from the direct or indirect consequences of the shifts required to address climate change and environmental concerns. These risks can be triggered by regulatory changes, technological advancements, and shifts in consumer and investor sentiment. Banks may face financial losses or face declining valuations if the carbon-intensive industries they invested in fail to adapt in a timely fashion.

Anadolubank N.V. can be exposed to C&E risks through our own operations and physical assets but, more importantly, also indirectly, through our loans and investments to clients in vulnerable regions and/or sectors. These exposures have been first assessed through the sector-level RI&MA presented before. As indicated before, Anadolubank N.V. considers C&E risks to be drivers of the 'classical' risk types like credit risk, market risk, and strategic risk. C&E risks have therefore not been added as a separate risk type in the Bank's Risk Taxonomy.

7.2 Integration in existing risk management processes

The sector-level RI&MA has provided Anadolubank N.V. with a good understanding which C&E risks are considered material depending on the sector it is active in. Additional steps are required, however, to effectively integrate the outcomes from the sector-level RI&MA in the Bank's risk management processes. In 2023, steps have been taken from a credit (and strategic) risk management perspective..

7.2.1 Credit risk management

Before a loan is granted to a counterparty, an extensive due diligence process takes place to assess the counterparty's credit worthiness in line with the requirements from the Bank's Credit Risk Policy. As C&E risks can have a material impact on the credit worthiness of the counterparty, as of 2024 the loan origination process includes an assessment of the C&E risks by the Credit Committee. To support this, the credit proposal needs to include a counterparty-level RI&MA.

To support a detailed understanding of the C&E risk profile of the counterparty, a score (Not material, Limited, Substantial, or High) is assigned to each assessed environmental risk factor, which highlights how vulnerable the counterparty is to that factor. In case one or more environmental risk factors have been classified as 'Substantial' or 'High', then the Credit Committee needs to explicitly assess whether the risk is deemed acceptable, both from a credit and a strategic risk perspective, and whether the credit proposal aligns with the Bank's strategy and its environmental ambitions.

If the C&E risks are deemed unacceptable, restrictions or requirements can be introduced. The restrictions or requirements can include, but are not limited to, reduced credit limits, reduced loan tenors, the development or adjustment of the client's transition plan, or the termination of the client relationship. If the proposal does not align with the Bank's strategy and its environmental ambitions, the client relationship will be rejected/discontinued.

The counterparty-level RI&MAs have so far been performed on limited set of counterparties, spread over different sectors, for which C&E risks were expected to be material. The completed counterparty-level RI&MAs have provided new insights in the C&E risks that these counterparties are exposed to. At the same time, it has become clear that the maturity level of sustainability reporting is still low for many counterparties, complicating the analysis. Anadolubank N.V. is of the opinion, however, that it is important to engage with its counterparties on these topics, and to strive for better quality data over time. Hence, information on C&E risks is now actively requested from the counterparty as part of the loan origination process.

7.2.2 Operational risk

The impact from "natural or man-made disasters or other external events" was already included in the Operational Risk Policy. Furthermore, based on the heatmaps from the sector-level RI&MA no environmental risk factors were expected to be material for the operations of the Bank.

7.2.3 Other risk types

The integration of C&E risks in the risk management processes of risk types other than credit, strategic, and operational risk still needs to be developed. Only for liquidity risk with respect to the funding portfolio, material environmental risks are expected. Improvements to the management of liquidity risks are therefore still required.

7.2.4 ICAAP

In 2023, Anadolubank N.V. included a climate-related scenario in its Internal Capital Adequacy Assessment Process (ICAAP) for the first time. A transition risk scenario was selected in which a steep increase in the carbon price was observed, because this was considered the most material risk in the initial assessment of C&E risks at the time. The scenario assessed to what extent the financial performance of our (corporate and financial) counterparties would be affected resulting from an increase in carbon price based on a 99% confidence level.

The impact on financial performance was measured by adjusting the relevant inputs to the Probability of Default (PD) model. For corporate counterparties, the main impact was assumed via an increase in operating costs and for financial counterparties via an impact on loan losses and loan loss provisions. Using this approach, the impact of carbon costs on PDs, Risk-Weighted Assets (RWA) and capital was calculated.

For 2024, further improvements to the scenario analysis underlying the ICAAP are planned.

7.3 Gap analysis and action plan

To support the ambition to achieve compliance with the ECB expectations, a (first) gap analysis against all 43 sub-expectations of the ECB was performed based on the Bank's risk management framework (based on the situation per June 2023). In total, 48 actions – tailored to the nature, scale and complexity of Anadolubank N.V. – were identified to achieve compliance. Of these actions, 31 were in scope of the first two stages of the C&E risk management project that were completed in Q1 of 2024. Mostly due to scope changes during the project, 24 actions have been completed, resulting in a strong increase in the level of compliance. The main areas that will need attention in 2024 and beyond to achieve full compliance.

8. Metrics and targets

The Bank's business model and strategy, taking account C&E risks, is scheduled for 2024. Consequently, no climate-related targets have been set yet. This applies to both the impact materiality perspective and the financial materiality perspective. The Bank is planning to s report its financed emissions in 2024.

8.1 General climate-related targets

As part of the review of the business model and strategy, Anadolubank N.V. will consider in 2024 setting general climate-related targets (from an impact materiality perspective). This could include for example include goals related to its financed emissions, energy usage, or revenue goals for specific sectors/activities. Currently, however, no such targets are in place.

8.2 Risk Appetite Statement

The RAS expresses the level of risk an organization is willing to accept while pursuing its objectives. Following the 2024 review of the business model and strategy, Anadolubank N.V. will update its RAS to ensure its alignment with the (to be) updated business model and strategy as well as with the main outcomes of the sector-level RI&MA and the ICAAP. The updated RAS should support the effective management of C&E risks. Anadolubank N.V. strives to include quantitative Key Risk Indicators (KRIs), but in case of lacking data and/or methodologies may resort to qualitative KRIs. Any KRI set needs to consider the long-term nature of C&E risks (for example by recognising their dependency on different climate and policy scenarios) and should consider potential concentration risks stemming from C&E risks.

To prepare for the update of the RAS, Anadolubank N.V. has already prepared an extensive overview of potential limits and KRIs that could be considered. This includes exclusion lists, concentration limits, KRIs linked to ICAAP and ILAAP scenarios, financed emissions, counterparty-level RI&MAs, and the implementation status of the C&E risk management project. This list is intended to support the Bank's Management Board in the update of the RAS following the review of the business model and strategy.

8.3 Greenhouse gas emissions

Anadolubank N.V. plans to report its GHG emissions in 2024. It is market practice to follow the GHG Protocol, which was last updated in 2015. The GHG Protocol distinguishes between three scopes:

1. **Scope 1**: Direct GHG emissions that occur from sources that are owned or controlled by the company.
2. **Scope 2**: Indirect GHG emissions that occur from the generation of purchased electricity consumed by the company.
3. **Scope 3**: Indirect GHG emissions that are a consequence of the activities of the company, but occur from sources not owned or controlled by the company.

GHG emissions from Scope 1 and 2 are discussed in section 6.3.1, and GHG emissions from Scope 3 are discussed in section 6.3.2.

8.3.1 Emissions related to the Bank's own operations

Anadolubank N.V. has not yet calculated its Scope 1 and 2 emissions. It has the ambition to report on these emissions in 2024.

8.3.2 Financed emissions

Based on a Supplement of the GHG Protocol, the Scope 3 emissions are classified in 15 categories across upstream and downstream activities. At this time, Anadolubank N.V. has focused on the calculation of category 15 (Investments) of the Scope 3 emissions as this is considered to be the most material category. For the financial sector, this concerns the loan portfolio and these emissions are referred to as financed emissions.

PCAF

To calculate the financed emissions, Anadolubank N.V. has used the methodology developed by the Partnership for Carbon Accounting Financials (PCAF) and become a PCAF signatory in March 2024. PCAF is an industry-led initiative to consistently measure and disclose the GHG emissions of financial activities. The PCAF methodology provides detailed methodological guidance for seven different asset classes: project finance, mortgages, motor vehicle loans, sovereign bonds, listed equity & corporate debt, business loans & unlisted equity, and commercial real estate. For Anadolubank's portfolio, only four asset classes are relevant.

Approach

According to the GHG Protocol, GHG emissions from loans and investments should be allocated to the reporting financial institution based on the proportional share of lending or investment in the borrower or investee. The financed emissions are calculated based on an attribution factor and the counterparty's GHG emissions. The general idea is to have an attribution factor that determines which share of the total emissions of the borrower should be allocated to the loan. The exact calculations depend on certain characteristics of the exposure, but in principle it is calculated as the share of the outstanding loan amount over the total equity and debt of the borrower:

$$Financed\ emissions = \sum_{i\ \text{€}\ Portfolio} \frac{Outstanding\ amount_i}{(Total\ equity + debt)_i} * Emissions$$

where i is a counterparty.

Data sources, limitations, and assumptions

Anadolubank N.V. has made an effort to collect company-specific GHG emission data as much as possible. This is based on information retrieved from client engagement and publicly available sustainability reports. In principle, emission data has been collected for scope 1, 2, and 3. If scope 3 was not available, the company-specific GHG emission data was only included if permitted by the PCAF methodology. This depends on the counterparty's sector. Where company-specific information was not available, Anadolubank N.V. has used emission factors related to the counterparty's revenue covering scope 1, 2, and 3 emissions. The factors further depend on the level 2 NACE code and the country or region where the counterparty is active in. The emission factors have been obtained from the PCAF Database with 'Exiobase Revenue' being the underlying source of data.

Amsterdam, 14 June 2024

N. Sabah, CEO

N. Plotkin, Managing Director

A.H.Otten, Managing Director

From left to right:

N. Sabah, CEO
N. Plotkin, Managing Director
A.H.Otten, Managing Director

Statement of financial position as at 31 December 2023

in EUR thousand

Assets	Note	31/12/2023	31/12/2022
Cash and cash equivalents	5	289,503	244,584
Derivative financial assets	6	5,085	5,134
Loans and advances to banks	7	300,581	262,889
Loans and advances to customers	8	283,033	205,416
Interest-bearing securities	9	124,167	113,929
Property and equipment	10	1,591	532
Current tax assets	25	362	164
Deferred tax assets	25	-	133
Other assets	11	523	284
Total assets		**1,004,845**	**833,065**
Liabilities			
Derivative financial liabilities	6	5,028	7,164
Deposits from banks	12	36,259	136,391
Deposits from customers	13	827,032	572,774
Deferred tax liabilities	25	462	-
Other liabilities	14	3,295	4,668
Total liabilities		**872,076**	**720,997**
Equity			
Share capital and share premium	15	75,000	75,000
Retained earnings	15	37,443	29,046
Revaluation reserves	15	1,321	(375)
Net profit	15	19,005	8,397
Shareholders' equity		**132,769**	**112,068**
Total liabilities and equity		**1,004,845**	**833,065**
Off-balance sheet liabilities	**16**	**40,891**	**25,529**

Statement of profit or loss and other comprehensive income

in EUR thousand

	Note	2023	2022
Interest income	19	52,040	22,379
Interest expense	19	(20,170)	(5,043)
Net interest income	**19**	**31,870**	**17,336**
Fee and commission income	20	4,188	3,095
Fee and commission expense	20	(200)	(154)
Net fee and commission income	**20**	**3,988**	**2,941**
Net trading income / loss	21	(13)	(82)
Results from financial transactions	22	2,343	458
Operating income		**38,188**	**20,653**
Expected credit losses	28	(1,172)	(958)
Personnel expenses	23	(6,791)	(5,260)
Depreciation and amortisation	10	(301)	(247)
Other expenses	24	(4,329)	(2,929)
Profit before income tax		**25,595**	**11,259**
Tax expense	25	(6,590)	(2,862)
Profit for the year		**19,005**	**8,397**

Other comprehensive income	**12/31/23**	**12/31/22**
Net movement in FVOCI	2,756	(640)
Net movement in cash flow hedge reserve	(470)	1,411
Related tax	(590)	(193)
Total (after tax)	**1,696**	**578**

Profit attributable to:	**12/31/23**	**12/31/22**
Equity holders of the Bank	**19,005**	**8,397**
Total		
Equity holders of the Bank	**20,701**	**8,975**

Other comprehensive income may subsequently be reclassified to profit or loss.

Statement of cash flows

in EUR thousand	Note		
Cash flows from operating activities		**2023**	**2022**
Profit/(loss) for the period		19,005	8,397
Adjustments for:			
- Depreciation and amortisation	10,11	301	247
- Expected credit losses on financial instruments	28	1,172	958
- Income tax expense	25	6,590	2,862
		27,068	**12,464**
Movements in operating assets and liabilities			
Change in derivative financial instrument (assets)	6	49	(4,665)
Change in loans and advances to banks	7	(37,692)	(9,226)
Change in loans and advances to customers	8	(77,617)	(29,336)
Change in securities FVOCI	9	12,144	(16,111)
Change in other assets	12	(577)	(90)
Change in derivative financial instrument (liabilities)	6	(2,136)	284
Change in deposits from banks	13	(100,132)	29,226
Change in deposits from customers	14	254,258	154,804
Change in other liabilities	15	(1,373)	3,461
		46,924	**128,347**
Income tax paid		(6,952)	(2,449)
Net cash from operating activities		**67,040**	**138,362**
Cash flows from investing activities			
Acquisition of securities at amortized cost	9	(34,470)	(25,854)
Redemptions of securities at amortized cost	9	11,263	8,188
Acquisition of property and equipment	10,11	(81)	(78)
Acquisition of intangible assets		-	-
Net cash used in investing activities		**(23,288)**	**(17,744)**
Net increase in cash and cash equivalent		**43,752**	**120,618**
Cash and cash equivalents at 1 January	5	244,584	125,189
Effect of exchange rate fluctuations on cash and cash equivalents held		1,167	(1,223)
Cash and cash equivalents at 31 December		**289,503**	**244,584**
Interest paid		16,438	5,225
Interest received		42,884	18,795

The Bank modified the presentation of the cash flow disclosure, resulting in a shift between movements in operating assets and liabilities and cash flows from operating activities, primarily due to the fair value movement of derivatives.

Statement of changes in equity

in EUR thousand

	Share capital	Retained earnings	Profit for the year	Revaluation reserves	Total
Balance at 1 January 2022	**75,000**	**23,525**	**5,521**	**(953)**	**103,093**
Share capital increase	-	-	-	-	-
Profit allocation	-	5,521	(5,521)	-	-
Net income for the year	-	-	8,397	-	8,397
Revaluation of reserves	-	-	-	578	578
Balance at 31 December 2022	**75,000**	**29,046**	**8,397**	**(375)**	**112,068**
Balance at 1 January 2023	**75,000**	**29,046**	**8,397**	**(375)**	**112,068**
Share capital increase	-	-	-	-	-
Profit allocation	-	8,397	(8,397)	-	-
Net income for the year	-	-	19,005	-	19,005
Revaluation reserves	-	-	-	1,696	1,696
Balance at 31 December 2023	**75,000**	**37,443**	**19,005**	**1,321**	**132,769**

NOTES TO THE FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2023

1 Reporting entity

Anadolubank N.V. (the "Bank") is a public limited liability company domiciled in the Netherlands. The Bank was established on 5 April 2006 and was granted a full banking license by De Nederlandsche Bank (Dutch Central Bank) on 2 August 2007. The Bank has been operational since early 2008. The Bank primarily is involved in corporate and retail banking – retail banking deposit activities. The registered office of the Bank is De Boelelaan 7, 1083 HJ Amsterdam, The Netherlands. Commercial Register of Amsterdam, number 34239060.

The Bank is 100% owned by Anadolubank A.S. incorporated in Turkey. Anadolubank A.S. belongs to the Habas Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.S., which is one of the biggest industrial conglomerates of Turkey, operating in industrial and medical gases production, LPG and natural gas distribution, electricity generation, iron and steel manufacturing and industrial facilities construction. Anadolubank A.S. is a commercial bank and its branch network is still expanding. The Bank is comparatively young in the industry, but already has reached a leading position in the sector, thanks to the strength of its Shareholders, well-chosen experienced management team and most diligent employees.

The Bank provides small to medium sized companies with short-term working capital and trade finance facilities. The financial information of the Bank will be consolidated in the financial statements of Anadolubank A.S..

2 Basis of preparation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and in accordance with the legal requirements for the annual accounts of banks contained in Part 9, Book 2 of the Dutch Civil Code. They were authorized for issue by the Bank's Supervisory Board and Management Board on 22 May 2024.

(b) Basis of measurement

The financial statements have been prepared under the historical cost convention, except for financial assets designated at fair value through profit and loss, hedged items and derivative financial instruments that have been measured at fair value. The financial figures and tables are stated in thousands.

(c) Functional and presentation currency

The financial statements are presented in Euros, which is the Bank's functional and presentation currency and all values are rounded to the nearest thousand euro unless otherwise is stated.

(d) Use of estimates and judgements

The preparation of these separate 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 estimate is revised and in any future periods affected.

The most significant of judgements and estimates are as follows:

i) Fair value of financial instruments

Fair value of financial transactions (Level 1) are measured by unadjusted quoted prices in active markets for items identical to the asset or liability being measured. As with current IFRS standards, if there is a quoted price in an active market, an entity uses that price without adjustment when measuring fair value. Fair value of financial transactions (Level 2) other than the quoted prices in determined in level 1 that are directly or indirectly observable for that asset or liability. Determining the most suitable price or input necessitates judgement, which may result in varying estimates of fair value by using pricing models or discounted cash flow techniques(Level 3). Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates. The discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date. Financial assets comprise derivatives and debt instruments. In particular, the business model assessment is required for debt instruments as derivatives are measured at FVPL by default, as well as equity instruments (unless management opts for FVOCI treatment).

ii) Impairment of financial instruments

A three-stage model is applied for the measurement of ECLs of financial assets (for example: loans): performing (stage 1), under-performing (stage 2), and impaired (stage 3). For performing assets, i.e. assets with no sign of deterioration in credit quality, banks should estimate the ECLs for the upcoming 12 months. For both under-performing and impaired assets, banks should estimate the ECLs for the lifetime of the credit. Moving an asset (for example: a loan) from stage 1 to stage 2 (or stage 3) is triggered by a "significant increase in credit risk" (SICR) after the asset was originated. The shift from stage 2 to stage 3 for an asset is triggered by a default event under IFRS 9. Under IFRS 9, impairment of Stage 3 assets is calculated using the best estimate based on cash flow scenarios. This means that for assets classified as Stage 3, which indicates they are credit-impaired, the expected credit loss (ECL) is determined by considering multiple scenarios of future cash flows.

A default shall be considered to have occurred with regard to a particular obligor when either or both of the following have taken place: [CRR Article 178]:

a) The obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries;

b) The institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by FVPL.

iii) Classification of financial instruments

The judgment as to how an asset should be classified is made on the basis of both the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

The term 'business model' refers to the way an entity manages its financial assets in order to generate cash flows [IFRS 9.B4.1.2.A]. The business model is determined at a level that reflects the way groups of financial assets are managed together to achieve a particular business objective. An entity's business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification, but should be determined at a higher level of aggregation.

However, the assessment is not performed solely at the entity level, and an entity may have more than one business model for managing financial instruments. Also, in some circumstances, it may be appropriate to separate a portfolio of financial assets into sub-portfolios depending on the objectives and management actions per subgroup. The standard provides an example where an entity acquires a portfolio of loans and manages some of the loans to collect their contractual cash flows and manages others with the objective of selling them.

(e) Going concern

These financial statements have been prepared on the basis of the going concern assumption.

3 Material accounting policies

(a) Foreign currency transactions

Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into Euros at the exchange rates ruling at balance sheet date with the resulting exchange differences recognized in the statement of profit or loss and other comprehensive income as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the statement of profit or loss and other comprehensive income as realized during the course of the period.

(b) Interest

Interest income and expense are recognized in the statement of profit or loss and other comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

Negative interest in relation to a financial asset is presented as interest expense and negative interest in relation to a financial liability is presented as interest income.

(c) Fees and commission

Fees 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 commission, 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.

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

(d) Net trading income

Net trading income consists of the results arising from any trading activity including related interest income and expense and gains and losses from changes in fair value.

The changes in fair value of an interest rate swap include accrued interest gains and losses arising from changes in interest rates. The entire fair value change on a derivative is presented on a net basis.

(e) Income tax

The effective tax rate is determined with consideration of all material timing differences between the profit before tax per commercial accounts and the fiscal profit described per the tax legislation. Tax is calculated according to the current Dutch nominal tax rate of 19% for the first EUR 200,000 and 25.8% of the remaining amount.

(f) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognizes loans and advances, deposits, securities on the date at which they are originated. Financial assets designated at fair value through profit or loss are recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets are recognized. Financial instruments are initially measured at fair value.

(ii)Classification

IFRS 9 contains three principal measurement categories for financial assets: amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL).

The classifications are determined by:

- Business Model;
- Assessing whether contractual cash flows are solely payments of principal and interest (SPPI test).

IFRS 9 identifies three business models:

- Held to Collect (HtC);
- Held to Collect & Sell (HtC&S);
- Other/Trading.

The following table summarizes the key features of each type of business model and the resultant measurement category:

Business model	Key features	Measurement
Held to Collect	• Objective is to hold assets to collect contractual cash flows • Sales are incidental to the objective • Typically lowest sales (in frequency and volume)	Amortised cost *(if SPPI criteria are satisfied and 'fair value option' is not applied)*
Both Held to Collect & Sell	• Both collecting contractual cash flows and sales are integral to achieving the objective • Typically more sales (in frequency and volume) compared to hold-to-collect	Fair Value Through Other Comprehensive Income (FVOCI) *(if SPPI criteria are satisfied and 'fair value option' is not applied)*
Other business models, including: • Maximizing cash flows through sale • Managing assets on a fair value basis • Trading	• Business model is neither one from above • Collection of contractual cash flows is incidental to the objective of the model	Fair Value Through Profit or Loss (FVPL) *(SPPI criterion is irrelevant)*

Based on the entity>s business model for managing the financial assets and the contractual terms of the cash flows, there are three measurement categories into which Anadolubank N.V. classifies its debt instruments:

Amortised Cost (AC):

Debt instruments that are held for collection of contractual cash flows under a HtC business model where those cash flows represent SPPl are measured at AC. Interest income from these financial assets is included in Interest income using the Effective Interest Rate (EIR) method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as a separate line item in the statement of profit or loss.

FVOCI:

Debt instruments that are held for collection of contractual cash flows and for selling the financial assets under a Both Held to Collect & Sell business model, where the assets> cash flows represent SPPI, are measured at FVOCI.

Movements in the carrying amount are recognised in OCl, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCl is reclassified from equity to profit or loss and presented in Investment income or other net income, based on the specific characteristics of the business model. Interest income from these financial assets is included in Interest income using the EIR method. Impairment losses are presented as a separate line item in the statement of profit or loss.

FVPL:

Debt instruments that do not meet the criteria for AC or FVOCI are measured at FVPL. This includes debt instruments that are held-for-trading (presented separately as Trading assets) and all other debt instruments that do not meet the criteria for AC or FVOCI (presented separately as Mandatorily at FVPL).

The Bank applies the SPPI test to securities and loans individually. Money market placements pass the SPPI test by its product nature.

The Bank developed an SPPI questionnaire based on IFRS 9 guidance that will be used for testing.

All financial liabilities are at amortized cost and the Bank doesn't have any reclassification from financial liabilities.

(iii) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them 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 under IFRS, or for gains and losses arising from a bank of similar transactions such as in the Bank>s trading activity.

(v) Amortized cost measurement

The 'amortised cost' of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principle repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. The amortization is recognized in the income statement under interest income.

(vi) Fair value measurement principles

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

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred. There has been no transfer between levels in 2023.

(vii) Identification and measurement of impairment

A three-stage model is applied for the measurement of ECLs of financial assets (for example: loans): performing (stage 1), under-performing (stage 2), and non-performing (stage 3). For performing assets, i.e. assets with no sign of deterioration in credit quality, banks should estimate the ECLs for the upcoming 12 months. For both under-performing and impaired assets, banks should estimate the ECLs for the lifetime of the credit. Moving an asset (for example:a loan) from stage 1 to stage 2 (or stage 3) is triggered by a "significant increase in credit risk" (SICR) after the asset was originated. The shift from stage 2 to stage 3 for an asset is triggered by a default event under IFRS 9.

The Bank's portfolio consists of Corporates, Financial Institutions and Government exposures. From a credit risk perspective those are approached in a similar, standardized way: Stage 1 and 2 exposures assessed and accompanied with credit ratings which provide indications of default probabilities and LGD ratings which provide indications of losses in case of default. Stage 3 exposures are individually assessed by using the best estimate based on cash flow scenarios.

Anadolubank N.V. primarily has a non-granular corporate and FI portfolio and has a very low default experience. In line with the non-granular nature of the portfolio, all exposures are assessed individually. Each exposure is assigned a rating which is corresponding to a probability of default.

There is no information published on cumulative default rates for combinations of ratings and industry. However, there is no reason to assume that the (cumulative) default rates for ratings of different industries behave significantly different as those that are suggested by the published global cumulative default rates.

Bank default probabilities are notoriously difficult to model. Actual defaults have been low and the very notion of 'default' is often less clear cut when government bail-outs prevent defaults to play out like it usually does in the corporate sector. Moreover, it is in the exposures to the banking sector that the Bank shows a significant overlap with the exposures at the parent bank; having exposures to the same names makes it imperative to have more alignment between the PD methodologies of the parent bank. The Bank uses Merton Distance-to-Default PDs starting from 2019 and to account for this as change in estimate. As a result of the implementation the total ECL of the financial institutions decreased on account of relatively lower PDs compared to corporates.

For lack of a better alternative, the Bank will still use the global corporate PD structure for sovereign exposures.

In order to capture the forward-looking cycle element, GDP forecasts will be used. Five authoritative agencies are used as a source:

- The IMF publishes a World Economic Outlook (WEO) every April and October and provides updates in January and July and, if necessary, interim updates;
- The World Bank publishes Global Economic Prospects (GEP) semi-annually, in January and June;
- The OECD publishes a Global Economic Outlook semi-annually, in June and November. In February / March and September it also provides an Interim Global Economic Outlook report with updates on the key indicators;
- The DG ECFIN (Directorate General for Economic and Financial Affairs) publishes forecasts in February, May and November;
- The under-secretariat of the Treasury publishes forecasts every year ("Medium Term Program"), usually in October.

The staging decision process is a combination of a quantitative and a qualitative assessment.

The quantitative assessment is based on the PDs and is derived from the (internal and external) ratings. Basically, a threshold in the form of a simple multiplier (3) is used to assess whether the default probability has 'significantly' increased. Another, absolute, threshold (10%) is used to capture increases that stay below the multiplier criterion but are significant enough in absolute terms to qualify as a significant increase. The qualitative assessment has several components which are arguably not properly captured in the ratings: pricing information, LGD changes that could impact PDs, forbearance, the watch list process, past due information and collective industry sector assessments.

(g) Cash and cash equivalents

Money and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

(h) Derivatives

Derivative financial instruments consisting of foreign currency contracts, currency and interest swaps are measured at fair value. All derivatives are separately evaluated and carried as assets when each transaction's fair value is positive and as liabilities when each transaction's fair value is negative. Derivative contracts are included in derivative financial instruments lines of assets and liabilities, and changes in the fair value are included in the profit or loss, under net trading income. The Bank started applying hedge accounting for the interest rates swaps in 2020.

The impact of the adoption of hedge accounting is disclosed in note 3.t Hedge accounting.

(i) Loans and advances to customers

These are financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides funds directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method, less any impairment in value. Interest income and gains and losses with respect to the amortization of the financial assets, as well as derecognition and impairment costs, are recognized in the profit or loss.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognized in the Bank's financial statements.

(j) Loans and advances to banks

All loans and advances to banks were previously classified under amortized cost. In the first half of 2023, due to the their credit risk, a notable increase in sales of loans and advances to banks was recorded. Therefore, management reconsidered the bank's business model for loans and advances to banks.

i) Business model change in Loans and advances to banks

After the considerations of the sales of loans and advances to banks , management decided to adjust the bank's business model for certain bank loans. These loans, due to their short-term nature and liquidity in secondary markets, will now be classified under a "Both Held to Collect & Sell" model and recognized at fair value through other comprehensive income (FVOCI). This change is effective from August 9, 2023, with the first day of the first reporting period (October 1, 2023) following the change marked as the reclassification date, as per IFRS 9.

ii) Financial impact of business model change

The sales resulted in an adjustment in the financials, notably a Euro 1.5 million impact on the shareholders' equity, a Euro 0.5 million on the deferred tax and a reclassification of Euro 187.9 million under Both Held to Collect & Sell for end of December 2023.

These are financial assets with fixed or determinable payments. They arise when the Bank provides funds directly to a debtor with no intention of trading the receivable. Such assets might be classified both under Financial assets measured at amortised cost or Both Held to Collect & Sell based on Management's decision.

These asset are subsequently accounted for depending on their classification as either securities at AC, FVOCI.

iii) Loans and advances to banks at AC

Loans and advances to are carried at amortized cost using the effective interest method, less any impairment losses.

iv) FVOCI

Loans and advances to banks are level III assets and there is no quoted price in an active market. The Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Interest income is recognized in profit or loss using the effective interest method. Foreign exchange gains or losses on FVOCI debt security investments are recognized in profit or loss. Impairment losses are recognized in profit or loss.

Other fair value changes, other than impairment losses, are recognized in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

(k) Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either securities at AC, fair value through profit or loss or FVOCI.

i) Securities at AC

Securities at AC are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as Financial assets at fair value through other comprehensive income.

Securities at AC are carried at amortized cost using the effective interest method, less any impairment losses.

ii) FVOCI

FVOCI (Fair value through other comprehensive income) are non-derivative investments that are designated as fair value through other comprehensive income or are not classified as another category of financial assets. FVOCI investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other Financial assets at FVOCI investments are measured at fair value after initial recognition.

Interest income is recognized in profit or loss using the effective interest method. Foreign exchange gains or losses on FVOCI debt security investments are recognized in profit or loss. Impairment losses are recognized in profit or loss.

Other fair value changes, other than impairment losses, are recognized in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the FVOCI category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

iii) FVPL

FVPL assets are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognized in profit or loss.

(l) Property and equipment

The property and equipment purchased are recorded at their historical costs. Accordingly, property and equipment are carried at cost, less accumulated depreciation and impairment losses, if any.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to the statement of profit or loss and other comprehensive income in the year in which the costs are incurred. Expenditures incurred that have resulted in an increase in the future economic benefits expected from the use of premises are capitalized as an additional cost of property and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The yearly depreciation percentages are as follows:

	%	Years
IT equipment	20%	5
Furniture, fixtures and vehicles	20%	5

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment. Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

Right-of-use assets

A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a corresponding liability representing its obligation to make lease payments at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the repayment of the liability and finance cost. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

(m) Repurchase transactions

The Bank enters into purchases / (sales) of investments under agreements to resell/ (repurchase) 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 continue to be recognized in the statement of financial position and are measured in accordance with the accounting policy for assets at AC. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest income.

(n) Provisions

A provision is recognized when, and only when, the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the rise in the provision reflecting the passage of time is recognized as cost. A provision for bank levies is recognized when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity, then a provision is recognized when that minimum activity threshold is reached.

(o) Employee benefits

The Bank's pension plan is based on defined contribution as a percentage of the annual salary depending on the age of the insured, whereby the terms and conditions of the plan are based on each individual's requirements, under a fixed scheme, also allowing the individual staff members to contribute to their own account. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefits expense when employees have rendered services entitling them to the contributions.

(p) Share capital & reserves

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the balance sheet date are disclosed in the events after balance sheet date note, if any.

(q) Off balance sheet engagements

Transactions that are not currently recognized as assets or liabilities in the statement of financial position but which nonetheless give rise to credit risks, contingencies and commitments are reported off balance sheet. Such transactions include letters of credit, bonds, guarantees, indemnities, acceptances, trade related contingencies such as documentary credit, and many others.

Outstanding and unexpired commitments at year-end in respect of these transactions are shown by way of note to the financial statements.

Income on off balance sheet engagements is in the form of commission, which is recognized as and when transactions are executed. ECL allowances related to off balance sheet items are recorded under other liabilities.

(r) Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segments.

Segment information is presented in respect of the Bank>s business and geographical segments. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(s) Changes in IFRS effective in 2023

The following published standards and amendments are effective for annual periods beginning on or after 1 January 2024 and have been endorsed by the EU and have not been early adopted by the Bank.

- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued in September 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)
- Non-current Liabilities with Covenants (issued in October 2022)

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

(t) Hedge accounting

The Bank elected, as a policy choice, to continue to apply the requirements of IAS 39 for hedge accounting purposes instead of the requirements in IFRS 9 when IFRS 9 was firstly adopted. When a hedging relationship meets the specified hedge accounting criteria set out in IAS 39, the Bank applies fair value hedges or cash flow hedges.

The Group elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. When a hedging relationship meets the specified hedge accounting criteria set out in IAS 39, the Bank applies fair value hedges or cash flow hedges.

At inception, the Bank formally documents how the hedging relationship meets the hedge accounting criteria.

It also records the economic relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on an ongoing basis.

In order to qualify for hedge accounting, a hedging relationship must be expected to be highly effective on a prospective basis and it needs to be demonstrated that it was highly effective in the previous designated period. A hedge is considered to be highly effective if the changes in fair value or cash flows attributable to the hedged risk are expected to be offset by the hedging instrument in a range of 80% to 125%. It is also necessary to assess, retrospectively, whether the hedge was highly effective at a minimum, at the time an entity prepares its annual or interim financial statements. The hedge accounting documentation includes the method and results of the hedge effectiveness assessments.

Fair value hedge

Risk management objective

The portfolio that consists of long-term interest earning instruments (bonds and loans in the assets) which are EUR denominated with a fixed interest rate return have higher interest rate sensitivity. In order to manage the interest rate risk in the banking book (IRRBB) within the risk appetite limits on Economic Value of Equity (EVE) as set in the Market & ALM Risk Policy, the Bank utilizes a hedge strategy. The Bank aims a stable EVE by adopting a hedge strategy which eliminates the effects on the fair value of the assets due to the changes in the interest rates in the market.

The carrying value of the hedged item is adjusted for fair value changes attributable to the risk being hedged, and those fair value changes are recognized in P&L.

Hedge strategy

The hedge strategy is performed by entering into EUR denominated interest rate swap transactions which requires to pay fixed interest and receive floating interest in return, in order to reduce the impact on the EVE.

Hedged risk

The risk that is aimed to be hedged is the fair value change in the hedged items (portfolio mentioned in the risk management objective) due to the changes in the interest rates in the market.

Description of hedge relation

Based on IAS 39.78, a hedged item can be a portion of the portfolio of financial assets or financial liabilities that share the risk being hedged. According to IAS 39.83 similar assets shall be aggregated and hedged as a group only if the individual assets in the group share the risk exposure that is designated as being hedged.

Anadolubank N.V. defines a portion of the EUR fixed rate loans and bonds portfolio as the hedged item. The EUR fixed rate loans and bonds in the portfolio share the same interest rate risk, resulting from changes in the EUR discount curve. The portfolio of EUR loans and bonds consists of both fixed and floating rate products, but only the fixed rate products are an eligible hedged item.

The EUR fixed rate loans and bonds do not exhibit prepayment options and any prepayments that may occur will be settled at market. Therefore, Anadolubank N.V. defines the hedged item cash flows equal to the contractual cash flows of the underlying assets. The Bank hedges only the interest rate risk of the EUR fixed rate loans and bonds portfolio. The credit spread is not part of the hedged risk. Therefore, changes in the credit spread will not be incorporated in the valuation for the purpose of hedge accounting.

Anadolubank N.V. uses plain vanilla interest rate swaps as hedging instruments. The interest rate swaps (IRSs) are payer swaps. The Bank pays the fixed rate and receives the floating rate index. Both legs of the IRSs are included in the hedge relation. Note that Anadolubank N.V. may enter in receiver swaps in order to offset payer swaps. Only the combination of the payer and offsetting receiver swap can be use in the hedge relation.

The designation of the hedge relationship can be done based on several measures. Anadolubank N.V. designates the hedge relationship based on notional cash flows. Notional cash flows of the hedged items and the hedging instruments are grouped together into monthly buckets. The goal of the designation is to create the best possible match between the notional cash flows of the hedging instruments and the notional cash flows of the hedged items. This is done under the constraints described in IAS 39, the two most relevant constraints are described in the following paragraphs.

According to IAS 39.75, it is allowed to designate a proportion of the entire hedging instrument in a hedge relationship. However, it is not allowed to designate a hedging instrument for only a portion of the time period during which a hedging instrument remains outstanding. Therefore, either the same proportion of the notional payments of a hedging instrument should be designated for all payments, or none of the payments should be designated.

Furthermore, according to IAS 39.81, if the hedged item is a financial asset or financial liability, it is allowed to designate a portion of the cash flows (provided that effectiveness can be measured). Hence, it is not possible to designate more than the available hedged item in a bucket. Therefore, when for a particular bucket, there is a bigger notional cash flow coming from the hedging instruments compared to the notional cash flow coming from the hedged items, notional from hedged items from surrounding buckets can be designated. This is called "smearing". Anadolubank N.V. uses a smearing range of maximum twelve buckets (1 year). Hedged items from up to and including twelve buckets earlier or later can be used to designate to the hedging instrument and therefore improve the match between the notional cash flows of the hedging instruments and the notional cash flows of the hedged items.

The constraint in IAS 39.81 holds for both the notional cash flows as well as interest cash flows. Therefore, in order to create the best possible match between the hedged items and hedging instruments, the hedged item will be modelled with a coupon equal to the lower of the coupon of the hedging instrument and the underlying loan or bond.

Hedge effectiveness

Prospective test

At inception of the hedge relation and at each reporting date, the prospective test is performed. The purpose of this test is to ensure that the change in fair value of the hedged item attributable to the hedged risk is expected to be offset by the change in fair value of the hedging instrument.

The method used is the dollar-offset method with a parallel shock of 10 basis points over the discounting and forward curves (the shock applies to the market rates). The prospective effectiveness test of the hedge relation is therefore determined by calculating the changes in the market values (delta) of the hedging instruments (derivatives) and the hedged items at the start of the hedge period.

Under the prospective test, the change in market value is defined as the difference between the shifted market value at the start of the hedge period and the unshifted market value at the start of the hedge period

$$\text{Hedge effectiveness} = \frac{\Delta\ \text{MtM Hedging Instruments}}{\Delta\ \text{MtM Hedged Items}}$$

From the formula for hedge effectiveness above, it becomes clear that small movements of the hedging instrument and hedged items lead to more ineffectiveness in percentages. Small value movement causing hedge ineffectiveness is a known issue in hedge accounting. One way to overcome this is by performing a small numbers test.

When the movements of the hedging instruments and hedged items are deemed too small, 2.5% of the outstanding notional is added to both the hedging instruments value change and the hedged items value change. Then, the effectiveness test is done again and decides whether the hedge relation is effective or not. The hedge relation is considered effective if the results of the effectiveness test falls within the range of 80%-125%.

Retrospective test

At each reporting date, the retrospective test is performed. The purpose of the test is to verify whether the change in fair value of the hedged item attributable to the hedged risk is offset by the change in fair value of the hedging instrument. The method used is the dollar-offset method.

The retrospective effectiveness test of the hedge relation is therefore determined by calculating the changes in the market values (delta) of the hedging instruments (derivatives) and the hedged items over the hedged period. Under the retrospective test, the change in market value is defined as the difference between the market value at the start of the hedge period and the market value at the end of the hedge period.

$$\text{Hedge effectiveness} = \frac{\Delta\ \text{MtM Hedging Instruments}}{\Delta\ \text{MtM Hedged Items}}$$

The small numbers problem for the prospective hedge effectiveness, mentioned above, also applies to the retrospective hedge effectiveness. The solution to this, applying the small numbers test, is the same as for the prospective hedge effectiveness. The hedge relation is considered effective if the results of the effectiveness test falls within the range of 80%-125%.

Accounting

Based on IAS 39.89, for loans and bonds recorded at amortized cost, the change in market value of the hedged item adjusts the carrying amount of these loans and bonds and is recognized in profit or loss. For loans and bonds recorded at Fair Value through OCI, the change in market value of the hedged item is also recognized in profit and loss. The difference between changes in the fair value of the loan or bond and changes in the market value of the hedged item is recognized as set out in IAS 39.55.

To summarize, the booking figures are determined as follows:

∞ *Balance sheet items:*
- Fair value of the derivatives used in hedge relations;
- Adjustment to the carrying amount, relating to loans that are accounted for at amortized cost;
- Adjustment to the carrying amount, relating to loans that are accounted for at FV through OCI.

∞ *Profit & Loss:*
- Change in fair value of the derivatives;
- Change in adjustment to the carrying amount, relating to loans that are accounted for at amortized cost;
- Change in adjustment to the carrying amount, relating to loans that are accounted for at FV through OCI.

∞ *Other Comprehensive Income:*
- Difference between the market value movement of the loans that are accounted for at FV through OCI, and the change in adjustment to the carrying amount relating to loans that are accounted for at FV through OCI.

Cash flow hedge

Discontinuation of cash flow hedge

Per January 2020, Anadolubank Nederland N.V. started a hedge relation denominated in USD under the IA539 accounting standard. This macro cash flow hedge relation is created with plain vanilla interest rate swaps (IRSs) with USD Libor 3 months floating index as hedging instruments and a portion of the USD bank and corporate deposits portfolio as the hedged item.

The USD bank and corporate deposits are fixed rate products with a very short maturity. The fixed rate is determined based on the USD Libor 3 months floating rate index. Therefore, the USD bank and corporate deposits in the portfolio share the same interest rate risk, resulting from changes in the USD Libor 3 months index.

Per end of June 2023, the USD Libor indexes have been discontinued. As a result of this, all the USD IRSs from Anadolu has been converted into SOFR overnight compounded rate on the floating leg under the ISDA fallback agreement. This means that the floating leg index of the IRSs is now SOFR plus a spread (fixed at 0.25161% for the USD Libor 3 months index). All other characteristics of the IRSs are unchanged. Following this change, Anadolu considers that there is no hedge economic relationship anymore between the hedging instruments and the hedged items.

IA5 39 Paragraph 101 describes the circumstances when the hedge relation should be discontinued prospectively. Sub paragraph (d) indicates that an entity can revoke the designation. Therefore, according to IA5 39, Anadolubank Nederland N.V. can stop the hedge relation.

Furthermore, this sub paragraph indicates the accounting implication of the discontinuation of the hedge relation. Two cases are presented:

If the hedged items cease to exist, the cumulative gain or loss that had been recognized in other comprehensive income (OCI) shall be reclassified immediately from equity to profit or loss as a reclassification adjustment.

If the hedged items still expect to occur, the OCI amount remains in the cash flow hedge reserve until the future cash flows occur.

The OCI amount corresponds to the amount accumulated during the period when the hedge was effective so in this case up to 30 June 2023. For Anadolubank N.V., the hedge item has ceased to exist (ceased to qualify as a hedge item) and the OCI amount should therefore be recognized immediately into profit and loss.

30/06/2023 *(Thousand euro)*	**Credit**	**Debit**
Hedge fund		368
Deferred tax liability		118
Profit and Loss	368	
Current tax liability	118	

Before discontinuation Cash flow hedge is applied as below in 2022;

Risk management objective

In order to manage the interest rate risk in the banking book (IRRBB) within the risk appetite limits on Earnings-at-Risk (EaR) as set in the Market & ALM Risk Policy, the Bank utilizes a hedge strategy. The Bank aims a stable NII by adopting a hedge strategy which eliminates the effects on the cost of the liabilities due to the changes in the interest rates in the market.

Anadolubank N.V. has classified its USD bank and corporate deposits at amortized cost, while the hedges are accounted for at fair value through P&L. This accounting mismatch creates volatility in the P&L statement of the Bank. In order to avoid the accounting mismatch, Anadolubank N.V. applies hedge accounting.

Hedge strategy

The hedge strategy is performed by entering into USD denominated interest rate swap transactions which require Anadolubank N.V. to pay fixed interest and receive floating interest in return, in order to achieve a stable net interest income.

Hedged risk

The hedge risk is the risk of variability in the interest cash flows caused by changes in the floating interest rate. The credit spread is not part of the hedged risk. Therefore, changes in the credit spread will not be incorporated in the valuation for the purpose of hedge accounting. This is achieved by excluding the credit spread in the so-called hypothetical derivative.

The hedge accounting is applied in compliance with IAS 39. Anadolubank N.V. is applying Cash Flow hedge accounting.

Description of hedge relation

Anadolubank N.V. uses plain vanilla interest rate swaps as hedging instruments. The interest rate swaps (IRSs) are payer swaps. The Bank pays the fixed rate and receives the floating rate index. Both legs of the IRSs are included in the hedge relation. Note that Anadolubank N.V. may enter in receiver swaps in order to offset payer swaps. Only the combination of the payer and offsetting receiver swap can be used in the hedge relation.

Based on IAS 39.78, a hedged item can be a portion of the portfolio of financial assets or financial liabilities that share the risk being hedged. According to IAS 39.83 similar assets shall be aggregated and hedged as a group only if the individual assets in the group share the risk exposure that is designated as being hedged.

Anadolubank N.V. defines a portion of the USD bank and corporate deposits portfolio as the hedged item. The USD bank and corporate deposits are fixed rate products with a very short maturity. The fixed rate is determined based on the USD Libor 3 months floating rate index. Therefore, the USD bank and corporate deposits in the portfolio share the same interest rate risk, resulting from changes in the USD Libor 3 months index. The weighted average maturity of these deposits is about 90 days (3 months). The weighted average is determined based on the outstanding notional of the deposits. The hedged item may include cash flows resulting from rollovers of financial liabilities.

Hedge effectiveness

Prospective test

At each inception date of the hedge relation, the prospective test is performed. The purpose of this test is to ensure that the change in fair value of the hedged items attributable to the hedged risk is expected to be offset by the change in fair value of the hedging instruments.

The method used is the dollar-offset method with a parallel shock of 10 basis points over the discounting and forward curves (the shock applies to the market rates). The prospective effectiveness test of the hedge relation is therefore determined by calculating the changes in the market values (delta) of the hedging instruments (derivatives) and the hedged items at the start of the hedge period. Under the prospective test, the change in market value is defined as the difference between the shifted market value at the start of the hedge period and the unshifted market value at the start of the hedge period.

$$\textit{Hedge effectiveness} = \frac{\Delta\ \textit{MtM Hedging Instruments}}{\Delta\ \textit{MtM Hedged Items}}$$

From the formula for hedge effectiveness above, it becomes clear that small movements of the hedging instruments and hedged items lead to more ineffectiveness in percentages. Small value movement causing hedge ineffectiveness is a known issue in hedge accounting. One way to overcome this is by performing a small numbers test.

When the movements of the hedging instruments and hedged items are deemed too small, 2.5% of the outstanding notional is added to both the hedging instruments value change and the hedged items value change. The hedge relation is considered effective if the results of the effectiveness test falls within the range of 80%-125%.

Furthermore, in case the hedged item includes cash flows resulting from rollovers of financial liabilities, Anadolubank will demonstrate that these are highly probable. This is done by preparing a cash flow schedule showing that there exist sufficient expected cash flows compared to the cash flows that are designated as hedged item. The schedule should be supported by management's stated intentions and past financial liabilities rollovers.

Retrospective test

At each reporting date, the retrospective test is performed. The purpose of the test is to verify whether the change in fair value of the hedged item attributable to the hedged risk is offset by the change in fair value of the hedging instrument.

The method used is the dollar-offset method. The retrospective test of the hedge relation is therefore determined by calculating the changes in the market values (delta) of the hedging instruments (derivatives) and the hedged items over the hedged period. Under the retrospective test, the change in market value is defined as the difference between the market value at the start of the hedge period and the market value at the end of the hedge period.

$$\textit{Hedge effectiveness} = \frac{\Delta\ \textit{MtM Hedging Instruments}}{\Delta\ \textit{MtM Hedged Items}}$$

The small numbers problem for the prospective hedge effectiveness, mentioned in section 4.1, also applies to the retrospective hedge effectiveness. The solution to this, applying the small numbers test, is the same as for the prospective hedge effectiveness. The hedge relation is considered effective if the results of the effectiveness test falls within the range of 80%-125%.

The effective part of the hedge relation is defined as the part of the hedge effectiveness ratio that is below 100%. Everything above 100% is the ineffective part of the hedge relation. The effective part is based on the retrospective dollar offset test, rather than the retrospective small numbers test.

The most common sources of hedge ineffectiveness are:

- Derivative has a fair value, other than zero, at inception of the hedge relationship;
- Mismatch in characteristics between the floating leg of the swap and the hedged items.

Accounting

If the criteria for applying cash flow hedge accounting are met, the accounting entries throughout the duration of the hedge relationship are as follows:

- To the extent that the relationship is effective, the change in fair value of the hedging instruments is recognized in other comprehensive income and accumulated in a separate reserve in equity (OCI-hedge fund);
- When the underlying hedged item impacts profit or loss, an amount is recycled from the hedge reserve to offset this impact in profit and loss, and
- Any ineffectiveness is recognized in the income statement immediately.

4 Operating segments

A segment is a distinguishable component of the Bank. More specifically, segment information is presented in respect of the Bank's operating segments, where the Bank assesses performance and accordingly makes resource allocations. The Bank's primary format for segment reporting is based on operating segments. Measurement of segment assets and liabilities and segment results is based on the accounting policies set out in the accounting policy notes. For geographical segments, refer to Note 28 (b) Credit risk.

The Bank has the following three divisions, which are reportable segments:

Retail Banking – Loans, deposits and other transactions and balances with retail customers;

Corporate and Commercial Banking – Loans, deposits and other transactions and balances with corporate customers and bank loans;

Treasury – Funding and centralized risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.

31 December 2023	Retail Banking	Corporate and Commercial Banking	Treasury	Other	Total
Net interests, fees, and commissions income	(8,734)	33,752	11,385	1,785	38,188
Other operating income, loan loss provisions and expenses, net	-	156	(1,328)	(11,421)	(12,593)
Net operating profit	**(8,734)**	**33,908**	**10,057**	**(9,636)**	**25,595**
Provision for taxes	2,253	(8,748)	(2,595)	2,500	(6,590)
Net Profit	**(6,481)**	**25,160**	**7,462**	**(7,136)**	**19,005**
Cash and cash equivalents	-	-	289,503	-	289,503
Loans and advances to banks	-	300,581	-	-	300,581
Loans and advances to customers	-	283,033	-	-	283,033
Interest-bearing securities	-	-	124,167	-	124,167
Other assets	-	-	-	7,561	7,561
Total assets	**-**	**583,614**	**413,670**	**7,561**	**1,004,845**
Deposits from banks	-	-	36,259	-	36,259
Deposits from customers	383,778	443,254	-	-	827,032
Other liabilities	-	-	-	8,785	8,785
Shareholder's equity	-	-	-	132,769	132,769
Total liabilities and equity	**383,778**	**443,254**	**36,259**	**141,554**	**1,004,845**

31 December 2022	Retail Banking	Corporate and Commercial Banking	Treasury	Other	Total
Net interests, fees, and commissions income	(2,430)	19,364	1,934	1,785	20,653
Expected credit loss and other general administrative expenses	-	9	(967)	(8,436)	(9,394)
Net operating profit	**(2,430)**	**19,373**	**967**	**(6,651)**	**11,259**
Provision for taxes	627	(4,998)	(249)	1,758	(2,862)
Net Profit	**(1,803)**	**14,375**	**718**	**(4,893)**	**8,397**
Cash and cash equivalents	-	-	244,584	-	244,584
Loans and advances to banks	-	262,889	-	-	262,889
Loans and advances to customers	-	205,416	-	-	205,416
Interest bearing securities	-	-	113,929	-	113,929
Other assets	-	-	-	6,247	6,247
Total assets	**-**	**468,305**	**358,513**	**6,247**	**833,065**
Deposits from banks	-	-	136,391	-	136,391
Deposits from customers	297,967	274,807	-	-	572,774
Other liabilities	-	-	-	11,832	11,832
Shareholder's equity	-	-	-	112,068	112,068
Total liabilities and equity	**297,967**	**274,807**	**136,391**	**123,900**	**833,065**

5 Cash and cash equivalents

	2023	2022
Cash and balances with banks	6,906	21,923
Unrestricted balances with central banks	282,507	211,387
Money market placements within three months	91	11,276
ECL charge	(1)	(2)
Position as at 31 December	**289,503**	**244,584**

Cash and balances with central banks and banks are on demand.

6 Derivatives held for risk management purposes

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

Derivative financial instruments include currency and interest swaps. The Bank uses derivative financial instruments to manage its exposure to foreign currency and interest risk. The notional amounts and the fair value amounts of the positions in currency and interest rates swaps are:

	31 December 2023						
	Notional Amounts	**Up to 1 month**	**Up to 3 months**	**Up to 1 year**	**Over 1 year**	**Fair value assets**	**Fair value liabilities**
Foreign currency swaps - Buy	323,387	158,701	84,686	80,000	-	2,730	-
Foreign currency swaps - Sell	324,528	160,121	85,340	79,067	-	-	3,460
Interest rate swaps - Buy	139,565	-	-	59,300	80,265	2,300	-
Interest rate swaps - Sell	139,565	-	-	59,300	80,265	-	1,568
Cross currency swaps - Buy	5,579	-	-	-	5,579	55	-
Cross currency swaps - Sell	5,689	-	-	-	5,689	-	-
Forward - Buy	5,000	5,000	-	-	-	-	-
Forward - Sell	4,535	4,535	-	-	-	-	-
Total	**947,848**	**328,357**	**170,026**	**277,667**	**171,798**	**5,085**	**5,028**

	31 December 2022						
	Notional Amounts	**Up to 1 month**	**Up to 3 months**	**Up to 1 year**	**Over 1 year**	**Fair value assets**	**Fair value liabilities**
Foreign currency swaps - Buy	197,133	91,580	-	65,553	40,000	1,870	-
Foreign currency swaps - Sell	204,385	92,791	-	70,816	40,778	-	7,055
Interest rate swaps - Buy	50,189	5,000	-	-	45,189	3,264	-
Interest rate swaps - Sell	50,189	5,000	-	-	45,189	-	7
Cross currency swaps - Buy	5,780	-	-	-	5,780	-	-
Cross currency swaps - Sell	5,689	-	-	-	5,689	-	102
Forward - Buy	-	-	-	-	-	-	-
Forward - Sell	-	-	-	-	-	-	-
Total	**513,365**	**194,371**	**-**	**136,369**	**182,625**	**5,134**	**7,164**

Reference is made to Note 27 'Hedge accounting' for information on derivatives used in hedge accounting.

	31 December 2023		31 December 2022	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Derivatives held for risk management - economic hedge relationships				
Interest rate swaps	530	754	1,687	-
Cross currency swaps	55	-	-	102
Foreign currency swaps	2,730	3,460	1,870	7,055
Subtotal	3,314	4,214	3,557	7,157
Derivatives held for risk management - fair value hedge accounting relationships				
Interest rate swaps	1,770	814	859	7
Subtotal	1,770	814	859	7
Derivatives held for risk management - cash flow hedge accounting relationships				
Interest rate swaps	-	-	718	-
Subtotal	-	-	718	-
Total	**5,085**	**5,028**	**5,134**	**7,164**

7 Loans and advances to banks

	31 December 2023	31 December 2022
Bank loans at AC	110,656	256,292
Bank loans at FVOCI	186,114	-
Advances to banks	4,153	6,714
ECL charge	(342)	(117)
Position as at 31 December	**300,581**	**262,889**

Loans and advances to banks include all sorts of exposures falling under regulatory supervision as not embodied in the form of debt securities or synthetic instruments.

8 Loans and advances to customers

	31 December 2023	31 December 2022
Corporate loans	286,471	208,360
ECL charge	(3,438)	(2,944)
Balance at 31 December	**283,033**	**205,416**

The details of ECL charge are disclosed in note 28 financial risk management.

9 Interest bearing securities

	2023	2022
Amortized cost	104,728	81,985
FVOCI	20,767	32,911
ECL charge	(1,328)	(967)
Balance at 31 December	**124,167**	**113,929**

In 2023, there were no reclassifications between the portfolios.
The Bank does not have bonds as collateral to DNB (De Nederlandsche Bank) (2022: EUR 41,510).
There are no securities under repo (2022: EUR 30,241).

Amortized cost	**2023**	**2022**
Government bonds	19,846	13,604
Corporate bonds	15,102	13,311
Issued by banks	69,780	55,070
ECL charge	(1,056)	(748)
Balance at 31 December	**103,672**	**81,237**

FVOCI	**2023**	**2022**
Government bonds	15,282	32,911
Corporate bonds	-	-
Issued by banks	5,485	-
ECL charge	(272)	(221)
Balance at 31 December	**20,495**	**32,690**

10 Property and equipment

	2023	2022
Balance at 1 January	532	489
Additions	81	79
Depreciation	53	35
Additions Right-of-use asset	1,279	211
Depreciation of right-of-use asset	248	212
Balance at 31 December 2023	**1,591**	**532**

Changes in Right-of-use assets	**Property**	**Cars**
Opening balance	296	72
Addition	1,279	-
Depreciation	248	-
Balance at 31 December 2023	**1,327**	**72**

The bank has entered into a long-term financial obligation for its office premises until 2029

All property and equipment are stated at historical cost less depreciation. A historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated using the straight-line method to write off the cost of each asset to their residual values over their estimated useful life.

11 Other assets

	2023	2022
Suspense accounts	523	284
Balance at 31 December	**523**	**284**

Suspense accounts comprise accounts for general affairs, prepaid expenses, reclaimable VAT, and other miscellaneous accounts.

12 Deposits from banks

	2023	2022
Sale and repurchase, securities lending and similar agreements	-	63,842
Money market deposits	36,259	72,549
Total	**36,259**	**136,391**

Securities lending is zero for 2023 (2022: EUR 30,241), similar agreements is zero for 2023 (2022: EUR 33,601).

13 Deposits from customers

	2023	2022
Retail customers	383,778	297,967
Savings	187,808	199,657
Time deposits	195,970	98,310
Corporate customers	443,254	274,807
Demand deposits	72,771	107,376
Time deposits	370,483	167,431
Total	**827,032**	**572,774**

EUR 22,029 of term deposits served as cash collateral for loans advances extended as of 31 December 2023 (2022: EUR 5,221).

14 Other liabilities

	2023	2022
Lease liability	1,392	367
Transfer orders	444	3,164
Taxes other than income	224	183
Other provisions	945	643
Short-term employee benefits	2	2
Others	288	309
Balance at 31 December	**3,295**	**4,668**

EUR 52 of ECL charge for commitments were recognized under others (2022: EUR 4).

Changes in lease liabilities	2023	2022
Open balance	367	371
Addition	1,279	216
Interest expenses	(3)	(2)
Lease payment	(251)	(218)
Balance at 31 December	**1,392**	**367**

15 Capital and reserves

Dividend payments are subject to the approval of the Dutch Central Bank as the regulatory body and are not accounted for until they have been ratified at the Annual General Meeting. The profit after tax will be added to 'retained earnings'.

Equity	2023	2022
Share capital and share premium	75,000	75,000
Retained earnings	37,443	29,046
Revaluation reserves	1,321	(375)
Net profit	19,005	8,397
Shareholders' equity	**132,769**	**112,068**

	2023	2022
FVOCI	1,321	(724)
Cash flow hedge reserve	-	349
Revaluation reserves	**1,321**	**(375)**

Cash flow hedge reserve is disclosed and explained in note 27 'Hedge accounting'.

16 Commitments

31 December 2023	<= 1 month	1-3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Total
Guarantee issued	-	-	455	-	-	455
Irrevocable letter of credit	3,957	5,521	13,490	17,468	-	40,436
Total	**3,957**	**5,521**	**13,945**	**17,468**	**-**	**40,891**

31 December 2022	<= 1 month	1-3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Total
Guarantee issued	3	938	93	-	-	1,034
Irrevocable letter of credit	2,247	15,645	4,460	2,143	-	24,495
Total	**2,250**	**16,583**	**4,553**	**2,143**	**-**	**25,529**

17 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party making financial and operating decisions. The Bank is controlled by Anadolubank A.S. which owns 100% of the ordinary shares. Anadolubank A.S. belongs to Habas Group controlled by Habas Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AS. For the purpose of consolidated financial information, shareholders and Habas Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Board of Directors and their families.

The following significant balances exist and transactions have been entered into with related parties:

31 December 2023	Parent	Control over the entity	Related parties	Total
Assets	**1,960**	**26,037**	**-**	**27,997**
Cash and cash equivalent	238	-	-	238
Banks	1,722	-	-	1,722
Loans and advances	-	26,037	-	26,037
Liabilities	**4,527**	**242,519**	**172**	**247,218**
Funds Entrusted	4,527	242,519	172	247,218
Off-balance	**3,075**	**-**	**-**	**3,075**
Letter of credit	3,075	-	-	3,075
Interest income	**327**	**1,507**	**-**	**1,834**
Interest expense	**70**	**7,887**	**6**	**7,963**
Other operating expenses	**263**	**-**	**-**	**263**
Other operating income	**-**	**1,359**	**-**	**1,359**

31 December 2022	Parent	Control over the entity	Related parties	Total
Assets	**197**	**17,213**	**-**	**17,410**
Cash and cash equivalent	197	-	-	197
Banks	-	-	-	-
Loans and advances	-	17,213	-	17,213
Liabilities	**11,255**	**83,327**	**169**	**94,751**
Funds Entrusted	11,255	83,327	169	94,751
Off-balance	**446**	**-**	**-**	**446**
Letter of credit	446	-	-	446
Interest income	**22**	**770**	**-**	**792**
Interest expense	**197**	**1,535**	**-**	**1,732**
Other operating expenses	**255**	**-**	**-**	**255**
Other operating income	**-**	**-**	**-**	**-**

The Bank enters into transactions with its parent company and other related parties in ordinary course of business at arm's-length conditions. Balances are not secured.

The Bank has determined Identified Staff on the basis of the criteria, but not limited to, laid down in the "Regulatory Technical Standard Identified Staff (RTS IS)".

Key management personnel transactions	2023	2022
Loans and advances	-	-
Deposits from customers	524	159
Guarantees issued	-	6

Key management personnel compensation, including managing board members comprised the following.

Key management personnel compensations	2023	2022
Fixed	2,133	2,029
Variable	384	228
Total	**2,517**	**2,257**

None of the employees have received remuneration over EUR one million.

18 Lease commitments

The Bank enters into lease contracts, mainly for office buildings and cars which the Bank leases for its own use. More specifically,the bank has entered into a long-term financial obligation for its office premises until 2029. In 2023, EUR 347 has been paid for the rent of the office.

	2023	2022
Less than one year	283	231
Between one and five years	1,109	136
Total	**1,392**	**367**

19 Net interest income

Interest income	2023	2022
Cash and cash equivalents	7,333	577
Loans and advances to banks	25,673	11,182
Loans and advances to customers	15,419	7,700
Interest-bearing securities	3,615	2,671
Negative interest on liabilities	-	249
Total interest income	**52,040**	**22,379**

Interest Expense	2023	2022
Cash and cash equivalents	-	258
Deposits from banks	2,357	1,131
Deposits from customers	17,813	3,654
Total interest expense	**20,170**	**5,043**

20 Net fee and commission income

Fee and commission income	2023	2022
Corporate/banking credit related fees	3,069	2,088
Other	1,119	1,007
Total fee and commission income	**4,188**	**3,095**

Fee and commission expense	2023	2022
Corporate/banking credit related expense	148	130
Interbank transaction fees	52	24
Total fee and commission expense	**200**	**154**

Fee and commission income mainly consists of commission fees in respect of trade finance related transactions.

21 Net trading income / loss

	2023	2022
Net income from trading securities	(13)	(36)
Net income from FVOCI securities	-	(46)
Net income from options	-	-
Net trading income / loss	**(13)**	**(82)**

Securities trading results include the results of market making in instruments such as government securities, corporate debt securities and bank debt securities.

22 Results from financial transactions

	2023	2022
Results from derivative transactions	459	504
FX Income / Loss	1,884	(46)
Total results from financial operations	**2,343**	**458**

Results from foreign currency exchange transactions comprise all (un)realized gains and losses arising from foreign currency positions in relation to exchange rate changes. Foreign currency positions generally relate to assets, liabilities or derivative transactions. The mentioned gains and losses show the total result without indicating the underlying position.

23 Personnel expenses

The number of staff employed by the Bank as of 31 December 2023 is 58 (2022:49), all staff are employed in the Netherlands.

The Bank has a defined contribution plan for the majority of staff; the pension scheme is insured at an insurance company.

Personnel expenses	2023	2022
Wages and salaries	5,015	4,107
Compulsory social security obligations	533	196
Contributions to defined contribution plans	269	321
Other fringe benefits	974	506
Total	**6,791**	**5,130**

The remuneration and fees of the members of the Board of Supervisory Directors and Management Board for the year ended 31 December 2023 are as follows:

2023	Base salary	Other benefits	Variable	Total
Board of Supervisory Directors	85	-	-	85
Managing Board Directors	788	41	152	981

2022	Base salary	Other benefits	Variable	Total
Board of Supervisory Directors	70	-	-	70
Managing Board Directors	507	37	84	628

Since there were no high earners the amounts are not disclosed individually since the Bank meets the criteria of article 383b of the Dutch Civil Code.

24 Other expenses

	2023	2022
Operating lease expense	121	58
Communication expenses	89	88
Business travel & acommodation	91	51
Audit fee	403	500
Software licening and other information technology expenses	811	695
Paid taxes other than income	186	116
Tax advisory	13	28
Other consultancy	678	223
Regulatory supervision expenses	476	419
Legal expenses	106	45
Deposit Guarantee Scheme	694	506
Other	662	200
Total	**4,329**	**2,929**

Audit-related fees	2023	2022
Audit fees related to previous year	0	131
Audit fees related to current year	403	369
Total audit fees	**403**	**500**

Other audit fees relate to regulatory reports audit, interim reviews of financial information and Deposit Guarantee Scheme audit performed by Deloitte Accountants B.V. and member firms. Deloitte Accountants B.V. did not provide any non-audit services. The audit fees related to current year amount to EUR 403, of which EUR 229 relates to the Financial statement audit fees and EUR 174 to other fees.

25 Tax

Major components of taxes:

Reconciliation of income tax	**2023**	**2022**
Operating profit before tax	25,595	11,259
Weighted average statutory tax rate	25.7 %	25.4 %
Weighted average statutory tax amount	**6,590**	**2,862**
Expenses not deductible for tax purposes	-	-
Effective tax amount	**6,590**	**2,062**
Effective tax rate	**25.7 %**	**25.4 %**

Deferred tax assets	**2023**	**2022**
Hedge fund	-	(248)
FVOCI	-	381
Total	**-**	**133**

Deferred tax liabilities	**2023**	**2022**
FVOCI	462	133
Total	**462**	**133**

Tax is calculated according to the current Dutch nominal tax rate of 19% for the first EUR 200,000 and 25.8% of the remaining amount in 2023.

Deferred tax amount is 25% of the unrealized loss of FVOCI.

Current taxes on income comprises tax payable on the taxable income for the period and adjustments in taxes payable for prior years. Current tax is EUR 362 as of 31 December 2023 (2022: EUR 164).

26 Fair value information

See accounting policy in Note 3 (g).

(a) Valuation models

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

- **Level 1**: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- **Level 2**: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3**: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument>s valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models and comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include benchmark interest rates, credit spreads, bond prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

As at 31 December 2023 and at 31 December 2022, the fair value of the securities measured at fair value represents closing bid price quoted in an active market. Actively traded quoted securities are classified as Level 1. The Bank also held financial instruments classified as level 2 of the fair value hierarchy. A description of the valuation technique(s) and the inputs used in the fair value measurements in included below.

b) Financial instruments measured at fair value

31 December 2023	Total	Level 1	Level 2	Level 3
Assets				
Derivative financial assets	5,085	-	5,085	-
Securities measured at fair value	20,767	20,767	-	-
Bank Loans	-	-	-	185,907
Total assets	**25,852**	**20,767**	**5,085**	**185,907**
Liabilities				
Derivative financial liabilities	5,028	-	5,028	-
Total liabilities	**5,028**	**-**	**5,028**	**-**

31 December 2022	Total	Level 1	Level 2	Level 2
Assets				
Derivative financial assets	5,134	-	5,134	-
Securities measured at fair value	32,911	32,911	-	-
Total assets	**38,045**	**32,911**	**5,134**	**-**
Liabilities				
Derivative financial liabilities	7,164	-	7,164	-
Total liabilities	**7,164**	**-**	**7,164**	**-**

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

c) Financial instruments measured at amortized cost

31 December 2023	Fair value	Level 1	Level 2	Level 3	Carrying value
Assets					
Cash and cash equivalents	289,503	289,503	-	-	289,503
Loans	400,377	-	-	400,377	397,707
Banks	116,606	-	-	116,606	114,674
Corporate	283,771	-	-	283,771	283,033
Securities not measured at fair value	103,691	89,962	13,729	-	103,672
Total assets	**793,571**	**379,465**	**13,729**	**400,377**	**790,882**
Liabilities					
Banks	36,261	-	-	36,261	36,259
Funds entrusted	824,954	-	-	824,954	827,032
Total liabilities	**861,215**	**-**	**-**	**861,215**	**863,291**

31 December 2022	Fair value	Level 1	Level 2	Level 3	Carrying value
Assets					
Cash and cash equivalents	244,584	244,584	-	-	244,584
Loans	469,825	-	-	469,825	468,305
Banks	261,638	-	-	261,638	262,889
Corporate	208,187	-	-	208,187	205,416
Securities not measured at fair value	77,660	61,544	16,116	-	81,238
Total assets	**792,069**	**306,128**	**16,116**	**469,825**	**794,127**
Liabilities					
Banks	135,819	-	-	135,819	136,391
Funds entrusted	572,233	-	-	572,233	572,774
Total liabilities	**708,052**	**-**	**-**	**708,052**	**709,165**

27 Hedge accounting

The Bank's detailed accounting policies for these two hedge models are set out in paragraph 2.u.

Anadolubank N.V. uses the following derivative financial instruments in hedge accounting relationship:

31 December 2023	Notional amount	Fair value assets	Fair value liabilities
Fair value hedge	42,500	1,735	(588)
Cash flow hedge	-	-	-
Total	**42,500**	**1,735**	**(588)**

31 December 2022	Notional amount	Fair value assets	Fair value liabilities
Fair value hedge	16,000	788	7
Cash flow hedge	12,189	820	-
Total	**28,189**	**1,608**	**7**

31 December 2023	Notional Amounts	Up to 1 month	Up to 3 months	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years
Fair value hedge	42,500	-	-	5,000	-	-	18,000	7,000	12,500
Cash flow hedge	-	-	-	-	-	-	-	-	-
Total	42,500	**-**	**-**	**5,000**	**-**	**-**	**18,000**	**7,000**	**12,500**

31 December 2022	Notional Amounts	Up to 1 month	Up to 3 months	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years
Fair value hedge	16,000	5,000	-	-	-	-	-	-	11,000
Cash flow hedge	12,189	-	-	-	-	-	-	4,688	7,501
Total	28,189	**5,000**	**-**	**-**	**-**	**-**	**-**	**4,688**	**18,501**

Cash flow hedging – impact of hedging instruments on the statement of profit or loss and other comprehensive income

	Change in fair value of hedged instruments	Change in value of hedging instrument recognised in OCI	Hedge ineffectiveness recognised in the statement of profit or loss gain (+) / loss (-)
31 December 2023	-	-	-
31 December 2022	**1,882**	**1,684**	**198**

Gains and losses on derivatives designated under fair value hedge accounting are recognized in the statement of profit or loss. The effective portion of the fair value change on the hedged item is also recognized in the statement of profit or loss.

Hedged items included in fair value hedging relationship

	Carrying amount of hedged items	Change in fair value of hedged items	Change in fair value of hedged instruments	Hedge ineffectiveness recognised in the statement of profit or loss gain (+) / loss (-)
31 December 2023	**72,500**	**1,846**	**(1,226)**	**619**
31 December 2022	**16,000**	**(1,291)**	**1,467**	**176**

The main sources of ineffectiveness are:

- When the movements of the hedging instruments and hedged items are deemed too small, 2.5% of the outstanding notional is added to both the hedging instruments value change and the hedged items value change.
- Differences in timing of cash flows of the hedged item and hedging instrument.
- Different interest rate curves applied to discount the hedged items and hedging instruments.

28 Financial Risk Management

(a) Introduction and overview

This section presents information about the Bank's exposure to each of the below mentioned risks, objectives, policies and processes for measuring and managing risks, and the management of capital. The Bank has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk;
- operational risk;
- currency risk ;
- capital management.

Risk management framework

The Management Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Management Board monitors the effectiveness of the risk management system through the several committees, such as Asset and Liability Committee and Credit Risk Committee. These committees are responsible for establishing and monitoring the relevant risk measures on a regular basis.

The Supervisory Board of the Bank supervises the risk management activities to ensure that such activities pursued by the Management Board are in line with the Bank's risk profile, long-term strategies and goals. At least once a year, the risk appetite framework is reviewed by the Management Board and submitted to the Supervisory Board for approval.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees are aware of their roles and obligations.

The risks are measured with the internationally accepted methodologies in compliance with local and international regulations, the Bank's structure, policy and procedures. They are effectively managed and assessed in a continuously growing manner.

(b) Credit risk

Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Maximum exposure subject to credit risk	**2023**	**2022**
Cash and cash equivalents	289,503	244,584
Loans and advances to customers	283,033	205,416
Loans and advances to banks	300,581	262,889
Interest-bearing securities	124,167	113,929
Derivative financial assets	5,085	5,134
Total balance Sheet	**1,002,369**	**831,952**
Commitments	40,891	25,529
Total credit risk exposure	**1,043,260**	**857,481**

Past due and non-performing loans

Impaired loans and securities are loans and advances and investment debt securities (other than those carried at fair value through profit or loss) for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / investment security agreement(s). These loans are graded as stage 3.

Loans and advances to customers	Neither past due nor non peforming	Past due <= 30 days	Past due > 30 days <= 60 days	Past due > 60 days <= 90 days	Non-performing	Impairment
December 31, 2023	282,128	-	-	-	3,611	2,707
December 31, 2022	205,057	-	-	-	2,610	2,252

Forbearance loans

Forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments.

A concession refers to either of the following actions:

(a) A modification of the previous terms and conditions of a contract the debtor is considered unable to comply with due to its financial difficulties to allow for sufficient debt service ability, that would not have been granted had the debtor not been in financial difficulties;

(b) A total or partial refinancing of a troubled debt contract, which would not have been granted, had the debtor not been in financial difficulties.

The bank has no forborne exposure at December 31, 2023.

	2023	2022
Corporate loans	-	2,245
ECL charge	-	(3)
Balance at 31 December	**-**	**2,242**

As of 1 January 2018, the IFRS 9 accounting rules on expected credit loss have been implemented. These accounting rules do not change the actual credit losses, but have an impact on the timing of when these losses are reflected in the P&L. Loan loss provisioning becomes more forward-looking under IFRS 9 partly due to the fact that provisions will be based on the macroeconomic outlook, amongst other factors. Additionally expected credit loss will be calculated on the lifetime expected losses for assets that have experienced a significant deterioration in credit quality. To summarize, expected credit loss in the P&L could become more volatile.

	Stage 1			Stage 2			Stage 3		
31 December 2023	Net carrying	Gross carrying	Expected Credit Loss	Net carrying	Gross carrying	Expected Credit Loss	Net carrying	Gross carrying	Expected Credit Loss
Cash and cash equivalents	289,503	289,504	1	-	-	-	-	-	-
Banks	300,581	300,923	342	-	-	-	-	-	-
Interest-bearing securities	116,316	116,555	262	7,851	8,668	1,065	-	-	-
Loans and advances	278,861	279,539	678	3,267	3,321	53	904	3,611	2,707
Off-balance sheet liabilities	40,839	40,891	52	-	-	-	-	-	-
	1.025.495	**1,027,412**	**1,335**	**11,118**	**11,989**	**1,119**	**904**	**3,611**	**2,707**

	Stage 1			Stage 2			Stage 3		
31 December 2022	Net carrying	Gross carrying	Expected Credit Loss	Net carrying	Gross carrying	Expected Credit Loss	Net carrying	Gross carrying	Expected Credit Loss
Cash and cash equivalents	244,584	244,586	2	-	-	-	-	-	-
Loans and advances to banks	262,889	263,016	127	-	-	-	-	-	-
Interest bearing securities	110,573	111,133	569	3,356	3,544	398	-	-	-
Loans and advances to customer	199,873	200,296	424	5,185	5,453	269	358	2,610	2,252
Off-balance sheet liabilities	25,525	25,529	4	-	-	-	-	-	-
	843.444	**844,560**	**1,126**	**8,541**	**8,997**	**667**	**358**	**2,610**	**2,252**

	Stage 1		Stage 2		Stage 3	
	Financial Assets	Expected Credit Loss	Financial Assets	Expected Credit Loss	Financial Assets	Expected Credit Loss
01 January 2023	**844,560**	**1,126**	**8,997**	**667**	**2,610**	**2,252**
Transfers from Stage 1 to Stage 2	-	-	-	-	-	-
Transfers from Stage 1 to Stage 3	(1,000)	(308)	-	-	1,000	308
Net re-measurement on the stage transfer	-	-	-	-	-	-
Write off	-	-	-	-	-	-
Other changes in net exposure	182,098	517	2,897	452	1	203
Currency translation	1,149	-	95	-	-	(56)
31 December 2023	**1,026,807**	**1,335**	**11,989**	**1,119**	**3,611**	**2,707**

Transfers from Stage 1 to Stage 3 involve loans and advances to customers.

	Stage 1		Stage 2		Stage 3	
	Financial Assets	Expected Credit Loss	Financial Assets	ECL	Financial Assets	Expected Credit Loss
01 January 2022	**699,306**	**816**	**10,138**	**192**	**3,414**	**2,525**
Transfers from Stage 1 to Stage 2	-	-	-	-	-	-
Transfers from Stage 1 to Stage 3	-	-	-	-	-	-
Net re-measurement on the stage transfer	-	-	-	-	-	-
Write off	-	-	-	-	(615)	(530)
Other changes in net exposure	147,871	310	(945)	475	(189)	173
Currency translation	(2,617)	-	(196)	-	-	84
31 December 2022	**844,560**	**1,126**	**8,997**	**667**	**2,610**	**2,252**

Collateral policy

The Bank holds collateral against loans and advances to customers in the form of cash, mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

	Loans and advances to customers		Loans and advances to banks		Interest bearing securities		Cash and cash equivalents	
Collateral analysis	**Dec-23**	**Dec-22**	**Dec-23**	**Dec-22**	**Dec-23**	**Dec-22**	**Dec-23**	**Dec-22**
Secured by cash collateral	22,040	5,221	-	-	-	-	-	-
Secured by cash bonds	-	-	-	-	-	-	-	-
Secured by mortgages	17,633	26,910	-	-	-	-	-	-
Other collateral	147,114	104,433	-	-	-	-	-	-
Uncollateralized exposure	96,246	68,852	300,581	262,889	124,167	113,929	289,503	244,584
Carrying amount	**283,033**	**205,416**	**300,581**	**262,889**	**124,167**	**113,929**	**289,503**	**244,584**

Sectorial and geographical concentration of loans & advances and investment securities

	Loans and advances to customers		Loans and advances to banks		Interest bearing securities		Cash and cash equivalents		ECL	
Concentration by sector	**Dec-23**	**Dec-22**	**Dec-23**	**Dec-22**	**Dec-23**	**Dec-22**	**Dec-23**	**Dec-22**	**Dec-23**	**Dec-22**
Corporate:										
Basic materials	73,070	50,671	-	-	3,033	3,042	-	-	112	82
Transport&Logistics	41,169	41,590	-	-	4,995	4,995	-	-	22	49
Automotive	49,041	44,252	-	-	-	-	-	-	198	187
Chemicals	5,874	14,052	-	-	-	-	-	-	4	6
Construction& Infrastructure	7,304	4,030	-	-	-	-	-	-	319	2
Consumer products non-food	6,222	3,595	-	-	-	-	-	-	38	26
Oil&Gas	13,952	13,933	-	-	4,391	-	-	-	1,625	1,655
Agriculture &Fishing	9,011	11,406	-	-	-	-	-	-	12	12
Financial intermediation	27,454	2,942	-	-	14,347	12,467	-	-	173	278
Services	-	-	-	-	-	-	-	-	-	-
Building materials	-	-	-	-	-	-	-	-	-	-
Food, Beverages&Tobacco	2,741	1,343	-	-	2,618	2,689	-	-	845	647
Private individuals	-	-	-	-	-	-	-	-	-	-
Capital Goods	3,703	4,283	-	-	-	-	-	-	39	38
Others	33,451	10,271	-	-	-	2,540	-	-	100	18
Real Estate	10,041	3,048	-	-	-	-	-	-	49	1
Central Bank	-	-	-	-	-	-	282,506	211,386	-	-
Government	-	-	-	-	34,033	45,895	-	-	1,096	620
Bank	-	-	300,581	262,889	60,750	42,301	6,997	33,198	529	424
Carrying amount	**283,033**	**205,416**	**300,581**	**262,889**	**124,167**	**113,929**	**289,503**	**244,584**	**5,161**	**4,045**

The Bank monitors concentrations of credit risk by sector and geographic location. An analysis of concentrations of credit risk from loans and advances and investments securities at balance sheet date is shown below:

December 31, 2023

Geographical concentration	Eu Countries	Turkey	Other countries	Total Exposure
Cash and cash equivalents	282,788	238	6,477	289,503
Loans and advances to customers	186,199	46,293	50,541	283,033
Loans and advances to banks	40,777	245,986	13,818	300,581
Interest-bearing securities	104,987	16,562	2,618	124,167
Derivative financial assets	5,085	-	-	5,085
Total balance Sheet	**619,836**	**309,079**	**73,454**	**1,002,369**
Commitments	8,105	26,450	6,336	40,891
Total credit risk exposure	**627,941**	**335,529**	**79,789**	**1,043,260**
ECL charge	**3,420**	**1,592**	**149**	**5,161**

December 31, 2022

Geographical concentration	Eu Countries	Turkey	Other countries	Total Exposure
Cash and cash equivalents	223,005	197	21,382	244,584
Loans and advances to customers	114,406	38,454	52,556	205,416
Loans and advances to banks	31,980	212,592	18,317	262,889
Interest bearing securities	84,701	19,172	10,056	113,929
Derivative financial assets	5,134	-	-	5,134
Total balance sheet	**459,226**	**270,415**	**102,311**	**831,952**
Commitments	791	22,197	2,541	25,529
Total credit risk exposure	**460,017**	**292,612**	**104,852**	**857,481**
ECL charge	**2,782**	**1,161**	**102**	**4,045**

Concentration by location for assets is measured based on the risk driven country of the asset, which has a high correlation with the location of the borrower.

The table below sets out the credit quality of the financial assets and based on the external rating of the borrower.

	Loans and advances to customers		Loans and advances to banks		Interest bearing securities		Cash and cash equivalents		ECL	
Credit quality analysis	**Dec-23**	**Dec-22**	**Dec-23**	**Dec-22**	**Dec-23**	**Dec-22**	**Dec-23**	**Dec-22**	**Dec-23**	**Dec-22**
Rated BBB- to AAA	26,843	26,301	25,347	31,954	98,783	89,027	288,266	244,380	242	189
Rated B- to BB+	29,305	29,346	255,484	217,512	25,384	24,902	2378	197	1,724	1,345
CCC	-	-	-	-	-	-	-	-	-	-
Unrated	226,885	149,769	19,750	13,423	-	-	-	7	3,195	2,511
Carrying amount	**283,033**	**205,416**	**300,581**	**262,889**	**124,167**	**113,929**	**289,503**	**244,584**	**5,161**	**4,045**

The breakdown of unrated customers based on the internal ratings is as follows.

	Loans and advances to customers		Loans and advances to banks		Interest bearing securities		Cash and cash equivalents		ECL	
Credit quality analysis	**Dec-23**	**Dec-22**	**Dec-23**	**Dec-22**	**Dec-23**	**Dec-22**	**Dec-23**	**Dec-22**	**Dec-23**	**Dec-22**
Rated BBB- to AAA	110,933	81,776	19,750	11,360	-	-	-	-	112	88
Rated B- to BB+	115,048	67,635	-	2,063	-	-	-	-	375	172
CCC	904	358	-	-	-	-	-	-	2,707	2,252
Unrated	-	-	-	-	-	-	-	-	-	-
Carrying amount	**226,885**	**149,769**	**19,750**	**13,423**	-	-	-	-	**3,195**	**2,511**

All ratings for Banks referred to in this disclosure are initially derived from external rating agencies, if procurable. If not, the Bank may resort to internal model.

Specifically, the model will facilitate:

1. the internal assessment of the creditworthiness of the Bank's clients;
2. the transparency of the creditworthiness of the Bank's clients;
3. monitoring trends in the quality of the credit portfolio;
4. monitoring concentration risk;
5. performance measurement;
6. determination of risk-adjusted credit approval levels and frequency of credit reviews;
7. formulation of credit policies, e.g. risk appetite, collateral policies, etc.

Analysis on sensitivity

The table below presents the analysis on the sensitivity of GDP inputs used in the ECL collective-assessment modelling.

The purpose of the sensitivity analysis is to enable the reader to understand the extent of the impact on model based reportable ECL from the upside and downside scenario.

In the table below the Real GDP for 2023 is presented in percentage year-on-year change.

	GDP	ECL
EU		
Upside	5.0 %	3,157
Baseline	1.0 %	3,420
Downside	-1.0 %	3,750
Turkey		
Upside	5.0 %	1,024
Baseline	2.9 %	1,592
Downside	-2.0 %	2,514
Rest		
Upside	5.0 %	82
Baseline	2.4 %	149
Downside	0.0 %	210

(c) Liquidity risk

Liquidity risk is commonly defined as the ability of an institution to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses.

The Bank's liquidity risk is managed centrally by Treasury Department with the guidance of ALCO, and is monitored by Risk Management Department while the Bank's Internal Audit function assesses whether the liquidity management process is designed properly and operating effectively.

The Bank monitors intraday liquidity risk in addition to short-term and long term horizons. The Bank's liquidity management process includes: projecting expected cash flows in a maturity profile rather than relying merely on contractual maturities; monitoring balance sheet liquidity; monitoring and managing the maturity profile of liabilities and off-balance sheet commitments; monitoring the concentration of funding in order to avoid undue reliance on large financing counterparties; and, maintaining liquidity and contingency plans which outline measures to take in the event of difficulties arising from liquidity crisis.

The Liquidity Risk Policy is built on international standards on liquidity risk measurements developed by the Basel Committee on Banking Supervision (for example: the Liquidity Coverage ratio (LCR) and the Net Stable Funding Ratio (NSFR)) and it also applies measurements that best suit the operating environment of the Bank.

Various stress tests have been constructed to measure how different scenarios affect the liquidity position and liquidity risk of the Bank. Comprehensive stress tests are conducted on a monthly basis and measure the Bank's ability to withstand cash outflows under various levels of adverse conditions.

Liquidity Risk Policy sets limits for liquidity risk tolerance by determining an acceptable level of liquidity position under normal and stressed business conditions. ALCO is also responsible for deciding on strategies, policies and practices on liquidity risk in accordance with the risk tolerance while taking into account key business units, products, legal structures and regulatory requirements.

The ILAAP Supervision Manual is the main reference for the Bank's liquidity risk management. It provides an all-encompassing qualitative and quantitative guidance for liquidity risks management as well as for the implementation of the liquidity regulations.

Residual contractual maturities of financial assets and liabilities

The tables below shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity, comparing 31 December 2023 figures with those of 31 December 2022. The Bank's expected cash flows on these instruments may vary significantly from this analysis. For example, funds entrusted item is expected to maintain a stable or an increasing balance.

The liquidity stress test results demonstrate that the excess liquidity is maintained at all times.

The following table provides an analysis of assets and liabilities according to their undiscounted contractual amount based on their remaining maturity:

31 December 2023

Assets	Carrying amount	Demand	<= 1 month	1-3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Not distributable
Cash and cash equivalents	289,503	289,503	-	-	-	-	-	-
Banks	300,581	-	38,727	32,412	187,361	42,081	-	-
Loans and advances	283,033	-	30,945	27,694	67,383	149,071	7,940	-
Interest-bearing securities	124,167	-	7,809	6,464	29,637	58,961	21,296	-
Current tax assets	362	-	-	-	-	362	-	-
Deferred tax assets	-	-	-	-	-	-	-	-
Other assets	7,199	-	-	-	-	5,085	-	2,114
Total assets	**1,004,845**	**289,503**	**77,481**	**66,570**	**284,381**	**255,560**	**29,236**	**2,114**

Other assets include derivative financial assets, property and equipment, intangible assets, other assets.

Liabilities								
Banks	36,259	-	29,691	6,568	-	-	-	-
Funds entrusted*	827,032	187,808	249,522	177,907	130,520	80,173	1,102	-
Deferred tax liabilities	462	-	462	-	-	-	-	-
Other liabilites	6,931	-	6,736	143	-	-	-	52
Lease obligation	1,392	-	24	47	212	1,109	-	-
Total liabilities	**872,076**	**187,808**	**286,435**	**184,665**	**130,732**	**81,282**	**1,102**	**52**
Shareholders' equity	132,769	-	-	-	-	-	-	132,769
Total liabilities and equity	**1,004,845**	**187,808**	**286,435**	**184,665**	**130,732**	**81,282**	**1,102**	**132,821**
Net liquidity		**(208,954)**	**(118,095)**	**153,649**	**174,278**	**28,134**	**(130,707)**	**(130,707)**

Other liabilities include derivative financial liabilities and other liabilities (excluding lease obligation).

** Including on demand saving accounts which has on average a longer term characteristic*

31 December 2022	Carrying amount	Demand	<= 1 month	1-3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Not distributable
Total assets	833,065	233,330	58,731	79,844	213,653	215,859	30,832	816
Total liabilities and equity	833,065	199,658	132,230	220,464	106,926	60,875	844	112,068
Net liquidity		**33,672**	**(73,499)**	**(140,620)**	**106,727**	**154,984**	**29,988**	**(111,252)**

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but excludes strategic and reputation risk.

The operational risk framework adopted by the Bank sets out a structured and consistent approach for the management of operational risk across the Bank. The comprehensive risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with operations, enabling a comprehensive view, analysis and reporting of the Bank>s operational risk profile.

The objective in managing operational risk is to increase the effectiveness of the Bank>s resources, minimize operational losses and exploit opportunities. The Risk Management Department has initiated a project to the self-assessment processes and to enhance the resulting qualitative risk management information set. This will align, connect and integrate key non-financial risk assessment processes (i.e. compliance, legal and integrity risk types). Based on the self-assessment processes, there are several Key Risk Indicators (KRI) assigned for the monitoring of the processes that may be exposed to operational risk.

The Bank continuously collects the operational risk loss incidents, as a requirement for operational risk management, including detailed analyses, the identification of mitigating actions, and timely information of the Management Board. As being the second line of defense, Risk Management, Compliance and Internal Control departments work closely in order to identify any exposures and make sure the mitigating actions are taken.

Business resilience includes also business continuity management and crisis management. The Bank reviews recovery of its business operations and supporting technology, Business Continuity Management ("BCM"), as a critical and fundamental part of its ability to fulfill its fiduciary responsibilities to clients every year. As such, significant resources and effort are dedicated to these programs with the co-ordination of Information Technology Department.

(e) Market risk

Market risk is the risk of changes in market prices of the underlying assets. Interest rate, equity prices, foreign exchange rates and credit spreads may affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held for proprietary position taking.

Exposure to interest rate risk – non-trading portfolios

Since Interest Rate Risk in the Banking Book (IRRBB) is not separately identified by Pillar I regulatory capital, the Bank captures this risk under Pillar II in the ICAAP. Anadolubank N.V. has, to a large extent, a linear interest position. The only significant behavioral elements in its balance sheet are the retail savings accounts. Assumptions are made on their interest sensitivity but essentially these will not have a large impact on its interest position.

Anadolubank N.V. measures interest rate risk in the banking book both on an Economic Value of Equity (EVE) basis as well as an Earnings-at-Risk (EaR) basis.

Additionally, the Bank has limited risk tolerance towards interest rate risk in its banking book. The interest rate risk position is discussed in the regular ALCO meetings. If necessary, ALCO advices on the necessary actions to adjust the on- and off-balance sheet asset and liability positions, so that the Bank is able to keep its liquidity and interest rate risk below the pre-determined limits.

Economic Value of Equity

The Economic Value of Equity (EVE) is defined as the change of Anadolubank N.V.'s economic value of equity due to shocks to the yield curve. The measure can be derived from the interest typical cash flows, combined with the proper set of discount factors. Following the EBA guidelines, six scenarios are evaluated: Next to two parallel shift scenarios, four other scenarios are evaluated. These scenarios test particular yield curve shifts and test the sensitivity of positions on the yield curve. Different scenarios are used for different currencies, reflecting the interest sensitivities of these currencies in the past.

The Bank effectively has interest rate risk in two currencies: EUR and USD. Other currencies are minor, including the TRY interest rate position, thus not significant. The TRY interest rate position is close to none.

Economic Value of Equity (EVE)

31 December 2023 **in EUR**

Currency	EVE	Parallel up	Parallel down	Steep	Flat	Short up	Short down
EUR	144,089,394	3,044,919	-3,141,982	-1,256,533	1,776,073	2,581,506	-2,648,617
USD	3,461,113	-1,362,705	1,508,447	553,035	-821,350	-1,336,232	1,364,239
USD + EUR	**147,550,507**	**159,755**	**-2,387,758**	**-980,015**	**66,687**	**-45,479**	**-1,966,498**
% of EVE	–	0.11 %	-1.62 %	-0.66 %	0.05 %	-0.03 %	-1.33 %
Outlier criterion		**0.13 %**	**-1.97 %**	**-0.81 %**	**0.05 %**	**-0.04 %**	**-1.62 %**

As can be observed from the above table, outlier criterion results (as a percentage of Tier 1 capital) are well below the predefined 15% regulatory limit set by the EBA guidelines.

Earnings at Risk

Earnings-at-Risk analysis intends to quantify the volatility of the expected future earnings, depending on the future (movements of) interest rates over the predefined horizon (one and two years). Obviously, these future interest rates are not known in advance and consequently future earnings are uncertain as well. By applying several interest rate scenarios, the volatility of these earnings can be investigated over a particular future period. The Earnings at Risk (EaR) is the level of earnings (net interest income) that correspond to a pre-defined scenario compared to the 'best estimate' on earnings, i.e. the expected value of earnings. The scenarios that are used to determine the EaR should on the one hand be realistic, but on the other hand reflect the stress as well.

The EaR is calculated as the impact of 200bps shift (both up and down) on the interest rates over a 1 year and 2 year horizon, under an assumption of a stable balance sheet. The results are presented below for the 1 year horizon.

Net Interest Income (NII)

31 December 2023 **in EUR**

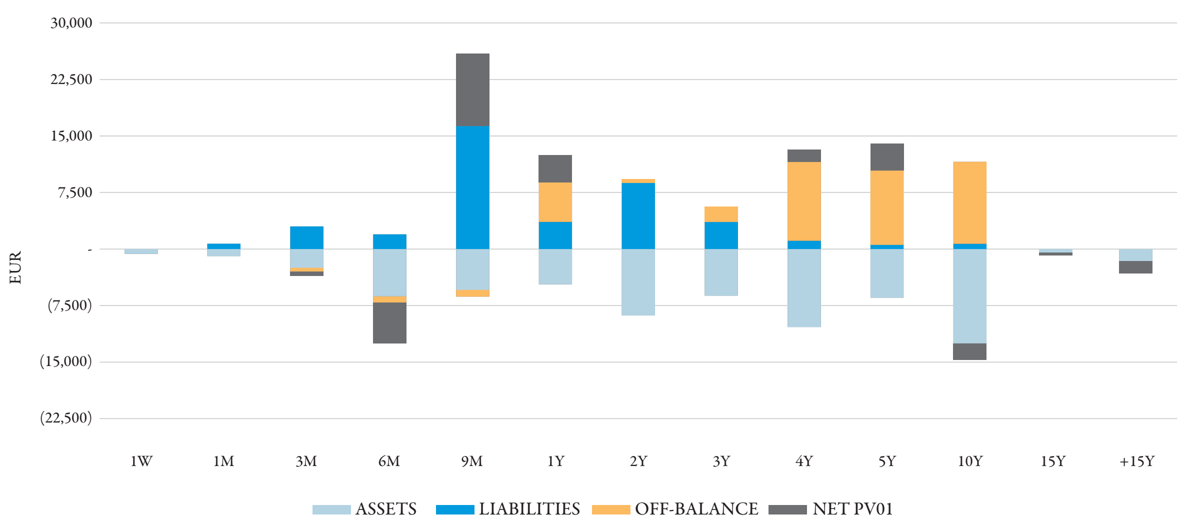
Currency	NII (1 year)	Gradual shift up	Instantaneous shift up	Gradual shift down	Instantaneous shift down
EUR	22,166,276	2,956,935	7,506,848	-2,956,935	-7,506,848
USD	10,944,569	-1,148,629	-2,159,071	1,148,629	2,159,071
GBP	0	0	0	0	0
AUD	0	0	0	0	0
TRY	-185	-3	-8	3	8
TOTAL	**33,110,660**	**1,808,303**	**5,347,769**	**-1,808,303**	**-5,347,769**
% of NII	**-**	**5 %**	**16 %**	**-5 %**	**-2 %**

Price value of a basis point (PV01)

The price value change of 1 bps or PV01 is the value change of an item in the assets or liabilities given a single basis point increase on the interest rates. The measure is additive and therefore the basis point price value of equity can be determined by subtracting the sum of basis point values of the liabilities from the sum of basis point values of the assets.

The graph below shows the sensitivity to a 1bp increase in interest rates on 31/12/2023. It is presented across multiple durations.

Present value of 1 bps change in interest rates (PV01) - 31/12/2023



Interest rate gap profile (IRG)

The PV01 and notional amounts are also presented in a term structure (from 1 week to 15 years) with a repricing view. This provides a view of the interest position that exists on the entire curve.

A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

31 December 2023	Carrying amount	<= 3 months	3-6 months	>6 months <= 1 year	> 1 year	Non interest bearing
Assets						
Cash and cash equivalents	289,503	-	-	-	-	289,503
Banks	300,581	71,139	80,255	107,106	42,081	-
Loans and advances	283,033	58,639	11,928	55,455	157,011	-
Interest-bearing securities	124,167	14,273	7,004	22,633	80,257	-
Current tax assets	362	-	-	-	362	-
Deferred tax assets	-	-	-	-	-	-
Other assets	7,199	-	-	-	5,085	2,114
Total assets	**1,004,845**	**144,051**	**99,187**	**185,194**	**284,796**	**291,617**

Other assets include derivative financial assets, other assets, property and equipment.

Liabilities						
Banks	36,259	36,259	-	-	-	-
Funds entrusted	827,032	542,466	46,506	84,014	81,275	72,771
Deferred tax liabilities	462	-	-	-	-	462
Other liabilities	8,323	5,028	-	-	-	3,295
Total liabilities	**872,076**	**583,753**	**46,506**	**84,014**	**81,275**	**76,528**
Surplus/deficit	**132,769**	**(439,702)**	**52,681**	**101,180**	**203,521**	**215,089**

Other liabilities include derivative financial liabilities and other liabilities

Derivatives Net	-	**(91,040)**	**(22,525)**	**33,300**	**80,265**	-

31 December 2023	Total	<= 3 months	3-6 months	>6 months <= 1 year	> 1 year	Non interest
Total assets	833,065	138,575	102,089	111,564	246,558	234,279
Total liabilities	720,997	440,621	71,959	34,789	61,584	112,043
Surplus/deficit	**112,068**	**(302,046)**	**30,130**	**76,775**	**184,974**	**122,236**

(f) Currency risk

31 December 2023

Assets	EUR	USD	TRY	Other	Total
Cash and cash equivalents	282,812	6,562	32	97	289,503
Banks	56,969	243,612	-	-	300,581
Loans and advances	200,062	82,971	-	-	283,033
Interest-bearing securities	104,316	19,851	-	-	124,167
Current tax assets	362	-	-	-	362
Deferred tax assets	-	-	-	-	-
Property and equipment	1,591	-	-	-	1,591
Derivative financial assets	5,085	-	-	-	5,085
Other assets	523	-	-	-	523
Total assets	**651,720**	**352,996**	**32**	**97**	**1,004,845**

Liabilities					
Banks	17,735	18,524	-	-	36,259
Funds entrusted	411,598	415,420	3	11	827,032
Derivative financial liabilities	3,846	1,182	-	-	5,028
Share capital and share premium	75,000	-	-	-	75,000
Retained earnings	37,443	-	-	-	37,443
Revaluation reserves	(52)	1,373	-	-	1,321
Hedge fund	-	-	-	-	-
Net Profit	19,005	-	-	-	19,005
Other liabilities	3,723	34	-	-	3,757
Total liabilities	**568,298**	**436,533**	**3**	**11**	**1,004,845**
Net on balance sheet position	**83,422**	**(83,537)**	**29**	**86**	**-**
Net notional amount of derivatives	**(75,059)**	**73,826**	**-**	**-**	**(1,233)**
Net position	**8,363**	**(9,711)**	**29**	**86**	**(1,233)**

31 December 2022	EUR	USD	TRY	Other	Total
Total assets	496,044	336,770	32	219	833,065
Total liabilities	560,477	271,345	8	1,235	833,065
Net on balance sheet position	**(64,433)**	**65,425**	**24**	**(1,016)**	**-**
Net notional amount of derivatives	**59,148**	**(67,604)**	**-**	**1,071**	**(7,385)**
Net position	**(5,285)**	**(2,179)**	**24**	**55**	**(7,385)**

On a daily basis, the net FX open position on the banking and trading book is measured per each currency. The net open position in the banking book is expected to be hedged, translating into tight limits available to accommodate the hedging process. For the trading book all open positions are evaluated per each mandated currency and are restricted based on the aggregated position. In addition to the position limits, trading book is also subject to the stop loss limits.

The Bank applies the Standardized Approach to capture the market risk under Pillar I capital requirement calculation. Market risk incorporates a range of risks including the currency risk.

Sensitivity	**31/12/2023**
Own funds requirement	147
Own funds requirement (-)10% shock on USD/EUR rate	132
Own funds requirement (+)10% shock on USD/EUR rate	162

(g) Capital management

Anadolubank N.V. uses regulatory capital ratios in order to monitor its capital base and the capital ratios remain within the international standards for measuring capital adequacy. The Bank ensures that regulatory capital requirements are met during its business planning process also in case of the stressed periods.

The Bank also comfortably meets the leverage ratio requirement due to the business strategy in place.

Capital requirements	**2023**	**2022**
in thousands of EUR		
Total risk weighted assets	643,738	501,291
Credit risk	595,079	469,941
Market risk	1,836	2,179
Operational risk	46,823	29,171
Tier 1 capital	**132,697**	**107,455**
Paid-in capital	75,000	75,000
Retained earnings	37,445	29,046
Revaluation reserves	1,321	(724)
Net profit	19,005	8,397
Regulatory adjustments	(75)	(4,264)
Tier 2 capital	-	-
Total capital	**132,697**	**107,455**
Tier 1 ratio %	**20.6 %**	**21.4 %**
Solvency ratio %	**20.6 %**	**21.4 %**

29 Subsequent events

There has been no subsequent event between the balance sheet date and the date of approval of these accounts which would be reported by the Bank.

30 Other informations

Provisions of the articles of association concerning the appropriation of the result

The appropriation of profit is governed by Article 23 of the articles of association, the profit is at free disposal of the general meeting. The general meeting may decide to pay dividend (if the Company is profitable), only after adoption of the annual accounts and if profit so permits. It has been decided not to pay any dividend for the year 2023 on May 22, 2024.

Amsterdam, June 14, 2024

Supervisory Board

A.J. Smith, *Chairman*

F. Canbay, *Vice Chairman*

G. Taran Ünver, *Member*

M. Rosenberg, *Member*

Managing Board

N. Sabah, *CEO*

N. Plotkin, *Managing Director*

A.H.Otten, *Managing Director*

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and the supervisory board of Anadolubank Nederland N.V.

Report on the audit of the financial statements 2023 included in the annual report

Our opinion

We have audited the financial statements 2023 of Anadolubank Nederland N.V., based in Amsterdam.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Anadolubank Nederland N.V. as at 31 December 2023, and of its result and its cash flows for 2023 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:

1. The statement of financial position as at 31 December 2023.

2. The following statements for 2023: the statement of profit or loss and other comprehensive income, the statements of changes in equity and cash flows.

3. The notes comprising material accounting policy information 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 Anadolubank Nederland 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 was addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Deloitte.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 950,000. The materiality is based on 0.75% of equity. We consider equity to be the most appropriate benchmark given the relative stability of this benchmark over the years and the focus of regulators and other stakeholders on this benchmark. 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 management board and the supervisory board that misstatements in excess of EUR 47,500, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Audit approach fraud risks

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 entity 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 note 28 “Financial Risk Management” in the Annual Report for the management board’s 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 among others the code of conduct, whistle blower procedures and incident registration. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption 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 identified the following fraud risks and performed the following specific procedures:

- Management override of controls (presumed significant risk).

We rebutted the presumed fraud risk on revenue recognition, as the accounting of interest income and commission income is mainly based on automatically generated accruals in the source system and therefore concern routine transactions not subject to management judgement. These are high volume transactions with a relative low value per transaction.

We evaluated the design and implementation of the financial closing and reporting process. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgements areas and significant accounting estimates as disclosed in the financial statements. We have used data analysis to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Additionally, we performed further procedures including, amongst others, the following:

(i) 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.

(ii) We considered available information and made enquiries of relevant executives, directors including Internal Audit, Compliance and the supervisory board.

(iii) We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

(iv) We evaluated whether the selection and application of accounting policies by Anadolubank Nederland N.V., particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting.

(v) We evaluated whether the judgments and decisions made by management in making the accounting estimates included in the financial statements indicate a possible bias that may represent a risk of material misstatement due to fraud. Management insights, estimates and assumptions that might have a major impact on the financial statements are disclosed in note 2 of the financial statements. We performed a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in prior year financial statements (such as the expected credit loss estimates as required by IFRS 9).

Our procedures performed did not lead to indications for fraud potentially resulting in material misstatements.

Audit approach compliance with laws and regulations

We assessed the laws and regulations relevant to Anadolubank Nederland N.V. through discussion with management, Internal Audit, Compliance and the supervisory board. We have read management and supervisory board minutes, communications with regulatory authorities and reports of Internal Audit.

We involved our forensic specialists in this evaluation.

As a result of our risk assessment procedures, and while realizing that the effects from non-compliance could considerably vary, we considered the following laws and regulations: (corporate) tax law, the requirements under the International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code with a direct effect on the financial statements as an integrated part of our audit procedures, to the extent material for the financial statements.

We obtained sufficient appropriate audit evidence regarding provisions of those laws and regulations generally recognized to have a direct effect on the financial statements.

Apart from these, Anadolubank Nederland N.V. is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts and/or disclosures in the financial statements, for instance, through imposing fines or litigation.

Given the nature of Anadolubank Nederland N.V.'s business and the complexity of these other laws and regulations, there is a risk of non-compliance with the requirements of such laws and regulations.

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Our procedures are more limited with respect to these laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements. Compliance with these laws and regulations may be fundamental to the operating aspects of the business, to Anadolubank Nederland N.V.'s ability to continue its business, or to avoid material penalties (e.g. compliance with the terms of operating licenses and permits or compliance with environmental regulations) and therefore non-compliance with such laws and regulations may have a material effect on the financial statements. Our responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements. Our procedures are limited to:

(i) Obtaining an understanding of the legal and regulatory requirements for Anadolubank Nederland N.V. considering that Anadolubank Nederland N.V. is operating in a highly regulated environment.

(ii) Inquiry of the supervisory board, the management board and others within Anadolubank Nederland N.V. as to whether the Anadolubank Nederland N.V. is in compliance with such laws and regulations.

(iii) Inspecting correspondence with the relevant licensing or regulatory authorities to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

(iv) Obtaining an understanding of the process around transaction monitoring, customer due diligence and transaction screening.

Naturally, we remained alert to indications of (suspected) non-compliance throughout the audit.

Finally, we obtained written representations that all known instances of (suspected) fraud or non-compliance with laws and regulations have been disclosed to us.

Audit approach going concern

Our responsibilities, as well as the responsibilities of the management board and the supervisory board, related to going concern under the prevailing standards, are outlined in the "Description of responsibilities regarding the financial statements" section below. In fulfilling our responsibilities, we evaluated management's assessment of Anadolubank Nederland N.V.'s ability to continue as a going concern for the next 12-months and considered key regulatory ratios including liquidity and solvency ratios.

The management board has performed its going concern assessment and has not identified any going concern risks. Our main procedures to assess the management board's going concern assessment were:

(i) Considering whether the management board's going concern assessment includes all relevant information of which we are aware as a result of our audit.

(ii) Inquired with the management board about its knowledge of going concern risks after the period of the continuity assessment performed by the management board and considering the impact of the financial, operational, and other conditions.

(iii) Analysing Anadolubank Nederland N.V.'s financial position as at year-end and compared it to the previous financial year in terms of indicators that could identify going concern risks.

(iv) Assessing the duration gap between financial assets and liabilities and reported liquidity ratios to the Dutch Central Bank to assess the liquidity of Anadolubank Nederland N.V.

(v) Assessing the reported capital ratios as imposed by the Capital Requirements Regulation to assess the solvency position of Anadolubank Nederland N.V.

(vi) Inspecting regulatory correspondence to obtain an understanding of Anadolubank Nederland N.V.'s capital and liquidity position, that underpins management's assessment of the going concern assumption of financial reporting.

(vii) Obtaining an understanding of economic hedge policy and the overall risk framework of the Bank.

Based on our procedures performed, we did not identify significant doubts on Anadolubank Nederland N.V.'s ability to continue as a going concern for the next 12 months. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

Our key audit matters

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

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

Key audit matters	
Expected credit loss allowance **Description** Anadolubank Nederland N.V. recognizes a loss allowance for expected credit losses ("ECL") on the financial assets at amortized cost and the financial assets at fair value through Other Comprehensive Income ("FVOCI"). At 31 December 2023, the expected credit loss allowance amounted EUR 5.2 million, related to a gross carrying amount of EUR 1,042,4 million. The ECL of stage 1 and stage 2 exposures is calculated collectively. The ECL on the stage 3 exposures is calculated individually.	**How the key audit matter was addressed in the audit** We have tested the design, implementation and operating effectiveness of the key controls in the loan origination process and the process of purchasing interest bearing securities. In addition, we have obtained an understanding of the credit monitoring process and the provisioning process within Anadolubank Nederland N.V. We have tested the design and implementation of the controls related to the timely recognition and measurement of the expected credit loss allowances. For the collective expected credit loss allowance, we have tested the adequacy of assumptions and the input data used by management to calculate the expected credit loss. For the macroeconomic variables, we have challenged management's macroeconomic forecast and scenarios used and involved a specialist. The assessment of the macroeconomic variables includes the direct and indirect exposures to borrowers in Turkey. For individually assessed impairment allowances, we obtained corroborating and contradictory evidence to substantiate and challenge management's assertions regarding the reasonableness of the accounting estimates and the used assumptions in the individual impairment analyses for 31 December 2023.

Because of the inherent uncertainty and risk in a number of areas when determining the expected credit loss allowance, the expected credit loss provision is an important area of judgements and estimates by the management board. As a result, we have identified the expected credit loss allowance to be a key audit matter. Anadolubank's disclosures concerning the expected credit loss allowance are included in note 3.f sub (vii) "Identification and Measurement of Impairment" and note 28 "Financial Risk Management" of the financial statements.	For a selection of individual exposures, we have assessed whether Anadolubank Nederland N.V. correctly applied its provisioning and staging policy. Finally, we have assessed whether the disclosures are accurate and in compliance with EU-IFRS requirements. *Our observations* The scope and nature of the procedures performed were appropriate and sufficient to address the key audit matter. Our procedures performed on the expected credit loss allowance did not result in reportable matters.
Reliability and continuity of the Information Technology systems **Description** An adequate Information Technology infrastructure ensures the reliability and continuity of Anadolubank's business processes and financial reporting. In addition, the continuity of the operations is highly dependent on the Information Technology infrastructure as also explained in note 28 "Financial Risk Management" of the financial statements. Therefore, reliability and continuity of the Information Technology systems has been a key audit matter during our audit.	**How the key audit matter was addressed in the audit** We have tested the reliability of the Information Technology systems relevant for our audit of the financial statements. Furthermore, we have tested the implementation of key controls ensuring that Information Technology systems can be recovered in case disruptions occur. For this purpose, we have made use of Information Technology auditors within our audit team. These procedures included testing the design, implementation and operating effectiveness of the relevant General Information Technology and application controls. Our audit approach relies on automated controls and therefore on the effectiveness of the General Information Technology controls over Information Technology systems. *Our observations* For the purpose of our financial statements audit we believe that the reliability and continuity of the Information Technology systems of Anadolubank Nederland N.V. are at a sufficient level to support our controls reliance audit strategy.

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Report on the other information included in the annual report

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

The other information consists of:
- Management board Report
- Supervisory board Report
- Vision, Mission, and our values
- Three-year key figures
- Other Information

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 all the information regarding 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.

Management is responsible for the preparation of the other information, including the management board's Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as 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 management board and the supervisory board as auditor of Anadolubank Nederland N.V. as of the audit for the year 2016 and have operated as statutory auditor ever 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.

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Description of responsibilities regarding the financial statements

Responsibilities of management and the supervisory board for the financial statements

Management 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, management is responsible for such internal control as management 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, management is responsible for assessing Anadolubank Nederland N.V.'s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The management board should disclose events and circumstances that may cast significant doubt on Anadolubank Nederland N.V.'s ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing Anadolubank Nederland N.V.'s financial reporting process.

Our responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.

- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management board and 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 identified during our audit.

We provide the management board and 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.

Amsterdam, 14 June 2024

Deloitte Accountants B.V.

Signed on the original: T.J.M. Lommerse