İŞBANK AG
ANNUAL REPORT 2021

İŞBANK

Contents

Key Figures

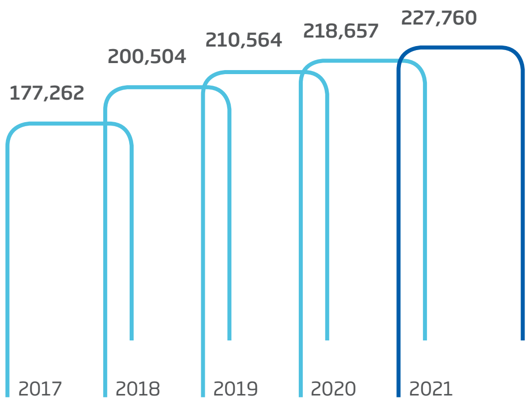
high profitability

The financial year 2021 concluded with annual net profit of 9.1 million euros, a 27% increase over the previous year.

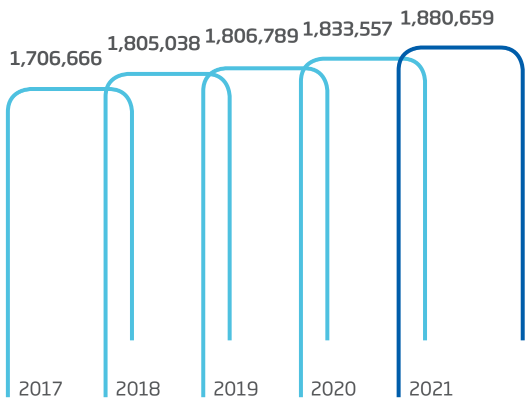
	December 31, 2021	December 31, 2020	Change
	in EUR thousand	in EUR thousand	in %
Total assets	1,880,659	1,833,557	2.57
Capital and reserves	227,760	218,657	4.16
Cash and Balances with Central Bank	329,441	236,011	39.59
Bonds and securities	138,340	130,486	6.02
Due from banks	262,413	386,177	-32.05
Due from customers	1,120,719	1,060,064	5.72
Due to banks	227,794	237,531	-4.10
Customer Deposits	1,418,641	1,365,923	3.86
Interest income	52,315	47,453	10.25
Commission income	6,744	7,388	-8.72
Net income for the year	9,102	8,094	12.46

	%	%
Equity ratio	13.85	13.23
Return on Assets	0.48	0.44
Return on Equity	4.19	3.91

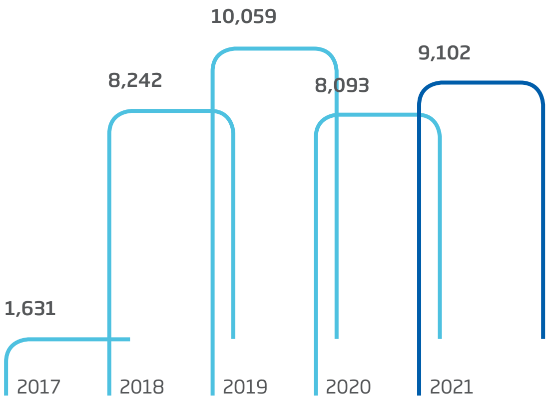
Capital and Reserves
in EUR thousand



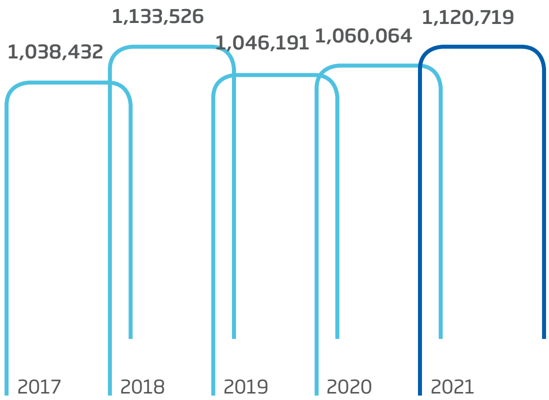
Total Assets
in EUR thousand



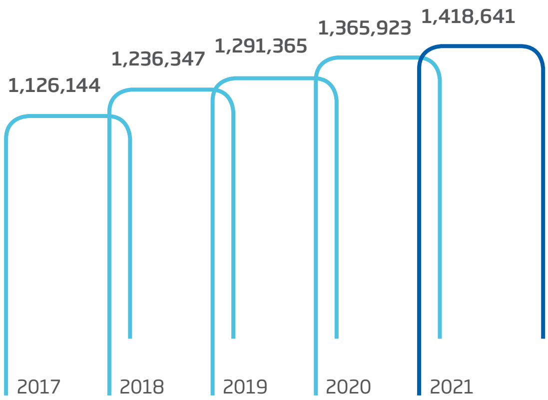
Net Retained Profit
in EUR thousand



Due from Customers
in EUR thousand



Due to Customers
in EUR thousand



4.16%

IN 2021 İŞBANK AG'S CAPITAL AND RESERVES INCREASED BY 4.16% YEAR-ON-YEAR.

2.57%

TOTAL ASSETS OF THE BANK AMOUNTED EUR 1.88 BILLION, UP 2.57% YEAR-ON-YEAR.

5.72%

"DUE TO CUSTOMERS" GREW BY 5.72% IN 2021 AND REACHED EUR 1.42 BILLION.

Türkiye İş Bankası A.Ş. at a Glance

strong

Türkiye İş Bankası A.Ş. is determined to reinforce its support for its customers by taking advantage of the opportunities created by its sustainable and strong financial structure.

İşbank AG is a wholly-owned subsidiary of İşbank, which is the largest private bank of Turkey in terms of total assets, total loans and total deposits by the end of 2021.

As of 2021 year-end, İşbank's total assets reached TL 927 billion, total loans and total deposits amounted TL 493 billion and TL 596 billion, respectively. İşbank also has a robust capital base with a capital adequacy ratio comfortably above the minimum required level by regulation. The Bank is determined to reinforce its support for its customers by taking advantage of the opportunities created by its sustainable and strong financial structure.

İşbank serves retail, SME and large corporate customers and provides all kinds of banking services through a strategy of achieving sustainable and profitable growth based on being "the bank closest to customers". Having the most extensive distribution network among private banks with its 1,174 branches and 6,476 ATMs as of the year-end 2021, İşbank positions its physical and digital channels so as to complement one another, and delivers multidimensional banking services through its diversified digital service platforms. The number of İşbank's digital customers is around 10.2 million by the end of the year, while the share of non-branch channels reached 96% of total transactions.

Besides İşbank AG, İşbank operates abroad through its 21 foreign branches (14 in Northern Cyprus, 2 in London, 1 in Bahrain, 2 in Iraq, 2 in Kosovo) and 2 representative offices in China and Egypt, as well as 2 wholly-owned subsidiaries in Russia (İşbank Russia) and Georgia (İşbank Georgia). As a highly trusted financial institution, İşbank also maintains its pioneering position in foreign trade through its extensive correspondent bank network.

Main Balance Sheet Items	Market Share (%) (1)	Ranking (2)
Total Assets	10.9	1st
Total Loans	10.6	1st
TL Loans	10.0	1st
FX Loans	11.4	1st
Consumer Loans (3)	11.5	2nd
Non-Retail Loans	10.4	1st
Total Deposits	12.0	1st
TL Deposits	9.2	2nd
FX Deposits	13.6	1st
Demand Deposits (4)	15.9	1st

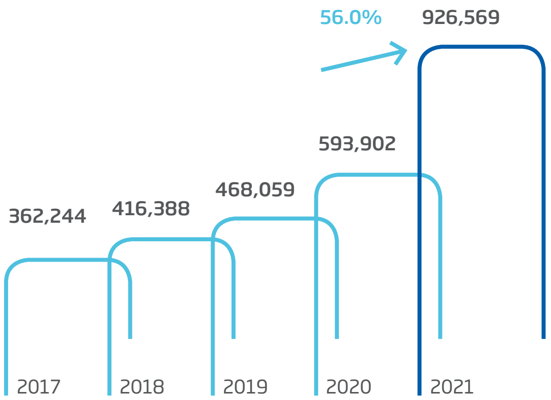
Other Products & Distribution Network	Market Share (%)	Ranking
Number of POS (5)	8.8	3rd
Acquiring Volume (5)	14.9	3rd
Number of Credit Cards (5)	11.8	3rd
Issuing Volume (5)	13.6	3rd
Volume of Debit Cards (5)	9.3	3rd
Number of Branches	12.2	1st
Number of ATMs	12.4	1st

(1) Market share calculations are based on weekly BRSA data excluding participation banks. Total assets market share is based on monthly BRSA data.
(2) Ranking among private-sector banks
(3) Including retail overdraft accounts
(4) Excluding interbank deposits
(5) Market share calculations are based on Interbank Card Center (BKM) data

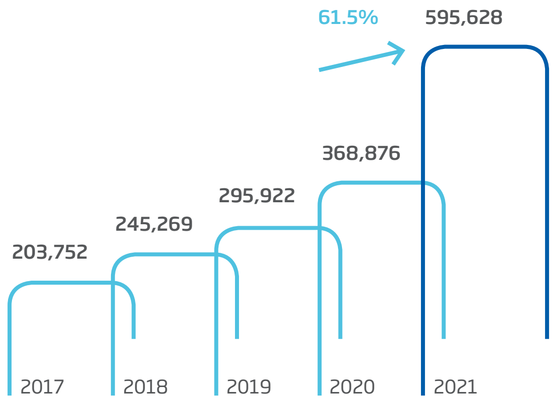
56% growth in asset size

As of 2021 year-end, İşbank's total assets reached TL 927 billion, total loans and total deposits amounted TL 493 billion and TL 596 billion, respectively.

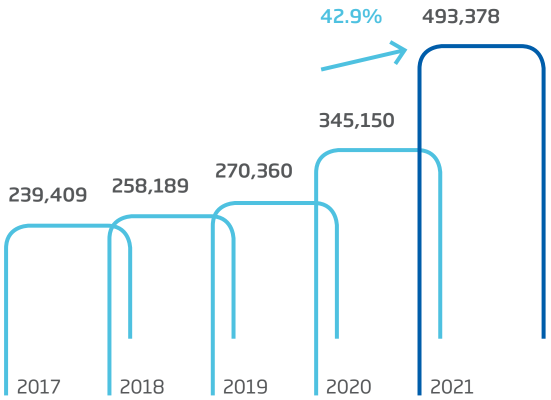
Total Assets
in TL million



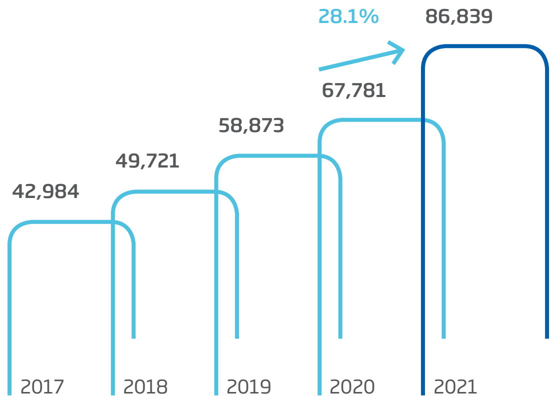
Deposits
in TL million



Loans
in TL million



Shareholders' Equity
in TL million



İşbank AG is a wholly-owned subsidiary of Türkiye İş Bankası A.Ş., which is the largest privately owned bank of Turkey in terms of total assets, total loans and total deposits by the end of 2021.

Türkiye İş Bankası A.Ş.'s strategy is achieving sustainable and profitable growth based on "the bank closest to customers" philosophy.

Message from the Chairperson of Supervisory Board

strategy

We are positioning sustainability as one of our main strategic pillars at İşbank Group.

If we were to label the year 2020 as the year of Coronavirus, it would then be appropriate to deem 2021 as the year that we have learned to live with the Coronavirus. The accelerated efforts to rollout the vaccination in many countries in 2021 enabled a mitigation of the negative impact of the pandemic on the global economy. Despite the emergence of new variants of concern, the lagged effects of the expansionary monetary and fiscal policies implemented on a global scale to limit the effects of the pandemic supported economic activity during this period. Supported too by the effects of deferred demand from 2020, we noted increasing activity in international trade, tourism and capital flows to developing countries.

On the other hand, while some degree of disruption to the supply chain continued, commodity prices surged due to supply constraints and increased demand, fueling inflationary concerns around the world. The rise in inflationary pressures on a global basis to levels unheard of for many years pressured leading central banks to bring forward their schedule in the normalization process for their monetary policies.

In the latest issue of their biannual Economic Outlook, the OECD cites their central scenario as a continued recovery "with the world coping better with the pandemic and monetary and fiscal policies remaining generally supportive throughout 2022." However, the same report also underlines the striking imbalances throughout the world, which could easily trigger downside risks to be realized. Therefore, while noting that we have learned to live with the virus, it is still crucial to recognize these imbalances in healthcare capacity and the vaccination rollout along with their potential effects on economic activity.

It is of utmost importance for us to contribute to the awareness that these matters should be addressed if we are going to emerge stronger from this pandemic and build a recovery which is resilient to further such challenges. The pandemic and the negative effects of climate change are warning signs for us to reconsider our existing ways of doing business globally.

creating value

Our basic principle at İşbank revolves around creating inclusive, sustainable, and shareable social and economic value.

This is the very reason that we are positioning sustainability as one of our main strategic pillars at İşbank Group and İşbank AG. Our basic principle at İşbank revolves around creating inclusive, sustainable, and shareable social and economic value.

İşbank Group has always been a pioneer in digitalization, which we see as the most important asset in our armory in realizing the vision of a sustainable banking ecosystem. The experience we gained during the pandemic did in fact present a valuable testing ground for our ability to navigate in an ever more digitalized banking environment.

We have demonstrated tremendous agility and adaptability in this regard, where lasting changes have emerged out of pandemic measures. As İşbank AG and İşbank Group, while we are primed to face any future challenges, we are also aware that these very changes are going to be the foundations of banking in the coming years.

In the new era, a bank's ability to provide the customer with a fast and frictionless end-to-end digital experience will be considered as a measure of its adequacy. This ability in itself will represent the "capital" of the future. At İşbank AG, our focus will be on developing and deploying this new type of "capital" in addition to capital in its conventional definition. Instead of following a classical growth path which is measured in terms of loan volume, we will employ a new way of growth which is measured in terms of our ability to create value for our customers through digitalization in the context of sustainability.

Guided by the knowledge that our history as a banking group will always be positioned at the forefront of building the banking of the future, we are increasingly confident in this collective endeavor.

On behalf of the Supervisory Board of İşbank AG, I would like to take this opportunity to express sincere gratitude to everyone who has contributed to what has been another year of successful results attained at considerable effort and resilience in difficult times. Building upon the established trust of our customers and business partners, we look forward to shaping our future together.

Finally, I would like to inform our business partners that our accounts, annual financial statements for the financial year of January 1 to December 31, 2021 and the management report have been audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft and issued with an unqualified auditor's report. The Supervisory Board approved the results of the audit and the adopted financial statements as of December 31, 2021 as well as the management report.

On behalf of the İşbank AG family, I would like to express my heartfelt appreciation to our customers, business partners and stakeholders for their continued cooperation and trust.

Gamze Yalçın
Chairperson of the Supervisory Board

Report of the Supervisory Board

regular support

The Supervisory Board monitored the work of the Management Board on an ongoing basis and regularly supported it in managing the company.

Cooperation between the Supervisory and Management Boards

In the past business year, the Supervisory Board monitored the work of the Management Board on an ongoing basis and regularly supported it in managing the company. In this context, the Supervisory Board was at all times convinced of the legal propriety, purposefulness and due order of the work of the Management Board. The Management Board duly fulfilled its duties to provide information and continuously, promptly and comprehensively informed the Supervisory Board both verbally and in writing of all the issues related to strategy, short and long-term planning, business performance, risk position, risk management, compliance and other important topics which are of relevance to the Bank. This also included information on when developments deviated from goals reported earlier and departures of business from the planned budgets. At its committee meetings, the members of the Supervisory Board had sufficient opportunity to critically scrutinize the reports and the documentation for decision-making presented to it by the Management Board and to contribute its own ideas. In particular, the Supervisory Board intensively discussed all items of business of importance to the company on the basis of written and oral Management Board reports and assessed their plausibility. On several occasions the Supervisory Board exhaustively discussed the Bank's risk position, its liquidity planning and the situation as regards its capitalization. The Supervisory Board issued its approval for the individual items of business to the extent that this was necessary in line with the law, the articles of incorporation, or the Management Board's rules of procedure.

Activities of the Supervisory Board

In business 2021 the Supervisory Board held five meetings via video conference, which took place on March 19, 2021, on April 30, 2021, on June 18, 2021, on September 16, 2021 and on December 13, 2021.

The Supervisory Board formed the following committees composed of its members:

- Audit committee
- Risk control committee
- Remunerations control committee
- Credit committee
- Credit limit revision committee

In the year under review, the risk control and audit committees convened twice, while credit limit revision and remunerations control committees each met once.

Annual audit

Auditors Ernst & Young GmbH, Eschborn, who were appointed as auditors by the Annual General Meeting 2021, were commissioned to handle the annual audit of İşbank AG. The auditors those commissioned presented a declaration of their independence to Supervisory Board, which the latter duly received. The Supervisory Board has no doubts as to the accuracy of the content of the declaration of independence.

Wirtschaftsprüfungsgesellschaft, Ernst & Young GmbH, Eschborn, duly audited the annual financial statements of İşbank AG including the management report for business year 2021 and on the basis of its audit findings issued an unqualified opinion on the annual financial statements.

The corresponding audit opinion including the notes to the financial statements and the management report of İşbank AG were made available to all the members of the Supervisory Board in due time. The Supervisory Board examined all the documents. At the Supervisory Board meeting of April 6, 2022 with the participations of the auditors all the key elements of the annual audit were discussed with the Management Board. The auditors were present at the meeting, outlined the key audit findings, and provided supplementary information. All the questions were answered to the Supervisory Board's satisfaction. In the wake of its own examination, the Supervisory Board raised no objections to the conclusive findings of the annual audit and concurred with them. The Supervisory Board has thus formally approved the annual financial statements presented by the Management Board and the annual financial statements of İşbank AG are therefore considered adopted.

The Supervisory Board declares that it concurs with the Management Board's suggestion on the allocation of profits.

Affiliated companies (dependent companies report)

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn likewise examined the Management Board report on relations to affiliated companies (dependent companies report).

At its meeting of April 6, 2022, the Supervisory Board likewise approved the auditor's findings on relations to affiliated companies and following its own examination raised no other objections.

Changes in the Management Board

Effective May 1, 2021 Ayşe Doğan is assigned as Member of Management Board.

Changes in the Supervisory Board

Effective May 29, 2021 and January 21, 2022 three members of the Supervisory Board were succeeded by new members.

Resigned members:

Mete Uluyurt (until May 28, 2021 - Division Head, Türkiye İş Bankası A.Ş.)

Mustafa Tankut Tabak (until January 20, 2022 - Division Head, Türkiye İş Bankası A.Ş.)

Zeynep Hansu Uçar (until January 20, 2022 - Division Head, Türkiye İş Bankası A.Ş.)

Newly appointed members:

Utku Ünsal (as of May 29, 2021 - Division Head, Türkiye İş Bankası A.Ş.)

Hasan Cahit Çınar (as of January 21, 2022 - Member oft the Management Board, Türkiye İş Bankası A.Ş.)

Banu Altun (as of January 21, 2022 - Division Head, Türkiye İş Bankası A.Ş.)

Thanks to the Management Board and staff

The Supervisory Board would like to thank the members of the Management Board and all the staff for their immense efforts in what was an eventful and challenging business 2021.

Gamze Yalçın
Chairperson of the Supervisory Board

Management

Franz Hakan Elman
Member of the
Management Board

Ünal Tolga Esgin
CEO and Chairman of the
Management Board

Ayşe Doğan
Member of the
Management Board

İşbank AG is a German bank with its head office in Frankfurt and 9 branches in Germany as well as another in the Netherlands.

Message from the CEO and Chairman of the Management Board

solid

Following a prudent approach, we were able to maintain our Bank's solid financial profile in 2021.

Dear Clients and Business Partners,

With its mission of representing the İşbank Group in Europe, İşbank AG has been a reputable and credible member of the German and European Banking Community within the framework of the European Banking System. We are proud to carry the deeply rooted and long-established values of the İşbank Group into the European banking business.

After 2020 when the pandemic dominated almost every area of our lives, including the dynamics of the banking industry in Europe, 2021 was a year which passed under the shadow of the ongoing effects of the COVID-19 pandemic. As in the previous year, our utmost priority in 2021 was the well-being of our employees and customers. In this context, in line with public measures to cope with the outbreak, we took all necessary steps to ensure that our Bank's business conduct would not be harmed while protecting our employees to the maximum extent possible.

In 2021 which has been marked by uncertainties regarding the future and imbalances in world markets, our primary goal was to increase our asset quality and preserve our business volume. We reached our targets while recording slight growth both in our asset size and customer credits. Nevertheless, İşbank AG ended the year with a very satisfactory net profit of EUR 9.1 million. Following a prudent approach, we were also able to maintain our Bank's solid financial profile. The capital adequacy ratio and all other regulatory capital ratios either improved or remained at a sound level compared when to the previous year. A similar picture was seen in credit quality and the NPL ratio.

The second central theme of 2021 has been our action plan for digitalization. In line with industry trends, İşbank AG has pressed ahead with its systematic digitalization efforts. In this context, we have undergone an internal reorganization of our Bank's headquarters to provide better digital services to our customers.

mission

İşbank AG will press ahead in its mission to act as a bridge between Turkey and Europe and as a niche bank focused on trade finance.

2021 was an important year for "ParaGönder," our money transfer application, which we developed jointly with MaxiDigital, an İşbank Group company. The application, which is available for download from leading platforms, allows users to send money to any bank account in Turkey at attractive rates. We are pleased to note the growth in the number of customers who have benefited from this opportunity. In 2022, we will work to develop this application further by extending its scope and range of functions.

Moreover, we have extended the robotic process automation for our online onboarded clients, while improvements to the current procedures and products such as online banking services have also come under the scope of our further digitalization efforts. In summary, the focus and improvements on digitalization resulted in a cost-income ratio of 57%, setting another record in İşbank AG's history.

Besides coping with the pandemic and digital transformation, keeping our compliance infrastructure in line with international banking rules and best practices was also an area of primary focus in 2021. As in the past, İşbank AG ensured the careful and uncompromising application of all regulations and best practices at an EU and national level regarding anti-money laundering and preventing the financing of terrorism. İşbank AG will resolutely maintain this policy and remain a reliable member of the international banking community in 2022.

The environment of uncertainty looks set to extend into 2022. Global inflation, supply chain bottlenecks, geopolitical risks and potential new waves of the pandemic will remain risk factors going forward. Against this backdrop, we will maintain our digitalization program in 2022 to further modernize our banking infrastructure and provide more satisfaction to our customers. Furthermore, in 2022 our focus will be on non-equity binding products and services rather than increasing our portfolio size. Thus, we would like further increase our non-interest income and utilize our equity more efficiently and more productively than in the past. In parallel with this, İşbank AG will concentrate on the optimization of its assets and funding sources such as increasing its credit quality and diversification of the refinancing structure. As always, we will do our best to offer better solutions to our customers on an ad-hoc basis.

All in all, our path is clearly defined. İşbank AG will press ahead in its mission to act as a bridge between Turkey and Europe and as a niche bank focused on trade finance. We will not deviate from this path in 2022. We will continue to work tirelessly, systematically and with devotion while remaining faithful to our Group's main values.

On behalf of the Management Board, I would like to express my thanks to all of our staff for their continuous commitment and achievements in this important business year. I would also like to thank our parent company, İşbank, our Supervisory Board as well as our customers and business partners for their support and the trust they have bestowed in us.

With my best wishes,

Ünal Tolga Esgin
CEO and Chairman of the Management Board

Management Report for the Financial Year 2021

focus

As the bank's target markets recovered from the pandemic situation, the focus once again cautiously returned to expanding customer relationships.

a) Fundamentals of İşbank AG

Basic information

İşbank AG is a German bank that has its head office in Frankfurt am Main and maintains nine branches in Germany as well as another in the Netherlands. Since it was founded in 1992, the bank has worked to provide lasting support to trade and business relationships between Europe and Turkey. İşbank AG operates on the one hand as a universal bank, which offers its customers in Turkey and Europe a selected range of products and services in the area of corporate and private retail banking, and on the other hand acts as a specialist bank in the area of foreign trade financing. In this business segment, the trade business with Turkey represents a special niche; the bank will continue to perform this niche function in the future.

The sole shareholder of İşbank AG is Türkiye İş Bankası A.Ş., the largest private bank in Turkey. Since it was founded in 1924, it has played a significant role in the development of the Turkish economy. With its unique shareholder structure, characterized by the 37.3-percent capital share held by the bank employees through their pension fund, Türkiye İş Bankası A.Ş. is one of the most lucrative companies in Turkey and one of the largest companies worldwide.

The parent company, Türkiye İş Bankası A.Ş., which has played a significant role in the development of the Turkish economy since it was founded, was the first institution in the country to open a branch outside Turkey. The bank's first foreign branches opened in Hamburg and Alexandria in 1932.

Based on its strategy of sustainably profitable growth, the bank's vision is to continue its business activities as the European arm of its parent company and to increase its market shares.

Countries and segments as well as market sectors

İşbank AG's business area mainly extends to Europe and Turkey. The branches in Germany, which operate in retail and business banking, are spread over major cities where a high proportion of the population is Turkish, and offer traditional banking services to their customers. In the 2020 fiscal year, the Digital Banking market department was founded to support the branch business; given the background of growing challenges in the branch business, its objective is to continue the digitization and technical streamlining processes in order to optimize service in the private and corporate client segment.

The Amsterdam branch specializes in foreign trade business. The focus here is on institutional customers who require banking services relating to cross-border short-term financing business.

The departments of Corporate Banking and Financial Institutions at the head office in Frankfurt are responsible for the corporate segment and banks. Their area of responsibility includes banks, European and international companies with a trade finance context, and groups from the corporate segment that are based in Turkey or Europe.

In parallel, the Treasury department cooperates with European brokers in the area of the deposit business to optimize the bank's refinancing structure, and it controls and/or administers the bank's international securities portfolio.

Organizational structure

The front office reporting segment still reports to Chairman of the Management Board Mr. Ünal Tolga Esgin, and the back office to Member of the Management Board Mr. Franz Hakan Elman. As of May 1, 2021, Ms. Ayşe Doğan is also a Member of the Management Board and is responsible for the areas of money laundering, compliance, law, data protection, corporate governance and human resources.

Management system

The overall bank management of İşbank AG is geared toward maintaining a good balance between the financial performance indicators. The bank's central control instruments are the balance sheet and/or profit and loss account, the liquidity statement and the risk-bearing capacity statement for risk control (see Risk Report section). Another key element of the management system at İşbank AG are the reports of the bank's internal management committees, such as the Risk Committee, Credit Committee and Asset/Liability Committee, through which the board is regularly informed of key developments and forecasts, and necessary decisions are initiated.

b) Economic report

Overall economic and industry-related framework conditions

The global economy is increasingly recovering from the coronavirus pandemic, but its progress continues to be shaped by economic developments. As of the end of the 2021 financial year, the overall economic framework conditions were still shaped by the pandemic, and the recovery of global economic activity remained sluggish. The vaccination campaign, which began in the first quarter of 2021, and the associated reduction in mitigation measures, did allow for a recovery of the global economy and a related 5.9% increase in economic growth compared to the previous year; however, global supply bottlenecks and material shortages in particular still impact multiple economic segments, especially the industrial sector and global trade. Although the pre-crisis level was once again surpassed at the end of 2020, both for global industrial production and for international trade in goods, these areas did not grow any further worldwide in 2021, and ultimately stagnated. Furthermore, rising raw materials prices caused inflation pressure to grow even more worldwide.

As it has since the start of the pandemic, China is pursuing a strict zero-COVID policy, and the associated stringent mitigation measures are affecting international supply chains worldwide. Overall, the Chinese economy did grow by 8.1% compared to the previous year; but this rise is largely due to the low basis of comparison caused by the pandemic in the previous year. Power outages due to energy shortages in industrial regions, and uncertainty regarding the Chinese real estate market, have contributed to an economic slowdown in China. This in turn has a braking effect in other economic regions. The international trade conflicts that emerged even before the pandemic, and the trend toward greater global protectionism, remain in effect.

In 2021 as a whole, economic performance in the Eurozone increased by 5.2% according to preliminary estimates, thus recovering from its slump at the start of the coronavirus pandemic. During the first coronavirus year, 2020, the economy in the 19 Eurozone countries shrank significantly, by 6.4%. As on the global level, new coronavirus mutations in particular–as well as global supply problems and rising prices especially in the last quarter–slowed economic performance. Among the European countries, Spain and Portugal–with 2% and 1.6%, respectively–saw the highest increases, while Austria and Germany had the greatest slowdowns with -2.2% and -0.7%, respectively.

Despite the ongoing uncertainty, initial medium-term forecasts at the start of 2022 signaled a revitalization of domestic demand and an upturn in the European labor market, which in turn should increase economic growth in 2022 to pre-pandemic levels (+4.2%) as the pandemic ebbs and the global supply bottlenecks are resolved. However, the start of the Ukraine war, with the advance of the Russian army into Ukraine, is dampening expectations for an economic recovery; and the effects of the war are expected to cause a slowdown in global economic development. As at the beginning of the coronavirus pandemic, only rough economic scenarios can now be created due to the war in Ukraine. Given this background, the projected growth lies between 1.5% - 2.5%.

Germany

In 2021, the German economy continued to recover from its pandemic-related slump in 2020. According to initial calculations by the Federal Statistical Office, the gross domestic product increased by 2.7% in 2021–a significant increase compared to the previous year, but still below the pre-crisis level of 2019. Economic development during the year was still shaped by the pandemic, which dampened economic activity particularly during the first and final quarters of 2021. While growth declined by -1.7% and -0.7% in the first and fourth quarters, growth in the

Management Report for the Financial Year 2021

second and third quarter was 2.2% and 1.7%, respectively. Despite the pandemic, the job market showed robust underlying momentum. Unemployment and short-time work significantly declined in the past year.

By contrast, the inflation rate in Germany increased noticeably to an average of 3.1%, while in 2020 it was at just 0.5%. This development was caused by a series of special factors, such as the temporary lowering of turnover tax rates in the previous year and the sharp increases in raw material prices.

Alongside the overall economic performance, the important industrial manufacturing sector also significantly recovered in Germany. Overall manufacturing in the production industry was 3% higher than in 2020. However, it was still 5.5% lower than the level of the pre-crisis year 2019.

According to an analysis by Ifo, economic shortfalls in Germany amounted to 330 billion EUR for 2020 and 2021, which corresponds to an economic loss equal to 10% of the economic output in 2019. This confirms the necessity of the measures provided to stabilize the financial markets, and the interim aid provided to businesses. Within the framework of fiscal policy, more than 170 billion EUR have been provided in the form of guarantees, loans and other economic measures to support businesses and stabilize the job market since the start of the coronavirus pandemic. However, the German government still has other long-term fiscal policy measures available to support budgetary and corporate liquidity, so additional incentives can be given to stimulate the economy.

In 2021, the noticeable revitalization of the global economic environment was also reflected by an increase in German exports (+8.6%). However, despite the recovery of German foreign trade, the supply bottleneck problem as well as the flagging Chinese economy mean that the pre-crisis level has not yet been reached here either. At the same time, imports increased, and due to strong domestic demand, imports grew more than exports (+9.2%).
The current account surplus was 6.5% higher than the previous year, reflecting the strong competitiveness of German products. With a share of just under 10%, China has been Germany's most important trade partner since 2015.

Turkey

While the average inflation rate in 2020 was still 12.3%, the consumer price index increased to an average of 19.4% in the 2021 financial year. The main reason for the increase in consumer prices is believed to be the recent loosening of the monetary policy in Turkey. In 2021, the Central Bank of Turkey lowered the interest rate to 14%. The primary aim of this monetary policy adjustment was to further drive the growth of the Turkish economy.

Particularly in the second quarter of 2021, economic growth saw an inflation-adjusted increase of 22% compared to the second quarter of the previous year. In the first and third quarters, the economic development compared to the previous year's quarterly values was +7.4% in each case. For the year as a whole, the Turkish economy grew by 11% in 2021 (previous year: 1.8%).

The strong economic growth in 2021 was largely due to high exports and an increase in domestic manufacturing. The coronavirus pandemic meant that many European companies discovered Turkey for their supply chains or as a new procurement market, thanks to its well-developed industrial base and geographic proximity to the European Union. In addition, the economic recovery in important buyer markets like the European Union contributed to the increased export volume. At the same time, the weak Turkish currency exchange rate in 2021 improved the competitive position of Turkish exporters. In this connection Turkish exports increased by 33%, from $170 billion (2020) to $225 billion (2021). With a share of 8.6%, Germany remains the most important trade partner. The average production index in 2021 saw a 20% increase compared to the previous year. However, the Turkish currency fell to new lows compared to the euro in 2021, and the exchange rate rose from 9.11 TRY to 15.23 TRY within a single year. By implementing FX protected deposits in Turkish lira, the Turkish government has now been able to stabilize the national currency. While the falling exchange rates have made imports much more expensive, the net foreign currency position of Turkey's real sector has significantly improved overall from -$188 billion (12/2017) to -$117 billion (10/2021). Consequently, the Turkish real sector was able to reduce its dependency on foreign capital in foreign currency.

Banking sector in Germany

To date, the German banking industry has been able to handle the economic challenges of the coronavirus pandemic and ensure the necessary stability in the financial sector. During the pandemic years, there was neither a credit crunch nor a crisis of confidence. Fiscal policy measures played a decisive role in protecting the real economy and thus also the banking sector from the effects of the crisis. This prevented potential insolvencies, and the banks' capital buffers did not need to be used.

The ongoing reforms relating to financial market regulation made German banks significantly more resilient at the beginning of the coronavirus pandemic than they were at the start of the global financial crisis in 2008. The equity of German banks was gradually increased, and adequate liquidity buffers were created. As a result, the equity ratio of 8.8% in 2008 was increased to 15.8% in the 2nd quarter of 2020. The previous reforms provided a sufficient equity-capital and liquidity buffer to prevent the crisis from spilling over into the banks as a result of the effects of the coronavirus pandemic, and to ensure financing for the real economy.

The 2021 banking package from the European Commission will also guarantee new EU directives to strengthen banks' resilience; this marks the complete implementation of the Basel III Agreement. The current regulations ensure that banks in the European Union will be better armed against economic shocks, so they can contribute to Europe's recovery from the coronavirus pandemic and ultimately aid in the transition to climate neutrality. Moreover, the BaFin announced that additional reserves would be created, so banks will need to further increase their capital requirements. This includes, for instance, increasing the flat anti-cyclical capital buffer from 0% to 0.75%.

Ongoing low interest rates and the partial standstill of economic activity due to the pandemic are currently among the greatest challenges for the banks. While the pandemic did not lead to significantly increased insolvencies as feared, debt did increase in the corporate segment, especially in industries that were particularly hard-hit by the restrictions. However, the risk was reduced because bank receivables from industries especially affected by the pandemic represented only a small part of the banking system's credit portfolio.

While 2021 has also been shaped by overall economic recovery, and additional credit risks have not materialized due to significant fiscal support, uncertainty about the further course of the coronavirus pandemic, increased inflation, and the war in Ukraine all pose risks for the profit situation. Additional stresses will likely also arise due to the continuing low-interest environment.

For many banks, the outbreak of the pandemic had an unexpectedly strong impact on how quickly internal processes and customer relationships became digitized. The positive experiences in this area will continue to speed up technologization even after the coronavirus crisis. Digitization and automation have the potential to improve customer relationships here as well as acceptance, while also improving the banks' own efficiency.

The financial sector needed to change drastically even before the coronavirus pandemic. The market is overstaffed, and particularly banks with branch business are facing high costs and low profits. Other challenges include growing competition from international actors in the banking sector, a rapidly changing technological environment and increasing regulatory conditions relating to liquidity and capital requirements as well as sustainability and climate change. In this context, European banking regulators have developed concrete regulatory proposals and expanded the requirements for risk management and for the supervisory review and evaluation process to include "Environment, Social and Governance" (ESG) risks, while also implementing them in the corresponding regulations (Capital Requirements Regulation / Capital Requirements Directive).

Financial sector in Turkey

Despite the enormous exchange-rate and interest-rate fluctuations, no additional capital increases were necessary in the Turkish banking sector. The banking system remains adequately capitalized and profitable. According to data from the Turkish banking regulator (BRSA), the banks' total volume of deposits at the end of 2021 decreased by 13% in comparison with the same period in the previous year, to $402 billion. In the context of refinancing, the share of foreign deposits increased from 56% to 64% during the same period; at the same time, the share of credits in foreign currency increased from 34% to 42%. By the end of 2021, the total credit volume had grown about 13% in comparison to the previous year.

Management Report for the Financial Year 2021

Loans in foreign currency saw a year-on-year decrease of about 5%. In this context, the banks' net currency positions have been positive since the 3rd quarter of 2020. Given this background, with the equity buffer still adequate for the period of 2020-2021, the return on equity increased from 11.4% to 15.3% and the return on assets grew from 1.1% to 1.3%. In summary, given cautious credit growth, positive return tendencies can continue to be seen.

Despite the challenges caused by the pandemic, and also despite the Turkish financial crisis in 2018, the NPL rate - which had increased in 2019 from 3.9% to 5.4% - was able to be reduced to 4.1% in 2020 and to 3.2% in 2021. The equity ratio for the banks has been over 15% since 2010, and at 18.3% as of the end of 2021 it emphasizes the resilience of the Turkish financial sector in the face of economic crises.

These positive developments are due to the fact that the Turkish banking sector had become one of the country's most robust economic sectors, particularly following the financial crisis in 2001. Thanks to the strong equity capital structure of the banks and strict banking supervision, the sector is demonstrating its equally strong resilience when confronted with potential crisis situations. In order to protect themselves from the risks of refinancing during crisis periods, the institutions strongly diversified their financing sources. While the sector's focus was previously on growth, this changed during the year under review, with increased concentration on high asset quality and stable financing structures. The liquidity cover ratio for 30 days improved from 105 to 119 in 2021.

In Turkey, during the 2021 financial year, a total of 53 banks with 11,023 branches had a balance sheet total of $700 billion (2020: $826 billion). Profit for the sector amounted to $7.0 billion (2020: $7.9 billion).

Business performance

Like 2020, the financial year 2021 was a significant year for the bank.

Naturally, the business activities of İşbank AG were strongly influenced by the coronavirus pandemic, but as the bank's target markets recovered from the pandemic situation, the focus once again cautiously returned to expanding customer relationships. In this context, receivables from customers increased by 5.8% in the financial year and customer deposits rose by 4%.

In response to the coronavirus pandemic, the internal business processes were adapted. All units at the main office were able to perform their work remotely without interruption in order to maintain the business operations.

For this purpose necessary measures and technical requirements were implemented. In some cases, branches had to be closed and/or branch opening hours shortened. From today's perspective, it can be cautiously said that the measures to protect customers and staff as well as to maintain the business operations were implemented successfully despite multiple lockdown phases.

In addition to the existing credit monitoring processes, further adequate measures were implemented to monitor the credit portfolio due to the effects of the coronavirus pandemic. For instance, credit engagement in certain sectors was reduced and/or avoided, while at the same time customer groups classified as critical were subject to special supervision. In this context, the monitoring frequency was increased for certain customers and/or sectors.

Due to the coronavirus pandemic, managing liquidity was a high priority. The average liquidity coverage ratio for the bank was 2.05. On average, an additional liquidity buffer of 111 million euros was maintained for crisis management. In addition, the bank's equity ratio was significantly increased in the financial year 2021. While the minimum requirement is 11.3% and the previous year's value was 13.2%, the equity ratio for the financial year was 13.9%. During the pandemic years, there were no liquidity shortfalls or significant credit defaults.

The bank's transformation over the past few years–from a traditional branch business with a focus on transfers to Turkey into a niche bank oriented toward the corporate and trade finance business–was once again solidified in 2021 despite the challenging market conditions, with similarly satisfactory profits as in 2020. The financial year 2021 concluded with annual net profit of 9.1 million euros, a 27% increase over the previous year.

Thanks to the reorientation carried out even before the coronavirus pandemic as part of this transformation, from small and medium-sized commercial and retail business toward the corporate segment, the bank was able to reduce its NPL rate from 2.35% in 2017 to 1.83% in 2020. Due to the coronavirus pandemic, the NPL rate increased to 1.91% in 2021. Taking into account economic sensitivities, the primary contributors to this were the prioritization of the corporate segment with a focus on the trade finance business and the commission business in retail banking. As part of the digitization process, İşbank AG aimed to make greater use of finance portals, online banking and mobile banking as sales channels in parallel with the existing branches. Existing processes in the area of customer acquisitions, especially in the deposit business, were further optimized as part of the digitization. In addition, the area of robot process automation is gaining significance for the bank, with several thousand transactions already taking place automatically during the year under review. The ParaGönder app, which has been available to customers through the App Store since April 2020, reached about 40,000 registered users within a short period of 1.5 years. The ParaGönder app offers the convenience of sending electronic transfers from any German banking institute to any bank in Turkey. In 2021 the target markets were expanded and the ParaGönder product was offered in Austria and Kosovo as well.

In the corporate segment, the focus in the financial year 2021 remained on establishing a sustainable European customer portfolio with no connection to Turkey. The bank was able to increase its European corporate portfolio by 18%, from 189 million euros to 223 million euros. Because of the currency crisis in the Turkish target market, the bank pursued a very restrictive credit policy in its Turkish business. The corporate portfolio with a connection to Turkey consists almost exclusively of customers without any open currency positions.

After a multinational syndicated loan for refinancing purposes had been signed for the fifth time in the financial year 2019, the bank decided–as it had in 2020–not to draw up a new syndicated loan in 2021. The main reason for this was an adequate liquidity buffer based on a broadly diversified deposit base.

The issue of sustainability has now gained strategic importance and must also be taken into account in the corporate strategy and all strategy development processes. Ideally this begins with the corporate vision and mission statements, which describe the purpose of the organization. The Sustainability Committee was formed in 2021 to integrate the concept of sustainability into our company and to properly identify, plan, coordinate, and continuously track all the tasks and responsibilities.

The growing importance of ESG principles makes it essential for consumers, companies and society to proactively address the ESG challenge. Our business lines in particular are intensely focused on the issue of sustainability, and they help track economic and stakeholder activities. Our most important motivations for sustainable activities are taking responsibility for the environment and society, avoiding reputational risk, pursuing the corporate strategy, fulfilling regulatory requirements, and expanding refinancing options. Given this background, initial steps were taken internally to analyze the credit portfolio and evaluate it according to sustainability criteria. At the social level, by improving the work environment, the ongoing goal is to make the bank more attractive for the existing staff as well as for potential employees and to maintain a healthy corporate culture.

Income, financial and asset situation

Assets and financial situation

As part of the consistently targeted approach for planning and implementation of sales activities, the focus remained on business activities with institutional customers in the form of financial institutions and companies from the corporate segment.

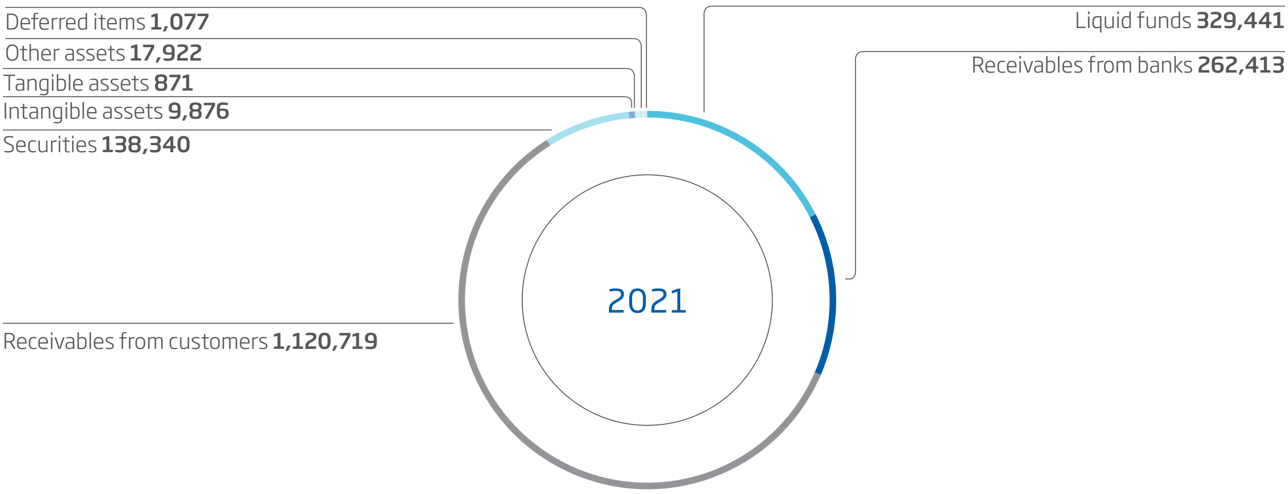
The financial year 2021 therefore ended with a balance sheet total over EUR 1.88 billion.

In the reporting year, the receivables from banks displayed a decrease of 32.1% and amounted to EUR 262 million. The receivables from customers increased by 5.8%, to EUR 1,121 million. The balances with central banks increased on the previous year from EUR 234 million to EUR 327 million, or 39.7%.

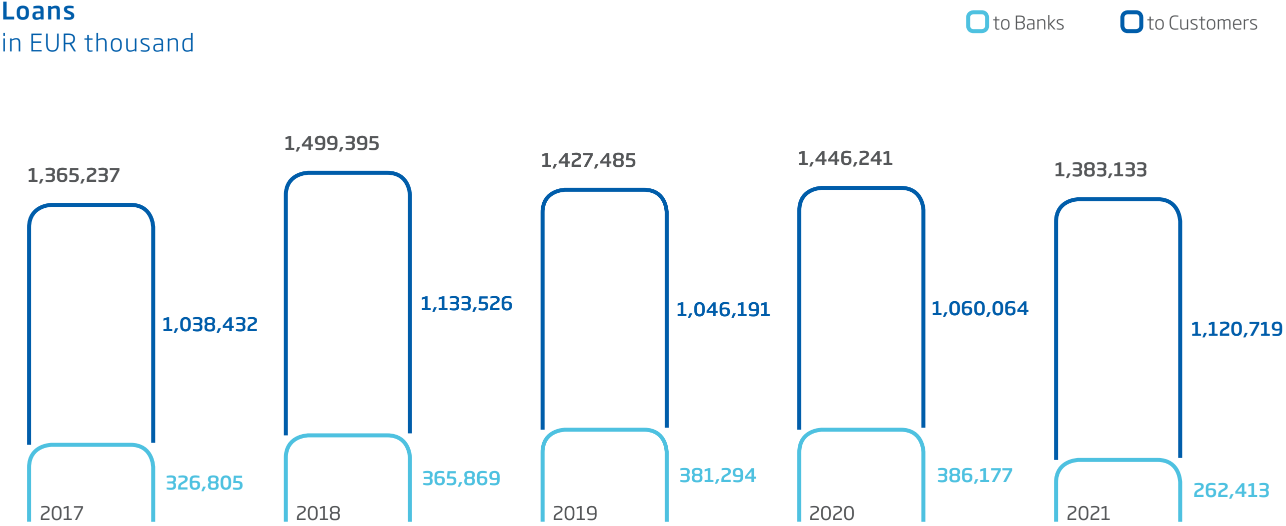
Bonds and other fixed-interest securities amounted to EUR 138 million at the end of the reporting year. In the previous year, the total of the securities portfolio amounted to EUR 130 million.

Management Report for the Financial Year 2021

Assets, January 1, 2021 - December 31, 2021
in EUR thousand



Loans
in EUR thousand



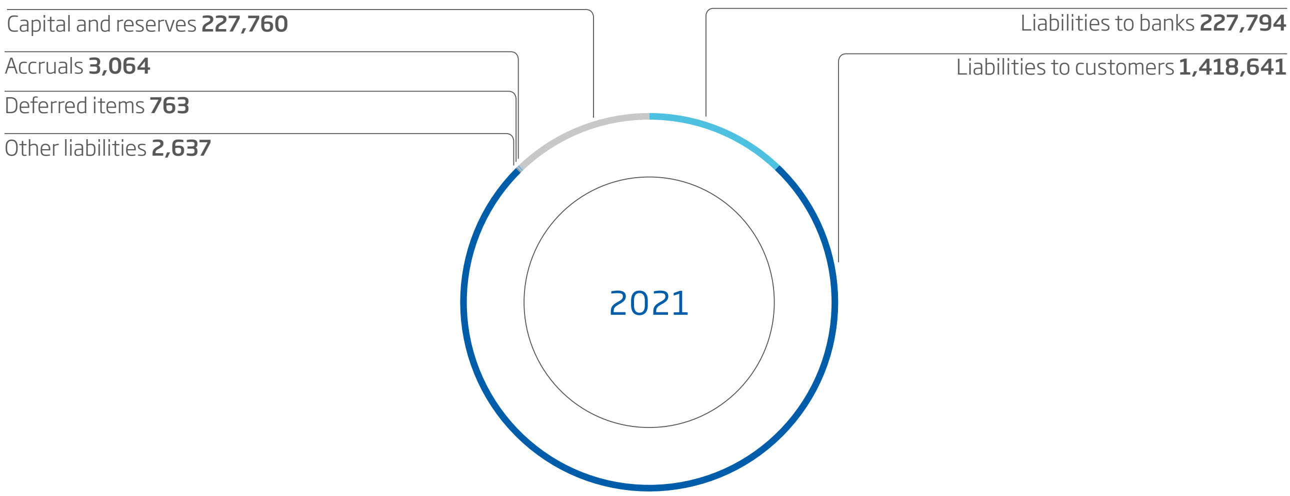
On the liabilities side, there was a decrease of 4.2%, to EUR 228 million, in the liabilities to banks, and a value of EUR 1,419 million was shown under the customer deposits after a rise of 3.9%. The other liabilities decreased in comparison to the previous year, from EUR 6.9 million to EUR 2.6 million. Moreover, the deferrals amount to EUR 763 thousand (previous year: EUR 1,400 thousand) and accruals to EUR 3,064 thousand (previous year EUR 3,195 thousand).

The financial year concluded overall with equity of EUR 228 million. This represents a solid and sound capital base for future development in line with the strategy of the bank.

The contingent liabilities of the bank (regardless of flat-rate value adjustments) progressed as follows in comparison with the previous year:

in EUR thousand	December 31, 2021	December 31, 2020
Liabilities from guarantees and indemnity agreements	61,186	52,099
Irrevocable loan commitments	0	0

Liabilities, January 1, 2021 - December 31, 2021
in EUR thousand



Income situation

As in previous years, the credit business of İşbank AG largely concentrated on banks and corporate customers, while the share of retail and commercial customer business was gradually reduced and remained constant in the current financial year.

In the context of the pandemic, a restrictive credit policy was pursued during the reporting year on the one hand; on the other, the LCR was kept well above minimum liquidity in order to generate an adequate liquidity buffer. Nonetheless, the interest result increased by 18.6%, from EUR 33.8 million to EUR 40.1 million. The interest income here grew by 10.2%, to EUR 52.3 million, and at the same time interest expenditure fell by 4.4% to a total of EUR 13.0 million. The interest expenditure is largely the result of customer deposits, liabilities to banks, repo transactions and swaps.

Management Report for the Financial Year 2021

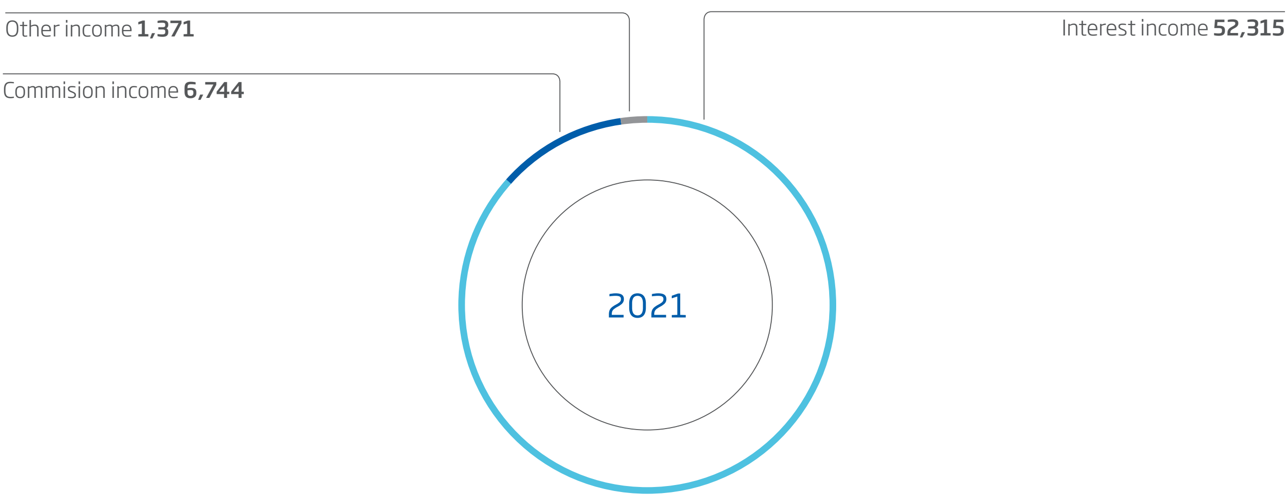
The income is structured by geographical region, as follows:

in EUR thousand	Germany	Netherlands	Total
Interest income	47,121	5,195	52,315
Commission	6,185	559	6,744
Annual surplus	7,883	1,219	9,102

The commission result decreased on the previous year from EUR 7.0 million to EUR 6.2 million. The decline is largely due to the reduction in customer transactions and to the negative development in bank transfers to Turkey. The negative trend in bank transfers to Turkey, which has continued for a number of years, and the associated decline in commission income are also expected in the coming years. However, this decline will be partially compensated by digitization. The commission income from digital channels increased from EUR 0.3 million to EUR 0.5 million in 2021.

The general administrative expenses held almost constant in comparison with the previous year and amounted to EUR 24.4 million at the end of the year. The personnel costs increased by 1.8% and other administrative expenses were reduced by 2.8%. Furthermore, costs incurred as a result of the restructuring measures, which amounted to EUR 795 thousand, were recorded as extraordinary expenses. These expenses largely comprise the associated personnel expenses to the amount of EUR 600 thousand, facility costs to the amount of EUR 50 thousand, and the other general administrative expenses. A net risk provision amounting to EUR 5,375 thousand was formed in the reporting year.

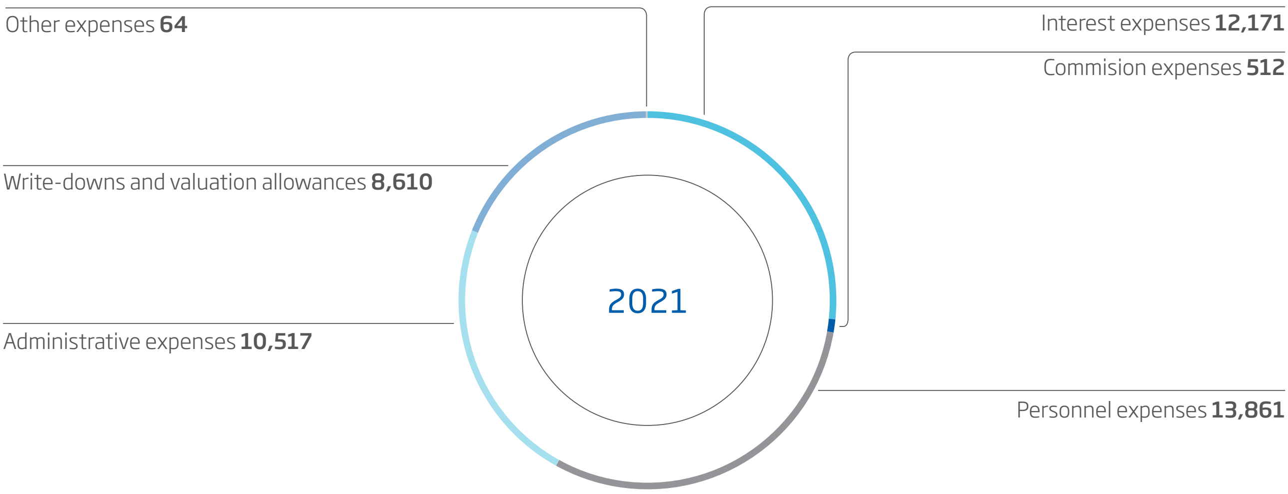
Income, January 1, 2021 - December 31, 2021
in EUR thousand



After consideration of accruals and taxes, the financial year 2021 ended with an annual net income amounting to EUR 9.1 million.

Overall, the target for the 2021 annual result was fulfilled with a satisfactory target achievement of 83%.

Expenses, January 1, 2021 - December 31, 2021
in EUR thousand



Liquidity situation

The solvency of İşbank AG was guaranteed at all times in the financial year 2021 on the basis of planned and balanced liquidity provision, and the liquidity coverage ratio required under the regulations was consistently observed. As of 12/31/2021, there were revocable loan commitments amounting to EUR 16 million from the unused loan facilities. There were no irrevocable loan commitments.

In the last financial year, the deposit business, repo transactions, money market transactions and bilateral loans were essentially also available to İşbank AG as refinancing options for the transaction of new business.

Management Report for the Financial Year 2021

Important financial indicators

The principal key figures are shown below as a three-year comparison:

Indicators	Planned for 2021	2021	2020	2019
Total capital ratio [1] on the balance sheet date	13.06%	13.85%	13.23%	12.96%
LCR [2]	130%[5]	217.39%	183.54%	199.58%
After-tax profit as a % of average equity (ROAE) [3]	4.90%	4.19%	3.91%	5.02%
Cost-income ratio (CIR) [4]	57.30%	57.45%	64.76%	60.60%
Annual result in EUR thousand	11,006	9,102	8,094	10,060

1) The regulatory total capital ratio, which describes the ratio between equity (in accordance with article 92 of regulation (EU) no. 575/2013) of the bank and its risk-weighted assets.
2) The regulatory liquidity coverage ratio is determined in accordance with delegated regulation (EU) 2015/61 in conjunction with article 411 et seq. or regulation (EU) no. 575/2013.
3) The after-tax profit as a % of average equity (ROAE) is determined from the commercial annual result of the corresponding year after tax divided by the average equity of the month ends in the corresponding year.
4) The cost-income ratio (CIR) is the ratio of operating expenditure divided by operating income. The margin is specifically determined from the sum of the administrative expenses divided by the sum of the interest result, commission result, other net result and income from write-ups of the securities treated as fixed assets.
5) This is an internal benchmark.

Significant deviations from the planned values were found in the following indicators: annual result and the associated return on average equity (ROAE). For the liquidity coverage ratio (LCR), on the other hand, the bank kept its liquidity at a high level due to the existing uncertainties in the target markets so that it could respond appropriately to potential developments.

The prevailing uncertainty had a negative impact on the target markets; accordingly, in particular due to the increased country risk provision associated with the uncertainty, the planned value for the annual result and the associated ROAW ratio could not be achieved.

The total capital ratio and the cost-income ratio (CIR), on the other hand, surpassed the planned values.

Overall statement

Taking into account the regulatory requirements, the volatile market conditions and the global economic crisis as well as the pandemic-related necessity for restructuring internal processes in order to ensure the sustainable course of business, İşbank AG was able to fulfill its targets according to the 2021 business plan with respect to achieving a healthy transaction volume. The institutional loan portfolio, comprising receivables from firms in the corporate segment, was increased moderately (+5.7% in comparison with the previous year). This transaction volume largely comprises the international trade finance business and syndicated corporate loans as well as bilateral and promissory note transactions with European companies. The loan portfolio of the latter item was increased by 18% in comparison with the previous year; its share in the overall corporate portfolio increased from 18% to 20%. This reduced the dependency of the existing loan portfolio of the local loan business on cross-border interdependencies and international trade conflicts. In parallel, as desired and according to the plan, the loan portfolio of the local loan business was increased slightly during the financial year 2021, from EUR 112 million to EUR 121 million. This optimization of the balance structure had a positive effect on the income situation. From the perspective of İşbank AG, the business development was positive overall. The bank has adequate liquidity reserves. The financial and liquidity situation is fully compliant with the regulatory and business requirements.

c) Risk Report

In accordance with § 25a par. 1 of the German Banking Act (KWG), institutions must have a proper business organization, which must include in particular the definition of a business strategy that has the aim of sustainable development as well as appropriate and effective risk management, on the basis of which the risk-bearing capacity must be constantly guaranteed. Specifically, procedures to determine and ensure the risk-bearing capacity are required as an element of the risk management. The risk-bearing capacity exists if all significant risks of an institution are constantly covered by the risk coverage potential, taking into account risk concentrations.

The following table compares current risk-bearing capacity with that of the previous year:

in EUR thousand	Q4 2021			Q4 2020		
	Utilization	Limit	Usage rate	Utilization	Limit	Usage rate
Counterparty default risk	55,190	97,962	*56.3%*	38,282	90,026	*42.50%*
Expected loss	*7,778*			*5,573*		
Unexpected loss	*48,936*			*33,831*		
Country risk for Turkey	*10,659*			*8,099*		
General credit risk provision	*-1,524*			*-1,122*		
Country risk provision for Turkey	*-14,305*			*-9,405*		
Market price risks	*872*	4,373	*19.9%*	*669*	*4,019*	16.6%
Interest rate change risk	867			605		
Currency risks	5			63		
Operational risks	980	2,187	44.8%	999	2,010	50.00%
Commercial risk	2,220	4,373	50.8%	2,096	4,019	52.50%
Reputational risk	222	437	50.8%	210	402	52.50%
Overall risk position	**59,484**	**109,333**	**54.4%**	**42,255**	**100,476**	**42.10%**

Aggregate risk cover	109,333	100,476
Usage rate	**54.4%**	**42.1%**

The aggregate risk cover rose compared to the previous year (+8.8%). However, this was counterbalanced by a significant increase in the risk position, driven largely by the credit risk which was much higher than the previous year. This increase in credit risk was caused by an increase in the country cap for Turkey, in other words the minimum rating that a customer headquartered in Turkey receives due to the country risk even if its own creditworthiness might be better. Taking into account all effects, the usage rate for the aggregate risk cover as of 12/31/2021 lies at 54.4%, a significant increase compared to the previous year (+12.3%).

According to § 94 par. 1 CRR and MaRisk, İşbank is defined as a *'non-trading-book institution'* and the scope of its on-balance-sheet and off-balance-sheet trading book business is limited to EUR 20 million. The risks from the use of financial instruments are classified as low, as İşbank uses financial instruments only for the purpose of risk reduction or securing risks rather than establishing speculative positions. All derivatives transactions are concluded exclusively with banks that have a top credit rating and a Credit Support Annex (CSA) that corresponds to the agreements of the International Swaps and Derivatives Association (ISDA). The counterparty default risk is therefore considered negligible.

The internal control system of İşbank AG

The board of İşbank AG is responsible for establishing an appropriate internal control system (ICS). In accordance with the regulatory requirements, an internal control system was established, which includes provisions on the structural and process organization as well as on risk management and controlling processes. Overall, together with compliance and risk management, the ICS and internal audit form the internal control process of İşbank AG.

Overall risk profile

According to AT 2.2 note 1 MaRisk, an institution must gain an overview of the overall risk profile regularly and as required. The risk management system and the processes for the identification, measurement, assessment, management, control and communication of the individual risk types are described in the risk handbook of İşbank AG and in the additional work directives. An assessment of significance is documented for all risk types and–if relevant–for their individual characteristics. The counterparty default risk (incl. country risk), market price risk (interest rate change and currency risk), liquidity risk, commercial and income risk, operational risks and reputational risk are identified as significant risks.

All risks that are defined as significant by the institution and which can be quantified are taken into account in the risk-bearing capacity statement of İşbank. The liquidity risk is an exception. As the liquidity risk (in the narrower sense, the insolvency risk) cannot be reasonably limited by risk coverage potential, separate consideration as part of the risk-bearing capacity statement is omitted and the risk (including the refinancing risk) is instead managed by means of stress tests and monitored separately, as explained below in the chapter on liquidity risk.

The risk map with the significant risks is determined in three steps:

- The general risk universe forms the overview of the basic risks associated with the operation of banking businesses and the provision of financial services.
- Starting from this general risk universe, as part of the risk inventory the risk map for İşbank is defined as the risk types that are actually relevant on the basis of the business activity and strategy.
- The significant risks for İşbank are determined on the basis of the relevant risks. If there is quantification of the risk, the threshold of significance is that a risk is classified as significant if occurrence of the risk reduces the aggregate risk cover by more than 3% within one year. If no quantification of the risk takes place, the significance is assessed by means of expert estimates / claim histories or qualitative criteria.

Organization of risk management

The board of İşbank AG is responsible for ensuring appropriate risk management and fulfilment of the regulatory requirements. In operational implementation, it is supported by the risk management department, risk committee, assets/liabilities committee and internal auditing.

The potential effects of the interest rate change risk on the assets and liabilities of the bank are addressed in the assets/liabilities committee in the light of current market developments and the general and expected economic situation. If necessary, measures are taken to reduce risk.

The area of risk management undertakes the central management, monitoring and control of the risk areas of the bank at home and abroad.

One of the core tasks of risk management is to inform the board as needed, but at least quarterly, about the overall risk situation of the bank. This allows the board to fulfill its overall responsibility for all risk areas and to take the necessary measures in time to manage and minimize these risks.

Risk reporting takes place regularly, both by risk and across risks at overall bank level. The risk management department generates a comprehensive risk report at quarterly intervals. This report is supplemented with a monthly report on the significant risks and risk-bearing capacity. Moreover, ad hoc reports are also scheduled as required.

Monitoring of the loan business with respect to compliance with the statutory requirements and internal competence provisions is the responsibility of the loan department. This is subject to the back office board member. The loan department monitors the trading activities of the bank on the basis of IT-aided instruments and guarantees compliance with the set trading limits.

Business and risk strategy

Effective risk strategies are essential in order to achieve sustainable, smooth and profitable growth. The risk management of İşbank AG is subject to a continuous optimization process and regularly reviews the methods and management approaches used with respect to their efficiency and suitability in the light of the current business development.

Risk types

Various risks therefore arise from the business activity of İşbank AG, which have been systematically identified and assessed by the board together with the departments responsible. The risks identified as significant and assessed as part of the risk assessment process are shown subsequently, after implementation of risk limitation measures (net presentation):

- Counterparty default risks,
- Market price risks (interest rate change and currency risk),
- Liquidity risks,
- Operational risks,
- Commercial risk,
- Reputational risk.

For each significant risk type, it was additionally investigated whether there is an impact on the asset situation (including capital base), income situation and/or liquidity situation.

Counterparty default risks

The counterparty default risk defines the risk of occurrence of a loss as a result of default or downgrading of the credit rating of an external counterparty. In addition to the counterparty-related credit risk, there is also the country risk in the case of cross-border capital services.

The counterparty default risk for İşbank AG includes the following significant risk types:

- Default risk
- Issuer risk
- Country risk

To calculate the regulatory equity backing for credit risks, İşbank AG uses the standardized approach for credit risk provided in the CRR. The risk position for credit risks is EUR 1,972 million on December 31, 2021.

	Types of receivables					
in EUR thousand	**Centralized states**	**Institutions**	**Companies**	**Bulk business**	**Other**	**Total**
Total (without risk reduction techniques)	361,862	486,789	1,082,583	35,069	5,373	1,971,676
Loans	329,052	373,732	1,018,407	25,270	3,373	1,749,834
Items below the line (consents, guarantees)	152	4,456	64,177	9,799	2,000	80,584
Securities	32,657	105,683	-	-	-	138,340
Derivatives	-	2,918	-	-	-	2,918

One key instrument, both for risk assessment in the case of individual risks and for managing and monitoring counterparty default risks, is the 15-stage rating process developed by CredaRate GmbH. The following overview shows the rating distribution of the loan portfolio on December 31, 2021.

Rating classes	Risk content	Probability of default	Proportion (%)
1 to 8	Very low to average default risk	< 1.2%	64.8%
9 to 12	Slightly elevated default risk	< 6.25%	33.3%
13 to 15	High / very high default risk	< 20%	2.0%

Contrary to what was feared, no adverse developments have yet materialized as a result of the coronavirus pandemic. The bank is continuously analyzing the potential effects of the pandemic on individual sectors and customers. As soon as reliable results are available, the newly acquired knowledge will flow into the risk classification process. The bank has sufficiently high capital buffers that there is no danger to its risk-bearing capacity. Lending occurs selectively in order to actively prevent a potential adverse development in the credit portfolio.

İşbank AG uses the average probability of default for each rating class to determine the counterparty default risks. By using the average probability of default, both positive and negative migration effects are considered.

İşbank AG considers the counterparty default risks both on the level of individual borrowers and in the portfolio context. The aim here is to identify, limit or avoid both disproportionately high individual risks and the formation of concentration and portfolio risks.

Management and control of counterparty default risks

The counterparty default risks are managed on both the individual loan and portfolio level. To do this, İşbank AG relies on limit systems for the individual credit risk, country risk and industry risk. Here, the country risk for Turkey is additionally monitored and limited in close cooperation with voluntary deposit protection. A further limit is set through the overall portfolio and as part of the risk-bearing capacity statement. At the individual loan level, İşbank AG uses risk classification systems for grading risk.

The counterparty default risks are monitored constantly through limit monitoring and risk developments as well as analyses of the limit uses and formation of individual and flat-rate value adjustments. İşbank AG reviews industry and country limitations according to business development and makes adjustments to the limit system if applicable.

Counterparty default risks are included in the risk limitation on the basis of the aggregate risk cover.

Risk identification instruments and sources

With regard to risk identification, there are essentially two instruments:

1. Monitoring of payment problems

2. Risk classification

Payment problems are monitored daily by the loan department or by the branches. Furthermore, payment problems are reported by means of corresponding reports to the board and to the areas/departments concerned.

Risk measuring methods/processes

Expected and unexpected losses are included in the risk-bearing capacity statement. A value-at-risk approach is taken as the basis for this, which is calculated using an asset value model commonly known by the name "CreditMetrics." The individual model parameters are configured in consideration of regulatory standards and on the basis of conservative internal estimates. Using a Monte Carlo simulation, which also takes into account expected future revenue from securities (through recovery rates) and planned growth according to the business strategy, the credit risk is determined for a one-year horizon as part of the going-concern approach on the basis of the 97% quantile and as part of the liquidation approach on the basis of the 99.9% quantile. As part of this calculation, the country risk is also taken into account in that customers with a home country outside the Eurozone cannot receive a better individual rating than that of their home country.

The loan commitments are moreover regularly reviewed to determine whether there is a need for risk provision. On the basis of the implemented methods, organizational provisions and IT systems, we are able to identify the risks at an early stage and to take appropriate management measures both at the group level and on the level of the individual management entities. If information is available to the bank that indicates a deterioration in the economic conditions, an extraordinary review will be performed.

In 2019, a new method was introduced to quantify the country risk for Turkey. This takes effect whenever rating agency Fitch classifies a country in the non-investment grade area. In this case, a lifetime expected loss is determined for all items concerned, in line with IFRS 9. A component for the transfer risk is moreover added to this. Conversely, the balance sheet country risk provision has a risk-reducing effect, as this was formed explicitly to compensate for losses.

Market price risks

At İşbank AG, the potential losses that could arise from changes to market parameters are defined under market price risks.

İşbank AG divides its market price risks into the following sub-risks:

- Interest rate change risk
- Currency risk

For the bank, the interest rate change risk arises from differences in the fixed-interest periods and interest adjustment options between asset and liability items, whereas the currency risk describes the risk of the value of an item reacting to changes in one or more foreign currency exchange rates and consequently of changes in the exchange rates resulting in depreciation of the item.

Management and monitoring of the market price risks

General

The market price risks are managed through individual measures on the basis of the specific risk characteristic. The board, risk committee and operational entities have an obligation to monitor the market price risk, check the risk limit usage rate and intervene if necessary. On the basis of analyses of the accounting system, the board decides on the respective measures to be taken, e.g. such as raising financing resources with the same deadline, using swap transactions for interest rate hedging or using derivatives for hedging currency positions.

a) Interest rate change risk

As part of the regulatory reporting system, İşbank AG calculates the present value interest rate change risk at least once per quarter, in line with the regulatory requirement in accordance with circular 6/2019 of the German federal financial supervisory authority.

As part of the risk-bearing capacity statement, the interest rate change risks are additionally determined on the basis of the fixed-interest balance with a P&L-oriented historic simulation with absolute changes. The interest rate change risk is determined for a one-year horizon as part of the going-concern approach on the basis of the 97% quantile and as part of the liquidation approach on the basis of the 99.9% quantile.

b) Currency risk

Currency risks arise as part of the daily reassessment of asset and liability surpluses and derivatives in foreign currency and of the associated effect on P&L.

Reporting form "C 22.00 - Market Risk: Standardised Approaches for Foreign Exchange Risk," which shows the open foreign currency position for each currency, serves as the basis in this context. Based on the open currency position, the currency risk is then determined for a one-year horizon as part of the going-concern approach on the basis of the 97% quantile and as part of the liquidation approach on the basis of the 99.9% quantile.

Risk identification instruments

a) Interest rate risk

The fixed-interest balance and, based on this, the calculation of the interest rate change risk by means of historic simulation with absolute changes serves as an instrument for monitoring the interest rate change risk.

b) Currency risk

The market prices are monitored predominantly through the daily analysis of the open positions.

Management Report for the Financial Year 2021

Operational risks

İşbank AG defines the operational risk as the risk of damage as a result of human error, the inadequacy of internal processes and systems, and external events.

The operational risk comprises the following significant risk types:

- Legal risk,
- Compliance risk,
- Fraud risk,
- IT risk,
- Outsourcing risk.

Risk identification, measuring and management instruments for operational risks

The identification and especially the measurement of operational risk are complicated as a result of the diversity of the risk factors. İşbank AG makes an assessment annually of the existing operational risks using self-assessments. This is a qualitative instrument.

For risk management, İşbank AG relies on instruments including the following, depending on the specific risk factors:

- insuring risks,
- controls and the principle of dual control in the case of essential activities, current working directives,
- training employees,
- contingency planning and contracts with service providers for the contingency,
- personnel planning,
- involving the legal department in the case of uncertainty concerning legal matters,
- assessment of risks from outsourcing through risk analysis and continuous monitoring in the outsourcing committee,
- monitoring of IT risks by the "IT Security & Process Management" group and as part of the IT risk committee,
- continuous monitoring of compliance with regulatory and statutory requirements by the compliance department.

The operational risk is included in the risk limitation on the basis of the risk-bearing capacity.

In addition, a loss database is kept in the area of risk management to measure the operational risk (incurred).

To measure the operational risk as part of fulfilment of the CRR and determination of the equity required to cover the operational risks, İşbank AG relies on the basic indicator approach in accordance with the CRR.

Management and monitoring of operational risks

The operational risks are monitored and managed on the one hand as part of the quarterly risk report. On the other hand, all employees of İşbank AG are involved in the monitoring and management in order to ensure timely identification of operational risks that occur, newly appearing or changing risk factors and the derivation of measures. On the basis of past damage events and the knowledge gained from them, the methods for measuring and managing operational risks are considered appropriate.

Other risks

İşbank AG has identified the following other risks as significant:

- Commercial and income risk (also including sales risk)
- Reputational risks

Commercial and income risk

The commercial and income risk is defined as the risk of deviation from the income plan (plan before risk).

Management and monitoring of the commercial and income risk

The commercial and income risk is calculated on the basis of a time series of the historical annual trend in results. Specifically, the maximum deviation from a long-term trend determined by regression analysis, which occurs with a given probability, is calculated - the so-called standard deviation. The result is then multiplied by the corresponding z-value of the standard normal distribution, depending on the desired confidence level. A value-at-risk is thus calculated for the one-year horizon of consideration with a confidence level of 97% in the going-concern approach and a confidence level of 99.9% in the liquidation approach.

Reputational risks

We understand reputational risk as the risk of events that diminish confidence in İşbank AG in public, in the media, among employees or customers / business partners. As part of their business activities, the operational business entities and branches are directly responsible for reputational risks that arise from their respective business activity.

Through the name and the connection to the parent company, Türkiye İş Bankası A.Ş., İşbank AG benefits specifically from the transfer of confidence among those customers who are familiar with the bank from Turkey. Even today, it is an important criterion for many customers to know who is behind İşbank AG as a partner and what performance power the Türkiye İş Bankası A.Ş. group represents. The good reputation of İşbank AG itself has also been built up over decades.

In addition to the high regard within the Turkish population in Europe, the reputational risk is also taken into account in the risk strategy of İşbank AG in that fair dealing with all business partners is defined and transactions with dubious counterparties are excluded.

Risk-bearing capacity and stress testing

In accordance with § 25a par. 1 KWG, banks are obliged to establish appropriate and effective processes to calculate and sustainably ensure their risk-bearing capacity. The risk-bearing capacity statement of İşbank AG primarily aims at balance sheet and P&L values. The risk-bearing capacity exists if all significant risk types are constantly covered by the risk coverage potential. Based on this, limits are defined for the significant risks. To define the limits, a distribution key is defined/reviewed annually, according to which the available aggregate risk cover is assigned to the individual risk positions. This is dependent on the risk appetite of İşbank AG and distributes the available aggregate risk cover relative to the individual risk positions. At present, the warning threshold for the total upper loss limit is equal to 90% of the aggregate risk cover. İşbank AG calculates the risk-bearing capacity both under the going-concern and under the gone-concern approach, in order to satisfy the requirement of AT 4.1 note 8 MaRisk.

To fulfill the regulatory requirements in accordance with the CRR, İşbank AG applies the CRSA approach for the loan business and the basic indicator approach for operational risks.

The going-concern approach used by İşbank AG fulfills the requirements of the German federal financial supervisory authority circular on "regulatory assessment of internal bank risk-bearing capacity concepts" published on October 7, 2017.

The risk-bearing capacity exists if the overall risk position is covered by the risk coverage potential. The ratio of overall risk position to aggregate risk cover on 12/31/2021 was 54.4%. The risk-bearing capacity therefore existed. For further details of individual risk positions and the aggregate risk cover, we refer to the complete overview of risk-bearing capacity at the beginning of this section.

Taking into account risk concentrations, İşbank AG regularly schedules the performance of stress tests for the risks that are significant from the perspective of the bank, as part of the risk-bearing capacity statement. In this, it relies on appropriate historical and hypothetical scenarios, taking into account the strategic focus of the bank.

In order to ensure consistency of the individual risk-specific stress scenarios with one another, an overall bank stress test was developed, starting from a higher-level macroeconomic scenario, from which individual stress tests are derived for the individual risk types.

İşbank AG uses two different stress test processes: multiple-risk-type and risk-type-specific stress tests. The effects of an extreme deterioration in the overall economic situation (decline in GDP, rise in unemployment rate) and a sharp fall in prices in the property markets are simulated in the multiple-risk-type stress test. Furthermore, as part of the risk-type-specific stress tests, further scenarios are added to the scenario for the multiple-risk-type stress test.

As part of the risk-type-specific stress tests, four different scenarios are used for the counterparty default risk:

- A deterioration of all ratings by one level and a flat-rate reduction of the recovery rate by 20%,
- A deterioration of the rating by two levels among all customers with Turkey as their home country and a flat-rate reduction of the recovery rate by 20%,
- Default of the group/customer with the greatest utilization (excluding banks and financial institutions),
- Default of the Turkish bank with the greatest utilization.

For the market price risk, synthetic and historic scenarios are used to check which economic effects the changes in interest rates could have in light of the current fixed-interest balance. For FX scenarios, the open currency position is taken as the basis for the stress testing.

As the expansion of the credit spreads in the bond portfolio can have a negative effect on the risk-bearing capacity of the bank by taking into account hidden charges and reserves within the aggregate risk cover, the bank integrated a corresponding test into the regular reporting in 2018.

Moreover, the scenarios of IT failure and bank raid are taken into account for operational risks.

Taking into account the strategic focus of the bank, appropriate historical and hypothetical scenarios are used. The risk-bearing capacity in the case of stress is likewise assessed on the basis of the risk coverage potential usage rate.

In addition to the stress tests described above, İşbank AG also performs inverse stress tests at quarterly intervals for the credit and market price risk.

Liquidity risk

Under the term liquidity risk, İşbank AG differentiates on the one hand the liquidity risk in the narrower sense as the risk of the bank no longer being able to meet its payment obligations and on the other hand the refinancing risk as the risk of the bank being unable to maintain the desired refinancing level.

Risk identification, measuring and management instruments for liquidity risk

The following instruments are available in connection with this:

- The liquidity coverage ratio and the net stable funding ratio are calculated daily and/or weekly by the reporting department and communicated to the relevant departments.
- In addition to the LCR and NSFR, a survival horizon is calculated daily by the risk management department and communicated to the relevant departments.
- "Liquidity Report" list (generated by the money and foreign currency trading department)

A liquidity report of the maturity profiles of all receivables and liabilities is generated regularly and published on the portal. The money and foreign currency trading department generates a liquidity contingency plan annually. By contrast, the risk management department performs a stress test on the basis of 3 different scenarios and compares the results with those of the previous quarter. The money and foreign currency trading department is responsible for reporting on the current liquidity situation and significant inputs and outputs each month in the asset/liability committee or the asset/liability management committee with the involvement of the risk management, loan, financial management, retail and business banking, and corporate banking departments.

- Liquidity stress tests for the insolvency and refinancing risk.
- Monthly ALCO committees as well as the FTP pricing system.

Managing and monitoring of the liquidity risk

İşbank AG manages and monitors the liquidity risks on the basis of the liquidity coverage ratio, observation figures, liquidity report and survival horizon. Depending on the development of the key figures, specific measures are taken, which include:

- Early external fundraising,
- Fundraising through the parent company,
- Liquidation of deposits at Deutsche Bundesbank or sale of / borrowing against securities.

Liquidity risk tolerance

İşbank AG defines appropriate risk tolerances for liquidity risks and takes appropriate measures to ensure compliance with them. In this, the respective maximum tolerable level of liquidity risks is defined.

The liquidity risk tolerances extend to the:

- Liquidity reserve (liquidity buffer),
- Maturity bands and
- Determination of the survival period.

Liquidity reserve

To guarantee solvency, especially in the case of short-term liquidity shortages, a liquidity reserve of liquid and high-quality securities is held, with which additional liquidity can be generated in the case of stress through repo transactions with Deutsche Bundesbank.

Fixing of maturity bands

Solvency and the optimization of the refinancing structure payment flows are ensured on the basis of a liquidity coverage ratio. A traffic light system based on risk tolerance figures was implemented to this end, which ensures the early identification of risks and the corresponding initiation of measures.

Survival horizon

The survival horizon means the period for which İşbank AG is able to survive in the case of liquidity outflows and no new liquidity inflows. The cash flow statement prepared and continuously updated by the money and foreign currency trading department serves as the basis for calculation of the survival horizon.

Refinancing risk

The refinancing risk generally means the risk of the bank's no longer being able to maintain the desired refinancing level.

Market liquidity risk

The market liquidity risk is covered indirectly in connection with the İşbank AG risk management of the liquidity risk.

Concentration risks

In general, the concentration risk at İşbank AG can essentially materialize in the counterparty default risks. A concentration in the counterparty default risks occurs if the risk becomes concentrated by certain factors and the diversification of the portfolio is limited as a result of this. In accordance with our risk strategy, the loan portfolio is managed on the basis of defined limits for industries and countries. In addition, the granularity of the portfolio is also monitored on the level of borrowers, such that the occurrence of concentrations is largely limited. Concentration risks exist for İşbank AG largely in respect of Turkey, the home market of our parent company. This risk concentration is assessed firstly by downgrading the individual customer ratings to the rating of the country, if they would otherwise have a better rating than the country rating of Turkey. Within the risk-bearing capacity, this modification results in a significant rise in the credit risk position and through this allocates additional equity to cover the risk. In addition, the credit volume with customers in Turkey is restricted by an absolute limit in close cooperation with voluntary deposit protection.

In granting loans to Turkish companies and banks, the bank additionally cooperates intensively with the loan department of the parent company. Through its many years of experience in the Turkish loan market, the parent company has developed a corresponding core competence and is able to assess such credit risks very effectively.

d) OPPORTUNITIES AND RISKS OF FUTURE DEVELOPMENT

Overall economic situation

As in 2021, economic development in 2022 will likely depend on the further course of the pandemic and on the development of delivery bottlenecks in the industry. However, the global economic mood is particularly dampened by the anticipated effects of the war in Ukraine and the associated sanctions against Russia by the European Union and others. Even before the outbreak of the war, the German Ministry of Economic Affairs and Climate Protection projected a GDP growth rate of 3.6% for 2022, while the German Central Bank expected a rate as high as 4.2%. According to current studies, however, growth will probably plateau between 1.5% and 2.5%.

Management Report for the Financial Year 2021

The further course of the war and the development of energy and raw material prices are considered the most important influencing factors here; more realistic projections are not expected to be possible until later in the year. The continuing delays in global supply chains due to the pandemic will be further intensified as a result of the pandemic. The economic recovery will slow because rising inflation will put the brakes on consumption, and companies' investment activities will also be hampered by the increased geopolitical uncertainty.

The International Monetary Fund (IMF) will also revise its projection for global economic growth downward due to the anticipated higher raw material prices, fears of inflation and a cooling of the economic climate.

The shortage of raw materials, supply bottlenecks and higher energy prices have driven inflation to a multi-year high in the Eurozone as well as in the United States. In particular, concerns about a global energy crisis will further fuel the rise of inflation. An average inflation rate of 4.6% in Europe and 5% in Germany is expected for 2022. A long-term supply disruption for Russian energy exports could cause inflation in Germany to increase to as much as 7%. Consequently, the European Central Bank faces the dilemma of counteracting inflation with interest rate increases even though this step would further slow economic activity.

The US Federal Reserve has already announced interest rate increases for the first half of 2022 in order to slow inflation. However, in threshold countries like Turkey, this could cause further slowdowns in investment activities.

Furthermore, the potential emergence of vaccine-resistant virus variants also presents a risk of slowed economic growth globally as well as locally. The convergence of the pandemic and the war in Europe could once again necessitate intervention by the state and the European Commission in the form of financial support and aid programs for particularly energy-intensive sectors.

The Turkish government responded to the coronavirus pandemic with multiple stimulus programs; until the end of 2021, its loose monetary policy ensured that the real economy was able to withstand the coronavirus pandemic and continue to grow. As a countermeasure to the currency decline, an extensive package of measures was announced, whose most important element was a government guarantee for savings in the local currency to protect them from exchange-rate losses. The introduction of these FX protected deposits was able to prevent a further currency decline and stabilize the exchange rate. The public debt (in relation to the gross domestic product) did not worsen, and should be at 38% for 2021 (2020: 40%). At the same time, the budget balance of -3.5% (2020) should improve to -2.9% (2021), thereby once again fulfilling the Maastricht criterion of -3%.

The lowering of the key interest rate, most recently to 14% in September 2021, led to increased bank lending and investment growth, which in turn increased the production index to 145 in the fourth quarter of 2022, compared to 129 in the previous year (2015=100). In parallel, the unemployment rate for the same period declined from 13% to 11.2%. However, as the money supply increased, consumer prices in the fourth quarter of 2022 rose by 36.1% compared to the same quarter in the previous year. This sharp increase was particularly driven by the rising energy prices. The Central Bank of Turkey decided not to reduce key interest rates any further in January 2022. In December 2021, the inflation rate was 36% compared to the previous month. For 2022, according to external information, it is anticipated that the rate will further drop to 27% in the next few months, and will be reduced to 15% by 2023. Before the outbreak of the war in Ukraine, the expected economic growth for 2022 and 2023 was 3.5% and 4%, respectively. The impact of the war and the sharp rise in energy prices will also represent a major challenge for the Turkish economy.

Nonetheless, particularly in terms of trade with Europe, there are opportunities for local producers in Turkey in the future if they can present themselves as an alternative to deliveries from China or other countries strongly impacted by the pandemic. The war in Ukraine, too, along with the departure of countless companies from the Russian market, could mean an opportunity for Turkey as an alternative manufacturing location. The processing sector in Turkey is broadly positioned, which means there are opportunities for the automotive, chemical, steel and textile industries. Overall, these developments mean that the target customer portfolio of İşbank AG is growing in the area of corporate banking, and specifically in the trade financing business. The target customer portfolio here includes European companies with investments in Turkey, as well as companies in Turkey with European trade relationships.

Development of İşbank AG

The financial year 2022 will once again be a year in which the quality of the asset and liability side will be managed in consideration of economic sensitivities and in which risk control as well as operational efficiency will be improved by focusing on niche products and business areas. However, we still see risks for the short-term economic forecast particularly due to the war in Ukraine and the ongoing pandemic. Geopolitical risks in Europe, the continuing raw materials shortage, and the associated rising risk of inflation at the global level as well as investment delays by European companies in the Turkish business will play a not insignificant role in achieving the target, so high forecast uncertainty remains; depending on its duration and effects on the overall global economy, this could involve adjustment of the annual targets to an adequate level. In light of this, no growth is targeted for the financial year 2022 with regard to the balance sheet total or the loan business. In parallel, equity capital is to be increased from EUR 229 million to EUR 237 million, and the equity ratio increased from 13.9% to 15.5%, which will further strengthen the bank's resilience.

With regard to the loan business, İşbank AG has carried out a complete transformation of the credit portfolio since 2016. The share of retail and commercial corporate client business was reduced and gradually replaced with a selective corporate and trade finance portfolio. Filtering out crisis-vulnerable business areas before the start of the pandemic showed us we were on the right path. Despite, or precisely because of, the abovementioned challenges, we will continue to implement this strategy in a disciplined way; our focus will be on establishing sustainable profitability by growing earnings while keeping costs steady and maintaining capital discipline.

In part also due to the existing uncertainty in the target market of Turkey, the bank will pursue an extremely restrictive credit policy. Previous experience with the payment behavior of our customers in the corporate segment with a connection to Turkey has shown that, thanks to their solid capital and liquidity structure, our portfolio of borrowers is resilient when faced with internal as well as external crises. These borrowers are corporations that are among the largest companies and exporters in Turkey and that play a significant role in the global markets. The development of the export business of borrowers in the corporate segment with a connection to Turkey, as well as the exchange rate risk of these borrowers, is subjected to a close analysis through credit monitoring on a regular basis and as needed. Credit lines are adjusted according to the development of the export volume, the share of foreign capital in foreign currency within overall debt, and short positions. The selective corporate segment portfolio with a connection to Turkey is also verified by our bank's NPL rate. While it is 0% in the loan portfolio with a connection to Turkey, the NPL rate for the overall risk assets increased moderately from 1.83% to 1.91%. In light of the uncertainties relating to the economic impact of the war in Ukraine and the further course of the pandemic, no further expansion of the loan volume is planned.

While maintaining the existing business volume, İşbank AG will introduce a target core capital ratio of 13% in the financial year 2022, which represents a solid buffer and is higher than the minimum regulatory requirement of 11.27%. In subsequent years, the target core capital ratio of İşbank AG will be gradually increased to 14% (2023) and 15% (2024). The associated resolute self-constraint regarding loan business that ties up equity demonstrates that the bank is not focused on growth, but rather on further improving loan quality and utilizing cross-selling potentials based on the existing loan portfolio.

At the same time, we see the digital transformation as a trend-setting challenge for the future of the banking and finance sector. Consequently we plan to consistently further develop our "ParaGönder" app for cashless transfers to Turkey. In order to grow our customer base, we will also establish it in other countries that, like Germany, have a significant Turkish population. Furthermore, the app will be given additional features like digitized account opening. We also plan to offer the acquiring business (VPOS) for e-commerce transactions in the financial year 2022, with İşbank AG in the position of an acquiring bank. Once it is implemented, this service will be steadily improved by adding new features.

In the area of payment transactions, the plan for 2022 is to further expand the existing online banking system. Customers will also be given an instant payment option in addition to SEPA payments. Together with our parent company, we launched a partnership for payment transactions between Turkey and Europe in 2021. The goal of this partnership is to offer Turkish as well as

Management Report for the Financial Year 2021

European exporters and importers attractive conditions for international payment transactions.

In summary, our focus will be on actively supporting the transition to the digital financial market and prioritizing digital bank products. In parallel, internal business processes will be made more efficient by increasing the number of automated processes (robotic process animation). This will further reduce the cost-income ratio.

To establish a successful sustainability concept and to ensure responsible handling of social, ecological and economic development goals, all stakeholders within our company will continue to work together closely in 2022. Through the sustainability committee, managers will regularly continue to explore future-proofing measures with the board.

Maintaining business operations during the pandemic, along with the health of our entire staff and our customers, will remain the highest priority for our institution. In light of this, all contingency plans for maintaining the banking operations were adapted to the new situation and have been consistently implemented to date.

The bank is developing meaningful benchmarks in order to derive non-financial performance indicators.

Regarding the expected economic effects of the coronavirus pandemic, İşbank AG is braced for a prolonged downturn. The present equity ratio of approx. 13.9% provides a solid buffer for this. The bank additionally regularly performs internal stress scenarios with various simulations. Also, the present refinancing has a strongly diversified position on the one hand, and on the other hand additional measures can be taken to raise liquidity. In summary, while maintaining the ROAR and CIR levels achieved in the financial year 2021, the projected profit in 2022 will be retained in full, thereby strongly increasing the bank's equity ratio. Liquidity continues to be planned on the basis of the internal benchmark. Due to economic volatility, an annual result slightly below the result for 2021 is expected for 2022.

e) DEPENDENCY REPORT

The board of İşbank AG declares:

"We declare that İşbank AG in Frankfurt am Main received an appropriate consideration for each legal transaction according to the circumstances known to us at the time when the aforementioned legal transactions were performed. At the instigation or in the interest of the companies associated with it, measures were neither taken nor omitted, through which a disadvantage can be excluded."

f) ASSOCIATION MEMBERSHIPS

The bank is a member of the Association of German Banks and of regional banking associations. Furthermore, it is a member of the Association of Foreign Banks in Germany. As a member of the Auditing Association of German Banks, it participates in the deposit protection fund of private banks in Germany.

Frankfurt am Main, March 28, 2022

Ünal Tolga Esgin Chairman of the Management Board	**Franz Hakan Elman** Member of the Management Board	**Ayse Dogan** Member of the Management Board

Financial Statements as at and for the Year Ended December 31, 2021 with Independent Auditor's Report Thereon

Balance sheet as of 12/31/2021 of İşbank AG, Frankfurt am Main

Assets		12/31/2021 EUR	Previous year EUR
1. Cash reserve			
a) Cash on hand		2,388,678.47	2,204,436.98
b) Balances with central banks		327,052,015.39	233,806,120.41
of which:			
with the German Central Bank	EUR 327,051,400.91		
	(previous year: EUR 233,805,091.45)		
		329,440,693.86	**236,010,557.39**
2. Receivables from credit institutes			
a) due daily		4,008,879.03	3,569,553.68
b) other receivables		258,404,571.79	382,607,275.53
		262,413,450.82	**386,176,829.21**
3. Receivables from customers		1,120,719,349.67	1,060,064,302.14
of which secured by encumbrances:	EUR 49,098,504.28		
	(previous year: EUR 56,716,908.91)		
Municipal loans:	EUR 0.00		
	(previous year: EUR 0.00)		
4. Bonds and other fixed-interest securities			
a) money-market instruments			
aa) from other issuers		0.00	0.00
of which: eligible as collateral at Deutsche Bundesbank	EUR 0.00		
	(previous year: EUR 0.00)		
b) loans and bonds			
ba) from public issuers		25,613,608.22	25,445,127.38
of which: eligible as collateral at Deutsche Bundesbank	EUR 0.00		
	(previous year: EUR 15,005,675.99)		
bb) from other issuers		112,726,297.83	105,040,516.14
of which: eligible as collateral at Deutsche Bundesbank	EUR 7,043,693.94		
	(previous year: EUR 32,974,592.92)		
		138,339,906.05	**130,485,643.52**
5. Shares and other non-fixed-interest securities		0.00	0.00
6. Intangible assets			
Paid concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets		9,875,718.96	11,410,595.94
		9,875,718.96	**11,410,595.94**
7. Property, plant and equipment		870,753.36	873,769.55
8. Other assets		17,921,757.30	7,267,018.06
9. Deferred income		1,077,475.45	1,268,719.48
Total assets		**1,880,659,105.47**	**1,833,557,435.30**

Liabilities		
	12/31/2021	Previous year
	EUR	EUR
1. Payables to credit institutes		
a) due daily	20,628,289.91	23,646,170.66
b) with an agreed term or termination date	207,165,674.01	213,884,646.40
	227,793,963.92	**237,530,817.06**
2. Payables to customers		
a) savings deposits		
aa) with an agreed termination period of three months	30,812,829.26	29,283,056.98
ab) with an agreed termination period of more than three months	1,289,582.91	1,439,491.53
b) other liabilities		
ba) due daily	411,665,629.40	331,478,745.63
bb) with an agreed term or termination date	974,873,446.81	1,003,721,445.79
	1,418,641,488.38	**1,365,922,739.93**
3. Other liabilities	2,636,890.04	6,850,908.88
4. Deferred items	763,432.45	1,399,944.95
5. Accruals		
a) tax accruals	372,929.82	715,971.76
b) other accruals	2,690,672.07	2,479,715.68
	3,063,601.89	**3,195,687.44**
6. Equity capital		
a) subscribed capital	185,000,000.00	185,000,000.00
b) capital reserves	315,292.40	315,292.40
c) retained earnings		
ca) statutory reserves	2,392,569.80	1,937,450.21
cb) other retained earnings	31,404,594.43	23,715,617.42
d) net profit	8,647,272.17	7,688,977.01
	227,759,728.79	**218,657,337.04**
Total liabilities	**1,880,659,105.47**	**1,833,557,435.30**
1. Contingent liabilities		
a) liabilities from guarantees and indemnity agreements	61,154,855.84	52,068,301.38
2. Other liabilities		
a) irrevocable credit commitments	0.00	0.00
	61,154,855.84	**52,068,301.38**

Profit and loss account for İşbank AG for the period from January 1 to December 31, 2021

			12/31/2021	Previous year
	EUR	EUR	EUR	EUR
1. Interest income from				
a) lending and money market transactions less	45,892,575.00			42,898,592.36
negative interest from money market transactions	-901,353.29			-736,034.37
		44,991,221.71		42,162,557.99
b) fixed-interest securities and debt register claims		7,324,127.20		5,290,940.91
			52,315,348.91	**47,453,498.90**
2. Interest expenses			13,025,088.83	13,633,585.16
a) negative interest from money market transactions			-854,405.04	
			12,170,683.79	
			40,144,665.12	**33,819,913.74**
3. Commission income			6,743,560.43	7,388,092.23
4. Commission expenses			511,817.79	359,217.03
			6,231,742.64	**7,028,875.20**
5. Other operating income			797,618.58	1,109,181.77
6. General administrative expenses				
a) personnel costs				
aa) wages and salaries (with provisions)	11,955,131.95			11,788,745.51
ab) social contributions and expenses for retirement benefits and support	1,905,416.26			1,823,659,77
of which: for retirement benefits EUR 66,714.42				
(previous year: EUR 66,714.42)				
		13,860,548.21		13,612,405.28
b) other administrative expenses		10,516,643.36		10,824,239.48
			24,377,191.57	**24,436,644.76**
7. Depreciation and amortization of intangible assets and property, plant and equipment			2,662,325.03	2,499,695.86
8. Other operating expenses			64,110.93	235,593.18
9. Depreciation and amortization of receivables and certain securities as well as allocations to provisions in the lending business			5,947,505.35	4,170,823.60
10. Income from write-ups to receivables and certain securities as well as from the dissolution of provisions in the lending business			572,887.18	1,206,701.04
			5,374,618.17	**2,964,122.56**
11. Depreciation and value adjustments for participating interests, shares in affiliated companies, and securities treated as fixed assets			0.00	90,264.49
12. Income from write-ups of participating interests, shares in affiliated companies, and securities treated as fixed assets			0.00	753,417.39
13. Profit on ordinary business activity			14,695,780.64	12,485,067.25
14. Extraordinary expenses			872,940.48	147,571.74
15. Taxes on income and earnings			4,631,999.30	4,265,237.16
16. Other taxes not listed in Item 8			88,449.11	-21,401.66
			4,720,448.41	**4,243,835.50**
17. Annual net profit			9,102,391.75	8,093,660.01
18. Allocations to revenue reserves				
a) to the legal reserve		455,119.59		404,683.00
b) to the reserve for shares in a company holding a controlling or majority interest		0.00		0.00
c) to statutory reserves		0.00		0.00
d) to other revenue reserves		0.00		0.00
			455,119.59	**404,683.00**
19. Net profit			8,647,272.17	7,688,977.01

İşbank AG

(HRB 94361, Municipal Court of Frankfurt am Main) Annex for the 2021 Fiscal Year

A. Preamble

İşbank AG is domiciled in Frankfurt am Main and is registered in Commercial Register B at the Municipal Court of Frankfurt am Main (HRB 94361). The annual financial statement of Isbank AG for the 2021 fiscal year was prepared in accordance with the provisions of the Commercial Law Code in accordance with §§ 242 ff. and 340 ff. HGB as well as the Credit Institute Accounting Ordinance (RechKredV) and Securities Act (AktG).

B. General Accounting and Evaluation Principles

The receivables recorded under the individual items include accrued interest recorded at the nominal value. İşbank AG created specific bad debt allowance as well as reserves and general loan loss reserves for identifiable creditworthiness risks in the credit business.

Classification criteria which prescribe management of non-performing loans have been defined, including within the scope of the early detection system, for securing loan commitments. In general, loan commitments with defaults between 60 and 90 days and installment loans starting from 3 installments in arrears are subject to inspection by the loan restructuring department. In order to determine the necessary specific loan loss reserves the collateral is re-evaluated in the process of managing the loans. The application and dissolution of the corresponding risk provision is calculated and recorded on a quarterly basis to an appropriate and sufficient amount.

Bonds and debentures were allocated to investment assets. The total portfolio is evaluated on the basis of the mitigated lowest value principle. As per the balance sheet date there are dormant reserves and hidden losses. No non-scheduled depreciation was carried out, as a reduction in value that is not due to creditworthiness and hence non-permanent is being assumed. Fixed-interest securities acquired sub-par are recorded according to the accrual principle at nominal value. Fixed-interest securities acquired above par are recorded according to the accrual principle at nominal value.

The tangible and intangible assets, the use of which is temporary, are recorded applying scheduled depreciation over the anticipated length of use. The length of use of the new core banking system was fixed at 10 years in the 2016 fiscal year. Low-value assets up to EUR 800 net are fully written off in the year of acquisition. Assets with acquisition costs ranging between EUR 800 and EUR 1,000 are recorded on the asset side and written off on the basis of linear depreciation over a period of five years.

The liabilities were recorded at their settlement value plus accrued interest. Where the settlement value of a liability is greater than the issue amount, the difference is recorded on the asset side under deferred items pursuant to § 250 Sect. 3 HGB in conjunction with § 340c Sect. 2 Clause 3 HGB. The deferred items are written off on the basis of scheduled linear depreciation over the term of the liability.

Tax reserves and other reserves take all identifiable risks into account and have been recorded at the amount of the settlement value necessary according to reasonable business assessment pursuant to § 253 Sect. 1 HGB.

The subscribed capital in the amount of KEUR 185,000 is recorded at nominal value.

The contingent liabilities and irrevocable credit commitments are formed with the nominal value after deduction of cash securities and reserves taken into account on the balance sheet. For reserves with a term of more than one year there is a discounting obligation with average market interest over the past seven years related to the residual period as set out in § 253 Sect. 2 HGB. The filing reserves are likewise discounted at the average market interest rates corresponding to their residual term.

Expenditure and profit are recorded according to the accrual principle. Account management fees are charged on a quarterly basis and admissible processing fees immediately upon the transaction.

All expenditures as well as all reserves and payment obligations in connection with the restructuring measures were recorded in the extraordinary expenses.

Assets and liabilities in foreign currency were converted to EUR on the basis of the exchange rate set by the European Central Bank at the balance sheet date in accordance with § 256a HGB in conjunction with § 340h HGB.

The expenditure and income from the foreign currency conversion are recorded under the miscellaneous operational expenditure and profit.

The conversion results from transactions which were integrated into the special coverage in accordance with § 340h HGB are balanced under miscellaneous operational profits/recorded under miscellaneous operational expenditure.

For loans with no objective evidence of impairment, a flat value adjustment equal to the 1-year expected loss is determined and implemented according to the loan risk model. Furthermore, a separate risk provision is created for the country risk in Turkey, since the ratings agency Fitch currently classifies the country as a non-investment-grade area. For this purpose, the bank determines a lifetime expected loss for the Turkey portfolio with increased default probabilities corresponding to the transfer risk. The difference between the lifetime expected loss with modified default probabilities and the 1-year expected loss without modified default probabilities produces the country risk for Turkey. As of the balance sheet date, a total risk provision of KEUR 14,305 (previous year: KEUR 9,405) was formed.

In the loss-free valuation of interest-related transactions of the banking book (BFA3) the periodic (P & L-oriented) method was applied. In this context, the cash-value period results calculated by Financial Management from interest-related transactions, the management expenditure for the portfolio transactions calculated on the basis of the P&L account and the risk costs to be anticipated before the final due date of the transactions based on the anticipated payment defaults were compared. No imminent loss reserves need to be created pursuant to IDW RS BFA 3 as per 12/31/2021.

Negative interest from money market transactions is recorded as reduced earnings under interest income.

C. Notes to the Balance Sheet

The liquid assets have been recorded at nominal value. The pro rata interest is not recorded as part of the residual term breakdown, but separately in accordance with §11 Clause 3 RechKredV.

	12/31/2021	Previous year
	KEUR	KEUR
Receivables from credit institutes		
- due daily	4,009	3,570
- up to 3 months	71,698	87,037
- 3 months up to 1 year	190,877	298,266
- 1 year up to 5 years	0	0
Accrued interest	580	1,173
General loan loss reserves	-4,750 (*)	-3,868 (*)
(*) of which allocated to country loan loss reserves KEUR 4,750		
Receivables from customers		
- up to 3 months	174,106	111,159
- more than 3 months up to 1 year	263,749	195,957
- more than 1 year up to 5 years	577,634	645,146
- more than 5 years	75,910	64,434
- with an indefinite term	33,331	44,851
Accrued interest	7,037	5,381
General reserves for loan losses	-11,048 (**)	-6,864 (**)
(**) of which allocated to country loan loss reserves KEUR 9,555		
Receivables from affiliated companies are included in the following items		
Receivables from credit institutes	23,225	31,792
- of which from the sole shareholder	13,224	15,296
Receivables from customers	13,059	42,976
Debentures and other fixed-interest securities	7,661	5,809
Bonds and debentures in the portfolio Money market instruments From other issuers	0	0
Debentures (accounting values) From public issuers	24,605	25,094
- of which under repurchase agreements	24,505	9,988
From other issuers	111,084	103,882
- of which under repurchase agreements	77,897	60,577
- due the following year	29,593	25,770
Accrued interest	2,651	1,510

All bonds and debentures are marketable and listed.

At the balance sheet date, the bonds and debentures consist of dormant reserves to the amount of KEUR 453 (previous year: KEUR 3,807) and hidden losses to the amount of KEUR 2,907 (previous year: KEUR 0).

The amount of the marketable securities in the bond and debenture portfolio not valued using the lowest principle is KEUR 88,540 (previous year: KEUR 0).

Receivables from customers to the amount of KEUR 49,099 (previous year: KEUR 56,717) are secured by liens.

The intangible assets essentially comprise expenditure recorded on the asset side, reduced by the scheduled depreciation; for the banking system of İşbank AG acquired in 2016, the accounting value was KEUR 9,876 (previous year: KEUR 11,411).

The total amount of other assets is KEUR 17,922 (previous year: KEUR 7,267). KEUR 16,266 (previous year: KEUR 6,242) is allocated to receivables from derivative transactions due to currency valuations, and KEUR 1,075 (previous year: KEUR 284) to tax receivables from the corporate and trade tax, KEUR 238 (previous year: KEUR 46) to tax receivables from the corporate tax from previous years, and KEUR 200 (previous year: KEUR 235) to tax return claims from the Internal Revenue Service regarding turnover tax. This also includes deposits to the amount of KEUR 107 (previous year: KEUR 123) and KEUR 36 (previous year: KEUR 383) to suspense accounts of the bank.

Only KEUR 762 (previous year: KEUR 855) are allocated to advance payments on the rent for the headquarters under the item accrued income to the amount of KEUR 1,077 (previous year: KEUR 1,269). KEUR 288 (previous year: KEUR 318) from invoices paid in advance are added to this as well as KEUR 28 (previous year: KEUR 96) from agio payments.

	APC Status 1/1/2021	Inflow	Outflow	Transfer	APC Status 12/31/2021	Cumulative Depr. Status 1/1/2021	Cumulative Depr. Status 12/31/2021	12/31/2021 Appreciation of the fiscal year	12/31/2021 Depreciation of the fiscal year	Accounting values Status 12/31/2020	Accounting values Status 12/31/2021
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR
I. Intangible assets	25,507	754	0.00	0.00	26,260	14,096	16,385 (*)	0.00	2,289	11,411	9,876
1. Software (****)	25,507	754	0.00	0.00	26,260	14,096	16,385 (*)	0.00	2,289	11,411	9,876
II. Tangible assets	4,516	371	0.00	0.00	4,887	3,643	4,016 (*)	0	374	874	871
1. Plant and equipment	30,023	1,124	0.00	0.00	31,147	17,739	20,401 (*)	0	2,662	12,284	10,746
III. Securities (***)	131,027	40,831	41,111	0.00	130,747	2,052	4,942 (**)	7,067	73	130,486 (**)	138,340
Total	161,050	41,955	41,111	0.00	161,895	19,790	15,459	7,067	2,735	142,770	149,086

(*) Inflows and transfers in the fiscal year are included in the write-offs to the amount of KEUR 208 (software and plant and equipment).
(**) Inclusive accrued interest to the amount of KEUR 2,651. The inflow to securities includes currency effects to the amount of KEUR 3,110.
(***) Debentures and other fixed-interest securities, stocks and other non-fixed interest securities.
(****) Permits, industrial property rights and similar rights and values acquired for a fee as well as licenses to such rights and values.

	12/31/2021 KEUR	Previous year KEUR
Payables to credit institutes		
- due daily	20,628	23,646
- up to 3 months	42,649	43,740
- more than 3 months up to 1 year	91,216	59,372
- more than 1 year up to 5 years	72,562	110,000
- Accrued interest	738	772
Payables to customers (savings deposits)		
- up to 3 months	30,813	29,283
- more than 3 months up to 1 year	930	938
- more than 1 year up to 5 years	118	116
- more than 5 years	241	386
Payables to customers (other payables)		
- due daily	411,691	331,479
- up to 3 months	373,571	440,496
- more than 3 months up to 1 year	391,553	284,699
- more than 1 year up to 5 years	143,334	208,041
- more than 5 years	64,322	67,835
- Accrued interest	2,068	2,651
Payables to affiliated companies are included under the following items:		
Payables to credit institutes	7,594	16,064
-of which to the sole shareholder	7,273	16,064
Payables to customers	364	5,127

Payables to credit institutes include KEUR 70,819 (previous year: KEUR 110,000) open market operations with Deutsche Bundesbank which are hedged by the securities deposited on the safe custody account there. KEUR 67,995 (previous year: KEUR 47,152) are allocated to repurchase agreements.

The other liabilities to the amount of KEUR 2,637 (previous year: KEUR 6,851) include inactive accounts to the amount of KEUR 1,209 (previous year: KEUR 1,045) and outstanding payments (customer orders not yet processed by the clearing body) to the amount of KEUR 565 (previous year: KEUR 3,324). In addition, this item includes payment obligations from restructuring measures to the amount of KEUR 498, liabilities to Internal Revenue Offices due to outstanding income and church tax to the amount of KEUR 160 (previous year: KEUR 219), returns from non-deliverable credit transfers to Turkey to the amount of KEUR 132 (previous year: KEUR 141), outstanding capital income tax at KEUR 45 (previous year: KEUR 38) and liabilities from derivative transactions due to currency valuations to the amount of KEUR 26 (previous year: KEUR 2,083).

Deferred income and accrued expenses to the amount of KEUR 763 (previous year: KEUR 1,400) consist mainly of accrued upfront fee payments from purchased syndicate loans to the amount of KEUR 594 (previous year: KEUR 1,297).

The tax reserves to the amount of KEUR 373 (previous year: KEUR 716) include corporation tax make-up payments to the amount of KEUR 203 (previous year: KEUR 533) as well as profit make-up payments from previous years to the amount of KEUR 170 (previous year: KEUR 183).

As per the end of the year Other Reserves to the amount of KEUR 2,691 (previous year: KEUR 2,480) were created. They essentially consist of bonus reserves to the amount of KEUR 1,350 (previous year: KEUR 1,363) and reserves for restructuring measures to the amount of KEUR 297. In addition, KEUR 233 are allocated to reserves for other payment obligations, as well as KEUR 167 (previous year: KEUR 104) to reserves for legal and consulting costs and KEUR 144 (previous year: KEUR 250) to reserves for audit and consulting expenses. This item further includes reserves for contributions to the amount of KEUR 125 (previous year: KEUR 165), filing fees to the amount of KEUR 105 (previous year: KEUR 104), reserves for processing costs to the amount of KEUR 102 (previous year: 97) and vacation reserves to the amount of KEUR 70 (previous year: KEUR 10). Moreover, it includes reserves for interest loss for the Bundesbank portfolio to the amount of KEUR 32, reserves for sureties to the amount of KEUR 31 (previous year: KEUR 31), reserves for turnover tax from previous years to the amount of KEUR 20, and reserves for marketing expenses to the amount of KEUR 15.

The total subscribed capital is KEUR 185,000 and has not changed compared to the previous year.

The equity of İşbank AG is KEUR 185,000 and is divided up into 18,500,000 non-par bearer shares. There are no other types of securities.

The equity is divided up as follows:

	12/31/2021	Previous year
	KEUR	KEUR
Subscribed capital	185,000	185,000
Capital reserves	315	315
Statutory reserves	2,393	1,937
Profit reserves	31,405	23,716
Net profit	8,647	7,689
	227,760	218,657

Pursuant to §150 Sect. 2 AktG, 5% of the net income for the year are to be adjusted annually in the statutory reserves. Accordingly, the statutory reserves were increased by KEUR 455.

The total amount of loan loss reserves for country risks of Receivables from customers and credit institutes is KEUR 14,305 (previous year: KEUR 9,405).

The breakdown of total risk prevention due to country risks to the individual items of the balance sheet is as follows:

	12/31/2021	Previous year
	KEUR	KEUR
Receivables from credit institutes	4,750	3,868
Receivables from customers	9,555	5,537

Items recorded in foreign currency:

	12/31/2021	Previous year
	KEUR	KEUR
Assets	512,416	283,561
Liabilities	263,259	266,435

The breakdown of payables from guarantees and guarantee contracts after deduction of the general loan loss reserves is as follows:

	12/31/2021	Previous year
	KEUR	KEUR
Guarantees and guarantee contracts	8,671	10,585
Letters of credit	52,515	41,515
	61,186	52,099

KEUR 2,257 (previous year: KEUR 5,052) of guarantees and guarantee contracts are allocated to the sole shareholder.

Cash-secured guarantees in the fiscal year amount to KEUR 2,911 (previous year: KEUR 5,164). Irrevocable credit commitments in the fiscal year amount to KEUR 0 (previous year: KEUR 0).

The risks from claims to contingent liabilities and other liabilities are estimated as low by İşbank AG due to the existing securities.

D. Notes to the profit and loss account

The profit and loss account has been prepared in vertical format.

The Management Board of İşbank AG proposes to the Supervisory Board in accordance with § 170 Sect. 2 AktG to retain the profit in the 2021 annual financial statement to the full amount of KEUR 8,647, carry it forward to a new account and to allocate it immediately to profit reserves.

The breakdown of the earnings according to the places of business is as follows:

	Germany	Netherlands	Total
	KEUR	KEUR	KEUR
Interest income	47,121	5,195	52,315
Commission income	6,185	559	6,744
Other operating income	808	-10	798
Net income for the year	7,883	1,219	9,102

Interest income includes negative interest to the amount of KEUR 901 (previous year: KEUR 736). It results from reserve deposits to the amount of KEUR 789 (previous year: KEUR 735) with the German Federal Bank exceeding the minimum target reserves of İşbank AG, from reverse repo transactions to the amount of KEUR 108, and from interest loss from margin call transactions to the amount of KEUR 4.

Interest expenditure includes positive interest to the amount of KEUR 854. It results essentially from money market transactions with the German Federal Bank for the GLRG III transactions.

Other operating expenditure to the amount of KEUR 798 (previous year: KEUR 1,109) results essentially from interest income from GLRG III transactions by the German Federal Bank in the previous year to the amount of KEUR 577, from foreign currency conversions to the amount of KEUR 164 (previous year: KEUR 600), from out-of-period payments to the amount of KEUR 103 (previous year: KEUR 32) as well as from the dissolution of other reserves to the amount of KEUR 36 (previous year: KEUR 178).

Other operating expenditure to the amount of KEUR 64 (previous year: KEUR 236) results essentially from general administrative expenditure to the amount of KEUR 46 (previous year: KEUR 40) as well as from payment of the severe disability contribution to the amount of KEUR 18 (previous year: KEUR 11).

The extraordinary expenditure to the amount of KEUR 873 (previous year: KEUR 148) results essentially from payment commitments for restructuring measures to the amount of KEUR 795, the associated personnel expenditure to the amount of KEUR 600, the facility costs to the amount of KEUR 50 and other administrative expenditure to the amount of KEUR 146. In addition, restructuring expenditure applied for the shut-down branch office in Mannheim to the amount of KEUR 61 as well as the rental deposit for the former branch office in Paris to the amount of KEUR 17.

For the fiscal year, KEUR 250 (previous year: KEUR 250) were charged as fees for audit services for Germany and KEUR 22 (previous year: KEUR 4) for other consulting services. The other assurance services by the auditor for the fiscal year regard certifications provided to the German Federal Bank for the credit submission procedure (KEV) and in the context of targeted long-term refinancing transactions (GLRG).

During the fiscal year taxes on income and profit to the amount of KEUR 5,204 (previous year: KEUR 4,265) were incurred.

Set-off of the Net Profit of the Previous Year:

Per resolution of the regular shareholders' meeting of May 28, 2021, it was resolved to retain the net profit from 2020 of KEUR 7,698 to the full amount and to carry it forward to a new account and to immediately deposit it to the profit reserves.

E. Other information

There were no transactions with related parties or companies that did not occur under standard market conditions.

Country-specific reporting (country-by-country reporting) by İşbank AG pursuant to § 26a KWG as per December 31, 2021

The data on country-specific reporting (country-by-country reporting) from Article 89 EU Directive 2013/36/EU resp. § 26a KWG is presented in detail in our "Country-Specific Report" (country-by-country reporting) as per December 31, 2021. After approval of the annual financial statement the country-by-country reporting is published together with the annual financial statement and management report in the Federal Gazette.

Disclosure Report

Isbank AG is subject to disclosure provisions as set out in the Articles 431 ff. of Ordinance (EU) No. 575/2013. The disclosure report is published on the website of İşbank AG (www.Isbank.de).

Other Financial Obligations

The total amount of other financial obligations is divided up as follows:

	2022	2023-2024	As from 2025	Total
	KEUR	KEUR	KEUR	KEUR
Leases	2,251	3,915	1,829	7,995
Leasing contracts	127	70	0	197
Other contracts	635	1,227	602	2,464

For coverage of the loan grants in USD and TRY, the bank had eleven foreign currency swap transactions (nominal value: KEUR 282,450) and five cross-currency swap transactions (nominal value: KEUR 19,168) in the portfolio. As per the balance sheet date a negative amount of KEUR 26 as well as a positive amount of KEUR 16,266 result from these currency swaps.

The following table illustrates the nominal amounts of the foreign currency swaps concluded for coverage of foreign exchange risks from customer transactions:

Residual term	Nominal (KEUR)	- Market value (KEUR)	+ Market value (KEUR)
Up to 1 year	297,680	- 26	13,402
More than 1 year	3,939	-	2,864

On the basis of membership in the deposit protection fund with Bundesverband deutscher Banken e.V. (Federal Association of German Banks) İşbank AG may be obligated to pay subsidies in certain circumstances. Currently, there is no obligation to pay subsidies.

Employees

İşbank AG employed an annual average staff number of 157.

	2021	Previous year
Authorized signatories	2	3
Employees	155	161
Total	157	164

The salaries of the Management Board in the past fiscal year were KEUR 791 (previous year: KEUR 586). No pension guarantees were made to members of the Management Board. For this reason, no pension reserves are being created by İşbank AG for members of the Management Board.

Expenditure compensation was paid to members of the Supervisory Board in 2021 pursuant to § 285 No. 9a HGB to the amount of KEUR 81 (previous year: KEUR 108).

Company Bodies

Management Board:

Ünal Tolga Esgin, Frankfurt am Main, Chairman of the Management Board

Franz Hakan Elman, Frankfurt am Main, Member of the Management Board

Ayşe Doğan, Frankfurt am Main, Member of the Management Board (as of 5/1/2021)

Supervisory Board:

Gamze Yalçın, İstanbul/Turkey, Chairperson of the Supervisory Board, Member of the Management Board of Türkiye İş Bankası A.Ş.

Sabri Gökmenler, İstanbul/Turkey, Deputy Chairperson of the Supervisory Board, Member of the Management Board of Türkiye İş Bankası A.Ş.

Yavuz Ergin, İstanbul/Turkey, Member of the Supervisory Board, Consultant of Türkiye İş Bankası A.Ş.

Ali Tolga Ünal, İstanbul/Turkey, Member of the Supervisory Board, Financial Management Division Head of Türkiye İş Bankası A.Ş.

Mustafa Tankut Tabak, İstanbul/Turkey, Member of the Supervisory Board until 1/20/2022, HR Division Head of Türkiye İş Bankası A.Ş.

Mete Uluyurt, İstanbul/Turkey, Member of the Supervisory Board until 5/28/2021, Strategy and Corporate Performance Division Head of Türkiye İş Bankası A.Ş.

Utku Ünsal, İstanbul/Turkey, Member of the Supervisory Board as of 5/29/2021, Strategy and Corporate Performance Management Division Head of Türkiye İş Bankası A.Ş.

Ozan Uyar, İstanbul/Turkey, Member of the Supervisory Board, Project Finance Division Head of Türkiye İş Bankası A.Ş.

Zeynep Hansu Uçar, İstanbul/Turkey, Member of the Supervisory Board until 1/20/2022, Subsidiaries Division Head of Türkiye İş Bankası A.Ş.

Tolga Achim Müller, İstanbul/Turkey, Member of the Supervisory Board, Corporate Banking and Sales Division Head of Türkiye İş Bankası A.Ş.

Hasan Cahit Çınar, İstanbul/Turkey, Member of the Supervisory Board as of 1/21/2022, Member of the Management Board of Türkiye İş Bankası A.Ş.

Banu Altun, İstanbul/Turkey, Member of the Supervisory Board as of 1/21/2022, Corporate Loans Management Division Head of Türkiye İş Bankası A.Ş.

Company Group Relations

İşbank AG, Frankfurt am Main, is a wholly owned subsidiary of Türkiye İş Bankası A.Ş., Büyükdere Cad. Pembegül Sok, 34330, Levent - Istanbul, Turkey. The parent company Türkiye İş Bankası A.Ş. prepared a consolidated financial statement as per December 31, 2021, which is also available at the Head Office of the company.

Supplementary Statement

Against the backdrop of the war in Ukraine, which began with the advance of Russian troops on February 24, 2022, uncertainty in the target markets has once again increased. In response to the war, the Western states have imposed wide-ranging sanctions on Russia and Belarus that extensively impact the financial sector, among other things. Potential effects on İşbank AG were studied. As of 12/31/2021, receivables from customers in the Russian Federation totaled EUR 10 million and were owed by an affiliated company. There are no receivables from customers headquartered in Ukraine or Belarus.

The impact of the Ukrainian/Russian crisis on the global economy cannot be projected with a high level of confidence. Before the start of the Ukraine war, the anticipated economic growth for our main target market of Turkey for 2022 and 2023 was 3.5% and 4%, respectively. However, the current uncertainty will strongly influence this expectation. The consequences of the war and the dramatically increased energy prices will also present a major challenge for the economy of our target markets.

An extraordinary general meeting was held on 1/20/2022 in which two new Supervisory Board members were appointed with effect as of 1/21/2022. The list of Supervisory Board members can be found in the “Supervisory Board” section.

Frankfurt am Main, March 28, 2022

Ünal Tolga Esgin Chairman of the Management Board	**Franz Hakan Elman** Member of the Management Board	**Ayse Dogan** Member of the Management Board

AUDIT CERTIFICATE BY THE INDEPENDENT AUDITOR

For Isbank AG

Notes on the Audit of the Annual Financial Statement and the Management Report

Audit Evaluations

We audited the annual financial statement of Isbank AG, Frankfurt am Main – consisting of the balance sheet as per December 31, 2021, and the profit and loss account for the fiscal year from January 1, 2021, up until December 31, 2021, as well as the notes, including the presentation of the accounting and evaluation methods. In addition, we audited the management report of Isbank AG for the fiscal year from January 1, 2021, until December 31, 2021.

According to our assessment based on the findings of the audit,

- the attached annual financial statement essentially complies with the provisions of German Commercial Law prescribed for corporations and illustrates the actual asset and financial situation of the company as per December 31, 2021, and its profit situation for the fiscal year from January 1, 2021, up until December 31, 2021, observing the standard German accounting practices in all essential points, and
- the attached management report overall accurately presents the situation of the company. In all key points, this management report is in conformity with the annual financial statement, complies with the German legal provisions and accurately portrays opportunities and risks of the future development.

Pursuant to § 322 Sect. 3 Clause 1 HGB (German Commercial Code) we hereby declare that our audit did not give rise to any objections against the compliance of the annual financial statement and management report.

Basis for the Audit Evaluations

We performed the audit of the annual financial statement and the management report in compliance with § 317 HGB and the EU Auditor Ordinance (No. 537/2014; hereinafter "EU-APrVO") in compliance with the German standard accounting practices as set by the Institute of Auditors (IDW). Our responsibility pursuant to these provisions and practices is set out under the section "Responsibility of the Auditors for the Audit of the Annual Financial Statement and the Management Report" of our audit certificate. We are independent of the company in compliance with the provisions of European law as well as the German Commercial and Professional law provisions and have fulfilled our other German professional obligations in accordance with these requirements. In addition, we hereby declare pursuant to Article 10 Sect. 2 lit. f) EU-APrVO that we have not rendered any prohibited non-audit services pursuant to Article 5 Sect. 1 EU-APrVO. In our opinion, the audit proof records obtained by us are sufficient and adequate to serve as the basis of our audit evaluations of the annual financial statement and management report.

Particularly Important Audit Circumstances in the Audit of the Annual Financial Statement

Particularly important audit circumstances are such which according to our due discretion are most important in our audit of the annual financial statement for the fiscal year from January 1 until December 31, 2021. These circumstances were taken into account within the context of our audit of the annual financial statement overall and in the formation of our audit evaluation in this regard; we do not provide any separate audit evaluation of these circumstances.

In the following we describe what we believe to be an especially important audit circumstance:

Identification and Evaluation of Impaired Receivables from Customers from the Corporate Customer Credit Portfolio

Reasons for the Designation as a Particularly Important Audit Circumstance

The identification and evaluation of impaired receivables from customers is a key area in which the Management makes discretionary decisions.

The identification of impaired receivables from customers as well as the evaluation of impaired receivables from customers is associated with uncertainties and includes diverse assumptions and influential factors which unlock discretionary leeway or require estimates. Anticipated future discounted cash flow is to be determined on the basis of the evaluation of the customers' financial situations / the collateral provided. Particularly for corporate customers affected by the current macroeconomic developments in Turkey, any evaluation of the ability to repay capital is associated with uncertainty. For impaired receivables, these discretionary decisions can significantly impact the amount of the reserves to be created for loan loss.

Within the context of the business model of Isbank AG focusing on the corporate customer credit business, which constitutes a key part of the assets of the bank, combined with the discretionary decisions, particularly for corporate customers affected by the current macroeconomic developments in Turkey, we identified the identification and evaluation of impaired receivables from customers from the corporate customer credit portfolio as an especially important audit circumstance.

Audit Procedures

We examined the organization and effectiveness of selected checks in relation to the identification and evaluation of impaired receivables from customers and tested these checks. The focus of our audit procedures in this context was the process for regular evaluation of the borrowers' financial situation using in-house risk classification procedures as well as the monitoring of early warning indicators.

In addition, we carried out relevant audit procedures on a random check basis and examined, within the scope of our credit individual case audit, whether there is a need for write-down for the loans in our random check. Against the backdrop of the current macroeconomic developments in Turkey, we analyzed the effects on the companies' ability to repay capital in our random check (or reviewed the credit analysis from the bank). Furthermore, we investigated the evaluation of impaired receivables. We chose the random check in a risk-oriented way, in particular on the basis of criteria such as the amount of the loans and/or the management of loans on monitoring lists for latent and acute default risks as well as of the rating class.

On the basis of our audit procedures no objections arose with regard to the identification and evaluation of impaired receivables from customers from the corporate customer credit portfolio.

Reference to Corresponding Data

The company's data for the identification and evaluation of impaired receivables from customers are included in Section B, "General Account and Evaluation Practices," in the Notes.

Miscellaneous Information

The Supervisory Board is responsible for the "message from the Chairman of the supervisory board" as well as the "report of the supervisory board." In other respects, the legal representatives are responsible for the miscellaneous information. The miscellaneous information comprises the declaration on the dependence report under Section e) of the management report. In addition, it includes the following parts intended for the business report, of which we obtained a copy before the issue of the audit certificate, the "message from the CEO of the management board" as well as the Country-by-Country-Reporting 2021 (disclosure pursuant to § 26a Sect. 1 Clause 2 KWG (Banking Act)).

Our audit evaluations of the annual financial statement and management report do not cover miscellaneous information and accordingly we are not providing an audit evaluation or any type of audit conclusions in this context.

In connection with our audit we are responsible for reading the miscellaneous information and assessing whether the miscellaneous information

- shows significant discrepancies with the annual financial statement, management report or our audit findings or
- is otherwise significantly misrepresented.

Should we conclude on the basis of the work performed by us that this information has been significantly misrepresented, we are obligated to report this fact. We have nothing to report in this context.

Responsibility of the Legal Representatives and of the Supervisory Board for the Annual Financial Statement and Management Report

The legal representatives are responsible for the preparation of the annual financial statement, which complies with the standard German accounting practices for institutes in all key points, and for representation of the company's actual asset, financial and profit situation in the annual financial statement in compliance with the standard German accounting practices. In addition, the legal representatives are responsible for in-house checks which they have determined necessary for preparation of an annual financial statement which is free of significant accidental or deliberate misrepresentation in accordance with the German standard accounting practices.

In preparing the annual financial statement the legal representatives are responsible for evaluating the company's ability to continue its business activity. In addition, they are responsible for presenting facts in connection with the continuation of the business activity, where relevant. Beyond this, they are responsible for preparing the balance sheet on the basis of the accounting principle of the continuation of business activity, provided that there are no actual or legal circumstances to the contrary.

Moreover, the legal representatives are responsible for preparation of the management report, which provides a generally accurate picture of the company's situation and is in conformity with the annual financial statement in all key points, complies with the German legal provisions and accurately presents the opportunities and risks of the future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) which they have deemed necessary for facilitating the preparation of a management report in compliance with the applicable German legal provisions and in order to provide sufficient suitable proof for the statements in the management report.

The Supervisory Board is responsible for monitoring the company's accounting procedures for preparation of the annual financial statement and of the management report.

Auditor's Responsibility for the Audit of the Annual Financial Statement and of the Management Report

Our objective is to obtain adequate certainty whether the entire financial statement is free of significant – deliberate or accidental – misrepresentation and whether the management report provides an accurate depiction of the company's situation and whether it is in conformity with the annual financial statement and audit findings, complies with the German legal provisions, and accurately depicts the opportunities and risks of the future development, as well as to issue an audit certificate which includes our audit evaluations for the annual financial statement and the management report.

Adequate certainty is a high degree of certainty, but not a guarantee that an audit performed duly in compliance with § 317 HGB and EU-APrVO, observing the German standard accounting practices set by the Auditors' Institute (IDW), always identifies misrepresentation of information. Misrepresentation may result from breaches or inaccuracies and is regarded as significant where it can be reasonably anticipated that individually or collectively it impacts the financial decisions of the addressees made on the basis of this annual financial statement and management report.

During the audit we exercise due discretion and maintain a critical basic attitude. Furthermore,

- we identify and assess the risks of significant deliberate or accidental misrepresentation in the annual financial statement and in the management report; we plan and execute audit procedures as a response to these risks, and obtain audit proof records which are sufficient and suitable to act as the basis of our audit decision. The risk that significant misrepresentation is not detected is higher in the case of breaches than in the case of errors, as breaches imply fraudulent activity, forgery, deliberate omissions, misrepresentation / overriding of in-house checks;

- we gain an understanding of the relevant in-house monitoring system relevant to the audit of the annual financial statement and of the relevant precautions and measures for the audit of the management report in order to plan audit procedures which might be adequate under the given circumstances, but not with the objective of providing an audit evaluation on the validity of these systems of the company;

- we assess the adequacy of the accounting methods applied by the legal representatives as well as the acceptability of the estimated values represented by the legal representatives and the corresponding information;

- we draw conclusions about the adequacy of the accounting principle of the continuation of business activity applied by the legal representatives, as well as, on the basis of the audit proof records obtained, whether there is significant uncertainty in connection with events or circumstances which might give rise to significant doubts regarding the company's ability to continue its business activity. Should we conclude that there is significant uncertainty, we are obligated to report the corresponding information in the annual financial statement on the audit certificate or to modify the respective audit evaluation should this information be inaccurate. We derive our conclusions on the basis of the audit proof obtained by the date of our audit certificate. However, future events or circumstances may entail that the company is no longer able to continue its business activity;

- we evaluate the general representation, organization and subject matter of the annual financial statement, including the date as well as whether the annual financial statement represents the underlying business transactions and events in such a way that the annual financial statement provides an accurate picture of the company's asset, financial and profit situation in compliance with German standard accounting practices;

- we evaluate the conformity of the management report with the annual financial statement, its compliance with the law and its representation of the company situation;
- we perform audit procedures in relation to the future-oriented information in the management report as depicted by the legal representatives. On the basis of adequate suitable audit proof records we follow in particular the relevant assumptions made by the legal representatives as the basis for the future-oriented information and evaluate the proper derivation of the future-oriented information from these assumptions. We do not provide an independent audit evaluation of the future-oriented information or of the underlying assumptions. There is a significant unpreventable risk that future events will significantly deviate from the future-oriented information.

We discuss the planned scope and timetable for the audit with the parties in charge of the monitoring as well as relevant audit findings, including any defects in the in-house monitoring system that we discover during our audit.

We submit a declaration to the parties responsible for monitoring that we complied with the relevant independence requirements and discuss all relations and other facts with them of which it can be reasonably assumed that they have an impact on our independence and the protective measures taken for this purpose.

From the facts discussed with the parties responsible for the monitoring we determine the facts which are most relevant in the audit of the annual financial statement for the current reporting period and thus constitute particularly important audit facts. We record these facts in the audit certificate unless the laws or other legal provisions exclude the public disclosure of the facts.

Other Statutory and Legal Requirements

Other information as set out under Article 10 EU-APrVO

We were chosen as the auditor by the general shareholders' meeting of May 28, 2021. We were assigned by the Supervisory Board on July 29, 2021. We have been working as the auditor of Isbank AG since the 2017 fiscal year without interruption.

We hereby declare that the audit evaluations contained in the present audit certificate are in conformity with the additional report to the Audit Committee in accordance with Article 11 EU-APrVO (Audit Report)

Auditor in charge

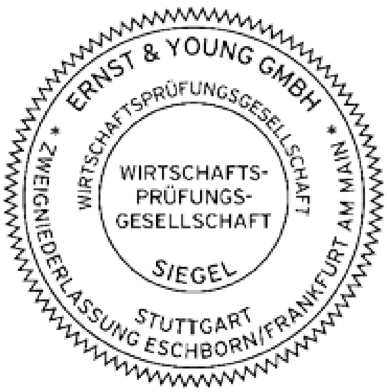
The auditor in charge of the audit is Mr. Marcus Binder.

Eschborn/Frankfurt am Main, March 28, 2022

Ernst & Young GmbH

Wirtschaftsprüfungsgesellschaft

Binder	Stier
Auditor	Auditor



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