İŞBANK AG
ANNUAL REPORT 2022

İŞBANK

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İŞBANK

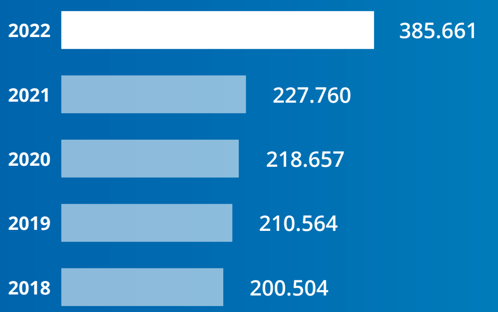
KEY FIGURES

69.33%

In 2022 İşbank AG's capital and reserves increased by 69.33% year-on-year.

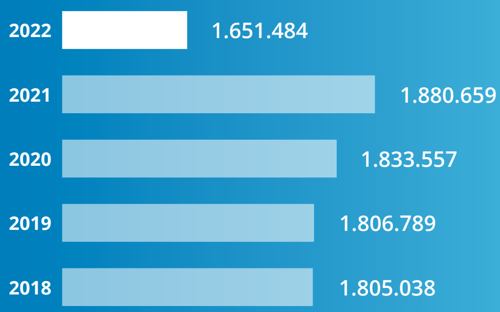
CAPITAL AND RESERVES

in EUR thousand



TOTAL ASSETS

in EUR thousand

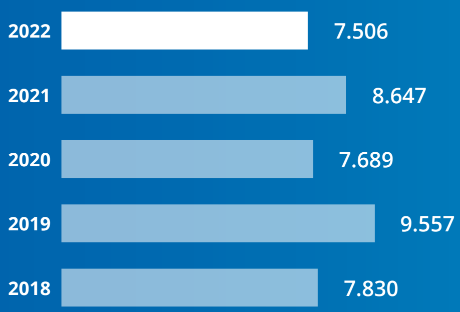


EUR 1.65 bn

Total assets of the bank amounted EUR 1.88 billion, down 12.19% year-on-year.

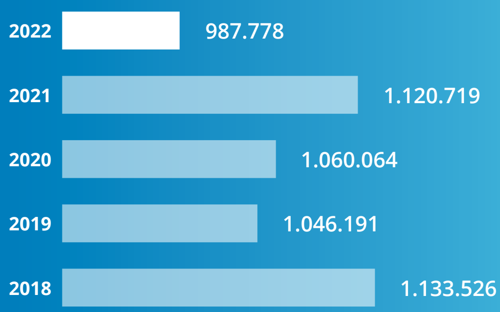
NET RETAINED PROFIT

in EUR thousand



DUE FROM CUSTOMERS

in EUR thousand

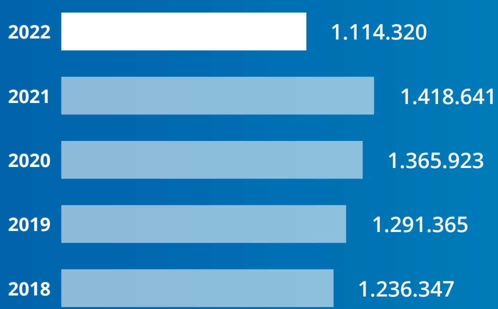


2.74%

Commission income grew by 2.74% In 2022 and reached EUR 6.93 million.

CUSTOMER DEPOSITS

in EUR thousand



	Dec. 31, 2022	Dec. 31, 2021	Change
	in EUR thousand	in EUR thousand	in %
Total assets	1,651,484	1,880,659	-12.19
Capital and reserves	385,661	227,760	69.33
Cash and Balances with Central Bank	13,288	329,441	-95.97
Bonds and securities	113,436	138,340	-18.00
Due from banks	512,226	262,413	95.20
Due from customers	987,778	1,120,719	-11.86
Due to banks	144,514	227,794	-36.56
Customer Deposits	1,114,320	1,418,641	-21.45
Participations	9,552		
Interest income	51,105	52,315	-2.31
Commission income	6,928	6,744	2.74
Net income for the year	7,901	9,102	-13.19
	%	%	
Equity ratio	16.26	13.85	
Return on Assets	0.48	0.48	
Return on Equity	2.97	4.19	

NET PROFIT

The bank achieved a net profit of EUR 7.9 million as a result of its successful activities in 2022.

AT A GLANCE İŞBANK

SUSTAINABLE

İşbank provides all kinds of banking services through a strategy of achieving sustainable and profitable growth based on being "the bank closest to customers"

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 2022.

As of 2022 year-end, İşbank's total assets reached TL 1,408 billion, total loans and total deposits amounted TL 759 billion and TL 931 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 1,110 branches and 6,169 ATMs as of the year-end 2022, 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 12.1 million by the end of the year, while the share of non-branch channels reached 96% of total transactions.

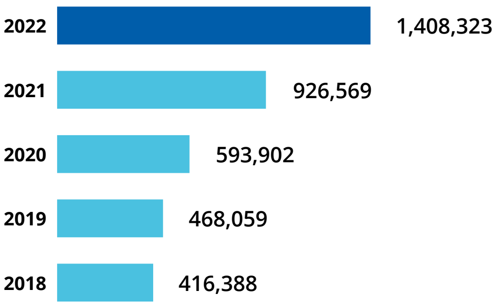
Besides İşbank AG, İşbank operates abroad through its 21 foreign branches (14 in Northern Cyprus, 2 in London, 1 in Bahrain, 2 in Iraq, 2 in Kosovo) and 2 representative offices in China and Egypt, as well as 2 wholly-owned subsidiaries in Russia (İşbank Russia) and Georgia (İşbank Georgia). As a highly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

Main Balance Sheet Items	Market Share (%)	Ranking [2]
Total Assets	10.7	1st
Total Loans	10.7	1st
TL Loans	9.9	2nd
FX Loans	12.3	1st
Consumer Loans[3]	11.4	2nd
Non-Retail Loans	10.4	1st
Total Deposits	11.1	1st
TL Deposits	8.6	3rd
FX Deposits	14.0	1st
Demand Deposits[4]	15.2	1st

Other Products & Distribution Network	Market Share (%)	Ranking
Acquiring Volume[5]	15.6	3rd
Number of Credit Cards[5]	12.6	3rd
Issuing Volume[5]	14.2	3rd
Volume of Debit Cards[5]	10.0	3rd
Number of Branches	11.7	1st
Number of ATMs	11.9	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.

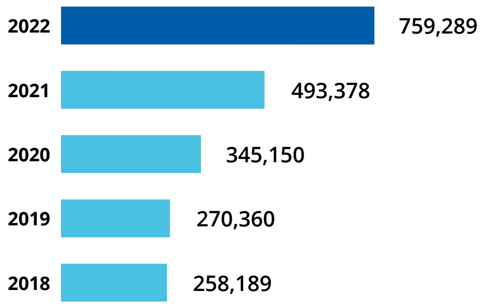
TOTAL ASSETS
in TL million



52.0%
2021-2022 Change

As of the end of 2022, İşbank's total assets grew by 52.0% to TL 1,408 billion.

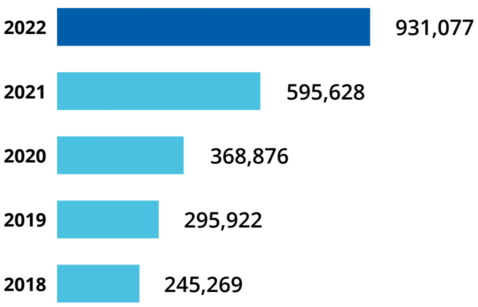
LOANS
in TL million



53.9%
2021-2022 Change

Loans, which grew by 53.9%, reached TL 759 billion.

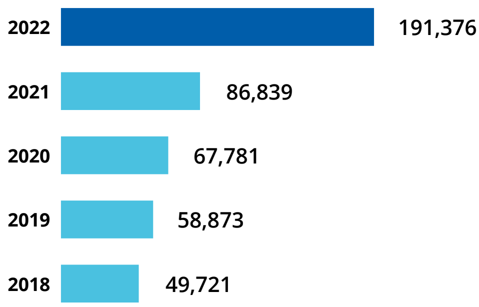
DEPOSITS
in TL million



56.3%
2021-2022 Change

The growth rate of deposits, which reached 931 billion TL, is 56.3%.

SHAREHOLDERS' EQUITY
in TL million



120.4%
2021-2022 Change

The strength of the equity base, which rose by 120.4%, was reinforced.

“the bank closest to customers”

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 2022.

MESSAGE FROM THE CHAIRPERSON OF SUPERVISORY BOARD

AT THE FOREFRONT

Our banking group has always been at the forefront of building the future of banking, and our history serves as a guide for our current efforts.

We started the year 2023 with great sorrow due to the earthquakes that shook Türkiye deeply. We are experiencing the deep pain of losing tens of thousands of citizens in the disasters that affected a very large area and occurred one after another. We are also struck by the sorrow of losing our colleagues and pensioners in this disaster. For our greatest wish being to quickly heal our wounds both as a country and organization, we, as the İşbank Group, mobilized our means and announced a strong aid package covering everyone affected by the disasters. On this occasion, I would like to take this opportunity to share once again my condolences to all who lost their relatives and to our country.

In 2022, the risks and uncertainties caused by the Russia-Ukraine war on the world economy, especially on European countries, were at the top of the agenda. While the disruptions in supply chains for basic needs such as energy and food due to the war increased global inflationary pressures, major central banks took steps to tighten their monetary policies faster than expected to combat inflation. This led to a loss of momentum in economic activity in the last months of the year, leading to concerns of a global recession. In addition, as the global risk appetite decreased in 2022, portfolio investments in emerging economies followed a fluctuating course throughout the year.

Despite the global economic turmoil and the challenging economic conjuncture, İşbank AG completed 2022 as a year in which we achieved successful results and reached our targets. The most important component of our stable financial performance is our long-term perspective in which we consider both financial and non-financial capital elements together. As we prepare to celebrate our 100th anniversary of İşbank Group in 2024, we work with the responsibility of being a reliable companion for all our stakeholders.

We are an organization that has integrated sustainability into all its processes, turned it into a corporate culture and performs at international standards in this field. We carry out our activities with an integrated sustainability approach at every stage, from product development to recruitment and promotion, from audit activities to social responsibility activities and procurement processes. We evaluate the social, environmental, and economic impacts of all our projects together and make complete cost and benefit calculations.

A very important component of our approach to sustainable banking practices is digitalization. We believe that digitalization is not only a way to improve customer experience but also a key driver of sustainable growth. By leveraging digital technologies, we can reduce our environmental impact and create inclusive, sustainable, and shareable social and economic value. We are committed to making sustainability a core component of our business strategy, and we are proud to be leading the way in this area.

As we move forward, we will continue to prioritize digitalization and innovation as we seek to build the bank of tomorrow, that is resilient, sustainable, and customer-centric. We are confident that our investments in digital technologies and our commitment to creating value for our customers will enable us to achieve sustained growth and profitability over the long term.

Our banking group has always been at the forefront of building the future of banking, and our history serves as a guide for our current efforts. As we continue to work towards this collective goal, we are growing increasingly confident in our abilities. In a period when the global economy is becoming more fragile and complex, income inequality is increasing day by day, and the negative effects of climate change and loss of biodiversity are being felt more and more, İşbank AG will continue to be a reliable companion for its customers, business partners and all stakeholders. Our Bank will continue to work together with all stakeholders by combining the strength it derives from its deep-rooted history and principles with up-to-date technologies.

On behalf of the Supervisory Board of İşbank AG, I would like to express my sincere gratitude to everyone who has contributed to another successful year. Despite the challenges we faced, our great effort and resilience have led to positive results. By building upon the trust of our customers and business partners, we look forward to shaping our future together.

I would like to inform our business partners that our accounts, annual financial statements for the financial year of 1 January to 31 December 2022 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 adopted financial statements as of 31 December 2022 as well as the management report.

Finally, I would like to express my sincere gratitude, on behalf of the İşbank AG family, to our customers, business partners, and stakeholders for their ongoing cooperation and trust.

Hakan Aran
Chairperson of the Supervisory Board

A RELIABLE COMPANION

İşbank AG will continue to be a reliable companion for its customers, business partners and all stakeholders.

REPORT OF THE SUPERVISORY BOARD

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 2022 the Supervisory Board held three meetings via video conference, which took place on March 17, 2022, on June 13, 2022 and on September 15, 2022. Another meeting of the Supervisory Board took place on December 23, 2022 in Istanbul.

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

- Audit committee
- Credit committee
- Risk committee
- Corporate Governance and Remunerations control committee
- Credit limit revision committee

In the year under review, the risk committee convened twice, while the audit committee, the Corporate Governance and remunerations control committee as well as the credit limit revision each met once.

In addition, an extraordinary meeting of the Supervisory Board took place on 6 April 2022 for the adoption of the annual financial statements, the subject of which focused on the presentation of the annual financial statements and the results of the annual audit by Ernst & Young GmbH.

Annual of the Financial Statements

Auditors Ernst & Young GmbH, Eschborn, who were appointed as auditors by the Annual General Meeting 2022, 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 2022 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 May 10, 2023 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 May 10, 2023, 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 March 1, 2023 Franz Hakan Elman is resigned as Member of Management Board.

Effective April 1, 2023 Emir Serdar Gülpınar is assigned as Member of Management Board.

Changes in the Supervisory Board

With effect from 30 April 2022, Gamze Yalçın was replaced as Chairperson of the Supervisory Board by Hakan Aran and Sabri Gökmenler was replaced as Deputy Chairperson of the Supervisory Board by Hasan Cahit Çınar.

Effective January 2022 and April 2022 the following members of the Supervisory Board were succeeded by new members.

Resigned members:

- Gamze Yalçın (until April 29, 2022 - Chairperson of the Supervisory Board, Member of the Management Board at Türkiye İş Bankası A.Ş.)
- Mustafa Tankut Tabak (until January 20, 2022 – Member of the Supervisory Board, Head of Human Resources at Türkiye İş Bankası A.Ş.)
- Zeynep Hansu Uçar (until January 20, 2022 - Member of the Supervisory Board, Head of Investment Management at Türkiye İş Bankası A.Ş.)
- Ozan Uyar (until April 29, 2022 - Member of the Supervisory Board, Head of Project Finance at Türkiye İş Bankası A.Ş.)
- Tolga Achim Müller (until April 29, 2022 - Member of the Supervisory Board, Head of Corporate Banking and Sales at Türkiye İş Bankası A.Ş.)

Newly appointed members:

- Hakan Aran (as of April 30, 2022 - Chairperson of the Supervisory Board, Chairperson of the Management Board at Türkiye İş Bankası A.Ş.)
- Hasan Cahit Çınar (as of January 21, 2022 – Member of the Supervisory Board, deputy Chairperson of the Supervisory Board from April 30, 2022, Member of the Management Board at Türkiye İş Bankası A.Ş.)
- Banu Altan (as of January 21, 2022 - Member of the Supervisory Board, Head of Corporate Loans Underwriting Division at Türkiye İş Bankası A.Ş.)
- Hakan Kartal (as of April 30, 2022 - Member of the Supervisory Board, Head of Treasury at Türkiye İş Bankası A.Ş.)
- Emre Ölçer (as of April 30, 2022 - Member of the Supervisory Board, Head of Digital Banking at 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 2022.

Hakan Aran
Chairperson of the Supervisory Board

MANAGEMENT

Emir Serdar Gülpınar
Member of the
Management Board

Ayşe Doğan
Member of the
Management Board

Ünal Tolga Esgin
Chairperson of the
Management Board

İşbank AG is a German bank with its head office in Frankfurt and 8 branches in Germany as well as another in the Netherlands.

MESSAGE FROM THE CHAIRPERSON OF THE MANAGEMENT BOARD

ASSET QUALITY

We adhered to our primary goal to increase our asset quality and preserve our business volume.

Unfortunately, 2023 started with a heavy heart because of the earthquakes that severely trembled Türkiye. Tens of thousands of our compatriots have died in calamities that affected a huge area and happened one after another, and we are currently suffering greatly from this loss.

As İşbank Group, we mobilized our resources and issued a robust help package covering everyone affected by the disasters during this time when our top priority is to fast heal our wounds.

I would like to use this opportunity to express my best wishes for our nation's recovery and my condolences to everyone who lost a loved one.

When we look back to 2022, we are very pleased to announce that İşbank AG, as a reputable and credible German Bank operating within the framework of European Banking System, thanks to our deeply rooted and long-established values inherited from Türkiye İş Bankası Group, went successfully through 2022 which has been a year of the sharp global economic downturn. After 2021 which went by under the shadow of the ongoing effects of the COVID-19 pandemic, 2022 has been a year marked by high inflation, war in Ukraine, macroeconomic imbalances, and shortages of energy respectively food.

Despite the challenges of ongoing pandemic and global economic uncertainty in 2022, we demonstrated resilience and adaptability, achieving solid financial results and making significant progress on our strategic priorities. We adhered to our primary goal to increase our asset quality and preserve our business volume. In turn we reached our targets by ending the year with a pre-tax profit of EUR 11.6 million.

By focusing on our conventional prudent approach, we have kept our solid fundamental performance through 2022 as well. We continued to concentrate on our core banking activities, maintaining a healthy balance sheet and a strong capital position. Thanks to our robust risk management practices we are keeping our business with a high credit quality. All capital adequacy metrics remained at satisfying levels.

Another notable advance in the reporting year was the equity injection of EUR 150 million by our shareholder. Through direct increase in our paid in capital our shareholder's equity has now reached EUR 335 million. This action will provide

İşbank AG further opportunities for growth with a stronger capital structure. Beyond any doubt, this is also a testament of trust by our shareholder to our business model and its potential outcomes.

One of our key achievements in 2022 was the successful implementation of our digitalization strategy, which allows us to offer innovative and user-friendly banking services to our clients, regardless of their location. In the face of the year's challenges, we have continued to prioritize our digitalization strategy, recognizing the importance of technology and innovation in the finance sector. To keep up with the industry trends, İşbank AG has been adhering to its systematic digitalization macro plan since the last 2 years.

In this respect we continued with our internal reorganization efforts in Bank's headquarters to provide better digital services to our customers.

In 2020, we launched the ParaGönder app in partnership with MaxiDigital, which has proved to be a great success. MaxiDigital was restructured as a subsidiary in 2022, emphasizing our prioritization of our digitalization strategy by gaining more control over our partner in our mobile channel development efforts.

While we kept up with our efforts for digitalization of our services and channels, we have also put in time and effort for stabilization and improvement of the robotic process automation of our online banking services and back-office processes. In summary, the focus and improvements on digitalization resulted in a cost-income ratio of 57% which represents another record level in decreasing it continuously in the last 10 years from a 95% level.

2022 was a challenging year for the banking community, which faces many uncertainties going forward through 2023 with legacy risk factors of global inflation, supply chain bottlenecks, and geopolitical risks. Though, potentially positive developments seem to be also in the way to include a decrease in inflation and a rise in consumer confidence. But there are also challenging trade-offs for policymakers, and thus characteristic to 2023 regional economic outlooks seem to vary.

Overall, our course is well-defined. İşbank AG will continue to pursue its goals of serving as a trade finance specialist bank and a link between Türkiye and Europe. In 2023, we won't stray from this course. We shall continue to work assiduously, methodically, and devotedly while upholding the core principles of our Group.

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, Türkiye İş Bankası A.Ş., our Supervisory Board as well as our customers and business partners for their support and the trust they have bestowed in us

Ü Tolga Esgin

Ünal Tolga Esgin
Chairperson of the Management Board

CAPITAL INCREASE

Through direct increase in our paid in capital our shareholder's equity has now reached EUR 335 million.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2022

TRADE FINANCE

Trade business with Turkey represents a special niche; the bank will continue to perform this niche function in the future.

a) Fundamentals of İşbank AG

Basic information

İşbank AG is a German bank that has its head office in Frankfurt am Main and maintains eight branches in Germany as well as another one in the Netherlands, all of which are subordinate in importance. Since its foundation in 1992, the bank has worked to provide lasting support to trade and business relationships between Europe and Turkey. İşbank AG operates on one hand as a universal bank, offering 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 specialized 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.

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. The growth it has realized in the past is largely based on adequate growth in the credit business in association with the corporate banking segment. This core business is accompanied by gradual adjustments in the areas of payment transactions, trade finance and digital product expansions in the private and corporate client segment.

Countries and segments as well as market sectors

İşbank AG's business area mainly consists of 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. Here, the corporate client segment is made up of local small and medium-sized enterprises with little foreign trade. 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 Sales & Business Development department is responsible for sales activities. Its area of responsibility includes the corporate client segment on the one hand, which covers companies with a trade finance context and groups from the corporate segment that are based in Turkey or Europe. In addition, the department is responsible for sales activities of the local branches and for implementing and further developing bank products.

The Financial Institutions department is responsible for establishing and maintaining bank relationships. 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.

The sales and/or development of digitized products are largely enforced by the subsidiary Maxi Digital GmbH, in close cooperation with the central administration of İşbank AG.

Organizational structure

The front office reporting segment still reports to the Chairperson of the Management Board Mr. Ünal Tolga Esgin and the back office to Member of the Management Board Mr. Franz Hakan Elman. The areas of money laundering, compliance, law, data protection, corporate governance and human resources are assigned to Ms. Ayşe Dogan, who is also a Member of the Management Board.

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

Global economic development in the 2022 financial year was largely shaped by the Russian war of aggression in Ukraine and the after-effects of the coronavirus pandemic, whose impact created major economic challenges particularly for Germany and Europe.

Global economic activity initially increased strongly in the 2022 financial year due to growing vaccination rates and the lifting of mitigation measures as well as the recovery in consumer spending. Along with rising raw material prices, that led to increased inflation; on the one hand, fiscal-policy-based stimulus packages spurred demand, but on the other, the demand was often slow to be met or could not be met at all due to limited materials, a lack of skilled labor and supply bottlenecks. Overall, the recovery of the global economy led to a 6.2% increase in economic growth compared to the previous year, but the start of the war in Ukraine put an abrupt end to global post-pandemic economic growth. Accordingly, the economic growth rate for the 2022 financial year is expected to be only 3.4%. At the start of 2022, global industry was able to work through some of the order backlog from the coronavirus pandemic, growing by 1.5% in the first quarter of 2022 in comparison to the previous quarter; but with the start of the war and renewed supply-chain disruptions, expectations were also dampened in this area. For global trade, according to reports from the IMF, there was a parallel decline from 10.1% (2021) to 5.6% (2022) due to trade route disruptions and industry slowdowns. This still represents stronger growth than in 2019/2020, but it is significantly lower than the historical average.

3.4% GLOBAL GROWTH

The global economic growth rate for the 2022 financial year is expected to be 3.4%.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2022

RELIEF PROGRAMS

The Federal Government's broad relief programs also helped stabilize the economy.

Because of new COVID-19 variants and new outbreaks of the virus, China pursued a strict zero-COVID policy. The associated stringent mitigation measures are impacting international supply chains worldwide. Overall, the Chinese economy grew by 8.1% in 2021 compared to the previous year, but this increase can largely be explained by the low basis of comparison caused by the pandemic in the previous year. As a result of the intensifying crisis in the real estate market and its ongoing restrictive measures to contain the coronavirus, China saw its biggest economic slowdown in 2022 in more than 4 decades, with the exception of 2020, which in turn had an economic braking effect in other economic regions. International trade conflicts that emerged even before the pandemic, and the trend toward greater global protectionism, remain in effect. The German Council of Economic Experts (Sachverständigenrat) projects economic growth of 3.5% for 2022.

With the recovery of economic performance since its collapse at the start of the coronavirus pandemic, and economic growth of 5.4% in 2021, economic performance in 2022 as a whole in the Eurozone increased by only 3.2% compared to the previous year, according to preliminary estimates.

The economic slowdown is largely due to the direct and indirect effects of the Russian war of aggression in Ukraine. The reduced Russian energy supplies and the resulting uncertainty led to significant price increases despite supply-chain improvements. The EU Commission sees an 8.5% total inflation rate for the 2022 financial year.

Despite the embargo on Russian energy supplies, initial medium-term prospects at the start of 2023 indicated a shift away from the recession expectations for the European region. While a recession was still being predicted in the fall of 2022 for 2023, the EU Commission is now projecting growth of 0.9%. Diversification and savings measures for the energy supply, along with a robust labor market with an unemployment rate of 6.6% (previous year: 7.5%), contributed to this. However, since inflation pressure persists, fiscal-policy measures that inhibit investment are expected to remain in effect. As at the beginning of the coronavirus pandemic, only rough economic scenarios can now be created due to the war and the uncertainties surrounding energy prices. Given this background, the EU Commission's projected growth for 2024 is 1.5%.

Germany

Despite the energy crisis caused by the Russian war of aggression against Ukraine and the ongoing supply chain problems, the German economy saw unexpectedly robust growth in the 2022 financial year. While economic growth of 1.4% had been predicted in the fall of 2022, the Federal Statistical Office is now projecting growth of 1.9%. Thus economic development in 2022 proved to be encouragingly resilient in the face of the energy crisis and supply chain problems. Nonetheless, this growth will be significantly lower than the rate for 2021 (2.6%). In particular, economic growth in 2022 was supported by private consumption, which increased strongly at 4.6% and once again corresponds to the pre-pandemic level. Other reasons for avoiding a recession are the catch-up effects after the coronavirus pandemic and the easing of supply bottlenecks.

The Federal Government's broad relief programs also helped stabilize the economy. Companies and private households were supported by three relief packages totaling 95 billion euros.

The average annual inflation rate increased by 7.9% compared to the previous year. The increase in prices was thus significantly higher than the 2021 value (3.1%). While inflation has shown a slowing trend since the third quarter of 2022, which should continue due to the state measures to keep electricity and gas prices down, the abovementioned relief packages, higher material costs and a robust job market with the associated wage increases are expected to produce an inflation rate of over 5% in 2023 as well.

Corporate insolvency declarations are once again increasing from their low level, and in the fourth quarter of 2022 grew by 17.9% compared to the previous year. Early indicators suggest a slight increase, but a large wave of insolvencies is not expected.

Despite a challenging global economic environment, German exports increased by 14.3% compared to the previous year (2021: +8.6%). The foreign trade balance finished 2022 with a net profit of 79.7 billion euros, which corresponds to the lowest balance since 2000. The main reason for this was the strong increase in imports, by 24.3% compared to the previous year, and the strong rise in prices for energy imports. 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 2021 was still 20%, the consumer price index increased to an average of 73% in the 2022 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 2022, the Central Bank of Turkey lowered the interest rate to 9%. The primary aim of this monetary policy adjustment was to further drive the growth of the Turkish economy. Because of the devastating earthquake in southeastern Turkey, the interest rate was lowered by another 50 basis points in February 2023, to 8.5%.

In December 2022, consumer prices increased by 64% compared to the same period of the previous year, while in October 2022 the increase was 85.5%. As of February 2023, the inflation figures continued to decline, at just under 55.2%. This is mainly due to the declining energy prices and the calming of the international raw materials markets since August 2022.

At the start of 2022, the Turkish economy continued to recover from the coronavirus pandemic, growing by 7.5% and 7.7% in the first and second quarters respectively. This growth was largely driven by private consumption and exports. In addition, the pandemic caused many European companies to discover Turkey for their supply chains or as a new procurement market due to its well-developed industrial base and geographic proximity to the European Union. Moreover, the increased export volume helped economic recovery in important buyer markets like the European Union. At the same time, the weak Turkish exchange rate in 2022 improved the competitive position of Turkish exporters. After solid growth in

HIGH INFLATION

In December 2022, consumer prices increased by 64% compared to the same period of the previous year.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2022

SOLID

The German banking system has proven itself to be solid and crisis-resistant.

the first half of the year, the economy lost momentum in the third quarter, growing only by 3.9%. That produces economic growth of 6.2% for the first nine months of the year. Economic growth continued to be supported by high levels of private consumption (third-quarter growth compared to previous year: 13.1%), but the consequences of the Russian invasion of Ukraine and the associated slowdown of global trade led to weakened growth. On the one hand, exports slowed during the third quarter, but at the same time, energy imports became more expensive. Turkey's economic performance grew by only 3.5% in the final quarter; its economic growth was 5.6% for 2022 as a whole.

Total exports in 2022 reached 254 billion USD, while imports totaled 364 billion USD. The foreign trade balance thus closed out the year with a deficit of 110 billion USD, where it had been only 46 billion USD in 2021. With a share of 8%, Germany is the most important export market from a Turkish perspective. Germany remains one of the largest investors in Turkey. Investment inflows for the last few years largely relate to maintaining and/or expanding existing engagement. As of the end of 2021, there were about 7,800 German companies in Turkey. Compared to other emerging markets, public finances are robust and offer potential for further incentives. For 2022, there was a deficit amounting to 3.4% of the gross domestic product.

Banking sector in Germany

Due to the current supply bottlenecks, the energy shortage, inflation, the war in Ukraine and the flagging Chinese economy, the finance sector finds itself in a challenging environment. Nonetheless, the German banking system has proven itself to be solid and crisis-resistant, in part because of the reforms of the past few years, the implementation of regulatory requirements, and the safety buffers that have been created.

The ongoing supply chain problems and increased energy and raw-material prices are making production processes much more expensive, which places particular stress on the business sector. The interest-rate rise also increased refinancing costs for companies. Nonetheless, the number of new loans issued by banks grew in 2022, which helped support the companies. New lending increased by 9% in the fourth quarter of 2022 compared to the prior-year quarter. Thanks to stability packages from the Federal Government, there was only a marginal increase in insolvencies, which are below the pre-crisis level. However, there is a risk that the continuing crises and/or a worsened macroeconomic environment could cause a delayed wave of insolvencies.

As a result of the rapid interest-rate hike, defaults in real estate loans could also increase. However, the banks' losses can be limited by hedging, even in the event of a sharp price decline. Still, in order to counteract quickly growing risks in the new lending business, lending standards for real estate financing were tightened. In addition, lending guidelines became more restrictive in order to prevent value adjustments in commercial real estate financing.

Since 2021, the core capital ratios for German financial institutes declined slightly. The drop in the core capital ratio was caused by credit growth, not by an increase in risk weighting. For system-relevant banks, the core capital ratio was 17.1%.

As a result of the interest-rate hike, the return on equity for German banks was 5.3% in 2022, representing an increase compared to 2021 (5.0%). In an international comparison the German banking sector thus has a much lower rate than the global return on equity of 12.5%, but some of this gap can be explained by the additional formation of reserves. The banks' liquidity is also robust. The average liquidity coverage ratio was 157%, which represents a very satisfactory level.

Nonetheless, the interest increase during the business year comes with its own risks due to potential value reductions for securities. This loss is of a temporary, accounting-related nature that is not caused by increased creditworthiness risks. However, it could put profitability pressure on small banks with significant securities portfolios. So it can be assumed that exchange rate losses for securities caused by the interest increase could have negative effects on capitalization unless these are secured through risk management measures or unless surplus capital is available as a buffer. The interest increase would also have a negative effect if interest on deposits increases faster than the credit return, or if customers withdraw their deposits because better conditions are available elsewhere.

The 2021 banking package from the European Commission also guarantees 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. The BaFin announced an additional package of measures in January 2022 to further strengthen the resilience of the German banking system and to preventatively improve its resistance. In this context, the anti-cyclical capital buffer will be increased as of February 2023, to 0.75% of the domestic risk items. Moreover, a sectoral systemic risk buffer of 2% will be introduced for credits hedged with residential real estate within Germany. These measures to increase capital requirements will gradually build up capital buffers for phases of stress so that losses can be absorbed during these phases.

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.

However, advancing digitization also bears the risk of cyber-attacks, which can cause financial losses for banks along with significant reputational damage.

9% INCREASE

New lending increased by 9% in the fourth quarter of 2022 compared to the prior-year quarter.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2022

STRONG EQUITY RATIO

Turkish banks were able to increase their equity ratio due to rising interest margins, from 18.4% (2021) to 19.5% (2022).

Increased outsourcing of processes and services to third-party providers makes financial institutes even more vulnerable, and service providers must be managed and controlled accordingly. To date, there have not been any noteworthy or system-critical attacks, in part because participants in the German banking system are constantly further developing and updating their safety measures.

Because of their global interdependencies, diverse product offerings and high business volume, banks also have a high risk of being misused for money-laundering transactions.

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

As in other emerging markets, the Turkish currency faced particular pressure from the increase in US interest, which caused the Turkish currency to lose value compared to the US dollar. Within one year, the Turkish lira lost 68% of its value compared to the US dollar, and the USD/TRY exchange rate rose from 11.1 to 18.7. Consequently, the risk of outflow from foreign exchange positions at Turkish banks also increased. The share of deposits in foreign currency declined from 51% in 2021 to 35% in 2022. Refinancing of Turkish banks using syndicated loans with international financial institutes, despite the downgraded Fitch country rating, only shrank from 15.4 billion to 13.0 billion USD in 2022. Credits in foreign currency saw a similar development; their share of the overall credit volume decreased from 42% to 33%. To improve flexibility in light of the risk of exchange-rate fluctuations, banks shifted their focus to short-term credits in Turkish currency. These increased from 79 billion USD to 146 billion USD.

Despite the enormous exchange-rate and interest-rate fluctuations and in the face of existing geopolitical uncertainties, Turkish banks were able to increase their equity ratio due to rising interest margins, from 18.4% (2021) to 19.5% (2022), for the highest value in ten years. This further emphasizes the resilience of the Turkish financial sector in the face of ongoing crises at home and abroad. In this context, the statutory minimum equity ratio of 8% was significantly exceeded. Despite the existing macro-economic uncertainties, the banks' NPL rate also declined, evening out at 2.1%. The increase in the equity base was shored up by an increase in profitability. Against this background, the equity capital ratio for Turkish banks rose to 49.9%.

These positive developments are due to the fact that the Turkish banking sector developed into 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 119 to 128.

In Turkey, during the 2022 financial year, a total of 54 banks with 10,958 branches had a balance sheet total of $768 billion (2021: $698 billion). Profit for the sector amounted to $23.1 billion (2021: $7.1 billion).

Business performance

Like 2021, the financial year 2022 was a significant year for the bank.

The business activities of İşbank AG were strongly influenced by the direct and indirect consequences of the Russian war of aggression in Ukraine and its effects on the global economy. While credit commitments for companies with their primary target markets in Russia and Ukraine were avoided, indirect consequences due to supply chain disruptions, rising material and energy costs in Europe, and exchange-rate fluctuations in Turkey led to a moderate decline in receivables from customers, and thus also in customer deposits. In this context, receivables from customers shrank by 12% during the financial year, and customer deposits by 21%.

Despite the challenges of monitoring the pandemic and the global economic uncertainties, the 2022 financial year was shaped by satisfactory development in every business area. In addition, significant progress was made in terms of strategy implementation.

While efforts to digitize customer services and distribution channels were further advanced, the bank continued to invest in its robot process automation. Overall, improvements in the area of digitization led to a cost-income ratio of 57%.

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, the war in Ukraine and the sanctions against Russia. For instance, credit engagement in certain countries and 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. During and after the pandemic years, there were no liquidity shortfalls or significant credit defaults. At the same time, sanction lists published with regard to the Ukraine war were integrated into the business strategy.

57% CIR

Improvements in the area of digitization led to a cost-income ratio of 57%.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2022

ParaGönder

The ParaGönder app offers the convenience of sending electronic transfers from any German banking institute to any bank in Turkey.

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 2022, with similarly satisfactory profits as in 2021. The 2022 financial year concluded with annual pre-tax net profit of 12.5 million euros.

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—the share of non-performing loans in the overall credit volume—from 2.4% in 2017 to 1.9% in 2021. Due to the ongoing crises and the associated moderate reduction in credit commitments, the NPL rate increased slightly to 2.1% in 2022. 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.

As part of the digitization process, İşbank AG entered into a strategic partnership with Maxi Digital GmbH in 2020 to develop and market the ParaGönder app. The ParaGönder app, which has been available to customers through the App Store since April 2020, reached about 60,000 registered users within a short period of 2.5 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 2022 financial year, Maxi Digital GmbH was taken over by İşbank AG, which is now the company's sole shareholder. The same year, the range was expanded to include additional product features. For instance, checking accounts can now also be opened using the app.

İşbank AG has offered physical POS devices for commercial companies in Germany for several years already. In 2022, the product portfolio was expanded to include the virtual POS business. In this context, İşbank AG, acting as the acquiring bank, offers its business customers the virtual POS business so they can realize cashless payment transactions with credit cards.

In the corporate segment, the focus in the 2022 financial year remained on establishing a sustainable and diversified customer portfolio. 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 2021—not to draw up a new syndicated loan in 2022. The main reason for this was an adequate liquidity buffer based on a broadly diversified deposit portfolio.

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. In addition, a high-level gap analysis was created in 2022 to ensure systematic integration of ESG aspects into the corporate strategy and ongoing consideration of these issues within our business activities.

The growing importance of ESG principles makes it essential for consumers, companies and society to proactively address the ESG challenge. 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

Asset 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 2022 therefore ended with a balance sheet total over EUR 1.65 billion.

In the reporting year, the receivables from banks displayed an increase of 95.2% and amounted to EUR 512 million. The receivables from customers fell by 11.9%, to EUR 988 million. The balances with central banks decreased on the previous year from EUR 327 million to EUR 11 million, or 96.7%.

Bonds and other fixed-interest securities amounted to EUR 113 million at the end of the reporting year. In the previous year, the total of the securities portfolio amounted to EUR 138 million.

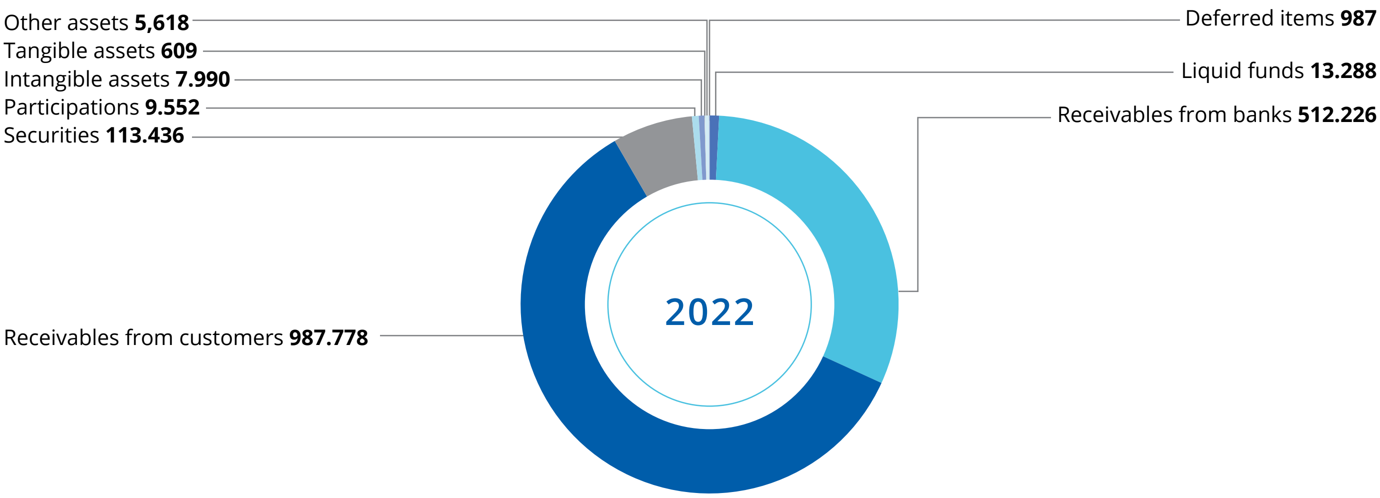
İşbank AG acquired Maxi Digital GmbH on June 30, 2022. Accordingly, shares in affiliated companies amounted to EUR 9.6 million at the end of the year.

EUR 1.65 bn

The financial year 2022 ended with a balance sheet total over EUR 1.65 billion.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2022

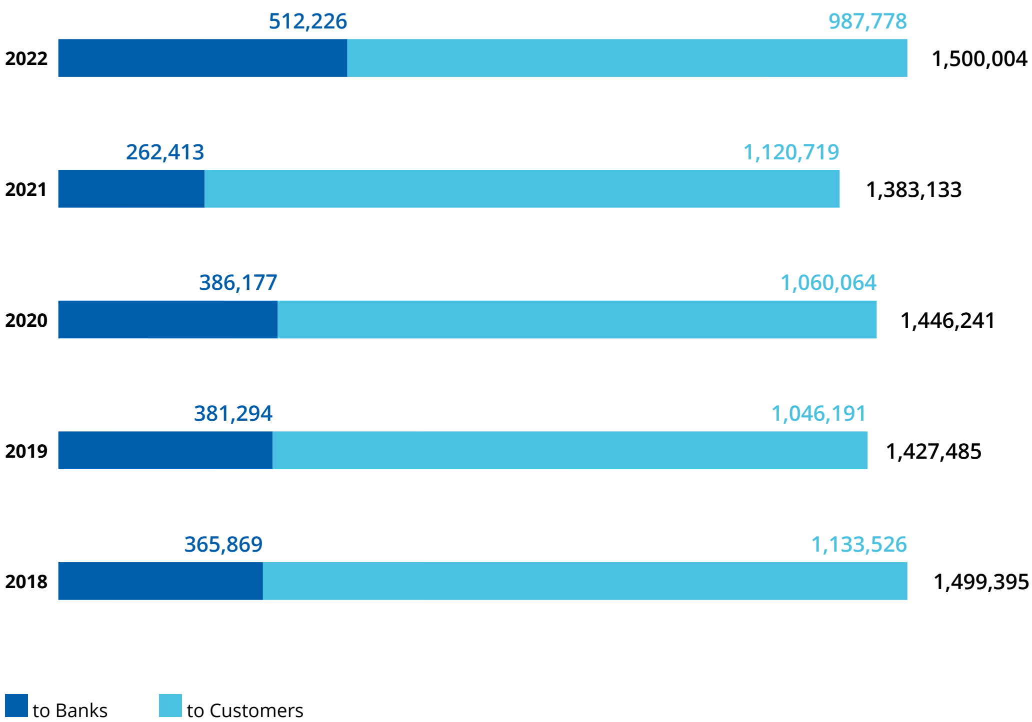
ASSETS, JANUARY 1, 2022 - DECEMBER 31, 2022
in EUR thousand



EUR 1,500 million

While loans increased to EUR 1.5 billion, the shares of banks and customers were 34% and 66%, respectively.

LOANS
In EUR thousand



On the liabilities side, there was a decrease of 36.6%, to EUR 145 million, in the liabilities to banks, and a value of EUR 1,114 million was shown under the customer deposits after a decline of 21.5%. As of the balance sheet date, customer deposits due on demand amounted to EUR 356 million (previous year: EUR 412 million), and there were EUR 727 million (previous year: EUR 975 million) in time-limited customer deposits, including their interest share. Liabilities in foreign currency amounted to EUR 260 million at the end of the year (previous year: EUR 263 million). Other liabilities compared to the previous year declined from EUR 2.6 million to EUR 2.5 million. Moreover, the deferrals amount to EUR 1.2 million (previous year: EUR 0.8 million) and accruals to EUR 3.5 million (previous year: EUR 3.1 million).

The most significant development in the 2022 financial year was the increase of EUR 150 million in subscribed capital, which significantly increased the equity capital from EUR 228 million to EUR 386 million. This robust capital increase demonstrates the trust that our shareholders have in İşbank AG and offers further growth opportunities for the bank in the medium to long term, both in the credit area and in expanding digitization processes. That represents a solid, independent capital base for future development in line with the bank's strategy.

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

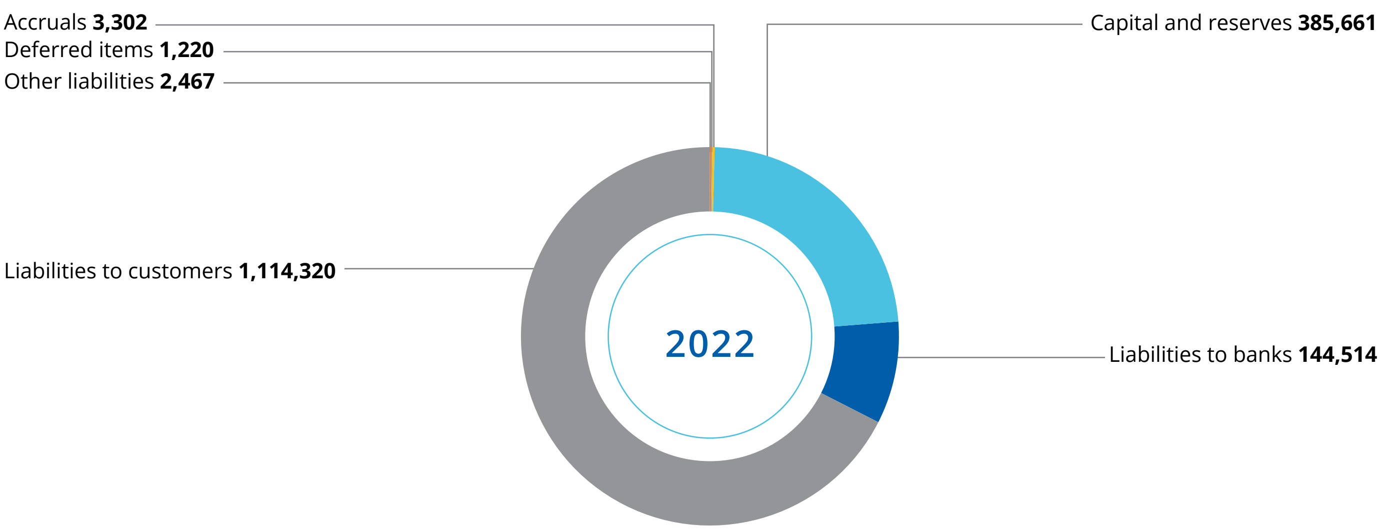
EUR 150 million

The most significant development in the 2022 financial year was the increase of EUR 150 million in subscribed capital,

KEUR	12/31/2022	12/31/2021
Liabilities from guarantees and indemnity agreements	16,203	61,186
Irrevocable loan commitments	0	0

LIABILITIES, JANUARY 1, 2022 - DECEMBER 31, 2022

in EUR thousand



MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2022

BANKS AND CORPORATE CUSTOMERS

The credit business of İşbank AG largely concentrated on banks and corporate customers.

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. In the current financial year, a general value adjustment of EUR 5.8 million was also created as a risk provision.

The loss-free valuation of interest-related transactions in the banking book (BFA3) utilized the periodic (P&L-oriented) method. Administrative expenses for the portfolio business, which were determined based on the P&L account for the completed financial year, as well as the anticipated remaining risk costs up through the final transaction maturity date based on expected payment defaults, were compared to cash results for the period from interest-related transactions. Pursuant to IDW RS BFA 3, no provisions needed to be created for threatened losses as of 12/31/2022.

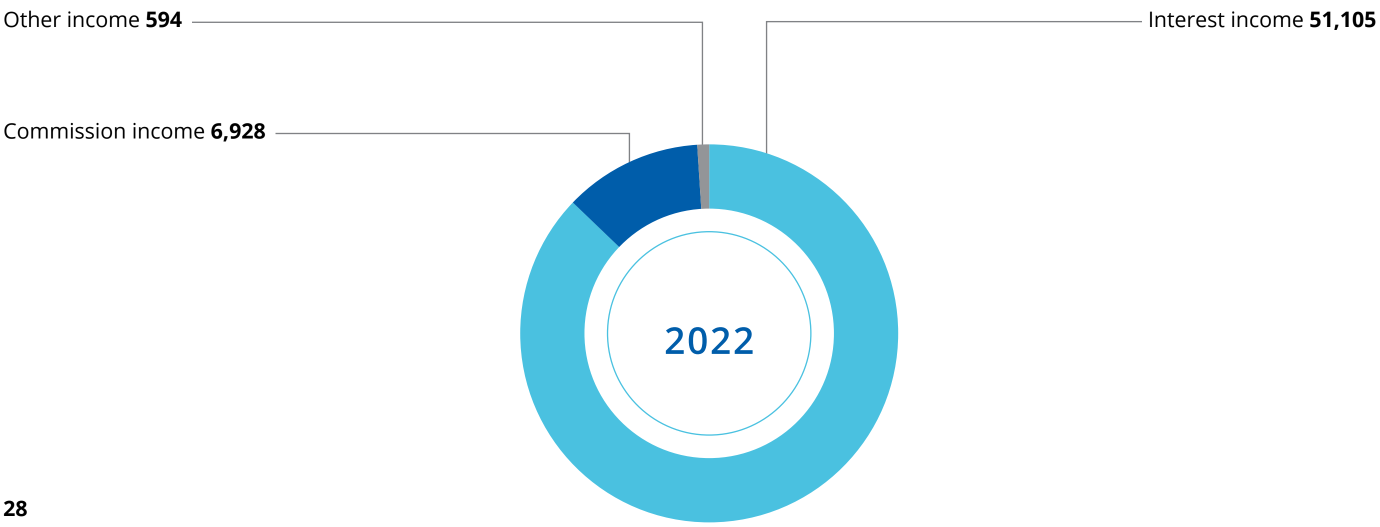
Against the backdrop of the war in Ukraine, a restrictive credit policy was pursued during the reporting year on the one hand; on the other, the LCR was kept well above minimum liquidity in order to generate an adequate liquidity buffer. Consequently, the interest result declined by 2.3%, from EUR 40.1 million to EUR 39.2 million. The interest income here also dropped by 2.3%, to EUR 51.1 million, and at the same time interest expenditure declined by 6.9%, to a total of EUR 12.1 million. The interest expenditure is largely the result of customer deposits, liabilities to banks, repo transactions and cross-currency swaps.

The income is structured by geographical region, as follows:

KEUR	Germany	Netherlands	Total
Interest income	45,216	5,889	51,105
Commission	6,345	583	6,928
Annual surplus	7,253	648	7,901

INCOME, JANUARY 1, 2022 - DECEMBER 31, 2022

in EUR thousand



The commission result increased on the previous year from EUR 6.2 million to EUR 6.5 million. The commission income from digital channels declined 14.1%, from EUR 0.5 million to EUR 0.4 million in the 2022 financial year.

The general administrative expenses held almost constant in comparison with the previous year and amounted to EUR 23.9 million at the end of the year. The personnel costs increased by 3.2% and other administrative expenses were reduced by 0.4%.

After consideration of accruals and taxes, the financial year 2022 ended with an annual net income amounting to EUR 7.9 million.

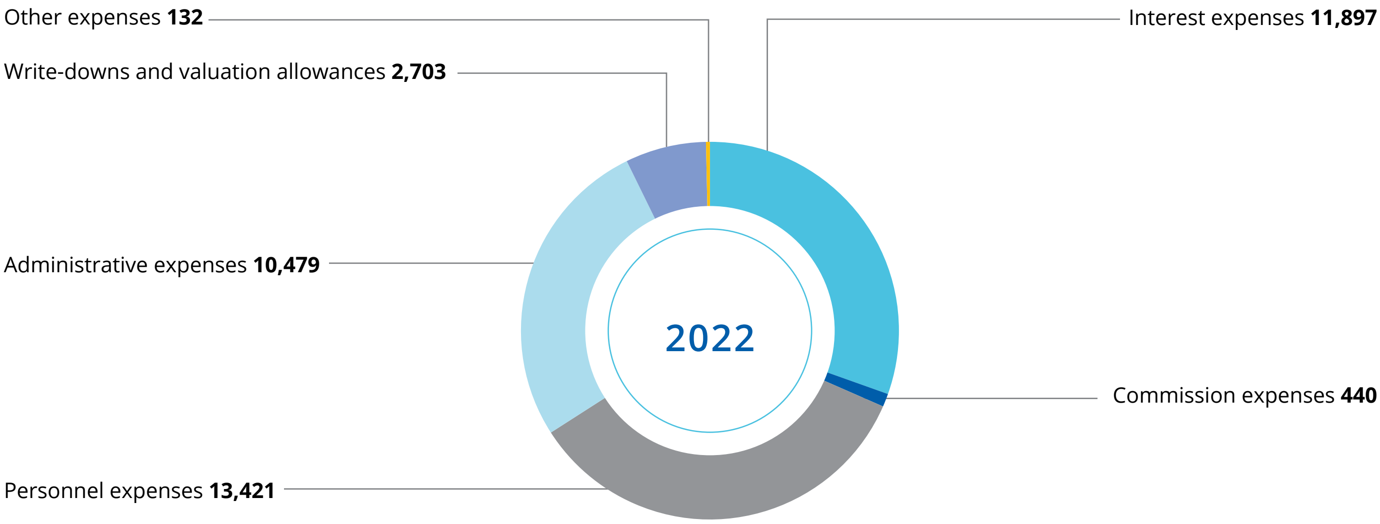
Overall, the target for the 2022 annual result was fulfilled with a satisfactory target achievement of 93.4%.

93.4%

The target for the 2022 annual result was fulfilled with a satisfactory target achievement of 93.4%.

EXPENSES, JANUARY 1, 2022 - DECEMBER 31, 2022

in EUR thousand



Liquidity situation

The solvency of İşbank AG was guaranteed at all times in the financial year 2022 on the basis of planned and balanced liquidity provision, and the liquidity coverage ratio required under the regulations was consistently observed. As of 12/31/2022, there were revocable loan commitments amounting to EUR 9 million from the unused loan facilities. There were no irrevocable loan commitments.

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

MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2022

Important financial indicators

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

Indicators	Planned for 2022	2022	2021	2020
Total capital ratio [1] on the balance sheet date	15.40%	16.26%	13.85%	13.23%
LCR [5]	130.00%	292.24%	217.39%	183.54%
After-tax profit as a % of average equity (ROAE) [3]	3.72%	2.97%	4.19%	3.91%
Cost-income ratio (CIR) [4]	61.50%	56.98%	57.45%	64.76%
Annual result in KEUR	8,461	7,901	9,102	8,094

[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.

Minor deviations from the planned values were found in the following indicators: cost-income ratio (CIR) and 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. This had a positive impact on the annual result, exceeding the planned value.

The total capital ratio also exceeded the planned value. This was mainly due to the reduction in overall credit volume.

Overall statement

Taking into account the regulatory requirements, volatile market conditions and global crises as well as the 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 2022 business plan with respect to achieving a healthy transaction volume. 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. The executed capital increase put the bank in a position to adequately absorb potential volatility in the target markets.

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 KEUR	Q4 2022			Q4 2021		
	Utilization	Limit	Usage rate	Utilization	Limit	Usage rate
Counterparty default risk	78,432	220,061	*35.6%*	55,190	96,680	*57.1%*
Expected loss	*14,602*			7,778		
Unexpected loss	*64,843*			48,936		
Country risk for Turkey	*20,066*			10,659		
Gen. credit risk provision	*-1,013*			-1,524		
Country risk provision for Turkey	*-20,066*			-14,305		
Market price risks	*610*	10,048	*6.1%*	*872*	*4,316*	20.2%
Interest rate change risk	603			867		
Currency risks	7			5		
Operational risks	3,399	10,048	33.8%	980	2,158	45.4%
Commercial risk	2,151	10,048	21.4%	2,220	4,316	51.4%
Reputational risk	215	1,005	21.4%	222	432	51.4%
Overall risk position	**84,808**	**251,211**	**33.8%**	**59,484**	**107,902**	**55.1%**
Aggregate risk cover	251,211			107,902		
Usage rate	**33.8%**			**55.1%**		

The aggregate risk cover rose significantly compared to the previous year. This was particularly due to the execution of the capital increase, with a volume of EUR 150 million, in September. The capital increase was necessary in order to continue to ensure risk-bearing capacity at all times in the context of a sharp increase in country risk for the core market of Turkey. In 2022, the bank's main rating agency Fitch downgraded Turkey's rating twice, from the original BB- to the current B (outlook negative). Although the rating was most recently confirmed as B in November, the negative outlook raises the risk of a further rating downgrade. In parallel to the development of Turkey's country rating, this also creates an increase in the default risk and/or credit risk of all customers for which the Turkish government has an economic influence. In this context, Turkey's country rating at the start of the year was still BB-. According to the internal logic, no customer located in Turkey could therefore have a default likelihood lower than 0.92%. In February, the Fitch rating agency lowered the country risk for Turkey to B+. Accordingly, the lower limit for the default likelihood of customers in Turkey slightly more than doubled, to 1.94%. After the second downgrade in July 2022 to the current rating of B, the country-specific risk once again grew to 3.96%.

The increased equity will ensure risk-bearing capacity even in the event of a further downgrade for Turkey. Moreover, credit commitments with customers from Turkey were strongly reduced, and the method for quantifying country risk was defined more clearly (for more details, see “credit risk” below). Taking into account all effects, the usage rate for the aggregate risk cover as of 12/31/2022 is only 33.8%.

According to § 94 par. 1 CRR and MaRisk, İşbank AG 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 AG 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.

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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, internal auditing forms the internal control system 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 AG. 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 AG is defined as the risk types that are actually relevant on the basis of the business activity and strategy.
- The significant risks for İşbank AG 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 1,715 million as of December 31, 2022.

	Types of receivables						
(KEUR)	Centralized states	Institutions	Companies	Bulk business	Participations	Other	Total
Total (without risk reduction techniques)	298,600	356,985	1,018,481	26,612	9,552	4,705	1,714,935
Loans	265,786	268,840	1,000,483	18,612	9,552	4,705	1,567,979
Items below the line (consents, guarantees)	152	3,212	17,998	7,999	-	-	29,362
Securities	32,661	80,774	-	-	-	-	113,435
Derivatives	-	4,159	-	-	-	-	4,159

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 as of December 31, 2022.

Rating classes	Risk content	Probability of default	Proportion (%)
1 to 8	Very low to average default risk	<1.2%	51.6%
9 to 12	Slightly elevated default risk	<6.25%	47.5%
13 to 15	High / very high default risk	<20%	0.8%

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Contrary to what was feared, no adverse developments have yet materialized as a result of the war in Ukraine. 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:

I. 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 the fourth quarter, the method introduced in 2019 to quantify the country risk for Turkey was revised. The bank defines country risk as the risk that solvent credit customers are unable to fulfill their obligations due to currency transfer restrictions. Instead of the approach described above, which produces inconsistent results and reduces each individual customer’s rating to at least the rating of its registered place of business (country cap), external data was used to assess an explicit model. It interprets the difference between the foreign and local currency rating as the country risk and explains the observed differences through the country ceiling rating. With this model, it is possible to determine a PD surcharge on the individual default probability for each customer in order to further consider the country risk. For instance, the new approach creates a surcharge of 1.51% on their individual default probability for all customers that are economically dependent on Turkey (B rating). The individual creditworthiness classification for each customer thus remains fully covered by the rating, and the country risk beyond that is accounted for in a consistent way. The default probabilities expanded to include country risk are then used to determine the C-VaR. The difference in the result compared to the traditional C-VaR without the country risk is the risk item "country risk," which is reduced by the amount of the existing balance sheet country risk provision at the end.

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 an item's value 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.

2022 was shaped by an extraordinarily sharp increase in the yield curve for all world currencies. Because the average residual term on the asset side of İşbank AG is approx. 14 months, the massive change in interest did not cause significant distortions in the banking book. Only the long-term holdings in the bond portfolio saw a reduction in value. However, the negative effects in the bond portfolio can be more than compensated by positive effects on the deposit side; to date, the bank has maintained its ability to generate deposits significantly below market level.

Management and monitoring of the market price risks

General

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: Standardized 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.

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b) Currency risk

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

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 fulfillment 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. Beginning in 2023, the bank will determine risk-bearing capacity according to the current guidelines of the German Central Bank.

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 12/31/2022 was 33.8%. 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.

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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 downgrading of the country rating for Turkey by one rating class
- 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's no longer being able to meet its payment obligations and on the other hand the refinancing risk as the risk of the bank's 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.

Management 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 the German Central Bank 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 the German Central Bank.

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. An analysis of historical refinancing conditions showed that refinancing costs, expressed as a surcharge on riskless interest, remain stable even in the case of extreme stress events like those that occurred in the past 3 years. Depositors' trust in the security of their deposits was identified as the reason for this. On the basis of these observations, the refinancing risk was classified as fundamentally relevant, but insignificant in terms of the amount.

Market liquidity risk

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

Concentration risks

In general, the concentration risk at İşbank AG can primarily materialize in the counterparty default risks. A concentration in the counterparty default risks occurs if the risk becomes concentrated through 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 with respect to 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 for Turkey. Within the risk-bearing capacity, this modification results in a significant rise in the credit risk position and is utilized to allocate 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 addition, the bank works closely with the loan department of the parent company when granting loans to Turkish companies and banks. 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

The global economy has begun to recover from the effects of the coronavirus pandemic, but this global economic recovery is currently being overshadowed by the effects of the war in Ukraine.

As in 2022, economic development in 2023 will likely depend on further developments in the energy supply, inflation and supply chain problems.

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Instead of a recession, which was still expected in the second half of 2022, the German government is somewhat more optimistic at the start of 2023 and anticipates economic growth of 0.2% for 2023. The reason for this expectation is a weakening of the inflation dynamic and easing of supply chain bottlenecks. The feared gas shortage did not occur, and the energy supply was maintained consistently. With regard to inflation, the EU Commission now anticipates an inflation rate of 6.3% for Germany, after predicting a value of 7.5% in the winter of 2022. In response to the high inflation rates, the European Central Bank introduced an interest rate reversal in 2022 and began to gradually increase the key interest rate. Further increases are projected for 2023.

The continued tightening of global monetary policy to fight further inflation increases could dampen economic activity overall, but expectations have brightened nonetheless. Ongoing strict coronavirus measures in China and the disruptions in the Chinese real estate market did cause an economic slowdown, but the end of the strict zero-COVID policy is expected to produce catch-up effects, which should in turn create stronger growth in China. The global energy markets adjusted to the new situation more quickly than expected after the start of the war; energy prices have dropped since the end of 2022, and gas savings efforts were implemented worldwide. As a result, the IMF expects a growth rate of 2.9% for the global economy in 2023 and 3.1% in 2024. Thus the world economy is far from falling into a recession. The German government expects global economic growth of 2.7% for 2023. Because of the many interdependencies, however, this prognosis remains very uncertain.

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, with the most important element 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. Economic stimulus packages also continued past 2021, and various loan promotion programs were published in this context. In addition, tax cuts and wage increases were implemented in the public sector to stimulate domestic demand.

On the one hand, the Turkish economy is shaped by fragile external financing as a result of its large import dependency, interventionist macro-economic measures and geopolitical tensions. On the other, these risks are balanced out by a diversified economy and low government debt. The reduction in key interest rates is keeping inflation and downward pressure high for the local currency, but also helps to maintain economic growth and employment. In several months during the second half of 2022, inflation rose over 80% compared to the previous month, but since October 2022 it has been on a downward trend. As of March 2023, it was at 50.5%. Access to external financing proved robust both for the private and public sector. Inflation and high growth rates increase government income, which leads to an improvement in the debt figures. According to Fitch, the budget deficit in relation to the gross domestic product in 2022 will be 3.1%, but the agency assumes that rising energy prices could cause this figure to increase to 4.2% in 2023. In the third quarter of 2022, government debt in relation to the gross domestic product was 31.7%, well below the Maastricht criterion, and is also very low in comparison to other emerging markets.

In 2023, the Republic of Turkey will celebrate the 100th anniversary of its founding. That, together with the fact that parliamentary elections are taking place in the first half of 2023, will make 2023 an exceptionally significant year for Turkey. Naturally, the most important topics on the political agenda will be inflation, refugee-related and foreign policy, and economic recovery measures.

The effects of the war in Ukraine and the associated sharp increase in energy prices will create a slowdown in economic growth in 2023. Following economic growth of 5.6% in 2022, 2023 is projected to see growth of 3.0%. The OECD is predicting an unemployment rate of 10.3% for 2023 (2022: 10.7%).

In addition to the ongoing crises in conjunction with the aftereffects of the coronavirus pandemic as well as the effects of the war, the economic forecast is further dampened by the earthquake in February 2023. It can be assumed that the devastating earthquake in southeastern Turkey will also affect its economic recovery. The World Bank estimates the physical damages at $34.2 billion. That would amount to approximately 4% of the gross national product from 2021. The European Bank for Reconstruction and Development assumes that the resulting damage will cause a 1% decline in economic growth in 2023.

Nonetheless, particularly in terms of trade with Europe, there will be opportunities for local producers in Turkey 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 particularly 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

Despite a challenging macro-economic environment, the bank's business model proved successful in 2022, which is reflected by its satisfactory earnings situation. The goal is to expand the business area into the digital market in order to continue the bank's consistent positive development.

However, İşbank AG anticipates further risks for the short-term economic forecast in the 2023 financial year, particularly due to the war in Ukraine and its effects on our target markets. 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 bank's targets. Because of these uncertainties and the potential threat of a banking crisis, there could be negative effects for the earnings situation in particular. Still, thanks to its solid equity base, İşbank AG has the necessary flexibility to respond to future market conditions. If the effects of the war do lead to a recession in our target markets, İşbank AG has enough of a capital buffer to manage the crisis successfully. With regard to the anticipated economic effects of the war in Ukraine, İşbank AG is thus also prepared for a longer downturn. The current equity ratio of approx. 27.4% forms a solid buffer for this.

At the same time, there are also positive signs of a slow recovery in the global economic situation. The International Monetary Fund anticipates a shift away from a global recession. The reasons for this optimistic expectation include a slow drop in energy prices, satisfactory employment rates, gentler increases in consumer prices, normalization of the supply and value chains, and the end of the zero-COVID policy in China. Within this context, İşbank AG expects to see growth in both the deposit business and the loan business. Consequently, the disciplined continuation of the existing restrictive credit strategy should increase the balance sheet total by 13%. If the optimistic expectations regarding economic development hold true, the bank will be in a position to increase its credit volume accordingly as global trade grows and investments expand. The goal is to increase customer credits by 20% and to grow customer deposits by 14%.

Despite the challenges described above, İşbank AG considers the overall business prospects to be positive. 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.

In the corporate segment, there was a need for a risk provision after the reference date because a borrower requested a screening process. The bank evaluated this development as a value-affecting event on the basis of the available documents. The necessary risk provision will thus be created in the 2023 financial year.

MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2022

As an important part of the business strategy, İşbank AG has set a target of further advancing digitization and dealing with the associated challenges. We see the digital transformation as a trend-setting challenge for the future of the banking and finance sector. Consequently the bank decided to acquire its strategic cooperation partner Maxi Digital GmbH and integrate it into the İşbank group as a 100% subsidiary in the 2022 financial year.

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 collaborate closely in 2023. Through the sustainability committee, managers will regularly continue to explore future-proofing measures with the board. Specifically, the 2023 action plan includes the creation of a sustainability policy, development of quantitative and qualitative sustainability targets, and the establishing of a sustainability strategy.

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

In summary, based on the expected increase in interest income, the ROAR will be increased and the CIR level further reduced in the 2023 financial year, and the projected profit 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. Despite the economic volatility, an annual result significantly higher than the result for 2022 is expected for 2023.

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, April 25, 2023

Ünal Tolga Esgin	Ayşe Doğan	Emir Serdar Gülpınar
Chairperson of the Management Board	Member of the Management Board	Member of the Management Board

FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2022 WITH INDEPENDENT AUDITOR'S REPORT THEREON

Balance sheet as of 12/31/2022 of İşbank AG, Frankfurt am Main

Assets

	12/31/2022		Previous year
	EUR	EUR	EUR
1. Cash reserve			
a) Cash on hand	2,515,602.54		2,388,678.47
b) Balances with central banks	10,772,244.59		327,052,015.39
of which:			
with the German Central Bank			
EUR 10,771,242.16 (previous year: EUR 327,051,400.91)			
		13,287,847.13	**329,440,693.86**
2. Receivables from credit institutes			
a) due daily	2,630,775.01		4,008,879.03
b) other receivables	509,595,389.00		258,404,571.79
		512,226,164.01	**262,413,450.82**
3. Receivables from customers		987,778,144.25	1,120,719,349.67
of which:			
secured by encumbrances: EUR 52,610,746.00 (previous year: EUR 49,098,504.28)			
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	25,612,973.96		25,613,608.22
of which: eligible as collateral at Deutsche Bundesbank			
EUR 0.00 (previous year: EUR 0.00)			
bb from other issuers	87,822,586.87		112,726,297.83
of which: eligible as collateral at Deutsche Bundesbank		113,435,560.83	138,339,906.05
EUR 7,048,570.12 (previous year: EUR 7,043,693.94)			
5. Shares in affiliated companies		9,552,000.00	0.00
6. Intangible assets			
Paid concessions, industrial property rights and similar			
rights and assets as well as licenses to such rights and assets	7,989,846.95		9,875,718.96
		7,989,846.95	9,875,718.96
7. Property, plant and equipment		609,316.64	870,753.36
8. Other assets		5,618,115.41	17,921,757.30
9. Deferred income		987,493.51	1,077,475.45
Total assets		**1,651,484,488.73**	**1,880,659,105.47**

Liabilities

	12/31/2022		Previous year
	EUR	EUR	EUR
1. Payables to credit institutes			
a) due daily	13,230,014.72		20,628,289.91
b) with an agreed term or termination date	131,284,193.87		207,165,674.01
		144,514,208.59	**227,793,963.92**
2. Payables to customers			
a) savings deposits			
aa) with an agreed termination period of three months	30,886,149.94		30,812,829.26
ab) with an agreed termination period of more than three months	730,346.57		1,289,582.91
b) other liabilities			
ba) due daily	355,985,911.04		411,665,629.40
bb) with an agreed term or termination date	726,717,586.68		974,873,446.81
		1,114,319,994.23	**1,418,641,488.38**
3. Other liabilities	2,467,415.79	2,467,415.79	2,636,890.04
4. Deferred items	1,219,753.10	1,219,753.10	763,432.45
5. Accruals			
a) tax accruals	515,951.54		372,929.82
b) other accruals	2,786,094.85		2,690,672.07
		3,302,046.39	**3,063,601.89**
6. Equity capital			
a) subscribed capital	335,000,000.00		185,000,000.00
b) capital reserves	315,292.40		315,292.40
c) retained earnings			
ca) statutory reserves	2,787,636.89		2,392,569.80
cb) other retained earnings	40,051,866.60		31,404,594.43
d) net profit	7,506,274.74		8,647,272.17
		385,661,070.63	**227,759,728.79**
Total liabilities		**1,651,484,488.73**	**1,880,659,105.47**
1. a) liabilities from guarantees and indemnity agreements	15,795,558.26		61,154,855.84
2. a) irrevocable credit commitments	0.00		0.00
		15,795,558.26	**61,154,855.84**

Profit and loss account for İşbank AG for the period from January 1 to December 31, 2022

		12/31/2022			Previous year
	EUR	EUR	EUR	EUR	EUR
1. Interest income from					
a) lending and money market transactions less	43,564,062.46				45,892,575.00
negative interest from money market transactions	-658,620.53				-901,353.29
		42,905,441.93			**44,991,221.71**
b) fixed-interest securities and debt register claims		8,199,652.85			7,324,127.20
			51,105,094.78		**52,315,348.91**
2. Interest expenses			12,125,941.41		13,025,088.83
a) negative interest from money market transactions			-229,035.89		-854,405.04
				11,896,905.52	
				39,208,189.26	**40,144,665.12**
3. Commission income			6,928,324.03		6,743,560.43
4. Commission expenses			439,800.82		511,817.79
				6,488,523.21	**6,231,742.64**
5. Other operating income				594,290.80	797,618.58
6. General administrative expenses					
a) Personnel costs					
aa) wages and salaries (with provisions)		11,594,787.86			11,955,131.95
ab) social contributions and expenses for					
retirement benefits and support					
of which: for retirement benefits EUR 55,944.41					
(previous year: EUR 66,714.42)		1,826,426.95			1,905,416.26
			13,421,214.81		**13,860,548.21**
b) other administrative expenses			10,478,922.76		10,516,643.36
				23,900,137.57	**24,377,191.57**
7. Depreciation and amortization of intangible assets and property, plant and equipment				2,703,089.86	2,662,325.03
8. Other operating expenses				131,661.10	64,110.93
9. Depreciation and amortization of receivables and certain securities as well as allocations to provisions in the lending business			10,236,043.31		5,947,505.35
10. Income from write-ups to receivables and certain securities as well as from the dissolution of provisions in the lending business			2,254,904.78		572, 887.18
				7,981,138.53	**5,374,618.17**
11. Depreciation and value adjustments for participating interests, shares in affiliated companies, and securities treated as fixed assets				0.00	0.00
12. Income from write-ups of participating interests, shares in affiliated companies, and securities treated as fixed assets					0.00
					0.00
13. Profit on ordinary business activity				11,574,976.21	14,695,780.64
14. Extraordinary expenses				0	872,940.48
15. Taxes on income and earnings			4,319,787.91		4,631,999.30
16. Other taxes not listed in Item 8					
			-646,153.53		88,449.11
				3,673,634.38	**4,720,448.41**
17. Annual net profit				7,901,341.83	9,102,391.75
18. Allocations to revenue reserves					
a) to the legal reserve			395,067.09		455,119.59
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
				395,067.09	**455,119.59**
19. Net profit				**7,506,274.74**	**8,647,272.17**

İşbank AG
(HRB 94361, Municipal Court of Frankfurt am Main)
Annex for the 2022 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 İşbank AG for the 2022 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).

On 12/31/2022, the share capital of İşbank AG increased by KEUR 150,000 following the Supervisory Board resolution of 9/14/2022. The capital increase was registered in the Commercial Register on 9/21/2022. In addition, the branch in Gelsenkirchen was closed on 3/31/2022. İşbank AG also fully acquired Maxi Digital GmbH on 6/30/2022.

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/BFA7 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; these bindingly require loans to be transferred to non-performing loan processing. 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 based on 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.

Shares in affiliated companies are allocated to investment assets pursuant to § 266 Sect. 2 A. III. I. HGB. They are recorded at acquisition cost or the lower reportable value pursuant to § 253 Sect. 3 HGB.

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 § 340e 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 335,000 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 based on 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. In the fourth quarter of 2022, the method introduced in 2019 to quantify the country risk was revised. The bank describes country risk as the risk that solvent credit customers are unable to fulfill their obligations due to currency transfer restrictions. Instead of the ultimately inconsistent approach described above, in which each individual customer rating is lowered to at least the rating of the country of its registered place of business (country cap), a new model was created using external data. This model interprets the difference between the foreign and local currency rating as a country risk, and explains the observed differences through the country ceiling rating. This model makes it possible to determine a PD surcharge, based on the individual default likelihood of each customer, to further assess the country risk. The individual creditworthiness classification of each customer thus remains fully covered by the rating, and the country risk beyond this is considered in a consistent way. As of the balance sheet date, a total risk provision of KEUR 21,079 (previous year: KEUR 14,305) was formed.

In the loss-free evaluation 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 12/31/2022.

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 proportional interest is not recorded as part of the residual term breakdown, but separately in accordance with §11 Clause 3 RechKredV.

	12/31/2022	Previous year
	KEUR	KEUR
Receivables from credit institutes		
- due daily	2,631	4,009
- up to 3 months	345,307	71,698
- 3 months up to 1 year	162,161	190,877
- 1 year up to 5 years	10,000	0
Accrued interest	1,620	580
General loan loss reserves	-9,492(*)	-4,750(*)

(*) of which allocated to country loan loss reserves KEUR 9,488
(previous year: KEUR 4,750)

	12/31/2022	Previous year
	KEUR	KEUR
Receivables from customers		
- up to 3 months	108,330	174,106
- more than 3 months up to 1 year	361,142	263,749
- more than 1 year up to 5 years	435,958	577,634
- more than 5 years	50,944	75,910
- with an indefinite term	35,580	33,331
Accrued interest	7,004	7,037
General reserves for loan losses	-11,180 (*)	-11,048
(*) of which allocated to country loan loss reserves KEUR 10,186		
(previous year: KEUR 9,555)		

	12/31/2022	Previous year
Receivables from affiliated companies are included in	KEUR	KEUR
the following items		
Receivables from credit institutes	7,872	23,225
- of which from the sole shareholder	7,872	13,224
Receivables from customers	13,541	13,059
Debentures and other fixed-interest securities	8,149	7,661
Bonds and debentures in the portfolio		
a) Money market instruments		
aa) From other issuers	0	0
b) Bonds and debentures		
ba) from public issuers	24,605	24,605
- of which allocated to repurchase agreements	0	24,505
bb) From other issuers	86,537	111,084
- of which allocated to repurchase agreements	2,990	77,897
- due the following year	20,100	29,593
c) Accrued interest	2,294	2,651

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 85 (previous year: KEUR 453) and hidden losses to the amount of KEUR 3,167 (previous year: KEUR 2,907).

The amount of the marketable securities in the bond and debenture portfolio is KEUR 95,231 (previous year: KEUR 88,540). As of the balance sheet date, no unscheduled depreciations or appreciations had occurred.

Receivables from customers amounting to KEUR 52,611 (previous year: KEUR 49,099) are secured by liens.

At the end of the year, shares in affiliated companies totaled KEUR 9,552 for the company Maxi Digital GmbH, which was acquired on 6/30/2022. Maxi Digital GmbH is a technical service provider that supports the development, operation, further development and provision of application software in the area of mobile operating systems (app) and offers its products exclusively to İşbank AG. The company has a Managing Director and 12 employees. At the time of the acquisition, the balance sheet items for Maxi Digital GmbH totaled KEUR 4,336 and its revenue was KEUR 250. Given this information, Maxi Digital GmbH is of lesser significance in creating a picture of the asset, finance and earnings situation of İşbank AG that corresponds to the actual circumstances. Since Maxi Digital GmbH is the only subsidiary of İşbank AG, no consolidated financial statement is created.

The intangible assets comprise expenditure recorded on the asset side, reduced by the scheduled depreciation, for the core banking system of İşbank AG that was acquired in 2016. The accounting value of the intangible assets totaled KEUR 7,990 (previous year: KEUR 9,876).

The total amount of other assets is KEUR 5,618 (previous year: KEUR 17,922). KEUR 4,587 (previous year: KEUR 16,266) is allocated to receivables from derivative transactions due to currency valuations, KEUR 688 (previous year: KEUR 200) to tax return claims from the Internal Revenue Service regarding turnover tax, and KEUR 143 (previous year: KEUR 238) to tax receivables from the corporate tax from previous years. This also includes deposits to the amount of KEUR 110 (previous year: KEUR 107), KEUR 87 (previous year: KEUR 36) to suspense accounts of the bank, and KEUR 3 (previous year: KEUR 0) for customer orders awaiting approval.

Only KEUR 669 (previous year: KEUR 762) are allocated to advance payments on the rent for the headquarters under the item accrued income to the amount of KEUR 987 (previous year: KEUR 1,077). KEUR 313 (previous year: KEUR 288) from invoices paid in advance are added to this as well as KEUR 5 (previous year: KEUR 28) from agio payments.

İşbank AG, Frankfurt am Main

Asset analysis as per 12/31/2022

	APC Status 1/1/2022	Inflow	Outflow	Transfer	APC Status 12/31/2022	Cumulative Depr. Status 1/1/2022	Cumulative Depr. Status 12/31/2022	12/31/2022 Appreciation of the fiscal year	12/31/2022 Depreciation of the fiscal year	Accounting values Status 12/31/2021	Accounting values Status 12/31/2022
	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	KEUR	TEUR	TEUR
I. Intangible assets	26,260	489	0	0	26,749	16,385	26,741	0	2,375	9,876	7,990
1. Software (****)	26,260	489	0	0	26,749	16,385	26,741	0	2,375	9,876	7,990
II. Tangible assets	4,887	67	160	0	4,794	4,016	4,184 (*)	0	328	871	609
1. Plant and equip-ment	31,147	556	160	0	31,543	20,401	30,926(*)	0	2,703	10,746	609
III. Securities (***)	130,747	8,789	36.383	0	103,153	4,942	7,989(**)	5,050	2,003	138,340	113,436(**)
IV. Shares in affiliat-ed companies		9,552			9,552						9,552 (*****)
Total	161,895	18,897	36,543	0	144,248	25,343	22,937	5,050	4,706	149,086	131,587

(*) Depreciations include annulments from closed or relocated branches to the amount of KEUR 160.
Inflows and transfers in the fiscal year are included in the write-offs to the amount of KEUR 65 (software and plant and equipment).
(**) Inclusive accrued interest to the amount of KEUR 2,294. The inflow to securities includes currency effects to the amount of KEUR 6,564.
(***) Debentures and other fixed-interest securities; stocks and other non-fixed interest securities.
(****) industrial property rights and similar rights and values acquired for a fee as well as licenses to such rights and values.
(*****) Includes capital contribution to the amount of KEUR 4,650.

	12/31/2022	Previous year
	TEUR	TEUR
Payables to credit institutes		
- due daily	13,230	20,628
- up to 3 months	42,232	42,649
- more than 3 months up to 1 year	76,609	91,216
- more than 1 year up to 5 years	12,027	72,562
- Accrued interest	416	738
Payables to customers (savings deposits)		
- up to 3 months	30,886	30,813
- more than 3 months up to 1 year	446	930
- more than 1 year up to 5 years	30	118
- more than 5 years	254	241
Payables to customers (other payables)		
- due daily	355,986	411,691
- up to 3 months	329,454	373,571
- more than 3 months up to 1 year	238,161	391,553
- more than 1 year up to 5 years	112,730	143,334
- more than 5 years	43,993	64,322
- accrued interest	2,380	2,068

Payables to affiliated companies are included under the following items:

	12/31/2022	Previous year
	KEUR	KEUR
Payables to credit institutes	7,338	7,594
- of which to the sole shareholder	7,319	7,273
Payables to customers	3,819	364

Payables to credit institutions include KEUR 572 (previous year: KEUR 67,995) repo transactions. The remaining payables to credit institutes are not collateralized.

The other liabilities to the amount of KEUR 2,467 (previous year: KEUR 2.637) include inactive accounts to the amount of KEUR 1,209 (previous year: KEUR 1,209) and outstanding payments (customer orders not yet processed by the clearing body) to the amount of KEUR 381 (previous year: KEUR 565). In addition, this item includes liabilities from derivative transactions due to currency valuations to the amount of KEUR 485 (previous year: KEUR 26), liabilities to Internal Revenue Offices due to outstanding income and church tax to the amount of KEUR 161 (previous year: KEUR 160) and returns from non-deliverable credit transfers to Turkey to the amount of KEUR 105 (previous year: KEUR 132). It also includes payment obligations from compensation measures to the amount of KEUR 84, and from outstanding capital income tax at KEUR 42 (previous year: KEUR 45).

Deferred income and accrued expenses to the amount of KEUR 1,220 (previous year: KEUR 763) consist mainly of accrued upfront fee payments and purchased syndicate loans to the amount of KEUR 1,192 (previous year: KEUR 594).

The tax reserves to the amount of KEUR 516 (previous year: KEUR 373) include corporation tax make-up payments to the amount of KEUR 218 (previous year: KEUR 203) as well as profit make-up payments from previous years to the amount of KEUR 298 (previous year: KEUR 170).

As per the year-end, other reserves to the amount of KEUR 2,786 (previous year: KEUR 2,691) were created. They essentially consist of bonus reserves to the amount of KEUR 1,335 (previous year: KEUR 1,350). They also include reserves for sureties to the amount of KEUR 407 (previous year: KEUR 31), reserves for other payment obligations to the amount of KEUR 277 (previous year: KEUR 233) and reserves for audit and annual financial statement costs to the amount of KEUR 250 (previous year: KEUR 144). Moreover, they include reserves for legal and consulting costs to the amount of KEUR 157 (previous year: KEUR 167). This item further includes reserves for contributions to the amount of KEUR 120 (previous year: KEUR 125), filing fees to the amount of KEUR 105 (previous year: KEUR 105), reserves for processing costs to the amount of KEUR 86 (previous year: KEUR 102) and vacation reserves to the amount of KEUR 49 (previous year: KEUR 70).

The subscribed capital of KEUR 185,000 was increased by KEUR 150,000 during the fiscal year to a total of KEUR 335,000. The capital increase was carried out through a cash contribution by parent company Türkiye İş Bankasi A.S to the amount of KEUR 150,000 as of 9/14/2022. The new capital contribution was issued at the nominal value and registered with the Municipal Court in the Commercial Register on 9/21/2022.

The equity of İşbank AG is KEUR 335,000 and is divided up into 33,500,000 non-par bearer shares. There are no other types of shares.

The equity is divided up as follows:

	12/31/2022	Previous year
	KEUR	KEUR
Subscribed capital	335,000	185,000
Capital reserves	315	315
Statutory reserves	2,788	2,393
Profit reserves	40,052	31,405
Net profit	7,506	8,647
	385,661	227,760

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 395.

The total amount of loan loss reserves for country risks of receivables from customers and credit institutes is KEUR 21,079 (previous year: KEUR 14,305), including off-balance sheet reserves to the amount of KEUR 407.

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

	12/31/2022	Previous year
	KEUR	KEUR
Receivables from credit institutes	9,492	4,750
Receivables from customers	11,180	9,555
Non-balance sheet reserves	407	0

Items recorded in foreign currency:

	12/31/2022	Previous year
	KEUR	KEUR
Assets	332,793	512,416
Liabilities	259,506	263,259

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

	12/31/2022	Previous year
	KEUR	KEUR
Guarantees and guarantee contracts	5,203	8,671
Letters of credit	11,000	52,515
	16,203	61,186

KEUR 1,641 (previous year: KEUR 2,257) of guarantees and guarantee contracts are allocated to the sole shareholder.

Cash-secured guarantees in the fiscal year amount to KEUR 4,498 (previous year: KEUR 2,911). 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 2022 annual financial statement to the full amount of KEUR 7,506, 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	45,216	5,889	51,105
Commission income	6,345	583	6,928
Other operating income	558	36	594
Net income for the year	7,253	649	7,901

Interest income includes negative interest to the amount of KEUR 658 (previous year: KEUR 901). It results from reserve deposits to the amount of KEUR 644 (previous year: KEUR 789) with the German Federal Bank exceeding the minimum target reserves of İşbank AG and from reverse repo transactions to the amount of KEUR 5 (previous year: KEUR 108).

Interest expenditure includes positive interest to the amount of KEUR 229 (previous year: KEUR 854). It results primarily from money market transactions with the German Federal Bank for the GLRG III transactions.

Other operating expenditure to the amount of KEUR 594 (previous year: KEUR 798) results primarily from the dissolution of other reserves to the amount of KEUR 304 (previous year: KEUR 36), from foreign currency conversions to the amount of KEUR 243 (previous year: KEUR 164), from other administrative expenditure to the amount of KEUR 41 and from tax rebate interest from previous years to the amount of KEUR 6.

Other operating expenditure to the amount of KEUR 132 (previous year: KEUR 64) results primarily from general administrative expenditure to the amount of KEUR 112 (previous year: KEUR 46) as well as from payment of the severe disability contribution to the amount of KEUR 20 (previous year: KEUR 18).

For the fiscal year, KEUR 250 (previous year: KEUR 144) were charged as fees for audit services for Germany and KEUR 14 (previous year: KEUR 22) for other assurance 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 financing transactions (GLRG).

During the fiscal year taxes on income and profit to the amount of KEUR 4,320 (previous year: KEUR 4,632) were incurred.

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

Per a resolution by the regular shareholders' meeting of April 29, 2022, it was resolved to retain the net profit from 2021 of KEUR 8,647 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, 2022

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, 2022. 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

İşbank 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:

	2023	2024-2025	As from 2026	Total
	KEUR	KEUR	KEUR	KEUR
Leases	2,446	4,344	1,998	8,788
Leasing contracts	84	60	0	144
Other contracts	740	1,466	698	2,904

For coverage of the loan grants in USD and TRY at the end of the year, the bank had four foreign currency swap transactions (nominal value: KEUR 81,293) and two cross-currency swap transactions (nominal value: KEUR 17,336) in the portfolio. As per the balance sheet date a negative amount of KEUR 485 as well as a positive amount of KEUR 4,587 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	84,298	-485	4,095
More than 1 year	14,331	-	491

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 150.

	2022	Previous year
Authorized signatories	2	2
Employees	148	155
Total	150	157

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 2022 pursuant to § 285 No. 9a HGB to the amount of KEUR 41 (previous year: KEUR 81).

Company Bodies

Management Board:

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

Ayşe Dogan, Frankfurt am Main, Member of the Management Board

Franz Hakan Elman, Frankfurt am Main, Member of the Management Board (until 3/1/2023)

Supervisory Board:

Hakan Aran, İstanbul/Turkey, Chairperson of the Supervisory Board as of 4/30/2022, Chairperson of the Management Board of Türkiye İş Bankası A.Ş.,

Hasan Cahit Çınar, Deputy Chairperson of the Supervisory Board as of 4/30/2022, Member of the Management Board of Türkiye İş Bankası A.Ş.,

Gamze Yalçın, İstanbul/Turkey, Chairperson of the Supervisory Board until 4/29/2022, Member of the Management Board of Türkiye İş Bankası A.Ş.,

Sabri Gökmenler, İstanbul/Turkey, Deputy Chairperson of the Supervisory Board until 4/29/2022, Member of the Supervisory Board as of 4/30/2022, IT Division Head of Türkiye İş Bankası A.Ş.,

Yavuz Ergin, İstanbul/Turkey, Member of the Supervisory Board, consultant for 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.,

Utku Ünsal, İstanbul/Turkey, Member of the Supervisory Board, Strategy & Corporate Performance Management Division Head of Türkiye İş Bankası A.Ş.,

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

Hakan Kartal, Member of the Supervisory Board as of 4/30/2022, Treasury Division Head of Türkiye İş Bankası A.Ş.,

Emre Ölçer, Member of the Supervisory Board as of 4/30/2022, Digital Banking 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., Ozan Uyar, İstanbul/Turkey, Member of the Supervisory Board until 4/29/2022, Project Financing Division Head of Türkiye İş Bankası A.Ş.,

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

Tolga Achim Müller, İstanbul/Turkey, Member of the Supervisory Board until 4/29/2022, Corporate Banking and Sales 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, 2022, which is also available at the Head Office of the company.

Supplementary Statement

In the corporate segment, a risk provision was required after the reference date because a borrower requested a screening process. The bank evaluated this development as a material subsequent event based on the available documents. Thus, the necessary risk provision will be formed in the 2023 fiscal year.

In its resolution on 2/2/2023, the BaFin granted permission to classify the new shares issued in the context of the capital increase in September 2022 as an instrument of common equity pursuant to Art. 26 Sect. 3 CRR.

The severe earthquakes that took place on February 6, 2023 and the following days, shook a large region in Turkey, caused devastating destruction and caused countless houses to collapse. Because of the aftershocks and risks of further collapse, many people had to leave their homes and now urgently require emergency accommodations. According to official reports, more than 50,000 people died and thousands were injured? Having checked our customer base, few customers headquartered in the region are reported as affected by the disastrous earthquakes, but those customers did not suffer any notable damages. Therefore, it is assumed that the earthquake will not have any negative effects on the bank's earnings situation. İşbank AG resolved to send a donation to the amount of KEUR 496 to the state agency's charity organization, AFAD (AFET VE ACİL DURUM YÖNETİMİ BAŞKANLIĞI).

Mr. Franz Hakan Elman left his position as Member of the Management Board of İşbank AG on March 1, 2023.

Mr. Emir Serdar Gülpınar is announced to be appointed as Member of the Management Board of İşbank AG as of April 1, 2023.

Frankfurt am Main, April 25, 2023

Ünal Tolga Esgin
Chairperson of the
Management Board

Ayşe Doğan
Member of the
Management Board

Emir Serdar Gülpınar
Member of the
Management Board

Audit certificate by the independent auditor

For İşbank AG

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

Audit Evaluations

We audited the annual financial statement of İşbank AG, Frankfurt am Main – consisting of the balance sheet as per December 31, 2022, and the profit and loss account for the fiscal year from January 1, 2022, up until December 31, 2022, as well as the notes, including the presentation of the accounting and evaluation methods. In addition, we audited the management report of İşbank AG for the fiscal year from January 1, 2022, until December 31, 2022.

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 assets and financial situation of the company as per December 31, 2022, and its profitability for the fiscal year from January 1, 2022, up until December 31, 2022, 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 standard German accounting practices as set by the Institute of Auditors (IDW). Our responsibility pursuant to these provisions and practices is set out further in detail 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 professional German 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, 2022. 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 estimates that unlock discretionary leeway. 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 lsbank AG focusing on the corporate credits, 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, the monitoring of early warning indicators and the determination of a country risk provision for Turkey.

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 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 Chairperson 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 includes the following parts intended for the business report, of which we obtained a copy before the issue of the audit certificate, particularly:

- Türkiye İş Bankası A.Ş. at a Glance,
- Message from the Chairperson of Supervisory Board,
- Report of the Supervisory Board, and
- Message from the Chairperson of the Management Board,

but not the annual financial statement, the management report information included in the content-related audit, or our audit opinion relating to these.

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 (e.g. accounting manipulations or misappropriation of assets) 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 standard German 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 matters of the annual financial statement, including the information provided 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 April 29, 2022. We were assigned by the Supervisory Board on May 10, 2022. We have been working as the auditor of İşbank 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. Carsten Rothermel.

Eschborn/Frankfurt am Main, April 26, 2023

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Rothermel	Hoffmann
Auditor	Auditor

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