

Notes to the statement of financial position and statement of comprehensive income

1. Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, loans and advances to banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as of 31 December 2023 and 2022, included in the accompanying statements of cash flows are as follows:

	31 December 2023	31 December 2022
Unrestricted balances with central banks	2,215,644	1,499,083
Loans and advances to banks	47,912	95,231
Deposits from banks	(13,448)	(14,868)
	2,250,108	1,579,446

2. Related party disclosures

For the purpose of this report, the 100 percent shareholder Türkiye Garanti Bankası A.Ş. (GBI's parent company), its controlling shareholder Banco Bilbao Vizcaya Argentaria S.A and all their subsidiaries and key management personnel (being the members of the Supervisory Board and Managing Board of GBI, Garanti BBVA or BBVA) are referred to as related parties. In the course of conducting its banking business, the Bank engaged in various business transactions with its parent and other related parties. These transactions were carried out on commercial terms and at market rates. Transactions conducted with group companies are banking transactions including lending, borrowing funds, purchase and sale of financial assets, trade finance transactions and rendering international payment, derivative transactions and other banking services.

The Bank had the following balances outstanding from and transactions with related parties.

Transactions with the parent

The outstanding balances and income and expense with the immediate parent and ultimate parent are as follows:

	31 December 2023	31 December 2022
Loans and advances to banks	60,574	62,002
Derivative financial instruments	1,988	4,253
Total assets	62,562	66,075
Deposits from banks	9,295	8,527
Derivative financial instruments	163	58
Total liabilities	9,458	8,585
Loan commitments, financial guarantees and other commitments		-
Notional amount of derivatives	193,876	193,420
	2023	2022
Interest and similar income	4,157	2,699
Interest and similar expense	504	(21)
Fee and commission income	622	1,025
Fee and commission expense	(3,406)	(2,301)
Net trading income	101	(55)
Expected credit losses	65	45
Net income/expense	2,043	1,392

2. Related party disclosures (continued)

EUR 274 of ECL's have been recorded against balances outstanding at year-end 2023 with the parent company (2022: EUR 338) and none of the exposures are credit impaired.

Transactions with other related parties

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

	31 December 2023	31 December 2022
Loans and advances to banks	4,824	480
Loans and advances to customers	35,642	9,262
Total assets	40,466	9,742
Deposits from customers	2,836	3,451
Total liabilities	2,836	3,451
Loan commitments, financial guarantees and other commitments		
	2023	2022
Interest and similar income	754	334
Interest and similar expense	(44)	(12)
Fee and commission income	69	82
Expected credit losses	(207)	(213)
Other operating expenses	-	(5)
Net income	572	186

Various commission rates are applied to transactions involving guarantees and commitments. The pricing in transactions with the related parties is set on an arms-length basis.

EUR 240 of ECL's have been recorded against balances outstanding at year-end 2023 with other related parties (2022: EUR 33) and none of the exposures are credit impaired.

Transactions with key management personnel

Key management personnel compensation

Key management personnel compensation comprises the remuneration of the Supervisory Board and Managing Board, which is disclosed in note 24.

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

	31 December 2023	31 December 2022
Loans and advances to customers	4,435	811
Total assets	4,435	811
Deposits from customers	7,715	6,233
Total liabilities	7,715	6,233
Off Balance Sheet liabilities	-	-
	2023	2022
Interest and similar income	135	97
Interest and similar expense	(282)	(39)
Fee and commission income	122	90
Net income	(25)	148

2. *Related party disclosures (continued)*

As at 31 December 2023, the balances with key management personnel are allocated to Stage 1 and have a negligible ECL allowance (2022: negligible). During 2023 the expected credit loss that is recognised in the statement of profit or loss in respect of these balances is negligible as well (2022: negligible).

3. *Cash and balances with central banks*

	31 December 2023	31 December 2022
Balances with central banks	2,254,735	1,533,274
	2,254,735	1,533,274
ECL allowance	(96)	(86)
	2,254,639	1,533,188

Cash and balances with central banks include cash on hand and all legal tenders, as well as demand deposits held at the central banks in countries in which GBI's Head Office and its branch are located. Information about the ECL allowance of cash and balances with central banks, their credit quality and the company's exposure to credit risk can be found in the Risk Management section under Credit Risk.

4. *Loans and advances to banks*

Classification of financial assets as loans and advances to banks

Loans and advances to banks are recorded at amortised cost and include the following financial instruments:

	31 December 2023	31 December 2022
Discounts to banks	351,922	618,937
Bank placements (cash margins, deposits)	56,009	95,290
Reverse sale-and-repurchase agreements	-	43,159
ECL allowance	(2,880)	(3,753)
Net loans and advances to banks	405,051	753,633

The Bank placements include EUR 55,895 (2022: EUR 95,231) of on-demand deposits.

Expected credit loss and risk exposure

Information about the ECL allowance of loans and advances to banks, their credit quality and the company's exposure to credit risk can be found in the Risk Management section under Credit Risk.

Total loans and advances to banks does not include any non-cash loans (31 December 2022: EUR 41,349) for letter of credits that the Bank has provided (note 13), for which a contractual obligation exists to deliver cash.

5. Loans and advances to customers

Classification of financial assets as loans and advances to customers

Outstanding loans and advances to customers are recorded at amortised cost and are categorised as follows:

	31 December 2023	31 December 2022
Non-financial corporations	2,428,251	2,426,745
Non-bank financial corporations	220,138	119,792
Households	23,085	26,100
ECL allowance	(20,468)	(19,698)
	2,651,006	2,552,939
Non-credit-impaired loans	2,644,403	2,557,090
Credit-impaired loans	27,071	15,547
ECL allowance	(20,468)	(19,698)
	2,651,006	2,552,939

Expected credit loss and risk exposure

Information about the ECL allowance of loans and advances to customers, their credit quality and the company's exposure to credit risk can be found in the Risk Management section under Credit Risk.

Total loans and advances to customers includes non-cash loans amounting to EUR 1,218 (31 December 2022: EUR 41,567) for letter of credits that the Bank has provided (note 13), for which a contractual obligation exists to deliver cash.

Write-offs

The Bank may write-off financial assets that might still be subject to enforcement activity. The Bank has not written off any financial assets which are still subject to enforcement activity during the year ended 31 December 2023 and during the year ended 31 December 2022. This includes amounts that are written off as a result of disposals as well as amounts that are owed in full by the Bank but which have been (partially) written-off due to no reasonable expectation of full recovery.

6. Financial investments at fair value through other comprehensive income

Financial instruments at fair value through other comprehensive income (FVOCI) comprise the following investments in listed bonds having solely payments of principal and interest:

	31 December 2023	31 December 2022
Bonds issued by financial corporations	48,348	31,607
Bonds issued by non-financial corporations	53,726	12,203
Bonds issued by central governments	327,927	176,752
	430,001	220,562

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

Debt securities include securities pledged in relation to ECB's targeted longer term refinancing operation. Further information is disclosed in note 10 on deposits from banks and note 39 on asset encumbrance.

7. Property and equipment

Movement in tangible assets from 1 January to 31 December 2023 is as follows:

	1 January	Additions	Revaluation	Disposals and transfers	31 December
<i>Cost or valuation</i>					
Land and building	27,573	-	(2,931)	(469)	24,173
Right of use building	1,082	118	-	-	1,200
Furniture and equipment	3,786	511	-	(50)	4,247
Right of use equipment	392	96	-	(26)	462
	32,833	725	(2,931)	(545)	30,082
<i>Less: Accumulated depreciation</i>					
Land and building	(64)	(479)	-	469	(74)
Right of use building	(866)	(241)	-	16	(1,091)
Furniture and equipment	(3,479)	(104)	-	(3)	(3,586)
Right of use equipment	(266)	(65)	-	27	(304)
	(4,675)	(889)	-	509	(5,055)
	28,158	(164)	(2,931)	(36)	25,027

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

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

Depreciation expense of tangible assets for the year ended 31 December 2023 amounted to EUR 889 (2022: EUR 862).

An independent valuator was involved to assess the valuation of the land and buildings. As per 31 December 2023, the revaluation of land and buildings, net of def tax, amounting to EUR (2,175) was accounted under shareholders' equity (2022: EUR (1,545)). The fair value measurements of land and building have been categorized as Level 3 fair value measurements.

As of 31 December 2023, the net book value of property under cost model instead of revaluation model is EUR 16,022 (2022: EUR 15,756).

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

	2023	2022
Opening balance as at 1 January	9,177	10,722
Current year charge in OCI – gross amount	(2,931)	(2,082)
Current year charge in OCI – related tax	756	537
Closing balance as at 31 December	7,002	9,177

The revaluation surplus in OCI is part of a legal reserve as, under Dutch law, the balance cannot be distributed to the shareholder.

8. Intangible assets

Movement in intangible assets from 1 January to 31 December 2023 is as follows:

	01 January	Additions	Disposals and transfers	31 December
Cost				
Software	16,817	3,659	(65)	20,411
	<u>16,817</u>	<u>3,659</u>	<u>(65)</u>	<u>20,411</u>
Less: Accumulated depreciation				
Software	(10,959)	(1,929)	-	(12,889)
	<u>(10,959)</u>	<u>(1,929)</u>	<u>-</u>	<u>(12,889)</u>
	<u>5,858</u>	<u>1,730</u>	<u>(65)</u>	<u>7,522</u>

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

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

Internally generated software of EUR 2,250 (2022: EUR 1,904) is included in the total Software. In accordance with the Dutch Civil Code legal reserves have to be established equal to the carrying value of the internally developed software. The legal reserve cannot be distributed to the shareholder.

9. Other Assets

	31 December 2023	31 December 2022
Prepaid expenses, insurance claims and similar items	1,711	1,281
Miscellaneous receivables	1,097	1,038
Other	22	5
	<u>2,830</u>	<u>2,324</u>

10. Deposits from banks

GBI's deposits from banks comprise the following element:

	31 December 2023	31 December 2022
Central Bank borrowing	264,989	300,201
On demand deposits	13,449	14,868
Term deposits	9,057	18,760
	287,495	333,829

Obligations under repurchase agreements

The Bank raises funds by selling financial instruments under agreements to repurchasing these instruments at the same price plus interest at a predetermined date. In note 39 further detail is provided in relation to the collateral provided.

Central Bank borrowing: Targeted longer term refinancing operations

In June 2020 and March 2021, the Bank raised funds by participating in respectively the 4th tranche and the 7th tranche of ECB's third targeted longer term refinancing operations (TLTRO III) program that was announced on 22 July 2019. The funds are accounted for as financial liabilities in accordance with IFRS 9, which is further elaborated on the section material accounting policies.

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

The Bank repaid the fund that had been raised in the 4th tranche of the TLTRO III program in 2023. Amount of outstanding borrowings as part of TLTRO III program as of 31 December is EUR 174,320 (31 December 2022: EUR 300,201). As of 31 December 2023, the remaining amount of Central Bank Borrowing represents a short-term borrowing from the Central Bank utilized as part of liquidity operations.

In note 39 further detail is provided in relation to the collateral provided.