

**HOUSING AND DEVELOPMENT BANK
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED
30 SEPTEMBER 2021**

Allied for Accounting & Auditing EY
Public Accountants & Consultants

Accountability State Authority

Limited Review Report

To: The Boards of Directors of Housing & Development Bank “Egyptian Joint Stock Company”

Introduction

We have performed a limited review of the accompanying consolidated statement of financial position of **Housing and Development Bank “Egyptian Joint Stock Company”** as of September 30, 2021 and the related consolidated income statement, consolidated comprehensive income, consolidated cash flows and consolidated changes in equity for the nine months period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with the rules of preparation and presentation of the banks’ financial statements and the basis of recognition and measurement issued by the Central Bank of Egypt on December 16, 2008 as amended by the regulations issued on February 26, 2019 and the prevailing Egyptian laws and regulations. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our limited review.

Scope of limited review

We conducted our limited review in accordance with the Egyptian Standard on Review Engagements (2410) “Limited Review of Interim Financial Statements Performed by the independent Auditor of the Entity”. A limited review of consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters in bank, and applying analytical and other limited review procedures. A limited review is substantially less in scope than an audit conducted in accordance with Egyptian Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

Conclusion

Based on our limited review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the consolidated financial position of the Bank as at September 30, 2021 and of its consolidated financial performance and its consolidated cash flows for the nine months period then ended, in accordance with rules of preparation and presentation of the banks’ financial statements and basis of recognition and measurement issued by the Central Bank of Egypt on December 16, 2008 as amended by the regulations issued on February 26, 2019 and prevailing Egyptian laws and regulations related to the preparation of the interim consolidated financial statement.


Sherif ElKelany




Samah Saad Mohamed Abdel-Megeed

Allied for Accounting & Auditing EY
Public Accountants & Consultants

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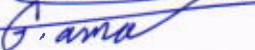
Cairo: 30 November 2021

HOUSING AND DEVELOPMENT BANK

CONSOLIDATED FINANCIAL POSITION AS OF 30 SEPTEMBER 2021

	Note No.	30/09/2021 EGP	31/12/2020 EGP
ASSETS			
Cash and balances with central bank of Egypt	(16)	6,389,603,162	5,800,495,733
Due from banks	(17)	8,420,060,024	3,819,857,064
Loans & Facilities to customers	(18)	22,375,119,113	18,962,124,081
Financial assets			
Financial investment at fair value through profit and loss	(19)	461,567,042	438,518,768
Financial assets at fair value through other comprehensive income	(20)	19,536,653,590	18,737,364,728
Financial assets at amortized costs	(20)	6,178,070,372	5,515,415,367
Financial assets in subsidiaries and associates	(21)	2,441,716,446	2,090,433,758
Housing projects	(22)	2,524,141,129	2,433,308,377
Real estate investments	(23)	100,666,658	106,620,726
Intangible assets	(24)	84,330,087	104,374,479
Other assets	(25)	2,999,545,637	2,208,849,586
Deferred tax assets	(32)	64,540,100	62,982,966
Fixed assets	(26)	1,122,036,428	1,107,334,945
TOTAL ASSETS		72,698,049,788	61,387,680,578
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	(27)	696,247,766	786,929,840
Customers' deposits	(28)	56,176,074,860	46,981,598,505
Other loans	(29)	1,099,696,146	888,568,740
Dividends payable		60,017,822	37,116,309
Other Liabilities	(30)	3,670,659,161	2,915,201,255
Provisions	(31)	377,451,359	387,142,119
Current Income tax obligations		220,346,391	222,669,714
Retirement benefit obligations	(33)	45,773,699	47,073,604
TOTAL LIABILITIES		62,346,267,204	52,266,300,086
EQUITY			
Issued and paid-up-capital	(34)	1,518,000,000	1,265,000,000
Amounts reserved for capital increase	(34)	253,000,000	379,500,000
Reserves	(35)	4,869,170,594	3,766,692,193
Retained earnings (included net profit of the period)		3,481,695,574	3,426,353,692
Other comprehensive income		128,262,302	182,633,575
TOTAL SHAREHOLDERS' EQUITY		10,250,128,470	9,020,179,460
Non-controlling interest		101,654,114	101,201,032
TOTAL SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTEREST		10,351,872,584	9,121,380,492
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTEREST		72,698,049,788	61,387,680,578

Gamal Mahmoud Soliman



Chief Financial Officer

Sherif El-Kelany



E&Y Allied for Accounting & Auditing

Hassan Ismail Ghanim



Chairman & Managing Director

Sameh Saad Mohamed Abdel-Megeed



Accountability State Authority

- The accompanying notes, from (1) to (41) form an integral part of the consolidated financial statements and to be read therewith.
- Review report attached.

HOUSING AND DEVELOPMENT BANK
CONSOLIDATED INCOME STATEMENT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

	Notes	Nine months ended at 30/09/2021 EGP	Nine months ended at 30/09/2020 EGP	From 01/07/2021 to 30/09/2021 EGP	From 01/07/2020 to 30/09/2020 EGP
Interest from loans and similar income	(6)	5,089,919,306	4,322,453,678	1,773,466,875	1,433,050,215
Interest on deposits and similar expense	(6)	(2,639,911,201)	(2,323,106,589)	(939,568,240)	(725,244,629)
Net interest income		<u>2,450,008,105</u>	<u>1,999,347,089</u>	<u>833,898,635</u>	<u>707,805,586</u>
Fees and commission income	(7)	285,651,311	285,727,294	99,547,361	113,050,233
Fees and commission expense	(7)	(34,354,894)	(31,523,651)	(6,445,642)	(15,967,655)
Net fees and commission income		<u>251,296,417</u>	<u>254,203,643</u>	<u>93,101,719</u>	<u>97,082,578</u>
Dividends income	(8)	5,637,563	2,954,394	52,832	582,871
Net income from financial assets at fair value through profit and loss	(9)	46,268,516	35,924,716	17,621,661	17,683,629
Housing projects profit	(10)	416,445,913	414,532,184	118,741,579	143,445,885
Subsidiaries Revenues		256,441,608	119,283,413	78,379,574	43,359,180
Subsidiaries Expenses		(259,516,071)	(132,888,233)	(75,648,317)	(46,349,082)
Bank portion in income of associates companies		248,214,499	238,535,013	102,402,773	106,369,019
loans impairment loss (reversal)	(13)	(109,014,443)	190,074,912	(3,767,349)	37,369,560
Reversal of other provisions	(31)	86,498,912	18,779,307	82,690,004	(30,545,657)
General and administrative expenses	(11)	(1,255,685,775)	(1,087,789,287)	(458,769,097)	(342,437,429)
Other operating revenues	(12)	90,143,698	125,030,670	(41,767,194)	49,954,709
Net income before income tax		<u>2,226,738,942</u>	<u>2,177,987,821</u>	<u>746,936,820</u>	<u>784,320,849</u>
Income tax expenses	(14)	(645,147,347)	(522,333,712)	(169,403,261)	(192,673,862)
Net income for the period		<u>1,581,591,595</u>	<u>1,655,654,109</u>	<u>577,533,559</u>	<u>591,646,987</u>
Non-controlling interest in net income for the period		9,418,213	9,900,830	3,154,557	4,269,220
Equity holders of the bank		<u>1,572,173,382</u>	<u>1,945,753,279</u>	<u>574,379,002</u>	<u>587,377,767</u>
Net income for the period		<u>1,581,591,595</u>	<u>1,655,654,109</u>	<u>577,533,559</u>	<u>591,646,987</u>
Earnings per share	(15)	11.31	13.01		

HOUSING AND DEVELOPMENT BANK
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

	Notes	Nine months ended at 30/09/2021	Nine months ended at 30/09/2020	Three months from 01/07/2021 to 30/09/2021	Three months from 01/07/2020 to 30/09/2020
		EGP	EGP	EGP	EGP
Net income for the period		1,581,591,595	1,655,651,109	577,533,559	591,646,987
Financial assets at fair value through other comprehensive income	(20)	<u>(54,371,273)</u>	<u>58,618,971</u>	<u>30,165,935</u>	<u>(5,053,359)</u>
Total comprehensive income		<u>1,527,220,322</u>	<u>1,714,273,080</u>	<u>607,699,494</u>	<u>586,593,628</u>
Non-controlling interest portion in OCI		9,418,213	9,900,830	3,154,557	4,269,220
Equity holders of the bank portion in OCI		<u>1,517,802,109</u>	<u>1,704,372,250</u>	<u>604,544,937</u>	<u>582,324,408</u>
		<u>1,527,220,322</u>	<u>1,714,273,080</u>	<u>607,699,494</u>	<u>586,593,628</u>

HOUSING AND DEVELOPMENT BANK
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

	Paid-in-capital	Amounts reserved for capital increase	Legal reserves	General reserve	Special Reserve	Other reserve	Reserve of General Bank Risk	General risk reserve	Retained earnings	Other comprehensive income	Total Shareholders' equity	Non-controlling interest	Total
Balance as of 1 January 2020	1,265,000,000	379,500,000	444,847,495	1,779,000,000	9,344,966	18,365,606	22,500	89,215,810	3,373,186,689	78,882,087	7,437,365,153	95,009,668	7,532,374,821
Dividends paid for the year 2019	-	-	-	-	-	-	-	-	(571,295,812)	-	(571,295,812)	(3,709,466)	(575,005,278)
Transferred to reserves	-	-	97,554,467	1,325,000,000	-	3,336,849	4,500	-	(1,425,895,816)	-	-	-	-
Change in financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	58,618,971	58,618,971	-	58,618,971
Net profit for the Nine months ended 30/09/2020	-	-	-	-	-	-	-	-	1,645,753,279	-	1,645,753,279	9,900,830	1,655,654,109
Balances as at 30 September 2020	1,265,000,000	379,500,000	542,401,962	3,104,000,000	9,344,966	21,702,455	27,000	89,215,810	3,021,748,340	137,501,058	8,570,441,591	101,201,032	8,671,642,623
Balance as of 1 January 2021	1,265,000,000	379,500,000	542,401,962	3,104,000,000	9,344,966	21,702,455	27,000	89,215,810	3,426,353,692	182,633,575	9,020,179,460	101,201,032	9,121,380,492
Dividends paid for the year 2020	-	-	-	-	-	-	-	-	(269,970,213)	-	(269,970,213)	(8,965,131)	(278,935,344)
Transferred to reserves	-	-	90,036,525	1,000,000,000	-	12,437,376	4,500	-	(1,102,478,401)	-	-	-	-
Reserved for capital increase	-	126,500,000	-	-	-	-	-	-	(126,500,000)	-	-	-	-
Transferred to banking sector support and development fund	-	-	-	-	-	-	-	-	(17,882,886)	-	(17,882,886)	-	(18,882,886)
Change in financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	(54,371,273)	(54,371,273)	-	(54,371,273)
Capital increase	253,000,000	(253,000,000)	-	-	-	-	-	-	-	-	-	-	-
Net profit for the Nine months ended 30/09/2021	-	-	-	-	-	-	-	-	1,572,173,382	-	1,572,173,382	9,418,213	1,581,591,595
Balances as at 30 September 2021	1,518,000,000	253,000,000	632,438,487	4,104,000,000	9,344,966	34,139,831	31,500	89,215,810	3,481,695,574	128,262,302	10,250,128,470	101,654,114	10,351,782,584

HOUSING AND DEVELOPMENT BANK
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

	Notes	Nine months ended at 30/09/2021 EGP	Nine months ended at 30/09/2020
Cash Flows From Operating activities			
Profit before tax		2,226,738,942	2,177,987,821
Adjustments:			
Depreciation and amortization	(23),(24),(26)	198,445,835	188,388,244
(Reversal) of loans impairment losses	(13)	109,014,443	(190,074,912)
(Reversal) of other assets and housing projects provision	(12)	(1,732,734)	(3,740,980)
Other provisions-charged during the period	(31)	69,896,806	38,314,518
Revaluation difference of financial assets at fair value through profit and loss	(9)	(33,130,061)	(22,919,577)
Amortization of discount – financial assets at amortized cost	(20)	(4,548,172)	(8,809,188)
Bank's portion in income of associates companies		(248,214,499)	(238,535,013)
Other provision utilized during the period	(31)	(25,423,653)	(4,911,936)
Provisions no longer required	(31)	(156,395,718)	(57,093,825)
Gain from selling fixed assets	(12)	(2,053,931)	(12,720,521)
Operating income before changes in operating assets and liabilities		2,132,597,258	1,865,884,631
Net decrease (increase) in assets			
Due from banks		(259,881,900)	3,910,984,236
Financial assets other than fair value through profit and loss		2,994,863,969	(2,026,706,559)
Financial assets at fair value through profit and loss		10,081,787	14,889,820
Loans and advances to customers and banks		(3,526,027,013)	(959,011,652)
Housing Projects and real estate investments		(90,047,792)	(102,473,063)
Other assets		(141,703,997)	246,375,878
Net (decrease) increase in liabilities			
Due to banks		(90,682,074)	(214,114,269)
Customers' deposits		9,194,476,355	4,179,675,666
Other liabilities		244,030,717	(159,258,527)
Retirement benefit obligations		(1,299,905)	(4,436,849)
Income tax paid		(648,992,054)	(445,246,474)
Net cash flows (used in) operating activities		9,817,415,351	6,306,562,838
Cash flows from investing activities			
Payments for purchase of fixed assets		(160,586,080)	(125,333,062)
Proceeds from sale of fixed assets		3,979,907	13,737,364
Payments for purchase of financial assets other than fair value through profit and loss		(5,735,826,576)	(4,559,371,302)
Proceeds from sale of financial assets other than fair value through profit and loss		1,199,447,601	285,455,250
Payments for purchase of intangible assets		(28,566,632)	(22,116,868)
Net cash flows (used in) investing activities		(4,721,551,780)	(4,407,628,618)
Cash flows from Financing activities			
Long-term loans		120,179,771	79,390,436
Dividends paid		(247,068,700)	(541,021,051)
Net cash flows from financing activities		(126,888,929)	(461,630,615)
Net increase in cash and cash equivalents during the period		4,968,974,642	1,437,303,605
Cash and cash equivalent at the beginning of the period		4,427,074,655	3,232,913,877
Cash and cash equivalents at the end of the period		9,396,049,297	4,670,217,482
Cash and cash equivalents are represented in:			
Cash and balances with Central Bank of Egypt		6,389,603,162	6,232,053,626
Due from banks		8,420,060,024	3,472,493,542
Financial assets other than at fair value through other comprehensive income		15,750,030,293	18,299,919,931
Obligatory reserve balance with CBE		(5,448,160,042)	(5,246,260,180)
Bank Deposits with maturity more than three-months		(5,000,000)	(274,179,136)
Financial assets other than at fair value through profit and loss with maturity more than three-month		(15,710,484,140)	(17,813,810,301)
Cash and cash equivalents at the end of the period	(37)	9,396,049,297	4,670,217,482

HOUSING AND DEVELOPMENT BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

1. Background

Housing and Development bank provides Banking Services for Corporates rather than Investments, retail Banking Services in the Arab republic of Egypt through 97 branches, and hires 2718 employees at the date of the financial position.

Housing and Development bank is an Egyptian Joint Stock company established as Investments and Business Bank on 30 June 1979 by virtue of ministerial Decree No. 147 for a year 1979 and it handles its activity through the head office in Giza governorate and the bank is registered in the Egyptian Stock Market for Securities.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of Preparation

The financial statements have been prepared in accordance with instructions of Central bank of Egypt approved by its board of directors on 16 December 2008, in addition to the historical cost basis, modified by the revaluation of financial assets and liabilities originally valued with fair value through profits and losses, and financial assets at fair value through other comprehensive income, and all financial derivatives contracts.

These consolidated financial statements have been prepared in accordance with relevant local laws, investment in associates have been presented in bank's consolidated financial statements and measured using equity method less impairment loss.

These consolidated financial statements have been prepared until 31 December 2009 using central bank of Egypt instructions prevailing until this date, this partially differ from the banks preparation and presentations rules and the recognition and measurement basis approved by central bank of Egypt's board of directors on 16 December 2008. At the date of the preparation of consolidated financial statements dated 31 December 2010, the bank's management has amended certain accounting policies and basis of measurements to be in accordance with the preparation and presentation requirements and the recognition and measurements basis of banks consolidated financial statements approved from the central bank of Egypt's board of directors on 16 December 2008.

These consolidated financial statements have been prepared in accordance with the instructions of the Central Bank of Egypt (CBE) rules approved by its Board of Directors on 16 December 2008; that is differ with what is added under instructions of Central Bank of Egypt issued on 26 February 2019 regarding the implementation of IFRS 9 – financial instruments .

Effect of implementation IFRS 9 on Accounting Policies

IFRS 9- Financial Instruments

The Bank applied the instructions of the Central Bank of Egypt (CBE) rules IFRS 9 "Financial Instruments" dated February 26, 2019 starting from January 01, 2019, Requirements of IFRS 9 represents material change than required under Egyptian accounting standard no. 26 "financial instrument- recognition and measurement" specially when related to classification, measurement and disclosure of financial assets and some of financial liabilities, the following summarize the main accounting policies changes resulted from applying the required standards:

Classification of financial assets and liabilities

Financial assets have been classified through three main categories as the following:

- Financial assets at amortized cost.
- Financial assets at fair value through other comprehensive income.
- Financial assets at fair value through profit and loss.

Based of IFRS 9, financial assets have been classified according to how they are managed (the entity's business model) and their contractual cash flow characteristics. Therefore Egyptian accounting standard no. (26) is no longer applied (Held to maturity, Loans and available for sale).

The implicit derivative contracts shall not be separated when derivatives are associated with a financial asset and therefore the implicit derivative contract is fully classified according to the related financial asset.

The change in financial liabilities at fair value through profit or loss is presented as follows:

- The change in the fair value related to the change in the degree of the credit rating is presented in other comprehensive income.
- The remaining amount of the change in fair value under (net income from financial assets at fair value through profit or loss) is presented in the income statement.

HOUSING AND DEVELOPMENT BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

Impairment of financial assets

IFRS 9 and Central Bank of Egypt (CBE) instructions replaced the impairment loss model recognized according to EAS 26 with expected credit loss (ECL) model, also, IFRS 9 & CBE instructions requires from the bank to implement the measurement of expected credit loss (except for measured at fair value through profit and loss and fair value through other comprehensive income).

The bank excludes the following from the calculation of expected credit losses:

- Deposits at banks with a maturity date of one month and less than the date of the financial position.
- Current accounts at banks.
- Balances at the Central Bank in local currency.
- Debt instruments issued by the Egyptian government in local currency.

Provision shall be identified based on the expected credit losses relating to probability of default over the next 12 months unless the credit risk has increased substantially since inception.

Segment reporting

An operating segment is a group of assets and operations providing products or services whose risks and benefits are different from those associated with products or services provided by other operating segments. A geographical segment provides products or services within a specific economic environment characterized by risks and benefits different from those related to other geographical segments operating in a different economic environment.

Transitional provisions

The bank has not re-measured the recognized financial instruments in the comparative financial statements, but only reclassified the financial assets and liabilities in the comparative figures to conform with the presentation method of the financial statements, subject to applying the standard for the first time and is therefore not comparable.

The impairment provision of the financial assets recognized in the financial position is deducted from the financial asset value at the time of preparing the financial position statement, while the impairment provision of the loan commitments, financial guarantee contracts and contingent liabilities is recognized under other provisions of financial position obligations.

B. Basis of presentation of consolidation

Subsidiaries

Subsidiaries companies are controlled by the bank, control exists when the bank has the power directly or indirectly to govern the financial and operating policies of an entity to obtain benefits from its activities. This is usually achieved when the bank owns, directly or indirectly, through subsidiaries, more than half of the voting power of an entity (when the bank's shareholding portion exceeding directly or indirectly 50% of the paid up capital of the subsidiary), the existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

The Group fully consolidates its subsidiaries from the effective date in which control is obtained and deconsolidates them when such control ceases to exist.

Information on subsidiaries is set out below for companies which are combined in the bank's consolidated financial statements as of 30 September 2021.

	Direct & indirect share %
Holding company for Investment and Development	92%
Housing and development company for real-estate investment	94,96%
El-Tameer company for financial and real estate investment banking	94,20%
El-Tameer company General and environmental services – Hemaya	85,92%
El-Tameer company for real estate and touristic asset Management	62,62%
Real estate development fund – Nemmo	93,83%
Information and electronical transactions services company	86,92%
El-Tameer company for real estate development and investment	92,77%
Hemaya company for security and money transfer	94,82%
HD for leasing	97.11%

HOUSING AND DEVELOPMENT BANK
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

Basis of Combinations

During the preparation of consolidated financial statements, the bank combines the consolidated financial statement with subsidiary companies financial statements, through the combination of similar items of assets, liabilities, owner's equity, revenues and expenses for the purpose of presenting the consolidated financial statement as of one business unit, going through following steps during the preparation of consolidated financial statement:

- Elimination of the book value for investments in subsidiary company according to Equity method, including share of holding company in the equity of each subsidiary company.
- Non-controlling interest in profit/ loss of subsidiaries is considered during the fiscal year in the preparation of the financial reports.
- Non-controlling interest in net assets of the subsidiaries is determined during the preparation of consolidated financial statements and presented in the consolidated financial statements in the owner's equity of holding company.
- Elimination of all interrelated revenues and expenses transactions between the subsidiaries within the group.
- Elimination of all balances resulted from the transactions between the subsidiaries within the group, also group transactions including revenues, expenses and dividends, besides elimination of all revenues and losses resulted of such transactions and recognized in the assets value.
- The financial statements are presented using same accounting policies for similar transactions and same events under same circumstances.

B.2. Associates

According to the equity method, an investment in an associate is initially recognized in the statement of financial position at cost and is subsequently adjusted to recognize the Group's share in profit or loss, and other changes in the net assets, of the associate.

C. Translation of Foreign Currencies

C.1. Functional and presentation currency

The financial statements are presented in Egyptian pound, which is the bank's functional and presentation currency.

C.2. Functions and balances in foreign currencies

The bank maintains its accounts in Egyptian pound and transactions are recorded in foreign currencies during the financial year on the basis of prevailing exchange rates at the date of the transaction, monetary assets and liabilities denominated in foreign currencies are retranslated at the end of the financial year on the basis of prevailing exchange rates at that date. Foreign exchange gains and losses resulting from the settlement and translation of such transactions and balances are recognized in the income statement and reported under the following items:

- Net income from financial assets at fair value through profit and loss/or net income from financial instruments classified at fair value through profit and loss at the date of inception of the assets/liabilities or those classified at the date of inception with its fair value through profits and losses according to their type.
- Shareholders' equity of financial derivatives as a coverage for cash flow/net investment or as a coverage for net investment.
- Other operating income (expenses) for the other items.
- Changes in fair value of financial instruments denominated in foreign currency classified at fair value through other comprehensive income (debt instruments) is analyzed between valuation differences from changes in amortized cost of the instrument, differences resulted from changes in the prevailing exchange rates, differences resulted from changes in the fair value of the instrument, and differences resulted from the impairment of the financial assets. Those changes are recognized in the income statement as income on loans and similar items regarding changes in amortized cost and differences related to changes in the exchange rate are recognized as other operating income(expense), changes in fair value are recognized in equity(Other comprehensive income/Financial assets at fair value through other profit and loss).

Evaluation differences resulting from non-monetary items include profit and loss resulting from changes in fair value such as equity instruments held at fair value through profit and loss, while evaluation differences resulting from equity instruments classified as financial assets at fair value through other comprehensive income are recognized as other comprehensive income.

D. Financial Assets

D.1. Recognition

The Bank classifies its financial assets into the following categories: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and amortized cost. Management determines the classification of its investments at initial recognition.

D.2. Classification

Financial assets Policies applied starting from January 01, 2019:

At the time of initial recognition, the bank determines the classification of financial assets to be classified as amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

Financial asset classified as amortized cost if the following two conditions are met and was not recognized at inception date by the bank as fair value through profit or loss:

- The financial asset is retained in the business model of financial assets held to collect contractual cash flow.

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- The contractual terms of the financial asset at specific dates result in contractual cash flows of the asset represented only in the principal financial instrument amount and the return.

Financial assets classified as fair value through other comprehensive income if the following two conditions are met and was not recognized at inception date by the bank as fair value through profit or loss:

- The financial asset is retained in the business model of financial assets held to collect contractual cash flows and sales.
- The contractual terms of the financial asset at specific dates result in contractual cash flows of the asset represented only in the principal financial instrument amount and the return.
- The debt instrument that was not allocated at the initial recognition at the fair value through profit or loss is measured at the fair value through other comprehensive income if both of the following conditions are met:
 - The financial asset is retained in the business model that aims to collect contractual cash flows and sell the financial asset.
 - The contractual terms of the financial asset on specific dates result in cash flows of the asset and not represented only the principal debt and the return.
- Upon the initial recognition of an equity instrument that not held at fair value through profit and loss, the bank may make an irrevocable choice to present subsequent changes in the fair value through the other comprehensive income statement. This choice shall be made for each investment individually.
- The remaining financial assets are classified as investments at the fair value through profit or loss

In addition, upon the initial recognition, the bank may irrevocably allocate a financial asset measured at the fair value through profit or loss, although it meets the criteria of classification as a financial asset at amortized cost or at the fair value through other comprehensive income, if this action substantially reduces the inconsistency that may arise in the accounting measurement.

Business models Evaluation

1) Following debt and equity instruments are classified and measured according to the following:

Financial Instrument	Methods of Measurement According to the Business Model		
	Amortized Cost	Fair Value	
		Through Comprehensive Income	Through Profit or Loss
Equity Instruments		One-time irrevocable choice at the initial recognition	Normal transaction of equity instruments.
Debt Instruments	Business model of assets held to collect contractual cash flows.	Business model of assets held to collect contractual cash flows and sale.	Business model of assets held for trading.

2) The bank prepares, documents and approves a business model in accordance with the requirements of the IFRS 9 in a way that reflects the Bank's strategy to manage the financial assets and their cash flows as follows:

Financial Asset	Business Model	Basic Characteristics
Financial assets at amortized cost	Business model of financial assets held to collect contractual cash flows	<ul style="list-style-type: none"> ▪ The business model is aimed to retain the financial assets to collect the contractual cash flows of the investment principal amount and the revenues. ▪ The sale is an exceptional action comparing to the purpose of this model and the terms of the standard represented in the deterioration in the creditworthiness of the financial instrument issuer. ▪ Less sales in terms of frequency and value. ▪ The bank performs a clear and reliable documentation of the rationale of each sale process and its compliance with the requirements of the Standard.