GarantiBank
International N.V.

REPORT ON CAPITAL ADEQUACY and RISK MANAGEMENT
2014

CONTENTS

List of Abbreviations

ACCSB	Audit & Compliance Committee of the Supervisory Board	ICAAP	Internal Capital Adequacy Assessment Process
ALCO	Asset & Liability Committee	ICU	Internal Control Unit
AVA	Additional Valuation Adjustment	ILAAP	Internal Liquidity Adequacy Assessment Process
BIA	Basic Indicator Approach	IRB	Internal Ratings Based
CCF	Credit Conversion Factor	IRRBB	Interest Rate Risk on the Banking Book
CCR	Counterparty Credit Risk	IRS	Interest Rate Swap
CC	Credit Committee	ISD	Information Security Department
CD	Credits Division	ISDA	International Swaps and Derivatives Association
CDS	Credit Default Swap	ITP	Internal Transfer Pricing
CET 1	Common Equity Tier 1	LCD	Legal & Compliance Department
CIS	Commonwealth of Independent States	LCR	Liquidity Coverage Ratio
COBIT	Control Objectives for Information and Related Technology	LGD	Loss Given Default
CRD	Capital Requirements Directive	MB	Managing Board
CRR	Capital Requirements Regulation	MO	Middle Office
CSA	Credit Support Annex	NSFR	Net Stable Funding Ratio
DNB	De Nederlandsche Bank	PD	Probability of Default
EAD	Exposure at Default	RCAP	Regulatory Capital
EaR	Earnings at Risk	RCSB	Risk Committee of the Supervisory Board
EBA	European Banking Authority	RMD	Risk Management Department
ECAP	Economic Capital	ROE	Return on Equity
EDTF	Enhanced Disclosure Task Force	RWA	Risk Weighted Assets
EVE	Economic Value of Equity	SA	Standardised Approach
F-IRB	Foundation Internal Ratings Based	SB	Supervisory Board
FIRM	Financial Institutions Risk Analysis Method	SFT	Securities lending or borrowing transactions
FRA	Forward Rate Agreement	SMA	Standardised Measurement Approach
FSA	Financial Supervision Act	SSC	Supervisory Slotting Criteria
GMRA	Global Master Repurchase Agreement	VaR	Value at Risk
IAD	Internal Audit Department		

1. Introduction

Financial institutions have to fulfil several disclosure requirements as per Part Eight of the Capital Requirements Regulation (CRR). The aim is to make information available to the public relating to solvency aspects and the risk profile of the institution. This document contains the Pillar III disclosures of GarantiBank International N.V. (hereafter referred to as “GBI”) as at 31 December 2014 and should be read in conjunction with the Annual Report of GBI.

2. Scope of Application

The scope of application of the Pillar III requirements is confined to GBI and its branch. The information disclosed in this document is not subject to an external audit, but is verified and approved independently within GBI.

3. Risk Governance at GBI

The risk management culture at GBI has been established as a key element of the Bank’s strategy, with an emphasis on risk awareness at all levels of the organization. GBI has established an adequate segregation of duties and responsibilities with a view to a controlled pursuit of the business operations. Risk management is structured under various levels within the organization. These levels are composed of committees at the Supervisory Board Level, committees at the Bank level and in the form of separate risk and control division and departments. The committees which form the backbone of risk governance at GBI are established as per the segregation of duties principle and are supported by the related divisions and departments that have explicit risk management responsibilities as specified below.

The Supervisory Board (SB) monitors the risk policy pursued by the Bank, and approves the risk appetite proposed by the Managing Board (MB) on at least an annual basis. The Risk Committee of the Supervisory Board (RCSB) advises the SB in the performance of its supervisory role, and also ensures that effective risk management is conducted by the Bank in line with the risk appetite. RCSB is responsible for monitoring all material risks and adequacy of capital and liquidity, at Supervisory Board level. The Audit & Compliance Committee of the Supervisory Board (ACCSB) is the ultimate authority related with the independent function of audit and compliance related issues, at Supervisory Board level. The Risk Management Committee (RMC) is responsible for the coordination and monitoring of risk management activities within the Bank, and reports directly to the RCSB. Other committees are established to manage more specifically the key banking risks; the Credit Committee for credit risk, Asset & Liability Committee (ALCO) for market, interest rate and liquidity risks, Credit Committee for credit risk, Compliance Committee for compliance risks and the New Product Development Committee for risks related to the introduction of new products/services.

The Risk Management Department (RMD) is an independent risk monitoring function, which does not have any involvement in commercial activities and reports directly to RMC and RCSB. RMD is responsible for the quantification and monitoring of the material risks in terms of economic capital, regulatory capital and liquidity in order to limit the impact of potential events on the financial performance of the Bank. RMD develops and implements risk policies, procedures, methodologies and infrastructures that are consistent with the regulatory requirements and best market practices. RMD also coordinates all efforts for compliance of the Bank’s risk management policies and practices with CRD, CRR, Basel principles and the Financial Supervision Act (FSA, Wet op het financieel toezicht / Wft). The Internal Control Unit (ICU), under RMD, is involved in the monitoring and reporting of operational risks and establishing preventive control processes.

The Credits Division (CD) is established as a separate risk control function, independent of the business lines, and ensures that effective processes are in place for the continuous administration and monitoring of credit risk and that the composition and the diversification of the loan portfolio are in line with the lending strategy of the Bank. The Internal Audit Department (IAD) is responsible for assessing the soundness and effectiveness of systems, internal control procedures and rules of the Bank through regular audits, and reports on these to the ACCSB. The Legal and Compliance Department (LCD) operates independently from any commercial unit and reports directly to the Managing Board, Compliance Committee and ACCSB. Information Security Department (ISD) is an independent risk control department that carries out the monitoring process related with IT risks in a systematic manner.

4. Risk Appetite of GBI

GBI defines risk appetite as a core consideration with quantitative and qualitative key risk indicators, as well as in terms of meeting the regulatory, corporate governance and stakeholder requirements. The Bank's appetite with respect to risks is defined via a layered structure, which translates these objectives into metrics that can be measured and managed. Those layers consist of capital adequacy, return on equity and liquidity.

Firstly, GBI prefers to have a strong capital base with a high Tier 1 component. Secondly, the performance aim of the Bank is to have a return on equity (ROE) that is stable in the long term and satisfies the stakeholders, including the shareholders, while maintaining her core competencies and strategic position in the key markets. Thirdly, GBI's liquidity risk policy is to maintain sufficient liquidity in order to ensure safe banking operations and a sound financial condition in normal and stressed financial environments and a stable long term liquidity profile. These three objectives are supported by the limit framework for each risk type.

GBI ensures that the risk strategy and targets are aligned throughout the organisation, from the top down and the bottom up. The high-level management policies, which are also subject to the final approval of the Supervisory Board, outline the framework for translating the Board-approved risk appetite into quantitative limits, and the governance for their monitoring and management.

5. Own Funds

GBI's capital base consists of two parts: Tier 1 and Tier 2 capital. Tier 1 capital is made up of Common Equity Tier 1 (CET 1) and additional Tier 1. The CET 1 capital of GBI consists of fully paid-in capital, other reserves and retained earnings including current year profit[1]. GBI's Tier 1 is equal to its CET 1 as there are no other hybrid capital products which could qualify as additional Tier 1 capital.

There are various deductions from CET 1 capital, based on the CRR. Intangible assets net of tax liabilities are deducted in full from CET 1 capital (Article 36 of CRR). An additional valuation adjustment (AVA) related to fair valued assets and liabilities is made to CET 1 capital (Article 34 of CRR). Lastly, if expected loss of exposures exceeds provisions, 60%[2] of the shortfall is deducted from CET 1 capital. In GBI's case, there is a shortfall of general provisions compared to performing exposures, and hence a proportional deduction from CET 1 capital.

[1] The current year profit is added to CET 1 capital biannually, after the financial statements have been independently reviewed and the DNB has given permission.

[2] CRR changes the treatment of the 'expected loss shortfall'; previously, this difference, if negative, was deducted 50%-50% from Tier 1 and Tier 2 capital. As per the CRR *(Article 36.1.d)*, the difference must be fully deducted from Common Equity Tier 1. However, this change will be phased in until 2018 (*Article 469.1.a of CRR, and Article 5.5.1 of DNB CRD IV and CRR Specific Provisions Regulation*), with a 60%-40% deduction in 2014.

Tier 2 capital of GBI consists of subordinated debt. Tier 2 capital instruments are subject to gradual amortization in case the remaining maturity of the debt falls below five years. No amortization is applied on the Tier 2 capital of GBI as the remaining maturity of the instrument is higher than five years. The main features of the Tier 2 instrument are provided in Annex 1.

There are also further deductions from Tier 2 capital. The remaining 40% of the shortfall of general provisions, of which 60% was deducted from CET 1 capital, is deducted from Tier 2 capital. On the other hand, the excess of specific provisions over impaired exposures is added back to Tier 2[3]. Additionally, any excess holdings of own funds instruments of other financial institutions above 10% of the Bank's own CET 1 capital is deducted from the respective level of own funds; in GBI's case, holdings of Tier 2 instruments above the threshold are thus deducted from Tier 2.

Please find below an overview of GBI's own funds composition as at 31.12.2014.

Table 5-1

(EUR 1,000)	**31.12.2014**	**31.12.2013**	**Change**
CET 1			
Paid-in and called-up capital	136,836	136,836	-
Retained earnings	30,627	58,479	-27,852
Other reserves	352,089	293,610	58,479
IRB provision shortfall - 60%	-8,904	-3,670	-5,234
Deduction of intangible fixed assets	-4,437	-3,089	-1,348
AVA	-31	-	-31
TOTAL CET 1	**506,180**	**482,166**	**24,014**
TOTAL Tier 1	**506,180**	**482,166**	**24,014**
Tier 2			
Subordinated debt	30,000	30,000	-
IRB provision excess	277	-	277
IRB provision shortfall - 40%	-5,936	-3,670	-2,266
Other deductions[4]	-1,450	-	-1,450
TOTAL Tier 2	**22,891**	**26,330**	**-3,439**
TOTAL Own Funds	**529,071**	**508,496**	**20,575**

Total own funds of GBI increased by 4% in 2014 mainly due to the profit retention policy of the Bank. GBI recorded a net profit of EUR 45.8 million in 2014. However only EUR 30.6 million, taking into account the latest audited net profit until and including 30 June 2014, in line with the reports submitted to De Nederlandsche Bank (DNB).The relationship between GBI's Own Funds and accounting capital is shown in the table below. Further details of the Bank's own funds may be found in GBI's *"Annual Report 2014*".

[3] Excess of specific provisions is added to Tier 2, as per Article 62 of the CRR
[4] Includes holdings of T2 instruments of other credit and financial institutions over the threshold of 10% of the Bank's own CET1 capital

Table 5-2

(EUR 1,000)	31.12.2014	of which is eligible as CET 1
Paid up capital	136,836	136,836
Revaluation reserves	1,149	-
Other reserves	352,089	352,089
Profit current year	45,761	30,627
Shareholders' equity (Accounting Capital)	**535,835**	**519,552**
IRB provision shortfall - 60%		-8,904
Deduction of intangible fixed assets		-4,437
AVA		-31
Total CET 1 capital		**506,180**
Total Tier 1 capital		**506,180**
Total Tier 2 capital		**22,891**
Total Own Funds		**529,071**

6. Regulatory Capital Requirements

Total of Tier 1 and Tier 2 capital should correspond to at least 8% of the Banks' risk weighted assets, of which Tier 1 capital must constitute at least 6%.

GBI applies the Foundation Internal Ratings Based (F-IRB) Approach for credit risk of Corporate, Institution and Sovereign portfolios since 1 January 2008 based on the permission obtained from DNB. Exposures related with Retail and Private Banking, as well as counterparties in other asset classes which cannot be rated by any of the internal rating models, are subject to permanent exemption from F-IRB and are treated under the Standardised Approach (SA). GBI uses the Standardised Measurement Approach (SMA) for market risk and the Basic Indicator Approach (BIA) for operational risk in the calculation of the minimum level of required capital. In the table below, an overview of the capital requirement and gross credit risk exposure[5] at 31.12.2014 is presented.

Table 6-1

(EUR 1,000)	31.12.2014		31.12.2013		Change	
	Gross Exposure	**Capital Req.**	**Gross Exposure**	**Capital Req.**	**Gross Exposure**	**Capital Req.**
Credit Risk	**5,311,042**	**222,027**	**4,849,351**	**187,730**	**461,691**	**34,297**
F-IRB approach:						
Central Gov. & Central Banks[6]	880,808	6,788	680,048	14,074	200,760	-7,286
Institutions[7]	1,308,311	77,807	1,412,128	64,896	-103,817	12,911
Corporates	2,434,403	107,055	2,173,520	81,438	260,883	25,617
Corporates (Specialised Lending)	532,055	22,984	463,619	21,897	68,436	1,087
Total F-IRB approach	***5,155,577***	***214,634***	***4,729,315***	***182,305***	***426,262***	***32,329***
Standardised approach:						
Institutions	46,239	1,822	1,699	39	44,540	1,783
Corporates	78,895	3,353	84,709	2,981	-5,814	372
Retail	8,962	508	14,581	881	-5,619	-373
Equity	-	-	250	20	-250	-20
Other non credit-obligation assets	21,369	1,710	18,797	1,504	2,572	206
Total Standardised approach	***155,465***	***7,393***	***120,036***	***5,425***	***35,429***	***1,968***

[5] Balance sheet and off balance sheet items, before collateral mitigation and after provisions
[6] As per Article 150 of the CRR, sovereign exposures of EUR 793.1 mio (2013: EUR 498.4 mio) are treated under SA and being exposures to EU member states, receive a 0% risk weight. However, these are still classified under IRB in this table with the rest of the sovereign asset class.
[7] Throughout this document, "Institutions" consist of credit institutions as defined under Article 4(1) of the CRR, and includes both institutions established in the EU, and in third countries.

(EUR 1,000)	31.12.2014		31.12.2013		Change	
	Gross Exposure	**Capital Req.**	**Gross Exposure**	**Capital Req.**	**Gross Exposure**	**Capital Req.**
Counterparty Credit Risk (CCR)	**254,199**	**2,049**	**686,726**	**6,974**	**-432,527**	**-4,925**
F-IRB approach:						
Central Gov. & Central Banks[8]	150,576	-	-	-	150,576	-
Institutions	69,293	976	492,987	1,972	-423,694	-996
Corporates	9,456	694	4,664	253	4,792	441
Corporates (Specialised Lending)	240	22	740	68	-500	-46
Total F-IRB approach	***229,565***	***1,692***	***498,391***	***2,293***	***-268,826***	***-601***
Standardised approach:						
Institutions	4,643	104	90,890	628	-86,247	-524
Corporates	16,526	227	92,933	3,961	-76,407	-3,734
Retail	3,465	26	4,512	92	-1,047	-66
Total Standardised approach	***24,634***	***357***	***188,335***	***4,681***	***-163,701***	***-4,324***
Total Credit Risk & CCR	**5,565,241**	**224,076**	**5,536,077**	**194,704**	**29,164**	**29,372**
Credit Valuation Adjustment (CVA)		**1,032**		**-**		**1,032**
Total Market Risk (SMA)		**2,987**		**118**		**2,869**
Total Operational Risk (BIA)		**14,393**		**14,850**		**-457**
Total Capital Requirement		**242,488**		**209,672**		**32,816**
Total RWA		**3,031,100**		**2,620,900**		**410,200**
Tier 1 Ratio		**16.70%**		**18.40%**		**-1.70%**
Solvency Ratio		**17.45%**		**19.40%**		**-1.95%**

The capital requirement under Pillar 1 is EUR 242.5 million. The largest part (92%) of the capital requirement relates to credit risk[9]. 97% of the credit risk weighted assets are treated under F-IRB approach.

GBI operates at a comfortable solvency level of 17.45% with a strong Tier 1 component of 16.70%. This solvency level provides a robust base to the Bank for the full phase-in of CRD IV. This is a decrease of around 2% compared to the 19.40% of last year, of which 1.78 % is a direct result of the higher credit risk capital requirements of the CRR, particularly in the institutions asset class. An overview of CRD IV/CRR is provided in Section 9.

6.1. Credit Risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the institution or otherwise fail to perform as agreed. At GBI, credit risk arises mainly from trade and commodity finance, structured finance and treasury activities. GBI is mainly involved in low default portfolios such as sovereigns, banks, large corporate companies and trade finance activities. Within the credit risk framework of GBI the counterparties are classified as per their characteristics and subsequently specific processes are applied to effectively cope with credit risks. All business flows implying credit risk are routed via the CD that in turn is subdivided into separate teams responsible for assessing and managing credit risks pertinent to corporate counterparties, financial institutions and sovereigns. The aggregation of business flows in the CD allows adequate evaluation of the global balance of risks and exposures.

The risk assessment approaches for different types of counterparties within the above mentioned subdivisions are different and adjusted to the specific properties of each subdivision type (e.g. financial institutions, non-bank financial institutions, commodity trading companies, corporates etc.) and to the variety of transactions typically handled (e.g. trade finance, shipping finance, treasury, private banking etc.).

[8] As per DNB's national discretion sovereign exposures of EUR 150.6 mio (2013: EUR 0 mio) which satisfy the 0% risk weight condition are classified under IRB in this table

[9] Including counterparty credit risk

Being an F-IRB Bank, GBI has dedicated internal rating models to evaluate the creditworthiness of counterparties. The rating models are integrated in the credit decision making and monitoring processes. Credit rating models serve as a basis for the calculation of regulatory capital and economic capital that GBI has to maintain to cover expected and unexpected losses from its lending activities. Ratings are also integral parts of pricing and risk based performance measurement processes. All rating models are validated by independent third party experts on an annual basis. IAD also reviews the use of the models and the data quality.

The Credit Committee (CC) is responsible for the control of all credit risks arising from the banking book and the trading book, i.e. counterparty risks and concentration risks. The effectiveness of risk monitoring is supported by internal systems ensuring proper compliance with the principle of segregation of duties and authorization levels. Every transaction under approved credit limits requires a number of authorizations and controls prior to execution and cannot be finalized without those processes. Under this structure, every commercial initiative goes through multiple checks and is inputted in the operating system by authorized personnel who are functionally separated from the personnel with commercial targets. Regular monitoring of GBI's exposure and compliance with the established credit limits ensures timely management of credit risk. The exposures to various customers, business lines and geographical locations are monitored on a daily basis by assigned relationship managers and credit officers, while compliance with the established limits is controlled by CD that provides independent judgement.

The credit follow-up process is divided into two main parts; follow-up of the customer and follow-up of the credit facility itself. The follow-up of the customer is associated with the credit risk, whereas follow-up of the credit facility (e.g. documentation) is related to credit risk mitigation and operational risk. The credit facility follow-up is a dynamic process and is categorized as; performing, watch list, impaired, provisioned and write-off stages. All shifts within those categories either in the direction of downgrading or upgrading, require the approval of related credit committee. A loan may be shifted to the watch list based on the events outlaid in pre-defined warning signals.

The internal information system of GBI offers great possibility in delivering information on a regular and ad-hoc basis and allows producing a variety of regular reports that comprise all exposures and concentrations by, among others, geographical location, sector, and borrower.

6.1.1. Exposure Amounts before Credit Risk Mitigation

The total credit exposure, including on balance sheet exposure, off balance sheet liabilities and counterparty credit risk exposure, after provisions and before credit risk mitigation is as follows:

Table 6.1.1

(EUR 1,000)	Average Exposure 2014	Total Exposure Q4-2014	Q3-2014	Q2-2014	Q1-2014
Central Gov. & Central Banks	553,473	1,031,384	377,420	332,096	472,991
Institutions	1,450,007	1,428,486	1,396,785	1,475,827	1,498,930
Corporate	3,071,532	3,071,575	3,107,929	3,109,513	2,997,112
Retail	13,305	12,427	11,640	13,413	15,741
Equity	156	-	125	250	250
Other non credit-obligation assets	19,688	21,369	19,090	19,093	19,199
Total	**5,108,161**	**5,565,241**	**4,912,989**	**4,950,192**	**5,004,223**

The average exposure remained at similar levels compared to EUR 5,197 million in 2013.

6.1.2. Off-Balance Sheet Exposure Amounts

The off-balance sheet exposures are broken down to the transaction types shown in the table below. For regulatory capital calculations, the exposure values of off-balance sheet items are determined by multiplying the notional amounts with a Credit Conversion Factor (CCF), based on a regulatory 'risk classification'. The increase in total off-balance sheet exposure compared to 2013 is mainly driven by the increase in other commitments, which mostly relates to unutilized part of the committed credit limits.

Table 6.1.2-1

(EUR 1,000)		31.12.2014	31.12.2013	Difference
Guarantees		**48,815**	**41,077**	**7,738**
	100%	48,815	41,077	7,738
	75%	-	-	-
	20%	-	-	-
	0%	-	-	-
Irrevocable letters of credit		**271,072**	**256,719**	**14,353**
	100%	-	6,438	-6,438
	75%	-	-	-
	20%	271,072	250,281	20,791
	0%	-	-	-
Other commitments		**146,736**	**87,218**	**59,518**
	100%	23,047	3,408	19,639
	75%	123,155	83,392	39,763
	20%	-	-	-
	0%	534	418	116
Total		**466,623**	**385,014**	**81,609**

6.1.3. Geographical Breakdown of the Exposures

The following table gives an overview of the geographical breakdown[10] of gross exposure by material exposure classes based on customer residence. The share of gross exposures in Turkey has decreased compared to 2013, shifting towards the Netherlands and other European countries.

Table 6.1.3

(EUR 1,000)	The Netherlands	Other Europe	Turkey	CIS countries	Rest of the World	Total
31.12.2014						
Central Gov. & Central Banks	749,738	202,177	79,469	-	-	1,031,384
Institutions	76,666	250,613	774,454	119,913	206,840	1,428,486
Corporates	319,176	1,227,938	938,479	91,115	494,867	3,071,575
Retail	3,193	2,995	6,060	176	3	12,427
Equity	-	-	-	-	-	-
Other non credit-obligation assets	20,634	735	-	-	-	21,369
Total	**1,169,407**	**1,684,458**	**1,798,462**	**211,204**	**701,710**	**5,565,241**
Percentage of total	21.01%	30.27%	32.32%	3.80%	12.61%	100.00%

[10] The geographical breakdown of assets and off-balance sheet liabilities is also provided in Section 31.1.a of GBI's *"Annual Report 2014"*. Nevertheless the figures in annual report do not include cash held at the central bank, non-credit obligations together with the counterparty credit risk.

(EUR 1,000)	The Netherlands	Other Europe	Turkey	CIS countries	Rest of the World	Total
31.12.2013						
Central Gov. & Central Banks	483,216	107,199	89,633	-	-	680,048
Institutions	166,965	566,450	884,638	286,816	92,835	1,997,704
Corporates	249,666	864,751	1,091,265	134,425	480,078	2,820,185
Retail	4,413	3,467	9,787	1,426	-	19,093
Equity	250	-	-	-	-	250
Other non credit-obligation assets	16,861	1,936	-	-	-	18,797
Total	**921,371**	**1,543,803**	**2,075,323**	**422,667**	**572,913**	**5,536,077**
Percentage of total	16.64%	27.89%	37.49%	7.63%	10.35%	100.00%

6.1.4. Effective Maturity Breakdown

GBI mainly enters into transactions with short maturities as a result of its business model. The vast majority of the exposures are with residual maturity less than one year. The effective maturity breakdown of gross exposure based on exposure classes is as follows:

Table 6.1.4

(EUR 1,000)	< 3 Months	< 6 Months	< 1 Year	< 2 Years	< 3 Years	<= 5 Years	Total
31.12.2014							
Central Gov. & Central Banks	753,423	-	-	-	-	277,961	1,031,384
Institutions	464,082	180,036	334,122	9,940	21,426	418,880	1,428,486
Corporates	1,508,466	446,236	461,044	290,838	124,643	240,348	3,071,575
Retail	4,173	108	2,044	209	1,435	4,458	12,427
Equity	-	-	-	-	-	-	-
Other non credit-obligation assets	-	-	-	-	-	21,369	21,369
Total	**2,730,144**	**626,380**	**797,210**	**300,987**	**147,504**	**963,016**	**5,565,241**
Percentage of total	49.06%	11.26%	14.32%	5.41%	2.65%	17.30%	100.00%
31.12.2013							
Central Gov. & Central Banks	488,695	-	-	-	-	191,353	680,048
Institutions	971,603	254,740	350,802	40,775	7,426	372,358	1,997,704
Corporates	1,429,841	327,724	318,897	302,790	238,448	202,485	2,820,185
Retail	9,787	464	2,664	303	130	5,745	19,093
Equity	250	-	-	-	-	-	250
Other non credit-obligation assets	-	-	-	-	-	18,797	18,797
Total	**2,900,176**	**582,928**	**672,363**	**343,868**	**246,004**	**790,738**	**5,536,077**
Percentage of total	52.39%	10.53%	12.15%	6.21%	4.44%	14.28%	100.00%

74.64% of the total credit exposures have effective maturity of lower than one year compared to 75.07% in 2013.

6.1.5. Breakdown of the Exposures by Sector

The breakdown of gross exposure[11] by sector and exposure class is as follows:

Table 6.1.5

(EUR 1,000)	31.12.2014		31.12.2013	
	Total	**% of Total**	**Total**	**% of Total**
Central Gov. & Central Banks	**1,031,384**	**18.53%**	**680,048**	**12.28%**
Institutions	**1,428,486**	**25.67%**	**1,997,705**	**36.09%**
Corporates	**3,071,575**	**55.19%**	**2,820,185**	**50.94%**
Agriculture	180,921	3.25%	171,298	3.09%
Automotive	160,867	2.89%	26,754	0.48%
Basic materials	564,147	10.14%	461,191	8.33%
Chemicals	264,632	4.76%	274,716	4.96%
Construction	36,681	0.66%	58,148	1.05%
Consumer products	221,475	3.98%	149,185	2.69%
Financial services	521,775	9.38%	619,947	11.20%
Food, beverages and tobacco	106,568	1.91%	92,869	1.68%
Insurance and pension funds	-	-	10,057	0.18%
Leisure and Tourism	34,840	0.63%	6,200	0.11%
Oil and Gas	439,062	7.89%	352,480	6.37%
Other	172,185	3.09%	228,146	4.12%
Pharmaceuticals	20,623	0.37%	-	-
Services	2,021	0.04%	3,026	0.05%
Telecom	92,493	1.66%	112,291	2.03%
Transport and logistics	184,689	3.32%	209,595	3.79%
Utilities	45,944	0.83%	28,723	0.52%
Wholesale	22,652	0.41%	15,561	0.28%
Retail	**12,427**	**0.22%**	**19,093**	**0.34%**
Equity	**-**	**-**	**250**	**0.00%**
Other non-credit obligation assets	**21,369**	**0.38%**	**18,797**	**0.34%**
Total	**5,565,241**	**100.00%**	**5,536,078**	**100.00%**

6.1.6. Past Due and Impaired Exposures, Provisions and Value Adjustments

A loan is recognized as impaired if there is an objective evidence of impairment. This evidence could be given by, but is not limited to, the events listed below:

- It is probable that the borrower will enter bankruptcy or other financial reorganization.
- The debtor has payment defaults against third parties; customers, banks, employees, etc.
- The debtor has been in arrears for at least 90 days with regard to repayment of principal and/or interest.
- Observable data indicates that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.
- A breach of contract, such as a default or delinquency in interest or principal payments
- Significant financial difficulty of the issuer or obligor.
- The disappearance of an active market for that financial asset because of financial difficulties.

For impaired loans, GBI attempts to ensure recovery by restructuring, obtaining additional collateral and/or proceeding with legal actions. Provisions are established by the Credit Committee, for the

[11] Breakdown by sector for loans and advances is also provided in Section 31.1.c of GBI's *"Annual Report 2014"*. However, the table above includes all exposures subject to credit risk calculation, thus also including cash, exposures to banks, interest-bearing securities, off-balance sheet exposures and counterparty credit risk.

outstanding amount of the defaulted credit facility after deduction of expected recoveries and/or liquidation value of the collaterals. The impaired credit facility is further proposed for write-off after all possible means of recovery have been exhausted. Below table provides information on the impaired loans and provisions by exposure class:

Table 6.1.6-1

(EUR 1,000)	31.12.2014		31.12.2013	
	Impairment[12]	Provisions	Impairment[12]	Provisions
Corporates	129,348	60,922	85,282	44,715
Retail	307	307	617	617
Total	**129,655**	**61,229**	**85,899**	**45,332**
Loan Loss Reserve Ratio	**47.2%**		**52.8%**	

Loan loss provisions are at the 47.2% level, which is slightly lower than 52.8% in 2013. The table below gives an overview of the impaired and past due exposures and the provisions set aside by the residence of the counterparty:

Table 6.1.6-2

(EUR 1,000)	Impaired Exposures	Provisions for Impairment
31.12.2014		
The Netherlands	112	112
Other Europe	65,063	27,786
CIS countries	30,396	18,667
Rest of the world	31,684	12,392
Turkey	2,400	2,272
Total	**129,655**	**61,229**
31.12.2013		
The Netherlands	1,788	1,788
Other Europe	34,301	20,325
CIS countries	21,667	9,514
Rest of the world	27,567	13,224
Turkey	576	480
Total	**85,899**	**45,332**

An exposure is past due if a debtor has failed to make a payment of principal and/or interest when contractually due. There is no 90 days past due amount which is not provisioned at 31.12.2014.

The actual value adjustments in the preceding periods for each exposure class are as follows:

Table 6.1.6-3

(EUR 1,000)	31.12.2014	31.12.2013
Position as of 1 January	45,332	31,542
Additions	28,192	20,809
Write-offs	-7,689	-437
Releases	-9,480	-5,383
Exchange rate differences	4,874	-1,199
Position as of 31 December	**61,229**	**45,332**

The net provision for loan losses increased to EUR 61.2 million from EUR 45.3 million.

[12] Impaired exposures after deduction of financial collaterals and including the noncash exposures to the impaired customers.

6.1.7. Counterparty Credit Risk

The exposure value of the counterparty credit risk is calculated according to Part Three, Title II, Chapter 6, Section 3 of the CRR. Establishment of a credit limit for counterparty credit risk includes, but is not limited to, for the products below:

- Spot and forward foreign exchange (FX) transactions
- Currency transactions including currency swaps
- Options
- Forward rate agreement (FRA)
- Interest rate swaps (IRS)
- Credit default swaps (CDS)
- Securities lending or borrowing transactions (SFTs)

Wrong-way risk refers to the risk that exposure to the counterparty is positively correlated to the counterparty's probability of default. GBI does not have exposure to such specific wrong-way risk.

Derivatives transactions with professional market participants are subject to the Credit Support Annex (CSA) of the International Swaps and Derivatives Association (ISDA) derivatives agreements. Therefore the Bank could be in a position to provide or require additional collateral as a result of fluctuations in the market value of derivatives. The amount of collateral provided under these agreements is disclosed under section 30 (Pledged assets) of GBI's "*Annual Report 2014*".

Some of the Bank's agreements contain 'Additional Termination Event' clauses based on potential downgrades. However, the Bank does not underwrite any credit derivatives, and uses only simple products related to FX and interest rate risk hedging. Moreover, all derivatives under CSAs are marked-to-market daily and collateral is posted to or received from the counterparty on a daily basis. As such, in the occurrence of an Additional Termination Event the Bank would not face an additional cash outflow. For derivatives transactions with clients the Bank is not obliged to provide collateral, but it is entitled to receive collateral from clients, hence there is no potential liquidity risk for the Bank. The repurchase transactions are subject to the Global Master Repurchase Agreement (GMRA).

The decrease in the positive replacement value of derivatives together with the decrease in the repurchase transactions, have decreased the total counterparty credit risk in 2014 compared to 2013. The credit exposures of the derivative transactions are calculated by using Mark-to-market Method and eligible collaterals are accounted for, where applicable.

Table 6.1.7-1 demonstrates the steps in the calculation of net derivatives credit exposure.

Table 6.1.7-1

(EUR 1,000)	Positive Replacement Value	Potential Future Credit Exposure	Exposure Value[13]	Collateral Held	Net Exposure[14]
31.12.2014					
Repurchase transactions	-	-	150,576	119,000	31,576
Interest rate derivatives	68	4,218	4,286	-	4,286
FX derivatives and Options	42,708	44,093	86,801	12,314	74,488
Other derivatives	6,098	6,454	12,552	4,512	8,040
Total	**48,874**	**54,766**	**254,216**	**135,826**	**118,390**

[13] Exposure value refers to the sum of positive replacement cost and potential future credit exposure, however for Repurchase transactions, it includes mark-to-market value of the securities provided as collateral (after application of regulatory volatility haircuts).
[14] Exposure after collateral mitigation

(EUR 1,000)	Positive Replacement Value	Potential Future Credit Exposure	Exposure Value[15]	Collateral Held	Net Exposure[16]
31.12.2013					
Repurchase transactions	-	-	446,973	333,824	113,149
Interest rate derivatives	844	1,574	2,418	-	2,418
FX derivatives and Options	184,597	52,740	237,337	65,830	171,507
Total	**185,441**	**54,314**	**686,727**	**399,654**	**287,073**

The distribution of derivatives notional amounts by residual maturity and information on the fair value of the derivatives are provided in Section 31.1.e and Section 32, respectively, of GBI's "*Annual Report 2014*".

6.1.8. Credit Risk Mitigation

Credit risk mitigants are financial collaterals and guarantees which directly decrease the credit exposure or transfer the credit risk from obligor to guarantor. GBI applies diversified collateral requirements and a systematic approach to evaluation of collaterals submitted by customers, which depend on the transaction type and purpose, including but not limited to cash margins, physical commodities, receivables, cash flows, guarantees, accounts, financial instruments and immovable or movable assets. The value of collateral is usually monitored on a regular basis to ensure timely measures are taken, if necessary. Financial collaterals are valued on a daily and immovable/movable property on at least a yearly basis.

The use of collateral to reduce counterparty credit exposure is also embedded in the standard legal agreements used throughout the industry as explained in Section 6.1.7. For derivative transactions, the legal agreements include the ISDA derivatives agreements with CSA.

The range of collateral that is eligible for the use of credit risk mitigation is based on the regulatory capital calculation method that is used. GBI uses the Financial Collateral Comprehensive method in the calculation of credit risk mitigation factors. Financial collateral received mostly consists of cash, but also includes debt securities, and hence is not subject to significant concentration. The credit quality of unfunded credit protection providers is assessed as per the credit policy of the Bank.

The total exposure value that is covered by financial and other collaterals recognized as eligible credit risk mitigation[17] by the CRR s as follows:

Table 6.1.8-1

(EUR 1,000)	Financial Collateral	Guarantees	Other Collateral	Total
31.12.2014				
Central Gov. & Central Banks	119,000	-	-	119,000
Institutions	43,621	12,328	-	55,949
Corporates	122,883	195,727	-	318,610
Retail	5,755	-	-	5,755
Total	**291,259**	**208,055**	**-**	**499,314**

[15] Exposure value refers to the sum of positive replacement cost and potential future credit exposure, however for Repurchase transactions, it includes mark-to-market value of the securities provided as collateral (after application of regulatory volatility haircuts).
[16] Exposure after collateral mitigation
[17] Similar table in Section 31.1.b of GBI's "*Annual Report 2014*" presents all collateral received, however only for loans and advances, while the figures presented here contain only collateral used as credit risk mitigation in the capital requirement calculation, for all assets.

(EUR 1,000)	Financial Collateral	Guarantees	Other Collateral	Total
31.12.2013				
Central Gov. & Central Banks	-	-	-	-
Institutions	527,440	9,355	-	536,795
Corporates	149,827	168,863	800	319,490
Retail	6,936	-	-	6,936
Total	**684,203**	**178,218**	**800**	**863,221**

6.2. Scope of Acceptance for F-IRB Approach

GBI applies the F-IRB approach for the following exposure classes: Central Governments and Central Banks, Institutions and Corporates (including sub classes; Corporates, Non-Bank Financial Institutions, Specialized Lending exposure classes of Commodity Finance and Shipping Finance).

Retail exposures (including sub classes Retail and Private Banking) are subject to permanent exemption from F-IRB and are treated under SA.

For exposures treated under SA, the Bank uses, if available, external credit ratings of Moody's, S&P and Fitch, with the 'average' formula prescribed by Article 138 of the CRR.

6.2.1. General Description of Models

GBI has dedicated rating models for all the sub-exposure classes mentioned above. The rating models within the scope of F-IRB application can be grouped into two:

- Probability of Default (PD) Models: These models provide obligor grades based on the master scale defined by GBI. The master scale has 22 rating grades and provide sufficient granularity for risk assessment. The rating grades are converted to PD via a master scale. The master scale is reviewed on an annual basis and updated where necessary based on the internal and external changes in observed default rates.

- Supervisory Slotting Criteria (SSC) Models: GBI has developed rating models for Specialized Lending exposure classes of Commodities Finance and Shipping Finance based on the SSC as per the conditions stated in CRD. SSC Models provide 5 grades, which are mapped to risk weights set by the regulation.

All PD models used within GBI have similar and consistent methodologies, which are based on two steps. The first step contains financial and non-financial models that produce a combined score. The models use financial information along with qualitative information that is collected through standard questionnaires. This score is further adjusted for a number of warning signals. The result is an individual rating, which is subject to an override framework in the second step. The override framework has three layers, which are; country layer, parental support and manual override.

The internal models are subject to a regular cycle of validation and review performed by external and internal parties.

6.2.2. Governance Framework around F-IRB Models and Processes

Credit rating models at GBI are based on a model-life cycle framework consisting of the following steps;

- Model development
- Model approval
- Model implementation
- Use and monitoring of model performance
- Model validation

Model development starts with the identification of the model requirement. This may arise from regulatory needs, improving risk management practices, changes in business structure that might lead to a new business line or a new asset class, a drastic change in macroeconomic or business environment that might affect risk factors, change in market practices and validation results that would necessitate model re-development.

Model approval starts after the completion of model development and model documentation. All the relevant materials regarding the model development are submitted to the RMC for approval. The models are approved based on the criteria that the model should reflect the risk perception of GBI, meet regulatory requirements, have a consistent methodology with the other models used by GBI, and perform adequately for that specific asset class. The proposed model may also be subject to approval by DNB if model changes are material[18].

Model implementation starts once the model is approved by the RMC. IT related issues, data management, business line process re-design, training of the users of the models and notification to/approval from DNB (if needed) are included in the generic roll-out plan of model implementation.

The models are used within the various levels of the organization. Related business lines initiate the rating process together with the credit proposals. The Credit Division reviews the rating which is then approved by the Credit Committee. The assigned ratings are used for all relevant transactions of the counterparty throughout the whole credit decision making process, including credit granting, utilization, pricing and performance monitoring.

The correct use of models is audited by IAD within the scope of the regular audit activities. RMD is responsible for the on-going monitoring of the performance of the models. Model accuracy, stability, granularity, use of overrides and the data quality are key performance indicators for model performance. As the Bank mainly works with low default portfolios, the accuracy of the models cannot be measured through predictive power against default experience. Hence, alternative methods are used to ensure that the models perform satisfactorily, such as comparing the model outcomes with internal or external benchmarks and using concordance measures to determine their similarity.

The model validation framework is managed by a validation team that is independent of the model development team. RMC has the ultimate decision making authority in the formation of the validation team and the selection of the third party. The findings of the validation team are presented in the validation reports. Model validation is conducted once a year and may be conducted more frequently based on the model performance.

Model maintenance is an on-going process which follows several steps within the lifecycle of the model. GBI has established procedures in order to support change management. These procedures explain the roles and responsibilities of the related stakeholders during the implementation of a change in the models, including detailed procedures related with the IT infrastructure of the models. These activities are audited by IAD on a regular basis in addition to the independent checks and controls carried out within the scope of the validation process.

[18] EBA has published Regulatory Technical Standards based on *Article 143.5* of the CRR, which are to be applied when determining materiality of changes in the IRB approach of an institution.

6.2.3. Calculation of Risk Weighted Assets for F-IRB Exposure Classes

RWA calculation for credit risk is performed based on a regulatory formula under the F-IRB approach where the Probability of Default (PD), Maturity (M), Exposure at Default (EAD) and Loss given Default (LGD) are the factors. Under the F-IRB approach, PDs are estimated by the institution while M, LGD and EAD are determined based on supervisory estimates provided in CRR.

Below is an overview of the portfolios, applicable for F-IRB methodology, excluding specialized lending, as of 31 December 2014.

Table 6.2.3-1

(EUR 1,000)	Gross Exposure[19]	RWA	Average PD[20]	Average Risk Weight
31.12.2014				
Central Gov. & Central Banks	1,031,384	84,853	0.41%	9%
Investment Grade	1,031,384	84,853	0.41%	9%
Sub-investment Grade	-	-	-	-
Institutions	1,377,603	987,701	0.45%	67%
Investment Grade	991,798	662,393	0.28%	57%
Sub-investment Grade	385,805	325,308	1.08%	101%
Corporates	2,443,860	1,346,854	0.95%	63%
Investment Grade	1,005,433	449,738	0.32%	46%
Sub-investment Grade	1,438,427	897,116	1.47%	77%
Total	**4,852,847**	**2,419,408**	**0.60%**	**53%**
31.12.2013				
Central Gov. & Central Banks	680,048	175,925	0.43%	26%
Investment Grade	680,048	175,925	0.43%	26%
Sub-investment Grade	-	-	-	-
Institutions	1,896,526	835,843	0.46%	54%
Investment Grade	1,435,852	598,444	0.29%	48%
Sub-investment Grade	460,673	237,399	1.17%	82%
Corporates	2,148,217	1,021,131	0.68%	55%
Investment Grade	1,047,903	382,965	0.28%	39%
Sub-investment Grade	1,100,314	638,166	1.13%	72%
Total	**4,724,791**	**2,032,913**	**0.58%**	**50%**

6.2.4. Specialized Lending

Credit institutions have to distinguish specialized lending exposures within the corporate exposure class. Specialized lending exposures possess the following characteristics:
(a) The exposure is to an entity which was created specifically to finance and/or operate physical assets;
(b) The contractual arrangements give the lender a substantial degree of control over the assets and the income that they generate; and
(c) The primary source of repayment of the obligation is the income generated by the assets being financed, rather than the independent capacity of a broader commercial enterprise.

The following table discloses the gross specialized lending exposures after provisions, assigned to the different risk categories as at 31 December 2014:

[19] Gross exposure excluding impaired loans
[20] Expected probability of default of the performing portfolio

Table 6.2.4-1

(EUR 1,000)		31.12.2014		31.12.2013	
Risk Weight Category	**Risk Weight**	**Gross Exposure[21]**	**RWA**	**Gross Exposure[21]**	**RWA**
Strong	50% - 70%	197,593	74,940	137,367	52,735
Good	70% - 90%	251,412	162,180	239,497	153,728
Satisfactory	115%	46,154	21,585	69,163	60,908
Weak	250%	12,547	28,868	3,875	7,188
Total		**507,706**	**287,573**	**449,902**	**274,559**

6.3. Market Risk

Market risk is defined as the current or prospective threat to GBI's earnings and capital as a result of movements in market factors, i.e. prices of securities, commodities, interest rates and foreign exchange rates.

GBI assumes limited market risk in trading activities by taking positions in debt securities, foreign exchange and commodities as well as in equivalent derivatives. The Bank has historically been conservative while running the trading book. Hence the main strategy is to keep the end of day trading positions at low levels. GBI uses the Standardised Measurement Approach in order to calculate the capital requirement arising from market risk (trading book) under Pillar I.

Firstly, the net FX position is calculated using the shorthand method prescribed in Article 352 of the CRR; the net short and net long position in each currency are converted at spot rates into the reporting currency. They are then summed separately to form the total of the net short positions and the total of the net long positions, respectively. The higher of these two totals is the Bank's overall net foreign exchange position. Secondly, as per Article 327, the net position in debt and equity instruments is the absolute value of the excess of an institution's long (short) positions over its short (long) positions in the instrument. The position risk is the sum of general risk and specific risk resulting from net positions in traded instruments.

The below table gives the breakdown of GBI's market risk capital requirement as at 31.12.2014:

Table 6.3-1

(EUR 1,000)	31.12.2014	31.12.2013
Traded Debt Instruments	2,884	-
Foreign Exchange Risk	103	118
Total Capital Requirement	**2,987**	**118**

6.4. Operational Risk

GBI uses the Basic Indicator Approach in order to determine the regulatory capital requirement which arises from operational risk. The capital requirement is equal to 15% of the relevant indicator in this methodology. The relevant indicator is the average over three years of the sum of annual net interest and net non-interest income. The average of the sum of net interest income and net non-interest income over the past three years amounts to EUR 96 million in 2014, which results in a capital requirement of EUR 14.4 million.

Table 6.4-1

(EUR 1,000)	31.12.2014	31.12.2013	31.12.2012	31.12.2011
Sum of Net Int. and Non-Int. Income	91,272	91,275	105,311	100,419
Total Capital Requirement	**14,393**	**14,850**		

[21] Gross exposure excluding impaired loans

7. ICAAP Framework

GBI has designed a comprehensive ICAAP framework by making use of qualitative and quantitative assessment methodologies to assess the adequacy of the Bank's capital to cover various risks. The methodologies used are believed to be the most appropriate ones in line with the risk profile of GBI and they reflect the underlying risks in a prudent manner.

ICAAP starts with the assessment of the capital allocated for Pillar I risks. The capital calculations under Pillar I are referred to as Regulatory Capital (RCAP). GBI has specific assessment methodologies for credit, market and operational risks, which are used to come up with an Economic Capital (ECAP) figure. RCAP and ECAP are compared for each risk type under Pillar I and the maximum of RCAP and ECAP is taken as the outcome of ICAAP.

The second step is to take into account the additional capital requirements arising from the risks, which are not taken into account in Pillar I. GBI has a dedicated assessment methodology for each material Pillar II risk. The capital requirement for the concentration risk and interest rate risk in the Banking Book (IRRBB) are calculated through quantitative techniques, whereas the strategic risk and business risk are assessed within the scope of capital plan and business viability analysis.

The Bank categorizes the materiality of risks as per the groups shown in below. The categorization is made based on an appropriate qualitative or quantitative assessment of the particular risk type.

Table 7-1

Materiality	Definition	Likely Action
1. Material	The probability of a risk event leading to a significant or high impact is material.	Established controls and risk assessments are performed on a regular basis. Mitigating actions shall be taken. Adequate level of capital shall be allocated for the risk type where necessary
2. Immaterial	The probability of a risk event leading to a significant impact is low.	Established controls and risk assessments are performed on a regular basis. Mitigating actions are taken, where necessary. No capital is allocated for the risk type.
3. Not Applicable	Risk is not applicable at all.	No action taken.

GBI is subject to the risk types presented below as a result of the activities pursued by the Bank.

Table 7-2

Risk Type	Covered in
Credit Risk	Pillar I and Pillar II
Concentration Risk	Pillar II
Market Risk	Pillar I and Pillar II
Interest Rate Risk on the Banking Book	Pillar II
Operational Risk	Pillar I and Pillar II
Strategic Risk	Pillar II
Other Risks	Pillar II
Liquidity Risk	ILAAP Framework

7.1. Credit Risk

GBI has a dedicated ECAP model for credit risk, which is used as a benchmark to assess the adequacy of regulatory capital allocated for credit risk under Pillar I. A 99.9% confidence level is used in the ECAP calculations.

7.2. Concentration Risk

Concentration risk is defined as the risk arising from the concentration of credit exposure in a group of obligors vulnerable to the same or similar/correlated factors; e.g. sector concentration, country concentration, single name concentration.

GBI continuously follows the credit risk positions of all obligors via a comprehensive management information system. Exposures to groups, countries and industries are subject to limits and thus followed up frequently by the CD, and monitored and discussed regularly at the CC.

Follow-up of large exposures is also an integral part of this process. GBI monitors the large credit exposures to group of customers and proactively manages single name concentration. Large exposures are also reviewed by the CC and SB on a regular basis.

RMD monitors the concentration risk, quantifies its impact on the regulatory and economic capital, and reports to RMC and SB. GBI has developed an integrated quantitative methodology for the assessment of concentration risk. The concentration risk model, which is another form of economic capital methodology, takes into account the main concentration elements in the portfolio, namely single name concentration, country concentration and sector concentration, in a more conservative manner. The outcomes of the concentration risk model are supplemented by various stress tests.

The Bank complies with the requirements of the “Policy rule on the treatment of concentration risk in emerging countries”, which is a specific regulation on concentration risk that entered into force in the Netherlands as of July 2010.

7.3. Market Risk

GBI uses Value-at-Risk (VaR) analysis as a risk measure for market risk on the trading book, in order to assess the adequacy of the capital allocated under Pillar I and in the daily limit monitoring process. VaR quantifies the maximum loss that could occur due to changes in risk factors (e.g. interest rates, foreign exchange rates, equity prices, etc.) for a time interval of one day, with a confidence level of 99.9%. This amount is multiplied by square root of 10 and multiplication factor of three (as a result of the daily back tests) in order to calculate the required capital. Limits based on VaR are defined and monitored periodically.

ALCO bears the overall responsibility for the market risk and sets the limits at product or desk levels. Treasury Department actively manages the market risk within the limits provided by ALCO. Middle Office (MO) and ICU, which are both established as independent control bodies, monitor and follow-up all trading transactions and positions on an on-going basis. Trading activities are followed-up as per the position, stop-loss, sensitivity and VaR limits set by ALCO. Single transaction and price tolerance limits have been established in order to minimize the operational risks involved in the trading processes. RMD is responsible for the maintenance of internal models, follow-up of risk based limits and performing stress tests and presenting the results to the related committees.

VaR is supplemented by stress tests and scenario analyses in order to determine the effects of potential extreme market developments on the value of market risk sensitive exposures. Stress tests have the advantage of out-of-model analyses of the trading book. Hypothetical or historical scenarios are chosen and applied to the Bank's position regularly. These scenarios are reviewed periodically and updated when necessary. Currently the stress tests include 'factor push' types of tests where shocks are applied to the key market factors, as well as stress tests where historical scenarios such as the 2001 crisis in Turkey and the 2008 Lehman collapse are applied to the Bank's current portfolio.

GBI manages the currency risk and interest rate risk in line with the policies and risk appetite set by the Supervisory Board. GBI uses FX hedging derivatives such as currency swaps, currency forward contracts and cross currency interest rate swaps in convertible currencies to manage the currency risk inherent in the balance sheet. GBI uses duration gap and sensitivity analyses for the quantification of interest rate risk. The outcomes of these analyses are used in decision making processes for hedging and pricing. GBI uses interest rate swaps, cross currency swaps and forward rate agreements to hedge interest rate risk in major currencies in her banking book by converting the short term/floating interest into fixed interest or converting fixed interest into short term/floating interest, depending on the composition of the balance sheet. To avoid accounting mismatches due to differences in valuation between derivatives used for hedging and hedged items, GBI applies cost price hedge accounting according to Dutch Accounting Standards. GBI tests the effectiveness based on the critical terms comparison method, where the critical terms of the hedging instrument are compared with the terms of the hedged item.

7.4. Interest Rate Risk on the Banking Book (IRRBB)

Interest rate risk is defined as the risk of loss in interest earnings or in the economic value of banking book items as a consequence of fluctuation in interest rates. GBI perceives interest rate risk as a combination of repricing risk, yield curve risk, basis risk and option risk. The asset and liability structure of the Bank creates a certain exposure to IRRBB. Repricing risk is the most important one and the others are at immaterial levels as a result of the business model of the Bank. However all types are monitored and their impact is assessed regularly. Business units are not allowed to run structural interest mismatch positions. As a result of this policy, day-to-day interest rate risk management is carried out by the Treasury Department in line with the policies and limits set by ALCO, with the help of a well-defined internal transfer pricing process.

IRRBB is measured and monitored at each meeting of ALCO by using Duration, Repricing Gap and Sensitivity analyses. Sensitivity analyses are based on both economic value and earnings perspectives. Interest sensitivity is measured by applying standard parallel yield curve shifts, historical simulation and user defined yield curve twist scenarios. All analyses are based on the interest rate repricing maturities. Behavioural analyses are used for the products that do not have contractual maturities; for GBI the only product that falls under this condition is demand deposits. To assess the interest rate related behaviour of these liabilities, GBI conducts a demand deposit modelling analysis to predict deposit outflow patterns over time, taking into account historical deposit trends and various factors such as deposit age and market rates.

The Repricing Gap analysis shows interest bearing assets and liabilities broken down by when they are next due for repricing. This analysis is used as a supplementary measure to duration in order to point out interest bearing inflows/outflows and their maturities. Maturity calendar is disclosed under section 31.2.b (Interest Rate Risk) of GBI's *"Annual Report 2014"*.

The Earnings at Risk (EaR) analysis focuses on the effects of interest rate changes on the Bank's reported earnings over one year and two years. The standard gradual shift in the yield curve is applied for the calculation of the regulatory stress test; the interest rates are assumed to increase (or decrease) within one year and to remain at that level in the second year.

Economic Value of Equity (EVE) is defined as the economic value of assets less the economic value of liabilities. The standard parallel shock to yield curve leads to a potential decrease in EVE of EUR 40.7 million (7.46% of the total own funds), which is well below the regulatory threshold of 20%.

GBI also measures interest rate sensitivity by using historical volatility approach. Historical scenarios are applied to the whole banking book in a systematic manner in order to find the day in history which would have the maximum negative impact on the economic value of equity. Scenarios are determined based on the interest rates collected at different currencies and maturities for a 5 year historical period.

Table 7.4-1

Economic Value Sensitivity Analysis[22] (EUR 1,000)	**EUR**	**USD**	**TRY**	**OTHER**	**TOTAL**
31.12.2014					
Shift Up Net[23]	-29,051	-11,135	-488	-14	-40,688
Shift Down Net[23]	15,865	26,469	519	-5	42,848
Change in Economic Value					40,688
Own Funds					**545,655**
Change in Economic Value / Own Funds					**7.46%**
31.12.2013					
Shift Up Net[23]	-2,881	-33,222	1,936	2,650	-31,517
Shift Down Net[23]	3,648	42,869	-2,027	-791	43,699
Change in Economic Value					31,517
Own Funds					**508,496**
Change in Economic Value / Own Funds					**6.20%**

The Bank has a low duration structure. Therefore sensitivity to interest rate shocks is limited. Moreover, the duration mismatch is stable as a natural consequence of the clear business model of the Bank.

All interest rate sensitivity analyses are also used for evaluating hedging strategies, internal limit setting and portfolio monitoring purposes, enabling GBI to manage interest rate risk in a proactive manner.

7.5. Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes potential losses caused by a breakdown in information or transaction processing and settlement systems and procedures, human errors, non-compliance with internal policies or procedures, including the possibility of unauthorized transactions by employees.

The Bank has embedded the 3 Lines of Defence model in its day-to-day activities, with the first line being the business as the experts in their field, controlling functions (ICU, CD, ISD, LCD) as the second line responsible for establishing and implementing the relevant control processes, in addition to challenging and advising the business, and finally Internal Audit acting as the third line by performing independent audits throughout the year. The operational risk framework of GBI is based on

[22] Static balance sheet, based on instant liquidation
[23] 200 Bps shock for G10 and 300 Bps shock for non-G10

the principle that senior management, in addition to the MB and SB, are actively involved in risk management, and that the risk management system is independent, sound and implemented with integrity.

GBI establishes and continuously review policies and procedures to set the internal rules and uses a “Risk and Control Matrix” to identify the risks in daily processes and to assess the effectiveness of the control points that mitigate these risks. It is based on self-assessment of individual departments and aims to control the operational risks inherent in all key processes of the Bank. The risk levels and the process control points identified as such are then reported to RMC.

The Bank’s internal control framework consists of daily controls performed by all controlling functions and by ICU, to ensure that the activities of the Bank are in compliance with the internal policies and that corrections are done in a timely manner on a consolidated basis.

GBI follows the Financial Institutions Risk Analysis Method (FIRM) for its operational risk for ICAAP. FIRM questionnaires are also used via a scoring methodology. The answers to the questions are translated into scores in a similar manner to that explained in the FIRM manual. The score outcomes are reviewed in order to make the necessary decisions (if any) to take mitigating action.

IT risk assessments are performed regularly based on the international Control Objectives for Information and Related Technology (COBIT) and national FIRM standards. The implementation of an Information Security Management System in accordance with internationally recognized standards (ISO/IEC 27001&27002) is a key objective of the Bank. This involves the systematic examination of the Bank’s information security risks; the identification of threats and vulnerabilities and assessment of associated risk exposures; the implementation of a comprehensive suite of security controls to reduce or mitigate identified information security risks; conducting information security awareness training for all employees; the establishment of information security and information technology policies to manage potential exposures and a robust management process to ensure controls continue to meet the Bank’s information security needs; and lastly, centralizing, standardizing and automating identity management services to reduce risk, cost and improve operational efficiency.

7.6. Strategic Risk

Strategic risk is the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.

Strategic risk is taken into account in the capital planning process and business viability analysis in order to account for the possible increase in the capital requirement based on the strategies or the business models that are chosen by GBI.

7.7. Other Risks

The Bank has limited or no exposure to business risk, integrity risk, legal risk, settlement risk, underwriting risk and securitisation risk. These risks are monitored in regular audit activities and FIRM assessments.

The impact of reputation risk is included within the scope of liquidity risk management and the Recovery Plan. Risks around the business model are assessed through the Business Viability Analysis. Business risk is also continuously monitored as part of the concentration risk, and also through the near-default scenarios used in the Recovery Plan.

7.8. Capital Plan

Capital planning is an integral part of ICAAP. GBI's capital planning is performed based on various scenarios; one baseline scenario, which is in line with the Bank's current expectations and financial budget, and one or more stress scenarios. The stress scenarios apply more conservative assumptions in order to assess the future capital adequacy of GBI under stressed economic and financial conditions. Stress test outcomes are used to assess the adequacy of the own funds for potential future capital requirements for the next three years.

The capital plan aims to cover as many aspects as possible, including expected profit, portfolio mix, capital structure and asset quality, in order to reflect the impact of several risk factors on the profitability and the capital adequacy of GBI at the same time. Changes in regulations, timelines, transitions, etc. are taken into account within the scope of the capital planning process.

8. ILAAP Framework

8.1. Liquidity Risk Governance

The main objective of GBI's liquidity risk policy is to maintain sufficient liquidity in order to ensure safe operations and a sound financial condition under both normal and stressed market conditions and a stable long term liquidity profile.

To meet this objective, GBI performs an Internal Liquidity Adequacy Assessment Process (ILAAP) on an annual basis where all qualitative and quantitative aspects of liquidity risk management at the Bank are reviewed against supervisory recommendations and market best practices. The Framework is reviewed by the RCSB, which bears the overall responsibility at the Board level for ensuring that effective risk management is conducted by the Bank.

The ILAAP Framework also lays out the Bank's general funding strategy, which is determined in line with the risk appetite. The strategy is reviewed through the budget process while setting the funding plan, another component of the annual ILAAP. The Supervisory Board then monitors whether the Bank remains in line with the strategy and the plan.

At the bank level, ALCO monitors liquidity risk, implements the appropriate policies defined by the ILAAP Framework, makes pricing decisions through the Internal Transfer Pricing (ITP) process and directs the Bank's overall liquidity strategy.

8.2. Liquidity Risk Monitoring

RMD performs the liquidity risk assessment, develops the required methodologies and conducts regular stress tests to ensure the Bank operates with sufficient liquidity. Liquidity risk is monitored through gap analyses, supplemented by multiple stress tests designed based on different scenarios. These analyses apply shocks with different magnitudes on the liquidity position. Scenarios are set based on bank-specific and market-wide liquidity squeezes. Behavioural analyses of the Bank's liabilities are used to determine some of the stress factors in both of these scenarios.

To ensure stable long-term funding, the Bank's cash capital measure, which shows the excess of long term funds over long term assets, is monitored, and in general, should be positive. In addition to liquidity risk limits, the Bank has established several metrics as 'Early Warning Indicators' (EWIs), which could potentially trigger management action; these include monthly deposit outflows, mismatch in the average maturities of assets and liabilities, and breaches of liquidity risk limits.

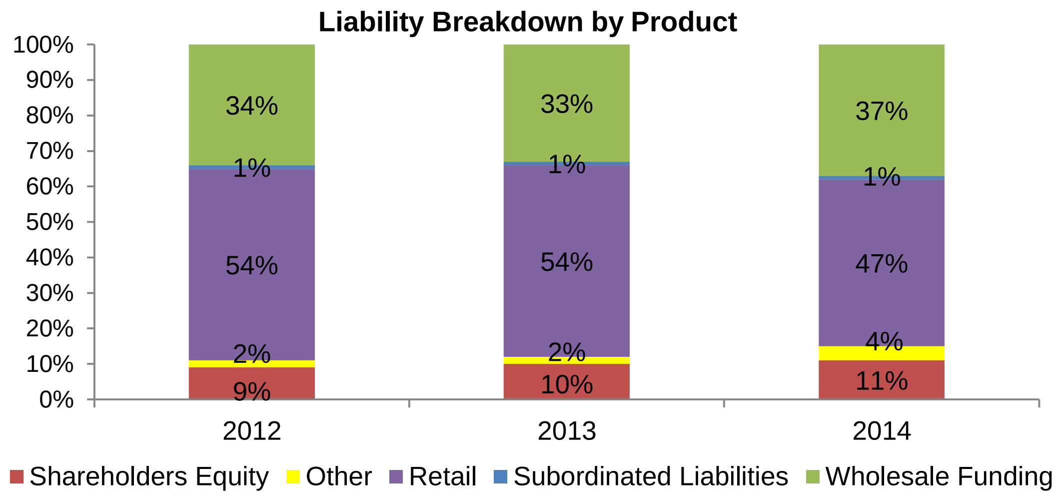
All EWIs and liquidity analyses are reported to ALCO on a regular basis. ALCO reviews and plans the necessary actions to manage the liquidity gaps, and bears overall responsibility for the liquidity risk strategy. ALCO has delegated day-to-day liquidity management to the Treasury Department, which is responsible for managing the overall liquidity risk position of the Bank, and the intraday liquidity as per the principles of intraday liquidity management, established in the ILAAP Framework. The Treasury Department manages all maturing cash flows along with expected changes in business related funding requirements. The Treasury Operations Department performs the role of collateral management and executes the settlements of all transactions.

8.3. Funding Strategy

GBI's funding strategy is developed, applied and adapted as necessary using the management expertise as well as best market practices and regulatory requirements. The Bank aims for a well-diversified mix in terms of instrument types, fund providers, geographic markets and currencies. GBI obtains both unsecured and secured funding. The Bank's unsecured funding comes from a balanced mix of retail and wholesale sources.

Within wholesale funding, the Bank also balances the distribution between financial and non-financial counterparties. The non-financial counterparties, with which the Bank has established long lasting relationships through offering various financial services, constitute the major part of the wholesale funding. The remaining portion of wholesale funding is spread across interbank borrowing, transaction based borrowing, secured funding and GBI's syndicated loan. GBI's liabilities to banks include unsecured borrowing facilities from various counterparties. The breakdown of funding sources is provided below. Further information on asset encumbrance in funding can be found in Annex 3.

Figure 8.3-1



In terms of intragroup funding, GBI is not dependent on this funding source and conducts liquidity management independently of the parent company. Group related balances are disclosed under section 33 (Group Related Balances) of GBI's *"Annual Report 2014"*.

8.4. Liquidity Risk Profile

GBI's short term lending strategy and stable funding provide a natural mitigant for liquidity risk. The short term lending strategy enables the quick accumulation of a liquidity buffer in stressed financial environments, and the equally efficient build-up of short term assets once the stress is past. The contractual maturity breakdown of assets and liabilities, disclosed under section 31.3 (Liquidity Risk) of GBI's *"Annual Report 2014"*, demonstrates that the Bank does not carry a large maturity mismatch. 89% of loans/advances to corporate and banks, matures in less than one year.

The Bank maintains a high quality liquidity buffer as short term placements to central banks as well as investments in high quality debt securities eligible to be used in repurchase transactions with the Central Bank or in over-the counter repurchase transactions with other counterparties. The liquidity value of the debt securities is calculated using their market value and a conservative assumption of the volatility haircuts applicable in repurchase transactions.

In case of a liquidity squeeze or an emergency situation, GBI has a detailed contingency funding plan, as part of the Recovery Plan, in place to enable the Bank to perform effective crisis management.

9. New Regulatory Standards

The CRR/CRD IV has been in place since 1st January 2014, and will be phased in completely by 2019. Related new reporting requirements began in Q1 2014.

As per the CRR/CRD IV, the Common Equity Tier 1 (CET1) requirement of 2% has been increased to 4.5% as of 2014, and will be increased to 7% (including the 2.5% capital conservation buffer), by the year 2019. Hence, the minimum total capital ratio requirement of 8% will also be increased to 10.5% by that date. A countercyclical buffer between 0% and 2.5% will also be introduced on top of these required minimums in order to achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth. Finally the definition of eligible instruments for capital treatment is changed to increase the loss absorbance quality.

GBI has performed a revised assessment of migration towards full implementation. The outcome of this assessment shows that, as in previous migration analyses, the Bank is well positioned for full phase-in, thanks to the key features of its business model; low leverage, a high quality capital base and sound liquidity management. The impact of the changes in the definition of capital, as well as the minimum capital requirements, is limited for GBI since the Bank has a high common equity component and no hybrid capital products. Hence, the projected capital ratios are already comfortably above the CRR minimum and the fully phased in capital conservation buffer proposed of 2.5% in the CRD IV.

The short term (Liquidity Coverage Ratio, LCR) and long term (Net Stable Funding Ratio, NSFR) liquidity standards were introduced by CRR to protect the financial industry from potential liquidity shocks. GBI's LCR is, and has been over 2014, well above the minimum 100% which will be in place in the Netherlands from October 2015. Moreover, although a regulatory minimum has not yet been set in the EU for the NSFR, GBI's level is well above the Basel III proposal (100%). The Bank maintains a high liquidity buffer and given its stable funding base, the Bank expects to continue meeting both liquidity requirements.

Lastly, in addition to the changes in the minimum required solvency, a non-risk based measure, namely Leverage ratio, is established in order to limit the excessive leverages created in the financial industry. A regulatory minimum has not yet been set in the EU for the leverage ratio, but GBI's level is well above the Basel III proposal (3%), at 10.45% as the average of Q4 2014.

10. Remuneration

This section provides qualitative and quantitative information on the remuneration policies and practices followed by GBI.

10.1. Governance

GBI has implemented a meticulous, restrained and long-term remuneration policy in line with its strategy and risk appetite. The policy focuses on ensuring a sound and effective risk management through:

- establishing a stringent governance structure for setting goals
- observing both financial and non-financial criteria in performance assessment
- making fixed salaries the main remuneration component.

The policy reflects GBI’s objectives for good corporate governance and meets the requirements as laid down in DNB’s Guidelines on Controlled Remuneration Policy and the Dutch Banking Code, except for one item which has been neutralized by applying the proportionality principle. GBI will not meet the bonus share part of the guidelines, because employees and management of GBI are not rewarded with shares or options in the share capital of the parent bank as this would be against the parent bank policy.

The remuneration policy of GBI is prepared by the Human Resources Department, in close consultation with the Managing Board and with the help of external consultants where necessary. The Remuneration Policy is presented to the Remuneration Committee of the Supervisory Board. The Remuneration Committee prepares the decision making process for the Supervisory Board. The Supervisory Board approves the draft Remuneration Policy and advises the Shareholder to adopt the Policy in the Annual General Meeting of Shareholders.

10.2. Remuneration Committee

The roles and responsibilities of the Remuneration Committee are as follows:

- tests and monitors periodically the general principles of the remuneration policy;
- is responsible for the execution of the remuneration policy;
- acts independently;
- is able to manage the incentives in relation to risk, capital and liquidity;
- consults with the Managing Board and, where relevant, with Human Resources on all matters pertaining to the terms and conditions of employment of the Identified Staff and ensures that the compensation of the Identified Staff and the policy on which it is based is fair, adequate and fully transparent.

The Remuneration Committee meets at least two times a year and consists of two members of the Supervisory Board one of which is an independent member. The Remuneration Committee makes a proposal for the remuneration of the individual members of the Managing Board and the Senior Management, for approval by the Supervisory Board. The Supervisory Board advises the Shareholder to adopt the proposed remuneration of the Managing Board in the Annual General Meeting of Shareholders.

The remuneration of the other members of the Identified Staff are reviewed once a year by the Managing Board in consultation with the Human Resources Department on the basis of the Bank's development and performance, the individual development and performance and changes in the consumer price index (cpi). The Managing Board shall advise the Remuneration Committee on the yearly review of the salaries of the other members of the Identified Staff. The remuneration of the non-identified staff members are also reviewed once a year by the Senior Management in consultation with the Human Resources Department. The outcome thereof is presented for approval to the Managing Board.

10.3. Information on Link between Pay and Performance

The Remuneration Policy is designed to ensure that cost effective packages are provided which attract and retain the highest calibre employees and motivate them to perform to the highest standards. The objective is to align individual rewards with the Bank's performance also in relation to sustainability and in relation to the budget, the performance of the parent bank, the Bank's core values, compliance with internal and external rules and regulations and individual performance both financial as non-financial of which the non-financial performance criteria measures for at least 50 percent.

Depending on the assessment of the above-mentioned criteria the Remuneration Committee may propose to distribute variable compensation to individual members of the Identified Staff. For the non-identified staff Managing Board may decide within the set limits. If the Bank does not make any profit in the related calendar year, no variable compensation will be paid, regardless of the outcome of the assessment of the above-mentioned criteria.

The fixed remuneration is established taking into account the level of responsibility, the role and position of the individual employee and the local market conditions (collective labour agreement).One of the basic principles for granting variable pay over performance year 2014 is that variable pay may never exceed 100% of the fixed salary. As of performance year 2015 variable remuneration shall not exceed 20% of the fixed component of the remuneration package.

10.4. Quantitative Information on Remuneration

Total breakdown of the remuneration by business areas provided by GBI over performance year 2014 is provided in the table below.

Table 10.4-1

Total remuneration over performance year 2014 (EUR 1,000)	
Management Body	2,804
Commercial Units	9,033
Non Commercial Units	12,650
Total	24,487

The professional activities of staff, individually or collectively, can exert influence on a firm's risk profile. Accordingly GBI analyses its job descriptions and responsibilities in relation to their possible impact on the Bank's risk profile. The Bank assesses the degree of seniority of individual members of staff, the size of the obligations into which a staff member may enter and as an overall criterion, the size of the bank is taken into account, as well as its internal organization and the nature, scope and complexity of the Bank's business.

On the basis of this assessment the Bank has 43 “Identified Staff” who are designated based on qualitative and/or quantitative criteria. The total Remuneration awarded to the 43 Identified Staff members are as shown below of which one member received a total remuneration of more than EUR 1 million, which falls under remuneration bracket 1.5 – 2 million:

Table 10.4-2

Remuneration for Identified Staff in 2014 (EUR 1,000)	
Total fixed remuneration 2014	8,282
Total variable remuneration paid over performance year 2014 [24]	3,513
Total outstanding deferred variable remuneration [25]	3,137
Number of employees received severance pay	-
Amount of explicit ex post performance adjustment	-
Sign-on bonus	-

It is the Bank’s policy not to award any “sign-on” or “welcome” bonus payment. In the reporting year 2014 no severance payment and no malus arrangement have been made to Identified Staff members.

An amount equal to 40% of the variable remuneration awarded over performance year 2014 has been deferred by GBI and will become entitled to the deferred amount as it proportionally vests. It will become payable in three equal instalments during the period of three years. The first payment of the deferred variable remuneration allowance will be executed in the following performance year. Before the disbursement of the yearly deferred variable remuneration component, the Bank applies the ex-post risk adjustment malus arrangement and will still be able to adjust the deferred variable remuneration (by ways of reduction) on the basis of a re-evaluation of the employee’s performance. Further, GBI has the right to reclaim the variable remuneration paid if it is established that the variable remuneration was based on incorrect (financial) data or objectives or when it concerns a breach of code of conduct, a fraudulent action or have led to considerable loss and/or damage to the reputation of GBI and / or group entity.

[24] Includes the variable remuneration paid over performance year 2014 and including the deferred part for previous performance years
[25] Includes the deferred annual remuneration over performance year 2014 and including the deferred part for previous performance years

Annex 1 Tier 2 Instrument Main Features

The European Banking Authority (EBA) has published Implementing Technical Standards for disclosures on the main features of banks' own funds instruments. As GBI's Tier 1 consists of paid-in and called-up capital and eligible reserves, only the Tier 2 instrument is included in this template for further disclosures.

1	Issuer	GarantiBank International N.V.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	n/a
3	Governing law(s) of the instrument	Netherlands
Regulatory treatment		
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated loan
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	EUR 30 million
9	Nominal amount of instrument	EUR 30 million
9a	Issue price	100%
9b	Redemption price	Redemption at par
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	23/08/2011
12	Perpetual or dated	Dated
13	Original maturity date	25/08/2021
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	The loan may be prepaid in part or in full at any time from 23/08/2016 onwards, subject to prior supervisory approval.
16	Subsequent call dates, if applicable	
Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	5.95% p.a.
19	Existence of a dividend stopper	n/a
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	n/a
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a
25	If convertible, fully or partially	n/a
26	If convertible, conversion rate	n/a

27	If convertible, mandatory or optional conversion	n/a
28	If convertible, specify instrument type convertible into	n/a
29	If convertible, specify issuer of instrument it converts into	n/a
30	Write-down features	No
31	If write-down, write-down trigger(s)	n/a
32	If write-down, full or partial	n/a
33	If write-down, permanent or temporary	n/a
34	If temporary write-down, description of write-up mechanism	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Junior to senior unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	n/a

Annex 2 Own Funds Disclosure

EBA has published Implementing Technical Standards for disclosures on details of banks' own funds instruments, to allow comparisons across the industry. The column representing 'amount subject to pre-regulation treatment' in the original EBA template is 0 for all items for GBI, hence this column has been excluded from the table.

(EUR 1,000)	***Amount at 31.12.2014***
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	*136,836*
of which: paid-in capital	*136,836*
of which: instrument type 2	-
of which: instrument type 3	-
Retained earnings	*30,627*
Accumulated other comprehensive income (and other reserves)	*352,089*
Funds for general banking risk	-
Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from CET1	-
Public sector capital injections grandfathered until 1 January 2018	-
Minority interests	-
of which: independently reviewed interim profits net of any foreseeable charge or dividend	-
Common Equity Tier 1 (CET 1) capital before regulatory adjustments	*519,552*
CET1 capital: regulatory adjustments	
Additional value adjustments (-)	*-31*
Intangible assets (net of related tax liability) (-)	*-4,437*
deferred tax assets that rely on future profitability excluding those arising from temporary differences	-
Fair value reserves related to gains or losses on cash flow hedges	-
Negative amounts resulting from the calculation of expected loss amounts	*-8,904*
Any increase in equity that results from securitised assets (-)	-
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-
Defined-benefit pension fund assets (negative amount)	-
Direct and indirect holding by an institution of own CET1 instruments (-)	-
Holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (-)	-
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Empty set in the EU	

Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-
of which: qualifying holdings outside the financial sector (-)	-
of which: securitisation positions (-)	-
of which: free deliveries (-)	-
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related eligible tax liabilities)	-
Amount exceeding the 15% threshold	-
Of which: direct and indirect holding by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-
Empty set in the EU	
of which: deferred tax assets arising from temporary differences	-
Losses for the current financial year (-)	-
Foreseeable tax charges relating to CET1 items (-)	-
Regulatory adjustments applied to CET1 in respect of amounts subject to pre-CRR treatment	-
Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	-
Of which: …. Filter for unrealised losses	-
Of which: …. Filter for unrealised loss on exposures to central governments classified in the "available for sale" category in the EU endorsed IAS 39.	-
Of which: …. Filter for unrealised gains	-
Of which: …. Filter for unrealised gains on exposures to central governments classified in the "available for sale" category in the EU endorsed IAS 39.	-
Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre CRR	-
Of Which: …	-
Qualifying AT1 deductions that exceed the AT1 capital of the institution (-)	-
Total regulatory adjustments to CET1	*-13,372*
CET1 capital	*506,180*
Additional Tier 1 (AT1) capital: instruments	
Capital instruments and the related share premium accounts	-
of which: classified as equity	-
of which: classified as liabilities	-
Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from AT1	-
Public sector capital injections grandfathered until 1 January 2018	-
Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	-
of which: instruments issued by subsidiaries subject to phase out	-
AT 1 capital before regulatory adjustments	-
AT1 capital: regulatory adjustments	
Direct and indirect holding by an institution of own AT1 instruments (-)	-
Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own	-

funds of the institution (-)	
Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Regulatory adjustments applied to AT1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Reg. (EU) No 575/2013	-
Residual amounts deducted from AT1 capital with regard to deduction from CET1 capital during the transitional period pursuant to art. 472 of Reg. (EU) No 575/2013	-
Of which: intangibles	-
Of which: shortfall of provisions to expected losses	-
Residual amounts deducted from AT1 capital with regard to deduction from T2 capital during the transitional period pursuant to art. 475 of Reg. (EU) No 575/2013	-
Of which items to be detailed line by line, e.g. reciprocal cross holding in T2 instruments, direct holding of non-significant investments in the capital of other financial sector entities, etc.	-
Amount to be deducted from or added to AT1 capital with regard to additional filters and deductions required pre CRR	-
Of which: … possible filter for unrealised losses	-
Of which: … possible filter for unrealised gains	-
Of which: …	
Qualifying T2 deductions that exceed the T2 capital of the institution (-)	-
Total regulatory adjustments to AT1 capital	-
AT1 capital	-
Tier 1 capital (T1= CET1 + AT1)	*506,180*
Tier 2 (T2) capital: instruments and provisions	
Capital instruments and the related share premium accounts	*30,000*
Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from T2	-
Public sector capital injections grandfathered until 1 January 2018	-
Qualifying own funds instruments included in consolidated T2 capital issued by subsidiaries and held by third parties (excluding row 5 and 34)	-
of which: instruments issued by subsidiaries subject to phase out	-
Credit risk adjustments	*277*
T2 capital before regulatory adjustments	*30,277*
T2 capital: regulatory adjustments	
Direct and indirect holding by an institution of own T2 instruments and subordinated loans (-)	-
Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (-)	-
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	*-1,450*
Of which new holdings not subject to transitional arrangements	*-1,450*

Of which holdings existing before 1 January 2013 and subject to transitional arrangements	-
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Reg. (EU) No 575/2013	-
Residual amounts deducted from T2 capital with regard to deduction from CET1 capital during the transitional period pursuant to art. 472 of Reg. (EU) No 575/2013	*-5,936*
Of which: shortfall of provisions to expected losses	*-5,936*
Residual amounts deducted from T2 capital with regard to deduction from AT1 capital during the transitional period pursuant to art. 475 of Reg. (EU) No 575/2013	-
Of which items to be detailed line by line, e.g. reciprocal cross holding in T2 instruments, direct holding of non-significant investments in the capital of other financial sector entities, etc.	-
Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre CRR	-
Of which: … possible filter for unrealised losses	-
Of which: … possible filter for unrealised gains	-
Of which: …	-
Total regulatory adjustments to T2 capital	*-7,386*
Tier 2 capital	*22,891*
Total capital (TC = T1 + T2)	*529,071*
RWA in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Reg. (EU) No 575/2013	-
Of which: … items not deducted from CET1	-
Of which: … items not deducted from AT1 items	-
Of which: … items not deducted from T2 items	-
Total risk weighted assets	*3,031,084*
Capital ratios and buffers	
CET1 (as a % of total risk exposure amount)	*16.70%*
T1 (as a % of total risk exposure amount)	*16.70%*
TC (as a % of total risk exposure amount)	*17.45%*
Institution specific buffer requirement	-
of which: capital conservation buffer requirement	-
of which: countercyclical buffer requirement	-
of which: systemic buffer requirement	-
of which: G-SII or O-SII buffer	-
CET1 available to meet buffers (as a % of risk exposure amount)	*9.45%*
Amounts below the thresholds for deduction	
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	*50,618*
Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10%	-

threshold and net of eligible short positions)	
deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-
Applicable caps on the inclusion of provisions in Tier 2	
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach	-
Cap on inclusion of credit risk adjustments in T2 under standardised approach	*1,211*
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach	*277*
Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	*16,224*
Capital instruments subject to phase-out arrangements (1 Jan 2014 - 1 Jan 2022)	
Current cap on CET1 instruments subject to phase out arrangements	-
Amount excluded from CET1 due to cap	-
Current cap on AT1 instruments subject to phase out arrangements	-
Amount excluded from AT1 due to cap	-
Current cap on T2 instruments subject to phase out arrangements	-
Amount excluded from T2 due to cap	-

Annex 3 Asset Encumbrance

EBA has published guidelines and a template for additional disclosures on asset encumbrance; a recommendation for such disclosure was also made by the Enhanced Disclosure Task Force (EDTF). Hence, GBI provides the information below on the extent of asset encumbrance at the Bank as at 31.12.2014.

(EUR 1,000)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Total	**412,735**		**4,480,263**	
Debt securities	132,561	134,003	761,892	719,953
Other assets	280,174		3,718,371	

GBI's asset encumbrance is low at 8% as of 31.12.2014 and stable compared to 10% as of 31.12.2013. Asset encumbrance at GBI arises from collateral pledging for derivative transactions, repurchase transactions, and other sources of secured funding. As seen below, overcollateralization generally occurs in these types of asset encumbrance.

(EUR 1,000)	Matching liabilities	Encumbered Assets
Carrying amount	**354,434**	**412,735**

The collateral received by GBI at 31.12.2014 is not encumbered, and EUR 8.9 million is available for encumbrance.

(EUR 1,000)	Fair value of encumbered collateral received	Fair value of collateral received available for encumbrance
Collateral received	**-**	**8,909**
Equity instruments	-	4,453
Debt securities	-	4,457

Further information on pledged assets is provided in Section 30 of GBI's *"Annual Report 2014*".