GarantiBank NV
BBVA Group

2016

Capital Adequacy & Risk Management Report

GarantiBank International N.V.

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LIST OF ABBREVIATIONS

A&CCSB	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
CET1	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	IAC	Identity Access Control

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 related to solvency, liquidity and the risk profile of the institution as a whole, and to enhance the consistency and comparability of provided information among banks. This document contains the Pillar III disclosures of GarantiBank International N.V. (hereafter referred to as "GBI") as of 31 December 2016 and should be read in conjunction with the Annual Report of GBI.

The table below is provided in order to reference the information provided in this report and GBI's Annual Report, compared to requirements in the related articles in Part Eight of CRR.

DISCLOSURE REQUIREMENTS PURSUANT TO PART EIGHT OF THE CRR		Reference
TITLE II: TECHNICAL CRITERIA ON TRANSPARENCY AND DISCLOSURE		
Article 435	Risk management objectives and policies	See sections 3 and 4
Article 436	Scope of application	See section 2
Article 437	Own funds	See section 5
Article 438	Capital requirements	See section 6
Article 439	Exposure to counterparty credit risk	See section 6.1.7
Article 440	Capital buffers	See section 9
Article 441	Indicators of global systemic importance	Not applicable
Article 442	Credit risk adjustments	See section 6.1.6
Article 443	Unencumbered assets	See Annex 3
Article 444	Use of ECAIs	Not applicable
Article 445	Exposure to market risk	See sections 6.3 and 7.3
Article 446	Operational risk	See sections 6.4 and 7.5
Article 447	Exposures in equities not included in the trading book	Not applicable
Article 448	Exposure to interest rate risk on positions not included in the trading book	See section 7.4
Article 449	Exposure to securitisation positions	Not applicable
Article 450	Remuneration policy	See section 10
Article 451	Leverage	See section 9

TITLE III: QUALIFYING REQUIREMENTS FOR THE USE OF PARTICULAR INSTRUMENTS OR METHODOLOGIES		
Article 452	Use of the IRB Approach to credit risk	See section 6
Article 453	Use of credit risk mitigation techniques	See section 6.1.8
Article 454	Use of the advanced measurement approached to operational risk	Not applicable
Article 455	Use of internal market risk models	Not applicable

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. Differences can be found between the figures presented in this report and the figures in the Annual Report of GBI. This is mainly due to application of F-IRB approach and the figures in this report, unless otherwise stated, refer to Exposure at Default (EAD) whereas the figures presented in annual report are in line with GBI's accounting framework.

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 enabling overall control of 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 supported by the related divisions and departments that have explicit risk management responsibilities as specified below.

The Supervisory Board bears the overall responsibility for approving the risk appetite of GBI. The Risk Committee of the Supervisory Board (RCSB) advises the Supervisory Board on the Bank's risk appetite and ensures that effective risk management is conducted accordingly. The Audit and Compliance Committee of the Supervisory Board (ACSB) is the ultimate authority in independent audit functions, compliance-related risks, and the statutory financial reporting process.

The Managing Board (MB) of GBI functions as a collegial body, as referred to in Section 2:129 of the Dutch Civil Code. The MB is responsible for the management, general affairs, and business connected with GBI. The MB develops strategies, policies, and procedures to establish effective risk management and ensure that the Bank is in line with the approved risk appetite.

The Risk Management Committee (RMC) is responsible at the Bank level for coordinating and monitoring risk management activities, reporting directly to the RCSB. Other committees at the Bank level manage specific key banking risks: the Credit Committee (s) for credit risk; the Asset and Liability Committee (ALCO) for market, interest rate, and liquidity risks; and the Compliance Committee for compliance risks. The New Product Development Committee is responsible for the assessment and introduction of new products and services.

The Credit Division has a separate risk control function, independent of commercial activities, making certain the proper functioning of the Bank's credit processes and ensuring that the composition and the diversification of the loan portfolio are in line with the lending strategy of the Bank.

The Risk Management Department (RMD) of GBI has an independent risk monitoring function, also independent of commercial activities.

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. Risks in relation to the limits established by the Bank are continuously measured and comprehensively reported to the appropriate committees. 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 Legal and Compliance Department (LCD) is also an independent body, reporting directly to the ACSB as well as to the Managing Board and Compliance Committee. The Legal function advises on relevant legal issues while the Compliance function translates compliance-related rules, laws and regulations into internal compliance obligations and policies.

Information Security Department (ISD) is responsible for identifying risks in the information technology systems and processes at GBI, as well as for ensuring that technology-related threats to the business continuity are identified and mitigated. Identity Access Control (IAC) department manages access to information and applications scattered across internal and external application systems.

The Internal Audit Department (IAD) monitors the governance frameworks around all risks through regular audits, and provides reports to the Managing Board and the ACSB.

4. RISK APPETITE FRAMEWORK

GBI's Risk Appetite Framework (RAF) consists of three layers. The first layer is the Principles of Risk Appetite, which identifies relevant governance bodies and defines risk metrics around the Bank's risk appetite. The second layer is the Risk Appetite Statement (RAS), which determines the risks (and their level) that the Bank is prepared to assume in order to achieve its business objectives. The final layer is the Limit Framework, which supports the risk appetite and ensures that core metrics defined under risk appetite, are met at all times according to risk type. GBI's core metrics consist of several risk indicators for solvency, liquidity and recurrent income.

In determining risk appetite, the Supervisory Board seeks a balanced combination of risk and return while paying close attention to the interests of all stakeholders. As such, it reviews it on an annual basis at minimum.

- GBI's solvency has always remained at an above-adequate level owing to its committed shareholders and risk-averse strategies. The Bank aims to hold a strong capital base with a high Tier 1 component.

- The Bank pays specific attention to ensure sufficient liquidity and thus safe banking operations and sound financial conditions in both normal and stressed financial environments, while retaining a stable and diversified liquidity profile.

- In terms of financial performance, the Bank targets a return on equity level that is stable in the long-term and satisfies the stakeholders, including the shareholders, while maintaining core competencies and a strategic position in key markets.

- GBI is strongly committed to act with integrity and adhere to the highest ethical principles in its business conduct. The Bank avoids all sorts of transactions and activities, which might lead to an insufficient compliance with internal policies or external regulations and, which may generate reputational risk in the eyes of all stakeholders, including regulators, shareholders, clients and society.

The core metrics are supported by additional metrics under the Limit Framework, which sets limits on specific risk types by means of introducing credit, market, structural interest rate, structural FX, liquidity, operational and reputational risk indicators.

The RAF was created to support the Bank's core values and strategic objectives. Accordingly, GBI dedicates sufficient resources to ensure full compliance with all requirements as well as to establish and maintain a strong risk culture throughout the organization. Evaluation, monitoring and reporting is an important element of GBI's RAF, which allows the Bank to ensure the compliance with the Risk Appetite set by the Supervisory Board. The Bank's risk limits are continuously monitored through control functions, while the core metrics are monitored by the Supervisory Board at each meeting.

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 (CET1) and additional Tier 1. The CET1 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 CET1 as there are no other hybrid capital products which could qualify as additional Tier 1 capital.

There are various deductions from CET1 capital, based on the CRR. Intangible assets net of tax liabilities are deducted in full from CET1 capital (Article 36 of CRR). An additional valuation adjustment (AVA) is made on fair valued assets and liabilities, affecting CET1 capital (Article 34 of CRR). Lastly, if expected loss of performing exposures exceeds general provisions, 80%[2] of the shortfall is deducted from CET1 capital. In GBI's case, there is a shortfall of general provisions compared to performing exposures, resulting in a proportional deduction from CET1 capital.

Tier 2 capital of GBI consists of subordinated loan. 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 instruments are provided in Annex 1.

There are also further deductions from Tier 2 capital. The remaining 20% of the shortfall of general provisions, 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 CET1 capital is deducted from the respective level of own funds. In GBI's case, holdings of Tier 2 instruments are below the threshold, thus no deduction from Tier 2 is necessary.

[1] Pursuant to Article 26(2) of Regulation 575/2013 of the European Parliament and of the Council and, to Decision 2015/656 of the European Central Bank (ECB/2015/4), interim or year-end profits may only be added to CET1 after receiving the approval of competent authority, ECB..

[2] CRR changed 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 is 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 80%-20% deduction in 2016.

[3] Excess of specific provisions is added to Tier 2, as per Article 62 of the CRR

Please find below an overview of GBI's own funds composition as of 31.12.2016.

Table 5-1

(EUR 1,000)	31/12/2016	31.12.2015	Change
CET1			
Paid-in and called-up capital	**136,836**	136,836	0
Retained earnings	**9,796**	9,413	383
Other reserves	**409,191**	397,850	11,341
IRB provision shortfall	**-12,524**	-10,931	-1,593
Deduction of intangible fixed assets	**-3,373**	-3,631	258
AVA	**-57**	-65	8
TOTAL CET1	**539,869**	529,472	10,397
TOTAL Tier 1	**539,869**	**529,472**	**10,397**

(EUR 1,000)	31.12.2016	31.12.2015	Change
Tier 2			
Subordinated debt	**50,000**	**80,000**	-30,000
IRB provision excess	**10,390**	**15,949**	-5,559
IRB provision shortfall	**-3,131**	**-4,685**	1,554
Other deductions[4]	**0**	**-556**	556
TOTAL Tier 2	**57,259**	**90,708**	-33,449
TOTAL Own Funds	**597,128**	**620,180**	-23,051

Total own funds of GBI decreased by 4% in 2016 mainly due to the decrease in Tier 2. GBI recorded a net profit of EUR 16.4million in 2016, EUR 9.8 million is included in own funds taking into account the latest audited net profit until and including 30 June 2016, 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.

Table 5-2

(EUR 1,000)	31.12.2016	of which is eligible as CET1
Paid-in and called-up capital	136,836	136,836
Revaluation reserves	1,958	0
Other reserves	409,191	409,191
Profit current year	16,412	9,796
Shareholders' equity (Accounting Capital)	**564,397**	555,823
IRB provision shortfall - 80%		-12,524
Deduction of intangible fixed assets		-3,373
AVA		-57
Total CET1 capital		**539,869**
Total Tier 1 capital		**539,869**
Total Tier 2 capital		**57,259**
Total Own Funds		**597,128**

[4] Includes holdings of T2 instruments of other credit and financial institutions over the threshold of 10% of the Bank's own CET1 capital

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 on 31.12.2016 is presented.

Table 6-1

(EUR 1,000)	31.12.2016		31.12.2015		Change	
	Gross Exposure	Capital Req.	Gross Exposure	Capital Req.	Gross Exposure	Capital Req.
Credit Risk	**5,162,438**	**241,346**	**5,267,192**	**242,501**	**-104,754**	**-1,155**
F-IRB approach:						
Central Gov. & Central Banks[5]	651,380	7,667	814,330	7,499	-162,950	168
Institutions[6]	956,404	58,984	1,236,846	83,600	-280,442	-24,616
Corporates	3,028,511	152,625	2,636,919	132,406	396,069	21,544
Corporates (Specialised Lending)	358,079	14,037	370,920	14,820	-12,841	-783
Equity	4,621	1,368	4,477	1,325	144	43
Total F-IRB approach	**4,998,995**	**234,681**	**5,059,015**	**238,325**	**-60,020**	**-3,644**
Standardised approach:						
Institutions	12,934	495	18,066	698	-5,132	-203
Corporates	115,105	3,993	157,238	1,257	-42,133	2,736
Retail	12,447	341	12,219	569	228	-228
Equity	-	-	-	-	-	-
Other non-credit-obligation assets	22,957	1,836	20,654	1,652	2,303	184
Total Standardised approach	163,443	6,665	**208,177**	**4,176**	-44,734	2,489
Counterparty Credit Risk (CCR)	**272,283**	**3,179**	**452,384**	**3,947**	**-180,101**	**-768**
F-IRB approach:						
Central Gov. & Central Banks[7]	92,683	-	189,631	-	-96,948	-
Institutions	127,561	858	191,392	1,230	-63,831	-372
Corporates	28,616	1,684	15,848	884	12,768	800
Corporates (Specialised Lending)	154	11	168	15	-14	-4
Total F-IRB approach	**249,014**	2,553	**397,039**	**2,129**	**-148,025**	**424**
Standardised approach:						
Institutions	15,560	334	7,019	232	8,541	102
Corporates	4,156	26	45,451	1,553	-41,295	-1,527
Retail	3,553	266	2,875	33	678	233
Total Standardised approach	23,269	626	**55,345**	**1,818**	**-32,076**	-1,192
Total Credit Risk & CCR	**5,434,721**	**244,525**	**5,719,576**	**246,448**	**-284,855**	-1,923
Credit Valuation Adjustment (CVA)		**527**		**572**		**-45**
Total Market Risk (SMA)		**360**		**48**		**313**
Total Operational Risk (BIA)		**13,253**		**13,503**		**-250**
Total Capital Requirement		**258,666**		**260,571**		**-1,905**
Total RWA		**3,233,326**		**3,257,140**		**-23,814**
CET1 Ratio		**16.70%**		**16.26%**		**0.44%**
Total Capital Ratio		**18.47%**		**19.04%**		**-0.57%**

[5] As per Article 150 of the CRR, sovereign exposures of EUR 550 mio (2015: EUR 716 mio) are treated under SA and being exposures to EU member states, receive a 0% risk weight. However, these are classified under IRB in this table with the rest of the sovereign asset class.

[6] 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.

[7] As per DNB's national discretion sovereign exposures of EUR 93 mio (2015: EUR 190 mio) which satisfy the 0% risk weight condition are classified under IRB in this table

The capital requirement under Pillar 1 is EUR 258.7 million. The largest part (95%) of the capital requirement relates to credit risk[8]. 97% of the credit risk weighted assets are treated under F-IRB approach.

Common Equity Tier 1 (CET1) has increased to 16.70% from 16.26% in 2016, due to the decrease in the loan book. The total capital ratio has decreased to 18.47% from 19.04% because of the early repayment of Tier 2 capital.

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 pass through the CD from where they are 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.).

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 of GBI is responsible for the control of all credit and concentration risks arising from the banking and trading books in line with the Bank's risk appetite. The Wholesale Credit Risk Policy establishes the Bank's decision-making process in granting credit limits, setting rules and guidelines for exposures that give rise to credit risk. In view of the internal ratings and credit assessment analyses of the obligors, the Credit Committee assigns the credit exposure limit. All obligors have individual credit limits based on their creditworthiness. Groups of connected obligors are subject to regulatory 'group exposure' limits, as well as internal Group Concentration Policy, to effectively manage the concentration risk of the Bank. Furthermore, as per the Country Limit Policy, limits are in place that cap the maximum exposure to specific countries, to ensure that related risks do not threaten the asset quality or solvency of the Bank. Finally, the Sector Limit Policy is designed to minimize contagion 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

[8] Including counterparty credit risk

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

	Average Exposure	Total Exposure			
(EUR 1,000)	2016	Q4-2016	Q3-2016	Q2-2016	Q1-2016
Central Gov. & Central Banks	720,099	744,063	673,653	655,052	807,628
Institutions	1,286,421	1,112,459	1,111,499	1,343,494	1,578,231
Corporate	3,508,367	3,534,621	3,470,421	3,628,683	3,399,743
Retail	13,173	16,001	14,727	11,348	10,618
Equity	4,406	4,621	4,337	4,384	4,281
Other non-credit-obligation assets	22,019	22,957	21,398	21,720	22,000
Total	5,554,485	5,434,722	5,296,034	5,664,682	5,822,501

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 2015 is mainly driven by the increase in letter of credits.

Table 6.1.2-1

(EUR 1,000)		31.12.2016	31.12.2015	Difference
Guarantees		**49,869**	**77,279**	**-27,410**
	100%	**49,869**	**77,279**	**-27,410**
	75%	**-**	**-**	**0**
	20%	**-**	**-**	**0**
	0%	**-**	**-**	**0**
Irrevocable letters of credit		**206,280**	**95,405**	**110,874**
	100%	**-**	**-**	**0**
	75%	**-**	**-**	**0**
	20%	**206,280**	**95,405**	**110,874**
	0%	**-**	**-**	**0**
Other commitments		**142,612**	**144,891**	**-2,279**
	100%	**19,274**	**49,593**	**-30,319**
	75%	**123,046**	**95,066**	**27,979**
	20%	**-**	**-**	**0**
	0%	**293**	**232**	**61**
Total		**398,761**	**317,575**	**81,185**

6.1.3. Geographical Breakdown of the Exposures

The following table gives an overview of the geographical breakdown[9] of gross exposure by material exposure classes based on customer residence. The share of gross exposures in CIS countries has decreased compared to 2015, shifting towards other European countries.

Table 6.1.3

(EUR 1,000)	The Netherlands	Other Europe	Turkey	CIS countries	Rest of the World	Total
31.12.2016						
Central Gov. & Central Banks	521,208	131,200	91,655	-	-	744,063
Institutions	111,793	259,100	588,285	36,716	116,566	1,112,460
Corporates	515,333	1,476,500	1,128,277	1,988	412,522	3,534,620
Retail	766	478	14,757	-	-	16,001
Equity	-	4,621	-	-	-	4,621
Other non credit-obligation assets	22,655	302	-	-	-	22,957
Total	1,171,755	1,872,201	1,822,974	38,704	529,088	5,434,721
Percentage of total	21.56%	34.45%	33.54%	0.71%	9.74%	100.00%
31.12.2015						
Central Gov. & Central Banks	735,731	179,519	88,712	-	-	1,003,962
Institutions	146,341	389,157	751,204	116,774	49,846	1,453,322
Corporates	269,038	1,384,913	1,142,797	87,502	337,817	3,222,067
Retail	2,587	1,365	9,916	1,224	1	15,093
Equity	-	4,477	-	-	-	4,477
Other non credit-obligation assets	20,453	201	-	-	-	20,654
Total	**1,174,150**	**1,959,633**	**1,992,629**	**205,500**	**387,664**	**5,719,576**
Percentage of total	20.53%	34.26%	34.84%	3.59%	6.78%	100.00%

[9] The geographical breakdown of assets and off-balance sheet liabilities is also provided in Section 33.1.a of GBI's *"Annual Report 2016"*. Nevertheless, the figures in annual report do not include cash held at the central bank, non-credit obligations together with the counterparty credit risk.

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
31.12.2016							
Central Gov. & Central Banks	441,984	-	9	-	9,480	292,590	744,063
Institutions	215,112	230,514	248,372	61,655	94,058	262,749	1,112,460
Corporates	1,070,991	357,146	675,098	439,215	458,052	529,497	3,534,620
Retail	5,819	1,276	7,710	13	85	1,098	16,001
Equity	-	-	-	-	-	4,621	4,621
Other non credit-obligation assets	-	-	-	-	-	22,957	22,957
Total	**1,738,528**	**588,936**	**931,189**	**500,883**	**561,675**	**1,113,512**	**5,434,721**
Percentage of total	31.99%	10.84%	17.13%	9.22%	10.33%	20.49%	100.00%

(EUR 1,000)	< 3 Months	< 6 Months	< 1 Year	< 2 Years	< 3 Years	<= 5 Years	Total
31.12.2015							
Central Gov. & Central Banks	521,524	-	-	-	189,631	292,805	1,003,960
Institutions	406,478	121,842	359,706	39,508	33,124	492,663	1,453,321
Corporates	1,346,458	310,321	783,102	344,575	218,267	219,346	3,222,068
Retail	9,020	1,279	875	1,564	1,019	1,338	15,095
Equity	-	-	-	-	-	4,477	4,477
Other non credit-obligation assets	-	-	-	-	-	20,654	20,654
Total	**2,283,479**	**433,442**	**1,143,683**	**385,647**	**442,041**	**1,031,283**	**5,719,576**
Percentage of total	39.92%	7.58%	20.00%	6.74%	7.73%	18.03%	100.00%

60.0% of the total credit exposures have effective maturity of lower than one year compared to 67.5% in 2015.

6.1.5. Breakdown of the Exposures by Sector

The breakdown of gross exposure[10] by sector and exposure class is as follows:

Table 6.1.5

(EUR 1,000)	31.12.2016		31.12.2015	
	Total	Total	Total	% of Total
Central Gov. & Central Banks	**744,063**	**13.69%**	**1,003,961**	**17.55%**
Institutions	**1,112,459**	**20.47%**	**1,453,322**	**25.41%**
Corporates	**3,530,463**	**64.96%**	**3,222,055**	**56.33%**
Financial services	668,293	12.30%	766,261	13.40%
Oil & Gas	497,800	9.16%	417,699	7.30%
Basic materials	471,471	8.68%	453,958	7.94%
Transport & logistics	442,792	8.15%	448,498	7.84%
Chemicals	292,904	5.39%	258,152	4.51%
Consumer products	252,819	4.65%	154,853	2.71%
Construction	239,048	4.40%	122,718	2.15%
Food, beverages and Tobacco	170,030	3.13%	125,217	2.19%
Agriculture	169,708	3.12%	147,833	2.58%
Wholesale	98,568	1.81%	47,558	0.83%
Utilities	80,406	1.48%	14,463	0.25%
Telecom	43,747	0.80%	56,239	0.98%
Services	9,811	0.18%	4,046	0.07%
Leisure and Tourism	17,185	0.32%	19,963	0.35%
Other	75,880	1.40%	184,596	3.23%
Retail	**20,150**	**0.37%**	**15,107**	**0.26%**
Equity	**4,621**	**0.09%**	**4,477**	**0.08%**
Other non-credit obligation assets	**22,966**	**0.42%**	**20,654**	**0.36%**
Total	**5,434,722**	**100.00%**	**5,719,575**	**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 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

[10] Breakdown by sector for loans and advances is also provided in Section 33.1.c of GBI's "Annual Report 2016". 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.

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)	31.12.2016		31.12.2015	
	Impairment[11]	Provisions	Impairment[11]	Provisions
Corporates	62,377	44,429	131,511	77,591
Retail	205	205	245	245
Total	62,583	44,634	131,756	77,836
Loan Loss Reserve Ratio	**71.3%**		**59.1%**	

The Bank has prudently increased the loan loss provisions as a result of the slowdown in commodity markets. The ratio is at the 71.3% level, which is higher than 59.1% in 2015.

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[11]	More than 90 days past due	Provisions for Impairment
31.12.2016			
The Netherlands	1,450	-	51
Other Europe	52,886	-	38,310
CIS countries	6,320	-	5,058
Rest of the world	-	-	-
Turkey	1,926	7,657	1,215
Total	62,583	7,657	44,634
31.12.2015			
The Netherlands	1,413		61
Other Europe	57,532		26,249
CIS countries	34,934		24,583
Rest of the world	35,305		24,479
Turkey	2,572		2,464
Total	**131,756**		**77,836**

An exposure is past due if a debtor has failed to make a payment of principal and/or interest when contractually due.

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

Table 6.1.6-3

(EUR 1,000)	31.12.2016	31.12.2015
Position as of 1 January	77,836	61,229
Additions	29,368	50,860
Write-offs	(61,983)	-39,099
Releases	(1,377)	-2,234
Exchange rate differences	790	7,080
Position as of 31 December	**44,634**	**77,836**

The net provision for loan losses decreased to EUR 44.6 million from EUR 77.8 million.

[11] 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 32 (Asset Encumbrance) of GBI's "*Annual Report 2016*". In the last two years, the maximum monthly net increase in collateral provided, resulting from the fluctuations in the market value of (hedging) derivatives amounted to EUR 132.2 million.

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 increase in the positive replacement value of derivatives together with the increase in the repurchase transactions, have increased the total counterparty credit risk in 2016 compared to 2015. 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[12]	Collateral Held	Net Exposure[13]
31.12.2016					
Repurchase transactions			169,432	129,094	40,338
Interest rate derivatives	313	4,265	4,578	-	4,578
FX derivatives and Options	68,630	24,208	92,838	4,091	88,747
Other derivatives	955	4,480	5,435	0	5,435
Total	69,898	32,953	272,283	133,185	139,097

(EUR 1,000)	Positive Replacement Value	Potential Future Credit Exposure	Exposure Value[14]	Collateral Held	Net Exposure[15]
31.12.2015					
Repurchase transactions	-	-	319,138	258,194	60,944
Interest rate derivatives	139	4,531	4,670	-	4,670
FX derivatives and Options	48,809	46,908	95,717	24,605	71,112
Other derivatives	21,261	11,598	32,858	4,382	28,476
Total	**70,209**	**63,036**	**452,384**	**287,182**	**165,202**

The distribution of derivatives notional amounts by residual maturity and information on the fair value of the derivatives are provided in Section 33.1.e and Section 34, respectively, of GBI's "*Annual Report 2016*".

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,

[12] 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).
[13] Exposure after collateral mitigation
[14] Exposure value refers to the sum of positive replacement cost and potential future credit exposure. For repurchase transactions, it includes mark-to-market value of the securities provided as collateral (after application of regulatory volatility haircuts).
[15] Exposure after collateral mitigation

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[16] by the CRR s as follows:

Table 6.1.8-1

(EUR 1,000)	Financial Collateral	Guarantees	Other Collateral	Total
31.12.2016				
Central Gov. & Central Banks	70,000	-	-	70,000
Institutions	71,425	60,172	-	131,597
Corporates	77,893	321,683	-	399,576
Retail	8,413	-	-	8,413
Total	227,731	381,855	-	609,586
31.12.2015				
Central Gov. & Central Banks	150,000	-	-	150,000
Institutions	114,429	18,371	-	132,800
Corporates	111,349	325,044	-	436,393
Retail	7,688	-	-	7,688
Total	**383,465**	**343,415**	**-**	**726,880**

[16] Similar table in Section 33.1.b of GBI's "*Annual Report 2016*" presents all collateral received 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.

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 the 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 GBI's competent authority, if model changes are material[17].

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 GBI's competent authority (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.

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 2016.

[17] 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.

Table 6.2.3-1

(EUR 1,000)	Gross Exposure[18]	RWA	Average PD[19]	Average Risk Weight
31.12.2016				
Central Gov. & Central Banks	744,063	2,789,841	0.41%	0%
Investment Grade	744,063	2,789,841	0.41%	0%
Sub-investment Grade	-	-	-	-
Institutions	1,079,676	748,034	0.38%	58%
Investment Grade	879,660	531,596	0.23%	49%
Sub-investment Grade	200,016	216,438	1.25%	111%
Corporates	3,046,275	1,928,866	0.86%	71%
Investment Grade	1,320,895	701,772	0.32%	55%
Sub-investment Grade	1,725,380	1,227,094	1.34%	86%
Total	4,870,014	5,466,741	0.54%	52%
31.12.2015				
Central Gov. & Central Banks	1,003,961	93,742	0.41%	11%
Investment Grade	1,003,961	93,742	0.41%	11%
Sub-investment Grade	-	-	-	-
Institutions	1,423,948	1,061,524	0.23%	49%
Investment Grade	1,062,708	650,069	0.24%	52%
Sub-investment Grade	361,240	411,455	1.00%	117%
Corporates	2,618,252	1,666,122	0.98%	70%
Investment Grade	875,340	432,757	0.32%	51%
Sub-investment Grade	1,742,912	1,233,365	1.35%	80%
Total	**5,046,161**	**2,821,388**	**0.64%**	**60%**

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 of 31 December 2016:

Table 6.2.4-1

(EUR 1,000)		31.12.2016		31.12.2015	
Risk Weight Category	**Risk Weight**	**Gross Exposure[20]**	**RWA**	**Gross Exposure[20]**	**RWA**
Strong	50% - 70%	135,215	39,406	137,053	55,850
Good	70% - 90%	123,983	58,461	112,887	71,251
Satisfactory	115%	84,015	77,733	95,934	58,278
Weak	250%	0	0	1,027	67
Total		343,213	175,600	**346,901**	**185,446**

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

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 positions 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 of 31.12.2016:

Table 6.3-1

(EUR 1,000)	**31.12.2016**	**31.12.2015**
Traded Debt Instruments	289.6	-
Equities	0.2	-
Foreign Exchange Risk	70.2	48.0
Total Capital Requirement	**360.0**	**48.0**

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 86 million in 2016, which results in a capital requirement of EUR 13.2 million.

Table 6.4-1

(EUR 1,000)	**31.12.2016**	**31.12.2015**	**31.12.2014**	**31.12.2013**
Sum of Net Int. and Non-Int. Income	86,280	87,515	91,272	91,275
Total Capital Requirement	**13,253**	**13,503**	**14,393**	**14,850**

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 that 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 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. Concentrations to individual customers, groups, countries and sectors are subject to limits, as per the Limit Framework of GBI. These concentration levels are tracked frequently by the CD, and monitored and discussed regularly at the CC.

Tracking of large exposures is also an integral part of this process. GBI monitors credit exposures to group of connected clients and proactively manages single name concentration as per the rules and limits stated in internal Group Concentration Policy. The policy and limits are also reviewed by the CC and SB on a regular basis, all of which together enable the Bank to comfortably comply with requirements on limits to large exposures outlined in the CRR. Furthermore, as per the Country Limit Policy, limits are in place that cap the maximum exposure to specific countries, to ensure that related risks do not threaten the asset quality or solvency of the Bank. Finally, the Sector Limit Policy is designed to minimize contagion risks.

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%. 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, monitoring 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' type 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 to the balance sheet, and 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 33.2.b (Interest Rate Risk) of GBI's *"Annual Report 2016"*.

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 risk-free yield curves, as defined in "EBA guidelines on the management of interest rate risk arising from non-trading activities", leads to a potential decrease in EVE of EUR 51.6 million (8.64% of the total own funds), which is 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[21] (EUR 1,000)	**EUR**	**USD**	**TRY**	**OTHER**	**TOTAL**
31.12.2016					
Shift Up Net[22]	-23,265	-27,339	-783	-200	-51,587
Shift Down Net[22]	10,710	32,209	817	0	43,737
Change in Economic Value					51,587
Own Funds					**597,129**
Change in Economic Value / Own Funds					**8.64%**
31.12.2015					
Shift Up Net[22]	-21,358	-40,558	1,853	20	-60,043
Shift Down Net[22]	18,102	49,009	-1,895	0	65,216
Change in Economic Value					60,043
Own Funds					**620,181**
Change in Economic Value / Own Funds					**9.68%**

The Bank has a moderate duration structure. 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

[21] Static balance sheet, based on instant liquidation
[22] 200 Bps shock

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. The first line is the business lines that are the experts in their field; the second line is the controlling functions (ICU, CD, ISD, IAC, LCD) responsible for establishing and implementing the relevant control processes, in addition to challenging and advising the business; the third line is Internal Audit that performs independent audits throughout the year. The operational risk identification and monitoring is mainly monitored by three departments at GBI; ICU for process risks, ISD and IAC for information and technology risks and LCD for legal and compliance related risks.

The operational risk framework of GBI is based on the principle that senior management, in addition to the MB and SB, is actively involved in risk management, and that the risk management system is independent, sound and implemented with integrity.

GBI establishes and continuously reviews 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 for process risks, 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.

GBI is aware of the integrity risks that are possible and common in the banking industry in general and moreover in its core activities; international trade finance, correspondent banking and retail banking.

Integrity is a core value of GBI, and is embedded in the Bank's organization and implemented through a number of policies and procedures.

GBI uses Systematic Integrity Risk Analysis (SIRA) to evaluate integrity risks with respect to characteristics of the Bank's products, services, customers, and geographical locations. SIRA also provides an overview of the main compliance risk management controls applied within the Bank.

7.6. Reputational and Strategic Risks

GBI is committed to safeguarding its reputation as a reliable, professional, and trustworthy provider of financial services in the eyes of all stakeholders, including regulators, shareholders, clients, and society. The Bank avoids activities, which might lead to insufficient compliance with internal policies or external regulations and, which may generate reputational risk in the eyes of all stakeholders, including regulators, shareholders, clients and society. The impact of reputation risk is also included within the scope of liquidity risk management and the Recovery Plan.

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. GBI assumes low strategic risk to achieve its business goals in changing market conditions. 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

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

GBI has limited or no exposure to residual, pension, settlement, underwriting, and securitization risks.

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 in conjunction with the budget process as part of 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 risk appetite and ILAAP Framework, makes pricing decisions through the Internal Transfer Pricing (ITP) process.

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.

Compliance with regulatory requirements related to liquidity risk is an integral part of the liquidity risk management of GBI. As such, the Bank ensures that it is in line with all regulations in place in its jurisdiction, and compliance with future regulations is part of its ongoing strategy and planning. In this context, the Bank monitors and reports the DNB Liquidity Stress Test as per the Supervisory Regulation on Liquidity (Regeling liquiditeit Wft), as well as the liquidity ratios Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), as per the CRR.

In addition to liquidity risk limits, the Bank has established several metrics as 'Early Warning Indicators' (EWIs), which could potentially trigger an action by management. EWIs include monthly deposit outflows, mismatch in the average maturities of assets and liabilities, and breaches of liquidity risk limits.

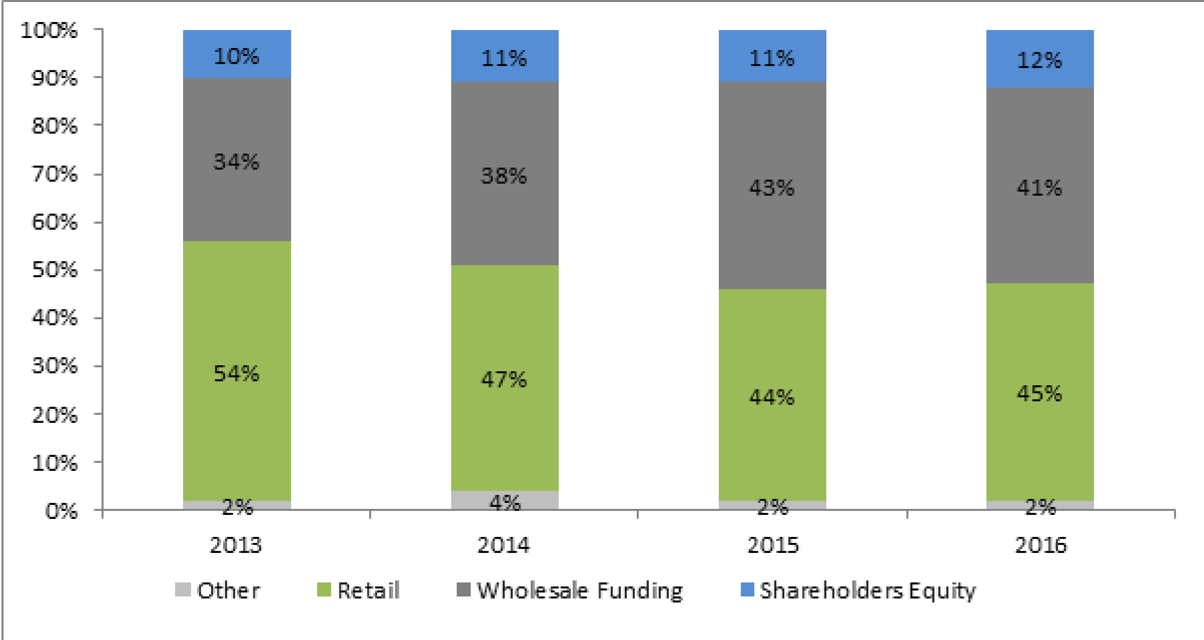
All EWIs and liquidity analyses are reported to ALCO on a regular basis. ALCO reviews and plans the necessary actions to manage the liquidity gaps, and bears overall responsibility for the liquidity risk strategy. ALCO has delegated day-to-day liquidity management to the Treasury Department, which is 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 36 (Group Related Balances) of GBI's *"Annual Report 2016"*.

8.4. Liquidity Risk Profile

GBI's short term lending strategy and stable funding provide natural mitigation 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 33.3 (Liquidity Risk) of GBI's *"Annual Report 2016"*, demonstrates that the Bank does not carry a large maturity mismatch. 70% 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. REGULATORY METRICS

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 capacity.

GBI is well positioned for the full phase-in implementation of CRR, 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.

The capital ratios are already comfortably above the CRR minimum and the fully phased-in capital conservation buffer of 2.5% in the CRD IV, at 16.70% of CET 1 and 18.47 % Total Capital Ratio.

Short-term and long-term liquidity standards, such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), respectively, were introduced by CRR to protect the financial industry from potential liquidity shocks. GBI's LCR, at 341%, is comfortably above the regulatory minimum of 100%.

Although a regulatory minimum has not yet been established in the EU for the NSFR, GBI's level is well above the Basel III proposal of 100%. The Bank maintains a high liquidity buffer and, given its stable funding base, the Bank expects to continue meeting both liquidity requirements.

In addition to the changes in the minimum required solvency, a non-risk based measure, namely the Leverage Ratio, has been established to limit excessive leverages in the financial industry. GBI's level of 10.66% is well above the Basel III proposal of 3%.

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 Shareholders 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:

- testing and monitoring periodically the general principles of the remuneration policy;
- execution of the remuneration policy;
- acting independently;
- being able to manage the incentives in relation to risk, capital and liquidity;
- consulting 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 ensuring 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 Shareholders 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 is 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 that attract and retain the highest calibre employees and motivate them to perform to the highest standards are provided. The objective is to align individual rewards with the Bank's performance in a sustainable way and in relation to the budget, the parent bank's performance, the Bank's core values. Compliance with internal and external rules and regulations and individual performance both financial and non-financial with non-financial component accounting for at least 50% of the valuation, are also taken into account.

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). As of performance year 2016 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 2015 is provided in the table below.

Table 10.4-1

Total remuneration over performance year 2016 (EUR 1,000)	
Management Body	2,843
Commercial Units	5,883
Non Commercial Units	15,129
Total	23,857

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 33 "Identified Staff" who are designated based on qualitative and/or quantitative criteria. The total remuneration awarded to the 33 Identified Staff members are as shown below of which no member received a total remuneration of more than EUR 1 million.

Table 10.4-2
Remuneration for Identified Staff in 2016
(EUR 1,000)

Total fixed remuneration 2016	7,903
Total variable remuneration paid over performance year 2016 [23]	1,437
Total outstanding deferred variable remuneration [24]	1,654
Number of employees received severance pay	2
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 2016, 2 severance payments have been made to Identified Staff members.

An amount equal to 40% of the variable remuneration awarded over performance year 2016 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 upcoming 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.

[23] Includes the variable remuneration paid over performance year 2016 and including the deferred part for previous performance years
[24] Includes the deferred annual remuneration over performance year 2016 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 instruments are 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 50 million
9	Nominal amount of instrument	EUR 50 million
9a	Issue price	100%
9b	Redemption price	Redemption at par
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	31/10/2015
12	Perpetual or dated	Dated
13	Original maturity date	27/10/2025
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 30/10/2020 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	4.33% 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 (zero) for all items for GBI, hence this column has been excluded from the table.

(EUR 1,000)	*Amount at 30.12.2016*
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	9,796
Accumulated other comprehensive income (and other reserves)	409,191
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 (CET1) capital before regulatory adjustments	555,823
CET1 capital: regulatory adjustments	
Additional value adjustments (-)	-57
Intangible assets (net of related tax liability) (-)	-3,373
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	-
Any increase in equity that results from securitised assets (-)	-12,524
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 CET1 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	-15,954
CET1 capital	539,869

Item	Amount
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)	539,869
Tier 2 (T2) capital: instruments and provisions	-
Capital instruments and the related share premium accounts	50,000
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	10,390
T2 capital before regulatory adjustments	60,390
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)(-)	-
Of which new holdings not subject to transitional arrangements	-
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	-
Of which: shortfall of provisions to expected losses	-3,131
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	-3,131
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	-3,131
Tier 2 capital	57,259
Total capital (TC = T1 + T2)	597,129
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	3,233,326
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)	18.47%
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)	-
Amounts below the thresholds for deduction	11.48%
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)	
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	31,802
Cap on inclusion of credit risk adjustments in T2 under standardised approach	-
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach	
Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-
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	1,139
Current cap on AT1 instruments subject to phase out arrangements	10,390
Amount excluded from AT1 due to cap	17,793
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 of 31.12.2016.

(EUR 1,000)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Total	**468,999**		**4,366,519**	
Debt securities	163,174	154,006	656,093	636,201
Other assets	305,825		3,710,427	

GBI's asset encumbrance is 9.7% as of 31.12.2016 and stable compared to 11.6% as of 31.12.2015. 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	**303,597**	**468,999**

The collateral received by GBI on 31.12.2016 is not encumbered, and EUR 10.0 million is available for encumbrance.

(EUR 1,000)	Fair value of encumbered collateral received	Fair value of collateral received available for encumbrance
Collateral received	**0**	**10,042**
Equity instruments	0	0
Debt securities	0	10,042

Further information on pledged assets is provided in Section 32 of GBI's "Annual Report 2016".

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