GarantiBank NV
BBVA Group

# 2017 Annual Report

GARANTIBANK INTERNATIONAL N.V.

simple & customized solutions

# Contents

GBI is a mid-sized *European bank* established in Amsterdam, the Netherlands since 1990 and serves to retail, corporate, and institutional clientele.



Our digital solutions and aspirations aim to sustain and improve a unique customer experience.

# Key Figures

| EUR 1,000 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Total assets | 4,266,939 | 4,835,519 | 5,021,465 | 4,978,439 | 4,717,808 |
| Banks (assets) | 382,743 | 538,436 | 651,717 | 826,674 | 917,225 |
| Loans and advances | 3,022,302 | 2,889,555 | 2,720,638 | 2,548,911 | 2,360,497 |
| Banks (liabilities) | 663,951 | 768,859 | 989,260 | 770,536 | 737,262 |
| Funds entrusted | 2,892,890 | 3,348,663 | 3,247,699 | 3,330,125 | 3,303,065 |
| Subordinated liabilities | 50,000 | 50,000 | 80,000 | 30,000 | 30,000 |
| Shareholders' equity (including result after tax) | 592,948 | 564,397 | 546,965 | 535,835 | 488,925 |
| Operating result before tax and value adjustments | 41,342 | 49,550 | 61,309 | 82,129 | 91,555 |
| Result after tax and value adjustments | 24,686 | 16,412 | 11,341 | 45,761 | 58,479 |

| RATIOS | | | | | |
|---|---|---|---|---|---|
| Common Equity Tier 1 ratio % | 20.44 | 16.70 | 16.26 | 16.70 | 18.40 |
| Total Capital ratio % | 22.75 | 18.47 | 19.04 | 17.45 | 19.40 |
| Cost to income ratio %* | 54 | 47 | 41 | 34 | 29 |
| Return on average equity %** | 4.36 | 3.00 | 2.12 | 9.35 | 13.59 |
| Return on average assets % | 0.54 | 0.33 | 0.23 | 0.94 | 1.25 |

* Cost to income ratio is calculated using total expenses and total income. Value adjustments to tangible fixed assets and value adjustments to receivables are excluded

** Return on average equity is calculated using average shareholders' equity excluding result after tax

| STAFF & NETWORK | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Total average number of employees | 242 | 236 | 236 | 229 | 225 |
| Foreign branches and representative offices | 3 | 4 | 4 | 4 | 4 |







# About Us

**"WE EMBRACE A PERSONABLE APPROACH TOWARDS OUR CLIENTS AND COUNTERPARTIES AND CLAIM OWNERSHIP OF THEIR CHALLENGES AS THOUGH THEY ARE OUR OWN."**

GBI is a mid-sized European bank established in Amsterdam, the Netherlands since 1990 and serves to retail, corporate, and institutional clientele. We offer financial solutions to our customers and counterparties in the areas of trade and commodity finance, cash management, treasury, and structured finance, while maintaining multi-product relationships with local and global financial institutions around the world. GBI also provides targeted retail banking services in the Netherlands and Germany.

We embrace a personable approach towards our clients and counterparties and claim ownership of their challenges as though they are our own. We provide simple yet customized solutions in a complex regulatory and macroeconomic space. Our digital solutions and aspirations aim to sustain and improve a unique customer experience.

GBI is a wholly-owned subsidiary of Türkiye Garanti Bankası A.Ş. (Garanti) and has presence in Germany, Switzerland, and Turkey. Our ultimate parent is Banco Bilbao Vizcaya Argentaria S.A. (BBVA), as GBI is fully consolidated under Garanti and Garanti is fully consolidated under BBVA. GBI operates in compliance with the Dutch and European Union laws and regulations, and is under the supervision of European Central Bank (ECB), De Nederlandsche Bank (DNB) and De Autoriteit Financiële Markten (AFM). As GBI is ultimately consolidated under BBVA, ECB enlists GBI as one of the "Significant Supervised Entities", alongside the other BBVA entities in the Eurozone since September 2015.

# Vision

to be the **best bank** in our niche markets.

# Mission

to **sustain solid value creation** for our clients, employees, shareholders and society by pursuing prudent strategies with **organisational agility** and **operational excellence**, as a **reliable** niche financial services provider.

# Core Values

### STAKEHOLDER CENTRIC

We respect regulators, auditors, competitors, employees and the community while adding value to our clients, counterparts and shareholders in a responsible manner.

### PROGRESS

We build a dynamic, open minded, innovative and entrepreneurial business culture.

### EXCELLENCE

We strive to serve our clients with superior service quality, speed and accuracy through vigorous teamwork.

### PRUDENCE

We pursue commercial interests with high accountability, utmost care of our clients and strong risk management.

### AGILITY

We are fast moving, flexible and robust, capable of rapid response to unexpected challenges, client needs, events and opportunities.

### INTEGRITY

Above all, integrity is our non-negotiable behaviour. We always act with integrity, adhere to the highest ethical principles in our conduct of business and never tolerate any behaviour that could endanger this fundamental value.







## Supervisory Board

**Mr. Gökhan Erün**
Chairman
Member of Risk Committee and
Remuneration Committee
(since January 2016 till 15 January 2018)

Mr. Erün resigned from his duties at GBI's Supervisory Board as well as at Türkiye Garanti Bankası A.Ş. (Garanti) as of 15 January 2018. GBI will shortly apply to the regulatory authorities for the appointment of Mr. Ali Fuat Erbil, the CEO of Garanti, to the Supervisory Board.

**Mr. Aydın Düren**
Vice-Chairman, currently acting as Chairman
Chairman of Audit and Compliance Committee
Member of Risk Committee
(since 22 September 2017)

Following the Extraordinary Meeting of the Shareholders and regulatory approvals, Mr. Düren was appointed as a member and Vice-Chairman of the Supervisory Board, Chairman of the Audit and Compliance Committee, and member of the Risk Committee of the Supervisory Board as of 22 September 2017. After serving as an associate, partner, and managing partner for over 18 years at international private law firms in New York, London, and Istanbul, Mr. Düren joined Garanti in 2009 as the Executive Vice President in charge of Legal Services. With 23 years of experience in banking and business administration, his current responsibility areas at Garanti include Legal Advisory Services, Legal Collections, Litigation, Garanti Payment Systems, Legal Services, Legal Operations, Wholesale Recovery, and Retail Collections. Furthermore, Mr. Düren is the Vice Chairman of Garanti Bank Pension and Provident Fund Foundation, Garanti Bank International N.V. and Board Member of Garanti Payment Systems, Teachers Academy Foundation and Garanti Mortgage. Since June 2015, Mr. Düren also serves as the Corporate Secretary of Garanti.

**Mr. René van der Linden**
Chairman of Remuneration Committee

Member of the Supervisory Board of Eureko/Achmea; Member of the Supervisory Board of Ballast Nedam; Advisory role for the International Affairs Province of Limburg; Advisor of Otto Workforce; Member of the Dutch Parliament between 1977 and 1998 and Secretary of State of Foreign Affairs between 1986 and 1988; Member of the Benelux Parliament and of the Assembly of the Western European Union; Vice President WEU 1999-2004; Chairman of the European Peoples Party (EPP) in the Council of Europe 1999-2004; President of the Parliamentary Assembly of the Council of Europe 2005-2008; Member of the Senate of the Netherlands 1999-2015; President of the Dutch Senate 2009-2011.

**Mr. Willem Cramer**
Chairman of Risk Committee

Chairman of the Supervisory Board PC Uitvaart BV, Chairman of the Supervisory Board Friese Ontwikkelingsmaatschappij BV, Non-Executive Director DFCU Bank Ltd, Chairman of the Supervisory Board Koopman Logistics Group BV, Treasurer of the Board of Trustees International Franz Liszt Piano Competition, Member of the Supervisory Board of UNICEF Nederland.

**Mr. Bart Meesters**
Member of Audit and Compliance Committee

Member of Audit and Compliance Committee
Dutch qualified lawyer and partner at Loeff Claeys Verbeke/Allen & Overy 1988-2010; Off-Counsel of Allen & Overy and independent lawyer 2010-2015.

# Managing Board

**Mr. Erhan Zeyneloğlu**

Chief Executive Officer, since October 2015

Mr. Zeyneloğlu began his career at Türkiye Garanti Bankası A.Ş. (Garanti) in Turkey. He joined GBI in 1995. Before his appointment as CEO, Mr. Zeyneloğlu held several managerial positions in various departments, lastly as Executive Director responsible for Structured Finance and Retail Banking. Mr. Zeyneloğlu holds Bachelor of Arts degree in Economics from Boğaziçi University.

**Ms. Özgen Etker-Simons**

Member of the Managing Board, since October 2015

Ms. Etker-Simons started her banking career in 1991 in the Netherlands. She joined GBI in 1992 and held several managerial positions within the organization. Before her appointment as Member of the Managing Board, she was the Executive Director of Treasury and Private Banking divisions. Ms. Etker-Simons is a graduate of the Faculty of Economics and Administrative Sciences of Boğaziçi University.

**Mr. Marco Witteveen**

Chief Operating Officer, since June 2016

Mr. Witteveen started his professional life in 1985. During his 30 years of banking career, 12 years of which under expatriate assignments in Jakarta, London, New York, and Geneva, Mr. Witteveen held various managerial positions in several Dutch banks. Mr. Witteveen joined GBI in 2016 as Chief Operating Officer covering technology and operations areas. Mr. Witteveen is a Business Economics graduate of Vrije Universiteit Amsterdam.

**Dr. Övünç Şişman**

Chief Financial & Risk Officer, since October 2015

Dr. Şişman started his career in 1999. After several risk management positions at various banks in Turkey including Garanti, Dr. Şişman joined GBI in 2003 and held several managerial positions. Before appointed to GBI's Managing Board, Dr. Şişman was the Executive Director of Risk Management, Control & Reporting. Dr. Şişman holds a Management Engineering degree from Istanbul Technical University, master of arts degree in Money, Capital Markets and Financial Institutions, and a PhD degree in Economics from Istanbul University.

**Mr. Cem Bahadır Mutlu**

Chief Credit Officer since January 2018

Mr. Mutlu joined GBI in June 2017 as Executive Director Credits. Following all necessary approvals, Mr. Mutlu was formally appointed as a member of the Managing Board and Chief Credit Officer as of 11 January 2018. During his 25 years banking career, Mr. Mutlu held various positions in several Turkish banks. Between 2007 and 2008, Mr. Mutlu headed Garanti's Luxembourg Branch. Before joining GBI, Mr. Mutlu was the Corporate Branch Manager of Garanti's Istanbul Corporate Branch. He holds bachelor of arts degree in Economics from Ankara University's Faculty of Political Sciences.







# Senior Management Team

### TRADE & COMMODITY FINANCE

**Mr. Ali Arolat**
Executive Director

### STRUCTURED FINANCE

**Mr. Osman Barutçu**
Executive Director

### FINANCIAL INSTITUTIONS & INVESTOR RELATIONS

**Mr. Oral Draman**
Executive Director

### OPERATIONS

**Ms. Ecem Demirel**
Executive Director

### DUSSELDORF BRANCH

**Mr. Fahri Birincioğlu**
Executive Director

### LEGAL

**Ms. Manolya Köprülü**
Director

### HUMAN RESOURCES

**Ms. Mijke van Tilburg-van Alfen**
Director

### COMPLIANCE

**Mr. Esmond Berkhout**
Chief Compliance Officer

### INTERNAL AUDIT

**Mr. Cenk Taşpınar**
Executive Director

GBI continued its *digitalization* drive and made significant progress in *agile development* of end-to-end processes.



Increasing our trade finance volume, further diversification of the loan book towards European corporations, continued digitalization of operational flows and customer services are our strategic priorities in 2018.

# Economic Developments

**"EUROZONE ECONOMY IS EXPECTED GROW BY 2.1 PERCENT IN 2017. IT WOULD BE FAIR TO EXPECT THAT TAILWINDS WOULD ALSO CONTINUE TO DRIVE ROBUST GROWTH IN 2018."**

The pick-up in the global activity that started in 2016 modestly but firmly continues. In October, International Monetary Fund (IMF, Fund) upgraded its global outlook forecast for 2017 by 0.1 percent to 3.6 percent and to 3.7 percent for 2018 from its April and July outlook. Upward revisions in European Economic Area, Japan, emerging Asia, emerging Europe, and the Russian Federation have more than offset downward revision for the United States of America (U.S.) and the United Kingdom (U.K.). Main drivers of global upswing have been pickup in trade, investments and consumer confidence. According to the Fund, although baseline outlook is strengthening, risks to the growth in the medium term are skewed to the downside. These are mainly rapid and sizeable tightening of the global financial conditions, low inflation with weak wage growth in advanced economies, a shift toward protectionism, and continuing geopolitical risks.

Eurozone economic picture continued to be bright in 2017. On the back of ultra-accommodative monetary policy by the European Central Bank (ECB), healthier labour market (multi-year low in August), and increase in capital spending, Eurozone economy is expected grow by 2.1 percent in 2017. Passing the elections in the Netherlands and France without any negative surprises helped growth momentum to carry on in the second quarter. The stream of positive data continued to flow in the third quarter, especially on the manufacturing front while the central and eastern European Union economies' performances have been robust with 5.3 percent growth as at the third quarter of 2017.

Recent political developments (i.e., the unrest in Catalonia, progress at Brexit negotiations, Austrian and German general elections) are not expected to derail growth in the fourth quarter whereas general elections in Italy in March 2018 will be closely watched. It would be fair to expect that tailwinds would also continue to drive robust growth in 2018, although their effects will diminish somewhat. IMF's growth forecast for 2018 is 1.9 percent. Given the unabated momentum, ECB has become more confident about the likelihood of self-sustained rise of inflation and therefore recently decided to recalibrate its asset purchases from €60 billion to €30 billion per month from the start of 2018 for nine months. The forward guidance on interest rates will also be maintained and negative deposit rate at -0.40 percent will stay well past the end of ECB's Quantitative Easing. GBI has continued to successfully grow its cash and non-cash loans to European customers by 3 percent in 2017.

The Dutch economy expanded by 1.5 percent on quarter-on-quarter (qoq) basis in the second quarter of 2017 and became the frontrunner in the Eurozone. Although economic run abated in the third quarter due to political uncertainty around the cabinet formation, the, growth in 2017 has been broad-based and the rising exports and robust consumption by households have been the major drivers of such growth. With ongoing momentum, the economy is expected to grow by over 3 percent this year. The newly formed coalition government plans to boost economic growth further by reducing the tax burden on households to spur private consumption.







German economy continued to perform well in 2017. Growth in the third quarter was 0.8 percent qoq (2.3 percent year-on-year basis), driven by strong demand abroad. Business confidence reached record high in October, reflecting optimistic sentiment about the future business conditions. Increasing trade surplus figures also shrugged off the fears of strong euro in 2017. Rising wages, tight labour market, and strong consumer confidence will continue to stimulate private consumption going forward. Weeks of negotiations to form a coalition in the aftermath of October election have recently collapsed. However, it is not expected to affect the growth. The momentum is likely to continue in 2018, albeit at a slower pace than in 2017 (2018 forecast 1.7 percent).

In the U.S., weakness in the consumption in the first quarter turned out to be temporary. The economy has made significant progress since then and GDP increased by 3.1 percent in the second quarter and 3.00 percent in the third. Robust household spending, business investments, and solid external sector are the main reasons of reviving U.S. economic expansion. Expected tax reductions and spending increases by the Trump administration should promote acceleration in U.S. economic growth further in 2018.

Emerging markets (EM) have continued to grow faster than developed markets. IMF's growth forecast for EM is 4.6 percent in 2017. After above-expectation growth during the first half of 2017, China economy has showed some signs of cooling. Increase in short-term interest rates and regulatory tightening slowed the credit expansion. China economy is expected to grow 6.8 percent in 2017. Moreover, as commodity prices recovered, EM commodity-exporter countries have experienced decent pick-ups, especially helping the Latin-America region. Brazil has grown slightly better than expected (2017 GDP forecast 0.7 percent). EM Asia, ex-China, continued to benefit from ongoing global expansion story. EM Europe has enjoyed the spillovers from Euro Area's vibrancy. With the help of Credit guarantee facility, Turkey achieved 5.1 percent and a staggering 11.1 percent yoy growth in the second and the third quarters, respectively. Russia also benefits from the stabilization in commodities (2017 GDP forecast 1.8 percent). Favourable macroeconomic conditions are most likely to continue for EM in the near future. GBI has reduced its credit exposure to Turkey by 11 percent and minimized its exposure to CIS in line with its country concentration policy.

However, there could be some potential risk factors down the road. The most significant risk is, despite the weakness in core inflation, the monetary policy tightening by the Federal Reserve Bank (FED) of the U.S. is highly likely in the next year. Moreover, the composition of the Federal Open Market Committee in 2018 could lead to a more hawkish FED. Faster than expected tightening and sharp rise in U.S. bond yields could cause capital outflow pressures on emerging markets. In addition to this, idiosyncratic risks within the EM could also weaken growth. Renegotiation of North America Free Trade Agreement remains as a potential source of disruption for Mexican economy in 2018. Elections in Mexico (July) and Brazil (October) in 2018 are other LATAM-related uncertainties. Geopolitical tensions in North Korea and Middle East could also cause vulnerabilities, mostly in their respective regions.

Thanks to the matched funding and sound hedging strategies pursued throughout 2017, GBI has prudently managed the interest rate risks in its foreign currency balance sheet, which is predominantly denominated in USD and TRY.

# Financial Analysis

In 2017, the net result after tax stood at EUR 24.7million, which is an increase of 50 percent compared to 2016 (EUR 16.4 million). Operating result before tax and value adjustments amounted to EUR 41.3 million, which is 17 percent lower than in 2016 (EUR 49.5 million).

The decrease in operating result before tax and value adjustments is explained by the decrease in total income by EUR 4.7 million, which is mainly attributable to the decrease in net interest income by EUR 3.1 million, slight decrease in net commission by EUR 1.2 million, and the increase in operating expenses by EUR 3.5 million.

The decrease in the net interest income is due to the decrease in the result on sales of interest-bearing securities. The results of sales of interest-bearing securities in the investment and other securities portfolio amounted to EUR 2.6 million, representing a decrease of EUR 5.0 million compared to 2016. Excluding this effect, the net interest income increased by EUR 1.9 million to EUR 57.5 million (2016: EUR 55.6 million) thanks to the increase in loan volume despite the substantial decrease in the interest bearing securities portfolio.

Net commission income amounted to EUR 23.7 million, which is 5 percent or EUR 1.1 million lower than the 2016 figure. Result on financial transactions slightly decreased from EUR 6.0 million in 2016 to EUR 5.6 million in 2017. Securities trading decreased by EUR 0.4 million and foreign exchange dealing decreased by EUR 1.3 million, whereas other results on financial transactions increased by EUR 1.3 million.

Total administrative expenses amounted to EUR 44.6 million which is EUR 3.0 million higher than in 2016. The increase is mostly caused by the increase in the staff costs and increase in the contribution to the deposit guarantee fund.

Value adjustments to receivables decreased from EUR 27.6 million in 2016 to EUR 8.4 million in 2017 as a result of the improvement in the asset quality due to the conservative credit granting practices of the Bank. Value adjustments of 2017 are mostly related to the increase in the provisioning of existing impaired loans as a result of decrease in collateral values and additional provisions set aside for loans that become non-performing within 2017. These provisions relate to loans to companies active in the trading of commodities and, basic materials, and shipping industry.

Total tax expenses amounted to EUR 8.3 million, representing an effective tax rate of 25 percent (2016: 25 percent).

The size of the balance sheet decreased by 12 percent or EUR 569 million, reaching EUR 4.3 billion. This decrease relates to the following assets: interest-bearing securities (EUR 384 million), cash (EUR 103 million), banks (EUR 156 million) and prepayments and accrued income (EUR 57 million); whereas the loans and advances increased (EUR 133 million). On the liability side of the balance sheet, the decrease is attributable to the following items: banks (EUR 105 million), funds entrusted (EUR 456 million), and accruals and deferred income (EUR 47 million); whereas shareholder's equity (EUR 29 million) increased.

Contingent liabilities slightly decreased by EUR 9 million; this is attributable to an increase in other commitments (EUR 8 million) and a decrease in guarantees and irrevocable letters of credit (EUR 17 million).

2017 closed with strong solvency, high liquidity, low leverage, improved asset quality, and visibly improved profitability.







# Business Strategy and Developments

**"RETAIL BANKING CLIENTELE HAS BEEN THE FIRST CUSTOMER SEGMENT THAT ENJOYED GBI'S DIGITAL TRANSFORMATION PROJECT."**

GBI is a mid-sized European bank. We offer selected transactional banking products to retail and corporate clients since 1990. Our personable approach, reliability, stability, and sound balance sheet provide comfort and value to our stakeholders.

## CLIENTS AND COUNTERPARTIES

GBI mainly serves retail, corporate, institutional and high net-worth clientele. We strive to create an appealing and unique client experience leading to mutual benefit and client loyalty.

We embrace a personable approach towards our clients and counterparties and claim ownership of their challenges as though they are our own. We provide simple yet customized solutions in a complex regulatory and macro-economic space. Our digital solutions and aspirations, very much supported by our parent, Garanti and by our ultimate parent BBVA, aim to enhance the value our clients and counterparties enjoy while teaming up with GBI.

### Retail Clients

GBI has been positioned as an online savings bank both in the Netherlands and in Germany for more than two decades. We serve more than 80,000 clients in these markets. As a result, about 48 percent of GBI's balance sheet is funded through Euro-denominated savings deposits by our retail clients. Our Dusseldorf branch has been quite instrumental throughout the year as about two-thirds of our aggregate retail deposits has been sourced from Germany.

We offer simple and well-appreciated savings products through digital channels such as display and search-engine networks, affiliate marketing, and local comparison websites. Native speaking and personable call-centers in the Netherlands and Germany, along with our dedicated retail banking teams, deliver a unique customer experience that sets GBI apart and enhances client loyalty.

The major developments and achievements in 2017 are as follows:

- Digitalization: We replaced our mid-office system and mobile compatible internet banking platform in the Netherlands in 2017. Retail Banking clientele has been the first customer segment that enjoyed GBI's digital transformation project. In 2017, 54% of transactions were performed via online banking.
- Paperless processes: We started to offer paperless processes with new systems both for external and internal use. Customers are now able to open new accounts without using paper, receive password and any confirmations via online channels.
- Efficiency:
  - Better customer experience with shorter process time, lack of paper, customer authentication without signature, mobile compatible platform.
  - Business Process Management engine in the new system supplied automated process controls, compliance to regulation and internal policies in a structured/system controlled way. All tasks are followed digitally with creation, escalation, and approval audit trails.
  - Single Customer View of customer's assets, documents, and communication in one system. Direct access of internal Control and Audit Units to audit trails with holistic view of customer information.
- Savings Market:
  The falling interest rate trend has continued. This created less appetite for savings products and took customer attention to

"AS A RESULT OF OUR ENHANCED CLIENT EXPERIENCES AND DUE TO OUR EXPANDING GEOGRAPHICAL AND PRODUCT COVERAGES, THE YEAR UNDER REVIEW WITNESSED A REMARKABLE 41 PERCENT GROWTH IN OUR TRADE FINANCE FLOW VOLUME."

investment instruments. GBI has kept the customer base in same levels even in this unfavourable savings market conditions.

- Regulation: continued to be a big challenge in financial markets in 2017 and will be in 2018. But also creates opportunities such as PSD2, and GBI compose retail strategy to take advantage of these developments in retail segment.

In 2018, we will continue digitalizing our internal processes and external capabilities with an aim to further improve customer experience.

**Corporate and Institutional Clients and Counterparties (CICC)**

In this segment, we serve and interact with corporations of all sizes as well as with selected financial institutions and investors. Although our retail clientele is based in the Netherlands and Germany, CICC are mostly based in the EU, Switzerland, the United States, and Turkey.

Our relationship-based engagement within this segment is driven by a combination of commercial banking and other transaction banking products, while cross-selling is emphasized so as to deliver the best possible value and experience to the clients and counterparties.

**Trade & Commodity Finance**

International trade and financing of commodities and merchandise can be quite challenging and complex. Geopolitical events, global supply and demand imbalances, regulatory and jurisdictional variations, commodity and currency price fluctuations, natural disasters, and weather conditions constantly test the sustainability and resilience of global trade and its actors.

Since GBI's inception in 1990, we have served corporations of all sizes, functioning as international merchants and supply chain managers that physically trade various commodities and corporations that produce, store, import, export, and distribute commodities and other merchandise as part of the global supply chain. Our clients take an active role in the international physical trade of metals, agricultural products, and energy commodities. They are mostly located in the European Union, Switzerland, Turkey, and the USA.

Trade & Commodity Finance delivers traditional products such as transactional trade finance facilities with or without self-liquidating structures, hedging and margin-call financing, syndicated facilities, Schuldschein lending, documentary credits, and collections. Yet again in the context of cross-selling and holistic client coverage, we also offer correspondent banking solutions, trade-receivables factoring, hedging, and cash management services. With such a vast array of banking and trade finance products, we pursue delivering the best value and risk coverage to our clientele with fast and seamless execution. Eventually, our clients experience simple solutions and careful handling while we deal with the challenges and complexities in the background.

As a result of our enhanced client experiences and due to our expanding geographical and product coverages, the year under review witnessed a remarkable 41 percent growth in our trade finance flow volume.







"WE SUCCESSFULLY CONCLUDED OUR ANNUAL SYNDICATED BORROWING FACILITY. THE FACILITY WAS SELF-ARRANGED BY GBI; ONLY US DOLLAR PARTICIPANTS WERE INVITED AND IT WAS WELL-OVERSUBSCRIBED BY 19 LENDERS."

Going forward, we praise expanding potential cooperation synergies with other BBVA entities.

**Corporate Banking**

Under our Corporate Banking coverage, we serve a select set of corporate clientele of all sizes with international operations, mostly based in the Netherlands, European Union, and Turkey.

Like our trade and commodity finance solutions, our offerings through this window can also be categorized under transaction banking products. These include, but are not limited to, working capital loans, trade loans, local currency lending, and customized structured products such as limited or without recourse receivables finance, Islamic finance, and cash management products. In an effort towards cross-selling, all the aforementioned can be combined with each other, alongside the documentary credits, collections, correspondent banking arrangements, and hedging products, to serve in the best interest of our clients.

In addition to delivering various services and lending products, we also attract deposits from our corporate clients being roughly equivalent to a quarter of our retail banking funding, a substantial amount of which is denominated in U.S. dollars.

Key success factors of our Corporate Banking offerings are clear communication and coordination, personable approach, swift execution, and embracing ownership of our clients' challenges as our own.

Without any change in our proven strategy, GBI will continue serving clients throughout 2018. On the liability side of the balance sheet and in an effort to maintain diversity and cost benefits, we will sustain originating customer deposits as well.

**Other Clients and Counterparties**

GBI has also had successful relationships with other global or regional financial institutions and investors since its inception in 1990.

Our Financial Institutions and Investor Relations (FI&IR) unit oversees GBI's relationships with other financial institutions (FIs) around the globe. The unit has also been active in originating bilateral and structured wholesale funding from other FIs globally, originating and distributing trade-related assets in the primary and secondary markets, and maintaining correspondent banking relations. These efforts support our corporate clients in their need for documentary credits, collections, and cross-border payment products. FI&IR is also responsible for maintaining relations with rating agencies and coordinating GBI's rating process.

During the year under review, we successfully concluded our annual syndicated borrowing facility. The facility was self-arranged by GBI; only US dollar participants were invited and it was well-oversubscribed by 19 lenders from North America, Europe, Middle-East and Asia. As a result, GBI raised USD 250 million funding with one-year maturity after more than 10 percent scale-back.

Next to its well-established relationships with FIs, GBI also provides exclusive advisory and execution services to support our corporate and individual clients making use of financial markets instruments in meeting their financial objectives while providing cross-selling solutions. In fact, we have provided investment and hedging solutions to high net-worth individuals and corporate clients with pride and professionalism for nearly two decades.

In 2017, GBI served its individual and corporate clients by offering its investment and hedging services through the Global Markets Sales (GMS) department embodying two dedicated customer-centric teams. Individual customers are high net-worth international investors who mainly seek investments in global financial markets. Our corporate customers are mid- to large-sized international firms with hedging needs related to commodities, currencies, or other instruments.

Aiming to achieve maximum client satisfaction, GBI continued its digitalization drive and made significant progress in agile development of end-to-end processes such as the award-winning Treasury Order Management (TOM), a cloud-based and digitalized core-banking process covering forex-spot, forex-forward, forex-swaps, and fixed income products. The Outsystems award honors GBI being the most innovative bank in the Netherlands.

Implementation of the upcoming MiFID II regulation as at 3 January 2018 required significant investment of resources at the support and front office functions. With a view to attain maximum client protection, best execution, and utmost transparency, GBI re-defined its business model and updated its related processes in line with MiFID II requirements. GBI aims to focus on existing client relationships and growth through new client acquisitions to continue generating sustainable revenues.

In 2018, GBI will remain committed to serving its investor and corporate clients with highest ethical and regulatory standards. We strive to excel in providing a unique customer experience while creating value for all stakeholders.

### GLOBAL MARKETS

Our Global Markets Department consists of trading functions related to fixed income, rates, derivatives, and currencies.

We provide market access for the corporate and individual investor clientele of GBI, through relevant relationship managers, as well as taking very limited positions in the cited financial markets. We reach sizeable transaction volumes through fast, accurate, and competitive pricings that we deliver to our customers owing to our broad network of market counterparties. Proactive cooperation with other client-facing units results in cross-selling activities and enhanced revenue generation.

### ASSET AND LIABILITY MANAGEMENT

In this capacity, Asset and Liability Management (ALM) acts as the central point where front offices are isolated from market risks and these risks are translated into an institutional level to be strategically navigated by the Assets and Liabilities Committee (ALCO).

ALM focuses on optimum management of GBI's balance sheet risks with the aim to maximize risk adjusted return on capital. The main responsibilities of ALM include efficient capital allocation and the management of liquidity, interest rate, and exchange rate risks. ALM analyses and reports on these risks and proposes alternative strategies to ALCO. ALM works closely with the Risk Management and Financial Control units to monitor risks rapidly and effectively. It applies funds transfer pricing mechanism as a medium for these goals. Our liquidity management strategies ensure a prudent liquidity position in all currencies.





REPORT OF THE MANAGING BOARD

## BBVA Alignment Process

**"SINCE 27 JULY 2015, GBI IS A MEMBER OF BBVA GROUP, ITS ULTIMATE PARENT IS BBVA, AND GBI'S FINANCIALS ARE FULLY CONSOLIDATED UNDER BBVA."**

### BBVA AS THE ULTIMATE PARENT

Since the establishment in 1990 in Amsterdam, the Netherlands, GBI has been a wholly-owned subsidiary of Türkiye Garanti Bankası A.Ş. (Garanti). Following the shares acquisition transaction settled on 27 July 2015, Garanti, and thus GBI, has become fully consolidated under and ultimately controlled by Banco Bilbao Vizcaya Argentaria S.A. (BBVA), and GBI's alignment process within BBVA Group was initiated.

Subsequently, on 22 March 2017 BBVA closed the acquisition of additional Garanti shares. Today, BBVA is the controlling and majority shareholder with 49.85 percent shareholding of Garanti while remaining shares, about 95 percent of which are held by international investors from about 35 countries, are on free-float.

Since 27 July 2015, GBI is a member of BBVA Group, its ultimate parent is BBVA, and GBI's financials are fully consolidated under BBVA via full consolidation through Garanti.

### ALIGNMENT PROCESS

Following the successful completion of GBI's alignment within BBVA Group in all 'corporate governance' and 'risk management' topics back in 2015 and 2016, the year under review has been the first full year of operations wherein the results of the implementation of such alignment has been observed. Highlights amongst such BBVA alignment implementation are summarized as below.

### GBI LOGO CHANGE

Taking strength from the completion of the alignment process as overviewed below, GBI launched its new logo in April 2017 and informed all stakeholders accordingly. The new logo accentuates GBI as a BBVA Group entity.

### SUPERVISION

BBVA has been supervised by the European Central Bank (ECB) as a Significant Supervised Entity (SSE). ECB defines an SSE as an entity that fulfils certain criteria regarding size, importance for the economy of the European Union or any other participating member state, or significance of its cross-border activities. SSE is a concept within the ECB's Single Supervision Mechanism (SSM) Framework Regulation whereby those entities, and their affiliates, designated as SSE by the ECB are under the direct supervision of the ECB.

As GBI became a BBVA Group entity as of 27 July 2015, the ECB also included GBI under BBVA Group and designated GBI as an SSE in September 2015. As at 5 December 2017, ECB enlists four other SSE-designated BBVA Group banks in addition to GBI.

Similar to the supervision of other SSE banks in the Eurozone, GBI regularly reports Corep (solvency information), Finrep (financial information), and other required information to ECB through DNB (Dutch Central Bank) as part of GBI's solo reporting obligation and through BBVA as part of BBVA's consolidated reporting obligation. As such, GBI's Supervisory Review and Evaluation Process (SREP) is carried out by ECB as part of BBVA's SREP.



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“IN THE YEARS AHEAD, GBI WILL CONTINUE PRIORITIZING ADDING VALUE TO ITS MAINLY EUROPEAN CLIENTS THROUGH SELECTED TRANSACTION BANKING OFFERINGS WHILE PURSUING SYNERGIES WITHIN THE BBVA GROUP.”

### CORPORATE GOVERNANCE

Along the lines of BBVA Group practices, the corporate governance structure of GBI was enhanced back in the second half of 2015 and the charter of GBI’s Managing Board was revised. Accordingly, the Managing Board was transformed to a five-member board structure with clear definition of responsibilities and segregation of duties amongst the members of the managing board. Such enhancement, taking its full effect starting from 2016, has proven itself as a solid step toward strengthening GBI’s risk culture and governance, which has yielded tangible results as a consequence of well-functioning of the Risk Management Committee, Credit Division, Risk Management, Legal, Internal Control, and Compliance functions, the Information Security Department, and Internal Audit Department.

### COMPLIANCE

As a minimum standard, GBI must comply with the local laws and regulations applicable in the Netherlands, in addition to EU-level regulations.

Within the scope of “Risk Management” alignment, GBI has adopted BBVA’s group-wide Anti-Money Laundering (AML) Policy and group-wide Code of Conduct as further enhancements towards best practice. One consequence of such alignment has been coordinating ultimate parent’s approval during establishing a new relationship management agreement (RMA) with other financial institutions.

### RETRENCHMENT OF ASSET CONCENTRATIONS

Alignment process at “Risk Management” also included retrenchment of asset concentrations in GBI’s books.

One such concentration was related to credit exposures on single names, which has been reduced to target levels throughout the alignment process.

Another balance sheet concentration had been on securities issued by Turkish obligors. The implementation of “aligned” country risk policy resulted the aggregate amount of Turkish securities to contract by more than 75 percent and their share in the balance sheet total was reduced to less than three percent as at 2017 year-end from around nine percent of 2015. In wide angle, alignment process also required GBI’s aggregate securities portfolio to contract by more than 50 percent when compared to year-end 2015, which has been realized as at the year-end 2017.

All of the above-mentioned retrenchment of concentrations have resulted GBI’s balance sheet to sustain a healthier profile and in fact enabled GBI to further expand on its support to its valued corporate clientele.

### STRATEGY ALIGNMENT

In the years ahead, GBI will continue prioritizing adding value to its mainly European clients through selected transaction banking offerings while pursuing synergies within the BBVA Group. In this endeavour, GBI praises its retail banking deposit base in the Netherlands and in Germany as a franchise value, as such activity has been an indispensable corner-stone of GBI’s self-funded balance sheet during the last two decades.

### OTHER ALIGNMENT AREAS

The other areas where GBI had completed its alignment within the BBVA Group have been as follows: Risk appetite statement and the governance around it; the functioning of assets and liabilities committee, management of the securities portfolio, funds transfer pricing, hedging policies, contingency funding plans, recovery plans and liquidity and capital management; functioning of defense lines and control structures; credit processes and consolidated risk monitoring; limit processes, metrics, and key risk indicators; internal audit processes as per BBVA Group’s “one team” concept.

Taking the completion of the alignment in all “corporate governance” and “risk management” topics as a strong foundation, we shall be focusing on digitalization and synergies-cultivation within BBVA Group during the rest of our journey so as to transcend adding value to our clientele through transaction-banking products.

## Outlook 2018

“INCREASING OUR TRADE FINANCE VOLUME, FURTHER DIVERSIFICATION OF THE LOAN BOOK TOWARDS EUROPEAN CORPORATIONS, AND CONTINUED DIGITALIZATION OF OPERATIONAL FLOWS AND CUSTOMER SERVICES ARE OUR STRATEGIC PRIORITIES IN 2018.”

GBI’s 2018 operational plan is based on the global economic environment, in which the economic recovery in Europe, US, and emerging economies keeps on track, whereas the low rate environment still continues in Europe and the political hurdles constitute the main sources of risk. Commodity prices are expected to further improve. We will continue our prudent risk management approach to sustain strong solvency, high liquidity, low leverage and to maintain our asset quality, while targeting a cost-effective structure.

Increasing our trade finance volume, further diversification of the loan book towards European corporations, and continued digitalization of operational flows and customer services are our strategic priorities in 2018. We will continue focusing on international trade flows to further grow the loan book composed of select simple transactional banking products.

We will continue with our stable funding strategy, which is aimed at preserving the retail franchise and diversifying our wholesale funding base. An effective cost management is targeted in 2018 while we will continue to preserve and support our talent pool. Maintaining strong customer satisfaction and creating a solid value for all our stakeholders in a responsible manner will be our main aim in 2018.

Amsterdam, 31 January 2018

**The Managing Board**

**Mr. S.E. Zeyneloğlu,** Chief Executive Officer
**Ms. Ö. Etker-Simons**
**Dr. M.Ö. Şişman**
**Mr. M.J. Witteveen**
**Mr. C.B. Mutlu**

GBI has preserved its *prudent* approach to capital and liquidity management in 2017.

Taking the completion of the alignment in all "corporate governance" and "risk management" topics as a strong foundation, we shall be focusing on digitalization and synergies-cultivation within BBVA Group.

# Report of the Supervisory Board

## ANNUAL ACCOUNTS

The annual accounts were drawn up by the Managing Board and were audited in accordance with Article 27, paragraph 4 of the Articles of Association by KPMG Accountants N.V. (KPMG), who issued an unqualified opinion dated 31 January 2018. In compliance with the provisions of the Articles of Association of GarantiBank International N.V. (GBI, the Bank), the Supervisory Board has examined the auditor's report and the financial statements of the year 2017. In accordance with Article 29 of the Articles of Association, the Supervisory Board advises and proposes that the Shareholder adopt the 2017 annual accounts at the next Annual General Meeting of Shareholders to be held in 2018. The Supervisory Board also recommends that the Annual General Meeting of Shareholders discharge the members of the Managing Board and the Supervisory Board from their respective management and supervisory positions held during the financial year of 2017.

## FINANCIAL STATEMENTS AND PROPOSED DIVIDEND

The Supervisory Board has voted to adopt the Managing Board's proposal to transfer the net profit of 2017, which totals EUR 24.7 million, to the other reserves rather than paying a dividend.

## COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board currently consists of four members whose combined experience and technical knowledge are suitable for the international and specialized nature of GBI's businesses from commercial, economic, financial, and risk management points of view. The full profile of the Supervisory Board as at December 2017 can be found in the 'Charter Governing the Supervisory Board', which is published on GBI's websites www.garantibank.eu, www.garantibank.nl, and www.garantibank.de.

The Members of the Supervisory Board are elected for a term of four years.

The Supervisory Board was composed of the following members:

| NAME | YEAR OF BIRTH | POSITION | MEMBER SINCE | END OF TERM |
|---|---|---|---|---|
| Mr. G. Erün (a) | 1968 | Chairman | 2016 | 2020 |
| Mr. A. Düren (b) | 1968 | Vice Chairman | 2017 | 2021 |
| Mr. M. Galatas Sanchez-Harguindey (b) | 1962 | Vice Chairman | 2012 | 2020 |
| Mr. R. van der Linden | 1943 | Member | 2012 | 2020 |
| Mr. B. Meesters | 1954 | Member | 2012 | 2020 |
| Mr. W. Cramer | 1961 | Member | 2013 | 2019 |







a) Mr. Erün resigned as of 15 January 2018 from his roles as a member and Chairman of the Supervisory Board. GBI will shortly apply to the regulatory authorities for the appointment of Mr. Ali Fuat Erbil, the CEO of Garanti, to the Supervisory Board. After working as an executive at various private companies and banks, Mr Erbil joined Garanti in 1997 and was appointed in 1999 as the Executive Vice President (EVP) responsible of several areas such as Retail Banking, Corporate Banking, Investment Banking, Financial Institutions, and Human Resources. Since September 2015, Mr Erbil has been serving as the Board Member, President and CEO of Garanti. He is also the Chairman of the Board of Directors at several Garanti subsidiaries as well as serving as the Board Member in the Banks Association of Turkey. Mr. Erbil has 25 years of vast experience in several areas of banking and business administration. He is a graduate of Middle East Technical University Department of Computer Engineering, and holds an MBA degree from Bilkent University and a PhD in Banking and Finance from Istanbul Technical University.

b) Mr. Sanchez-Harguindey resigned on 30 June 2017 from his roles as a member and Vice Chairman of the Supervisory Board, Chairman of the Audit and Compliance Committee, and member of the Risk Committee of the Supervisory Board. Following the Extraordinary Meeting of the Shareholders and the regulatory approvals, Mr. Aydın Düren was appointed as a member and Vice-Chairman of the Supervisory Board, Chairman of the Audit and Compliance Committee and member of the Risk Committee of the Supervisory Board as per 22 September 2017. After serving as an associate, partner, and managing partner for over 18 years at international private law firms in New York, London, and Istanbul, Mr. Düren joined Garanti in 2009 as the Executive Vice President in charge of Legal Services. With 23 years of experience in banking and business administration, his current responsibility areas at Garanti include Legal Advisory Services, Legal Collections, Litigation, Garanti Payment Systems, Legal Services, Legal Operations, Wholesale Recovery, and Retail Collections. Furthermore, Mr. Düren is the Vice Chairman of Garanti Bank Pension and Provident Fund Foundation, Garanti Bank International N.V., and Board Member of Garanti Payment Systems, Teachers Academy Foundation, and Garanti Mortgage. Since June 2015, Mr. Düren also serves as the Corporate Secretary of Garanti.

## COMPOSITION OF THE MANAGING BOARD

The Managing Board is composed of the following members:

| NAME | YEAR OF BIRTH | POSITION | MEMBER SINCE |
|---|---|---|---|
| Mr. S. E. Zeyneloğlu | 1967 | Chief Executive Officer | 2015 |
| Ms. Ö. Etker-Simons | 1968 | Member | 2015 |
| Dr. Ö. Şişman | 1977 | Chief Financial & Risk Officer | 2015 |
| Mr. M. Witteveen | 1960 | Chief Operations Officer | 2016 |
| Mr. C.B. Mutlu (a) | 1968 | Chief Credit Officer | 2018 |
| Mr. S. Kanan (a) | 1970 | Chief Credit Officer | 2015 |

a) It was decided upon mutual agreement that Mr. Kanan, who at the time held the Chief Credit Officer and member of the Managing Board positions, would resign from his roles on 30 June 2017. Upon receipt of the approvals from the regulatory authorities, Mr. Cem Bahadır Mutlu was appointed for this role as a member of the Managing Board as of 11 January 2018. During his 25 years banking career, Mr. Mutlu held various positions in several Turkish banks. Between 2007 and 2008, Mr. Mutlu headed Garanti's Luxembourg Branch. Before joining GBI on 1 June 2017, Mr. Mutlu was the Corporate Branch Manager of Garanti's Istanbul Corporate Branch.

The full profile of the Managing Board can be found in the 'Charter Governing the Managing Board', which is published on GBI's websites www.garantibank.eu, www.garantibank.nl, and www.garantibank.de.

## SUPERVISORY BOARD MEETINGS

The Supervisory Board met on seven occasions during the reporting period, and a quorum of members of the Supervisory Board was present in all meetings. In the meetings, current business developments and performance of the Bank were discussed, and considerable time was devoted to reviewing the Bank's strategy, current and future economic challenges, intensified supervision, compliance with compounded international and national regulations, different thematic examinations of De Nederlandsche Bank (DNB); correspondence with regulators including the DNB, the Autoriteit Financiële Markten (AFM), and the European Central Bank (ECB); continuous focus on a prudent and proactive credit risk management, the Risk Appetite, and the review and approval of various policies related to the group alignment process with BBVA, and preservation of good relations with all our stakeholders. The 2016 annual figures were assessed in the presence of the Bank's external auditor during the Supervisory Board meeting held on 26 January 2017, as well as all related reports. The budget for 2018 was discussed preliminarily during the Supervisory Board meeting held on 21 November 2017 and the budget will be approved early 2018. The CFRO attended all meetings and presented financial and risk management issues. The CCO presented credit risk-related topics at every meeting he attended. The COO presented the implementation of the new IT strategy, and the Supervisory Board discussed the progress to achieve the digital vision of the Bank. The Chief Compliance Officer presented compliance-related updates where relevant. During the year, the Chairman of the Supervisory Board maintained close contact with the CEO, in addition to attending regular meetings of the Supervisory Board.

## SUPERVISORY BOARD SUBCOMMITTEE MEETINGS

While retaining overall responsibility, The Supervisory Board assigns certain tasks to three permanent committees, which are listed below and further outlined in the Supervisory Board Charter:

- Audit and Compliance Committee
- Risk Committee
- Remuneration Committee

**Audit and Compliance Committee**

Members: Mr. M. Galatas (Chairman) (replaced by Mr. A. Düren as of 22 September 2017) and Mr. B. Meesters

In 2017, the Audit and Compliance Committee of the Supervisory Board (ACSB) met five times. The Audit and Compliance Committee assists the Supervisory Board in supervising the activities of the Managing Board with respect to: (a) the quality and effectiveness of the internal risk management and controls systems of the Bank, including supervision of the enforcement of relevant laws and regulations and operation of the Codes of Conduct, Whistleblower regulations, and corporate governance framework; (b) overseeing the quality and efficiency of the financial reporting processes; (c) submitting proposals for the selection, appointment, re-election, and replacement of the external auditor; (d) ensuring that the internal audit and compliance functions are able to discharge their responsibilities in an independent manner; (e) internal audit and compliance activities, findings, reports; and acting as the ultimate reporting authority for the internal audit and compliance departments; (f) ensuring that follow-up is given to the recommendations of the internal and external auditors, and that deficiencies identified are remedied within the appropriate time frames.





CORPORATE GOVERNANCE

**"THE RISK COMMITTEE ASSISTS THE SUPERVISORY BOARD WITH ITS RESPONSIBILITIES RELATED TO SUPERVISING THE ACTIVITIES OF THE MANAGING BOARD WITH RESPECT TO THE REVIEW AND ASSESSMENT, AS APPROPRIATE, OF RISK MANAGEMENT POLICIES, PRACTICES, AND PROCESSES."**

During 2017, the Audit and Compliance Committee has paid and will continue to pay special attention to the follow-up of the DNB examinations performed in 2016. Also in 2017, the Audit and Compliance Committee agreed, based on proposals by the Managing Board, to separate the Legal and Compliance Department into two separate Departments both reporting independently into the Audit and Compliance Committee. Because of this separation, a new Chief Compliance Officer has been appointed as per 1 May 2017.

Due to the ongoing regulatory changes in 2017 the Bank took several measures to further strengthen and improve GBI's compliance framework by an expansion of human resources and strengthening of three lines of defence controls, including related processes and procedures, culture and awareness of non-financial and integrity risks. Separate attention has also been paid to the progress of the implementation of upcoming laws and regulations, such as AMLD4, MiFID II, PSD2, and GDPR. The Supervisory Board is regularly provided with follow-up reports and closely monitors progress made with respect to GBI's ongoing commitment to meet regulatory recommendations.

**Risk Commitee**

Members: Mr. W. Cramer (Chairman),
Mr. G. Erün (till 15 January 2018) and
Mr. M. Galatas (replaced by Mr. A. Düren as of 22 September 2017)

The Risk Committee of the Supervisory Board met five times in 2017. The Risk Committee assists the Supervisory Board with its responsibilities related to supervising the activities of the Managing Board with respect to the review and assessment, as appropriate, of risk management policies, practices, and processes through the establishment and maintenance of an effective risk management framework, including the corporate risk policies for each risk type. It also advises the Supervisory Board in regards to the adoption of said policies, and analyses and assesses the control and management policies of the Bank's different risks and information and internal control systems, including the Risk Governance Framework, ICAAP, ILAAP, the Risk Appetite Statement of the Bank. The Committee manages an agenda on all material risk areas that require the Supervisory Board approval concerning proposals and recommendations, upon an initiative by the Managing Board or the Supervisory Board.

The Risk Committee monitors and periodically assesses the effectiveness of GBI's risk governance. In this capacity, the Risk Committee reviewed the Risk Appetite Statement and various Management Policies, such as the Credit Policy, Market Risk Policy, Liquidity Risk Policy, Interest Rate Risk Policy, Operational Risk Policy, Concentration Policies, and Investment Policy, and submitted its recommendations to the Supervisory Board for approval.

The Risk Committee also discusses DNB and ECB reports, such as the SREP letter, and ensures that the findings are addressed adequately, as well as reviews and approves the Bank's Pillar III Disclosures before publication.

CORPORATE GOVERNANCE

**Remuneration Committee**

Members: Mr. R. van der Linden (Chairman) and Mr. G. Erün (till 15 January 2018)

The Remuneration Committee of the Supervisory Board met three times in 2017. The role of the Remuneration Committee is to assist the Supervisory Board in supervising the activities of the Managing Board with respect to: (a) the design, implementation, and approval of a long-term remuneration policy that is in line with the Bank's strategy, risk appetite, objectives, and values, taking into account the long-term interests of the Bank, the relevant international context and wider social acceptance; (b) the terms and conditions of employment and remuneration of the members of the Managing Board, overseeing performance targets to be set by members of the Managing Board and the Managing Board as a whole; (c) the design, approval, and evaluation of the remuneration policy for Identified Staff and senior management. During its meetings, the Remuneration Committee considered various personnel issues such as turnover, new recruits and promotions, personnel budget and remuneration packages of the Managing Board, the variable remuneration for Identified Staff, and the total amount of fixed salaries for 2017 and total amount of variable remuneration to be distributed within the Bank. Proposed remuneration packages including fixed and variable components, training budget, pension plans, and promotions were reviewed and approved. The Remuneration Policy was also reviewed and proposed to the Supervisory Board for various updates.

## DUTCH BANKING CODE

In September 2009, the Dutch Banking Association (NVB) published the Banking Code (Code Banken). The Banking Code took effect on 1 January 2010, laying out the principles of corporate governance, risk management, audit, and remuneration for Dutch banks. Following the first Banking Code of 2010, the Committee on the Structure of Dutch Banks (the "Wijffels Committee") published a report that paid great attention to the stability of the industry and the importance of competition and diversity in Dutch banking, calling upon banks to take additional steps to set out the role they want to play in society as a social charter. In response to this request, the NVB introduced a package called "Future-oriented Banking" consisting of the Social Charter, an updated Banking Code, and the rules of conduct associated with the Banker's Oath. The updated Banking Code, which came into effect on 1 January 2015, applies to all activities performed in or directed towards the Netherlands by banks established in the Netherlands and licensed by DNB.

The principles in the 'old' Code that have been incorporated in the current legislation and regulation are not repeated in the new Banking Code. In the event of overlap or contradiction with applicable legislation or regulatory requirements, the former shall prevail over the Banking Code.

GBI applies the principles of the Banking Code by embedding the assumptions of the Social Charter of the NVB in its Code of Conduct.

All employees must comply with the formal laws and regulations and self-regulation that apply within GBI. The Managing Board and Supervisory Board are responsible for ensuring as such with due regard for each other's duties and powers.



**"EFFECTIVE CORPORATE GOVERNANCE IN ACCORDANCE WITH HIGH INTERNATIONAL STANDARDS IS FUNDAMENTAL TO THE EXISTENCE OF GBI."**

**Governance**

Effective corporate governance in accordance with high international standards is fundamental to the existence of GBI. The Supervisory Board will ensure a responsible, value-driven management and control of the Bank through strong corporate governance, which has five key elements:

- good relations with all stakeholders
- effective cooperation between the Managing Board and the Supervisory Board
- a sound remuneration policy for all staff
- a transparent reporting system
- sound and ethical operations in accordance with the mission, strategy and objectives of the Bank.

The Charter Governing the Supervisory Board contains all the 'Supervisory Board principles' of the Dutch Banking Code. The content of this charter is taken from the Articles of Association, the Dutch Civil Code, Capital Requirements Directive and the respective EU regulations, and the Dutch Banking Code. The charter concerns the roles and responsibilities of the Supervisory Board, the supervision of the activities of the Managing Board, and the composition and structure of the Supervisory Board, such as (re)appointment, rotation plans, retirement, meeting schedules, adoption of resolutions, conflicts of interest, and permanent education. The charter describes the different committees of the board, the co-operation with the Managing Board, and also includes a Supervisory Board profile. In addition, personal details of each board member are described. GBI meets the requirement that the Supervisory Board be composed in such a way that it is able to perform its tasks properly, and that the competence, experience, and independence requirements of the members are met. The governance of the Managing Board is in compliance with the 'Executive Board principles' of the Dutch Banking Code.

**Moral and Ethical Conduct Declaration**

The members of the Managing Board have signed the moral and ethical conduct declaration. By this declaration, the members agree to perform their duties as bankers with integrity and care, and that they will give importance to the customers' interests. The moral and ethical conduct declaration is published on GBI's website www.garantibank.eu. Also, as per the decision of the Ministry of Finance, all personnel of GBI, the Supervisory Board members, and Managing Board members have taken the Banker's Oath.

**Permanent Education**

GBI organizes a yearly permanent education program for the members of the Managing Board and the Supervisory Board, as required by the Banking Code. Each year, a subject is touched upon in the form of a workshop. In December 2017, a workshop was held on regulatory framework and Corporate Governance Code. The workshop included an overview of the rules and regulations applicable to Dutch banks, provided information on regulatory approach, expectations, and enforcement at both ECB and AFM/DNB levels, and presented leadership roles and changes under the new Dutch Corporate Governance Code. The objective of this workshop was to enhance the awareness of the current and changing regulatory. The workshop was held by a leading law firm whose partners and consultants are experienced in this subject.




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CORPORATE GOVERNANCE

**"THE BANK'S RISK POLICY IS CHARACTERIZED BY A COMPREHENSIVE APPROACH, IS TRANSPARENT, AND HAS BOTH A SHORT- AND LONG-TERM FOCUS, TAKING INTO ACCOUNT REPUTATIONAL AND NON-FINANCIAL RISK."**

### Risk Management

As a financial institution, GBI is exposed to a variety of risks. To ensure measured risk taking, GBI has integrated risk management in its daily activities and strategic planning. The Risk Management Department assists the Bank with the formulation of its risk appetite, risk strategy, and policies, and provides an overview, supervision, and support function with regards to risk-related issues.

Risk management is a constant topic in the meetings of the Supervisory Board and in the meetings of the Supervisory Board's Risk Committee. The risk appetite of the Bank is discussed yearly and approved by the Supervisory Board. The Supervisory Board supervises the risk policy applied by the Managing Board, and as part of its supervision, discusses the Bank's risk profile and assesses at a strategic level whether capital allocation and liquidity position of the Bank and its operations are in line with the approved risk appetite. In the performance of this supervisory role, the Supervisory Board will be advised by its Risk Committee. GBI's Managing Board has also established a Risk Management Committee, which supervises all risk management activities of the Bank. The Committee includes several members of the Managing Board.

The 'Risk Management principles' of the Dutch Banking Code are adequately met and the Bank's risk policy is characterized by a comprehensive approach, is transparent, and has both a short- and long-term focus, taking into account reputational and non-financial risk. Detailed disclosures on the risk management practices of the Bank can be found in the Report on Capital Adequacy and Risk Management, which is published on GBI's website www.garantibank.eu.

### New Business and Product Approval Process

The New Business and Product Approval Process (NBPA) and the New Business and Product Committee Charter (NBPC) have been explained in the procedure and charter documents approved by the Supervisory Board. The NBPA covers the entire process, starting from the initial proposal of the related business line until the moment the business or product is approved according to the assessment and approval processes explained on the Procedure and the Charter documents. New products that will go through the NBPA shall not be introduced to the market or distributed to various channels without prior careful examination of the risks for the Bank as well as the client, without the approval of the NBPC and the final approval by the Management Team. NBPC and the Management Team, which consists of the Managing Board members and Executive Directors, is the ultimate body to approve or disapprove the introduction of a new product.

New business that will go through the NBPA process will be further escalated to the Supervisory Board for final approval.

### Audit

The Bank assumes all related Dutch and EU regulations, the guidelines of the Basel Committee on Banking Supervision, and the Institute of Internal Auditors regarding the Internal Audit function, which is formed as an independent, objective assurance and consulting activity designed to add value and improve the operations of the organization. An independent Audit function directly reports to the Audit & Compliance Committee of the Supervisory Board. The Executive Director of Internal Audit is always present in the meetings of the Audit and Compliance Committee of the Supervisory Board. Also, from time-to-time the external auditor takes part in the Audit and Compliance Committee meetings. A tri-partite meeting with DNB and the external auditor was held on 15 September 2017.

### Remuneration

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:

- a stringent governance structure for setting goals and communicating these goals to the employees
- including both financial and non-financial goals in performance and result assessments
- making fixed salaries the main remuneration component

The policy reflects GBI's objectives for good corporate governance and meets the requirements as laid out 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 of GBI are not rewarded with shares of GBI, and the additional administration requirements are not comparable to the aggregate amount and level of variable remuneration distributed by the Bank.

GBI is following the Group policy on Annual Variable Compensation for certain identified staff members. This policy stipulates how the variable remuneration granted under the GBI remuneration policy to those identified staff members should be treated. 50% of the 2017 annual variable compensation will be paid in shares, and the remaining amount will be paid in cash. For 2017, 60% of the annual variable compensation, as shares or as cash, will be paid in 2018 and the remaining 40% will be payable, if applicable, in 2021. Amounts deferred from the 2017 annual variable remuneration, both in cash and in shares, will be subject to multi-year performance indicators during the deferral period.

Once a year, the Remuneration Committee monitors compliance with the remuneration policy. The Remuneration Committee submits any policy adjustments for review to the Supervisory Board and for adoption to the Annual General Meeting of Shareholders. A description of the composition, duties, and authority of the Remuneration Committee is defined in the remuneration policy and the Charter of the Supervisory Board. In 2017, none of the Managing Board members received an annual remuneration of more than EUR 1 million. The annual paid out amount of variable remuneration to natural persons amounts to EUR 1,862,704 over 2017, which includes the deferred payments of the previous performance years. In 2017, three GBI employees were identified that met the quantitative criteria of the Group policy on annual variable compensation. The Supervisory Board would like to thank the members of the Managing Board and all staff for their hard work and commitment to the Bank.

Amsterdam, 31 January 2018

**The Supervisory Board**

**Mr. A. Düren,** Vice Chairman
**Mr. P.R.H.M. van der Linden**
**Mr. B.J.M.A. Meesters**
**Mr. W.F.C. Cramer**







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# Risk Management

**"GBI HAS FOLLOWED A CLEAR AND PROACTIVE RISK MANAGEMENT STRATEGY IN THE TIGHTENING REGULATORY ENVIRONMENT, AND APPLIED VARIOUS CHANGES TO ITS RISK MANAGEMENT STRUCTURE IN AN EFFORT TO FURTHER ALIGN WITH BBVA."**

Risk management continues to draw increasing attention in the post-crisis world. The regulatory landscape, which had been marked by complexity, has finally taken shape. On 23 November 2016 the European Commission published a comprehensive package of proposals ('EU banking reform package'), amending CRR, CRDIV, and BRRD. This comprehensive package contained many changes including leverage ratio, net stable funding ratio, revised risk weighting and large exposure standards, revisions to MREL framework for G-SIBs, Pillar 3 disclosure requirements, and phasing-in the implications of IFRS9. On 25 October 2017, the European Parliament, the Council, and the Commission agreed on elements of the review of above changes where some selected parts of the package has been decided to be fast-tracked, including rules that govern the ranking of debt instruments in the event of a bank insolvency, and transitional arrangements on limits to large exposures, and IFRS9 accounting rules. Said fast-tracked changes, has come into force on 27 December 2017.

In 2017, the Basel Committee for Banking Supervision (BCBS) has also continued its efforts to finalize the Basel III reforms. First part of the reforms was mainly focused on strengthening the regulatory capital and its components together with the liquidity and leverage. On 7 December 2017, the oversight body of the Basel Committee, GHOS (Governors and Heads of Supervision), has agreed on the final part of the Basel III (aka Basel IV). The final framework incorporates the changes on the calculation of risk weighted assets, including market, credit, and operational risks, introducing limitations on the use of internal models as well as revisions on the capital floors mainly supposed to reduce model risk and to increase comparability of RWAs among the banking industry. The Committee also introduced transitional arrangements to implement the new standards to ensure an orderly and timely implementation by jurisdictions and adjustment by banks where the first implementation date is January 2022. The output floor of 50% will be implemented as of 1 January 2022, and will be phased in to 72.5% as of 1 January 2027.

Said changes are subject to EU Commission's consultation and impact assessments in order to evaluate the consequences for the EU economy before it can be translated into EU law, taking into account the results of the impact assessment. GBI sees the agreement being an important milestone marking the completion of the reforms of the global bank regulation framework, and will continue its focus to align with the changes in the regulatory landscape.

GBI has followed a clear and proactive risk management strategy in the tightening regulatory environment, and applied various changes to its risk management structure in an effort to further align with BBVA. Following the increase of BBVA's stake in Türkiye Garanti Bankasi A.Ş., GBI's shareholder, GBI is also qualified as a significant supervised entity under Single Supervisory Mechanism (SSM). Since then, the alignment of risk management policies and practices with those of BBVA







**"COMMON EQUITY TIER 1 (CET1) HAS INCREASED TO 20.44 PERCENT FROM 16.70 PERCENT IN 2016, WHEREAS THE TOTAL CAPITAL RATIO HAS INCREASED TO 22.75 PERCENT FROM 18.47 PERCENT IN 2016. BOTH RATIOS ARE COMFORTABLY ABOVE THE MINIMUM REQUIRED REGULATORY LEVELS. ON THE LIQUIDITY SIDE, THE BANK HAS CONTINUED TO OPERATE WITH A SIGNIFICANT LIQUIDITY BUFFER, EVIDENCED BY A HIGH LCR OF 360 PERCENT."**

has been the highest priority for GBI, where a significant progress has been achieved so far.

GBI has preserved its prudent approach to capital and liquidity management in 2017. Common Equity Tier 1 (CET1) has increased to 20.44 percent from 16.70 percent in 2016, whereas the total capital ratio has increased to 22.75 percent from 18.47 percent in 2016, as a result of increase in the own funds through earnings and the reduction in RWA. Both ratios are comfortably above the minimum required regulatory levels. On the liquidity side, the Bank has continued to operate with a significant liquidity buffer, evidenced by a high LCR of 360 percent. The liquidity buffer is composed of placements to Central Bank and investments in high quality liquid assets. The well-balanced maturity profile and high level of stable funding, together with a diversified funding base, allow GBI to ensure safe banking operations.

## OVERVIEW ON GOVERNANCE AROUND RISK

GBI has established a governance structure based on the segregation of duties to facilitate sound, controlled business operations. Risk management is structured at various levels within the organization. These are composed of committees at the Supervisory Board and at the Bank levels, in the form of dedicated departments with specific mandates for risk management and control.

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 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.

**"GBI HAS ESTABLISHED A GOVERNANCE STRUCTURE BASED ON THE SEGREGATION OF DUTIES TO FACILITATE SOUND, CONTROLLED BUSINESS OPERATIONS."**

The Credit Division has a separate risk control function, independent of commercial activities, making certain the proper functioning of the Bank's credit processes.

The Risk Management Department (RMD) of GBI has an independent risk monitoring function, also independent of commercial activities. The RMD develops and implements risk policies, procedures, methodologies, and risk management infrastructures. Risks in relation to the limits established by the Bank are continuously measured and comprehensively reported to the appropriate committees.

The Internal Control Unit (ICU) is involved in monitoring and reporting operational risks and establishing preventive control processes.

The Compliance Department is also an independent body, reporting directly to the ACSB as well as to the Managing Board. The main purpose of the Compliance function is to support GBI in complying with applicable laws and regulations, GBI policies and standards, and to follow the relevant group entities' policies and principles. Compliance function is responsible for AML-CTF Compliance, Corporate Compliance, Customer Compliance, Securities Compliance, and conducts its activities in scope of those areas.

The Information Security Department (ISD) is responsible for identifying risks in the information technology systems and processes at GBI, as well as ensuring that technology-related threats to business continuity are identified and mitigated. The 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.

## RISK APPETITE

GBI's Risk Appetite Framework, in line with that of the Group, determines the risks and their levels that GBI is prepared to assume in order to achieve its business objectives. The establishment of the risk appetite has the following purposes:

- To explicit the maximum risk levels that the Bank is willing to assume.
- To establish guidelines and the long/medium-term management framework to avoid actions that could threaten the future viability of the Bank.
- To establish a common terminology in the organization and to develop a compliance-driven risk culture.
- To ensure the compliance with the regulatory requirements
- To facilitate communication with the regulators, the investors, and other stakeholders

The Risk Appetite Framework is expressed through the following elements:

**Risk Appetite Statement:** It sets out the general principles of the risk strategy of the Bank and the target risk profile.



**"THE RISK POLICY OF GBI IS DESIGNED TO ACHIEVE A MODERATE RISK PROFILE, THROUGH PRUDENT MANAGEMENT."**

The risk policy of GBI is designed to achieve a moderate risk profile, through prudent management and a banking model targeted to value creation, return on adjusted risk, and recurrence of results, diversifying by geography, asset class, portfolio, and clients, with presence in emerging and developed countries, maintaining a medium/low risk profile in every country, and focusing on a long-term relationship with clients.

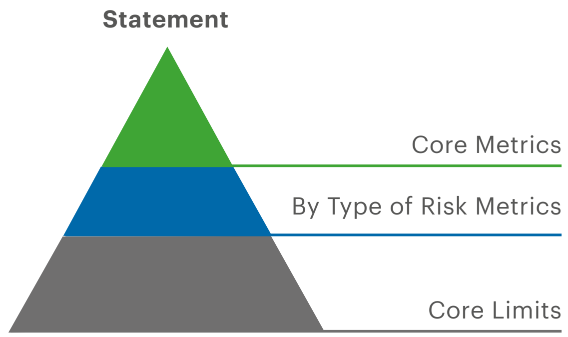
**Core Metrics:** They define, in quantitative terms, the target risk profile set out in the risk appetite statement in line with the strategy of the Bank. The Core metrics that are used internally are expressed in terms of solvency (i.e. CET1 ratio), liquidity (i.e. LCR, loan to stable customer deposits ratio) and recurrent income (i.e. return on equity, net margin, cost of risk). Each core metric has three thresholds (the traffic-light approach), ranging from usual management of the business to higher levels of risk: Management reference, maximum appetite, and maximum capacity.

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.

**By Type of Risk Metrics:** These are defined in conjunction with the risk appetite core metrics. Compliance with the levels of by type of risk metrics ensures the compliance with the core metrics.

**Core Limits:** The core and by type of risk metrics are supported by an additional layer by means of introducing limits on specific risk types i.e. credit, market, structural interest rate, structural FX, liquidity, and operational risk indicators.



CORPORATE GOVERNANCE

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.

## MARKET RISK

**Governance**

GBI assumes limited market risks in trading activities by taking positions in debt securities, foreign exchange, commodities, and derivatives. The Bank has historically been conservative in running its trading book. The main strategy is to keep end-of-day trading positions at low levels within the predefined limits.

The Managing Board bears the overall responsibility for market risks and implements rules around market risk management. The Managing Board delegates its responsibilities to ALCO for the purpose of monitoring market risks. It reviews and sets limits on products and desk levels based on the Bank's risk appetite. GBI's Global Markets unit actively manages market risk within these limits. The Middle Office (first line) and the ICU (second line) were established as independent control bodies. They monitor and follow up all trading transactions and positions on an ongoing basis, as per the limits on notional position, stop-loss, and Value at Risk (VaR) as set by ALCO. Single transaction and price tolerance limits were also established to minimize operational risks. The RMD monitors market risk through regulatory and economic capital models and reports to ALCO and RCSB.

**Approach**

For regulatory capital purposes, the Bank uses the Standardized Measurement Approach for market risk. For economic capital purposes, GBI uses value at risk (VaR) methodology as a risk measure. VaR quantifies the maximum loss that could occur in one day due to changes in risk factors (such as interest rates, foreign exchange rates, equity prices, and so on) with a confidence level of 99 percent. VaR is supplemented by stress tests to determine the effects of potentially extreme market developments on the value of market-sensitive exposures. Stress tests have the additional advantage of providing 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 by the RMD and updated when necessary.

## CREDIT RISK

**Governance**

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. These rules are underpinned by a set of general principles that apply to all credit risk situations, as well as by specific principles applicable to certain countries, industrial sectors, and types of obligors and transactions.

GBI is mainly involved in low-default portfolios such as sovereigns, banks, non-bank financial institutions, large corporations, and trade finance activities. The primary element of the credit approval process is a detailed credit risk assessment of every exposure associated with an obligor. This assessment considers the creditworthiness of the obligor, collateral, and risks related to the specific type of credit facility or exposure. The Credit Division performs credit assessments for all exposures by making use of independent analysis and by taking into account the feedback from all related units.

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 Concentration 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.

**Approach**

Being a Foundation Internal Ratings-Based (F-IRB) Bank for purposes of calculating the required regulatory capital, GBI uses a series of credit-risk measurement models. The Bank has dedicated internal rating models for all asset classes that evaluate the creditworthiness of each obligor. The rating models are integrated into the credit granting and monitoring processes. These models are reviewed internally and validated by an independent third party annually. The granular 22-grade rating scale is calibrated on probability of default based upon a statistical analysis of historical defaults. It is used for all internal ratings and thus enables the Bank to make comparisons between obligors in different asset classes.

> **"BEING A FOUNDATION INTERNAL RATINGS-BASED (F-IRB) BANK FOR PURPOSES OF CALCULATING THE REQUIRED REGULATORY CAPITAL, GBI USES A SERIES OF CREDIT-RISK MEASUREMENT MODELS."**

In addition to capturing quantitative and qualitative factors related to obligors, the internal rating models also take into account all elements of country risk, such as transfer and convertibility risk, at various levels. Firstly, the inherent risk of the countries in which GBI operates is taken into account through the calibration of the rating models. Secondly, systemic risk factors are evaluated by using separate country factors within the rating models. Finally, the rating of the obligor is capped according to the rating of the sovereign of the obligor's country.

As part of its Internal Capital Adequacy Assessment Process (ICAAP), GBI makes use of internal economic capital models in order to assess the adequacy of regulatory capital, calculated using internal ratings, as well as to determine the additional capital requirements for concentration risk.

The economic capital model quantifies concentration risk based on concentrations in single name obligors, countries, and industries. To ensure a robust credit risk management approach, the Bank also applies stress tests. This enables the assessment of the adequacy of the current capital buffer under severe conditions. The Capital Planning process within the ICAAP also incorporates a stress scenario in addition to the baseline scenario to project the development of capital adequacy over the medium term. All modeling and risk drivers of credit risk management are reviewed periodically and refined if necessary, subject to changes in the economic environment and business structure of the Bank.

In terms of capital management, Risk-Based Performance Measurement is an important element in evaluating the risk and the capital allocated to each business unit. Return on Risk Adjusted Capital (RORAC), calculated according to internal credit ratings, is used as a uniform measure for monitoring the economic value added based on the pre-set risk appetite. RORAC figures are monitored on a regular basis in order to optimize capital allocation.

## INTEREST RATE RISK ON THE BANKING BOOK (IRRBB)

**Governance**

Interest rate risk is defined as the risk of loss in earnings or in the economic value of banking book items as a consequence of movements in interest rates. ALCO manages the interest rate risk in line with the policies and risk appetite set by the Supervisory Board. GBI's asset and liability structure creates a limited interest rate mismatch. However, business units are prevented from running structural interest mismatch positions by the use of a well-defined internal transfer pricing (ITP) process. Hence, all structural interest rate risks are managed centrally by the GBI Asset and Liability Management Department (ALM) in line with internal policies.

**Approach**

GBI uses duration, gap, and sensitivity analyses for the quantification of interest rate risk. Sensitivity analyses are based on both economic value and earnings perspectives. Interest sensitivity is measured by applying standard parallel yield curve shifts, a historical simulation approach, and user-defined yield curve twist scenarios. The outcomes of these analyses are discussed at ALCO and used effectively within decision-making processes for hedging and pricing. GBI has a low duration gap, which limits the Bank's sensitivity to interest rate shocks. The net change in the economic value of equity under a regulatory interest rate shock scenario is closely monitored, and lies considerably below the regulatory maximum of 20 percent.

## LIQUIDITY RISK

**Governance**

The main objective of GBI's liquidity and funding risk policy is to maintain sufficient liquidity to ensure safe banking operations, a stable long-term liquidity profile, and a sound financial condition, both in normal and stressed financial environments. The liquidity and funding risk policy is approved by the Supervisory Board, and aims to mitigate GBI's on- and off-balance sheet risks that are associated with liquidity mismatches, while complying with the related regulatory framework. The policy describes the governance of liquidity risk at GBI, and provides high-level principles for day-to-day and long-term liquidity management.







**"THE MAIN OBJECTIVE OF GBI'S LIQUIDITY AND FUNDING RISK POLICY IS TO MAINTAIN SUFFICIENT LIQUIDITY TO ENSURE SAFE BANKING OPERATIONS, A STABLE LONG-TERM LIQUIDITY PROFILE, AND A SOUND FINANCIAL CONDITION, BOTH IN NORMAL AND STRESSED FINANCIAL ENVIRONMENTS."**

GBI carries out an extensive Internal Liquidity Adequacy Assessment Process (ILAAP), where all qualitative and quantitative aspects of liquidity risk management at the Bank are monitored using established limits and early warning indicators. The ILAAP framework details the liquidity risk appetite and funding strategy and is continuously reviewed. The funding strategy is also reviewed annually through the budget process with the establishment of the funding plan. The Supervisory Board monitors whether the Bank remains in line with the strategy and plan.

At the bank level, ALCO monitors liquidity risk, implements the appropriate policies as defined by the Supervisory Board, makes pricing decisions through the Internal Transfer Pricing (ITP) process, and directs the Bank's overall liquidity strategy. In case of a liquidity squeeze or an emergency situation, GBI has a detailed contingency funding plan, enabling the Bank to govern crisis management.

ALCO has delegated day-to-day liquidity management to the ALM, the department responsible for managing the overall liquidity risk position of the Bank. It also manages intraday liquidity as per the principles of intraday liquidity management established in the ILAAP Framework. The ALM manages all cash flows along with expected changes in business-related funding requirements. A related operations unit, independent from the front office, performs the role of collateral management and executes the settlements of all transactions.

The RMD performs liquidity risk assessment and analyses, develops required methodologies, and conducts regular stress tests to ensure the Bank is operating with sufficient liquidity. The RMD also reports comprehensively on liquidity risk directly to ALCO and the Supervisory Board.

**Approach**

GBI aims for a well-diversified funding mix in terms of instrument types, fund providers, geographic markets, and currencies. In general, retail funding is the primary funding source, enabling the Bank to have a positive liquidity gap even when the wholesale funding market dries up. Non-financial corporations, with which the Bank has established long-lasting relationships through its various financial services offerings, constitute the major part of the wholesale funding. Behavioral analyses of retail deposits held at the Bank show low mortality ratios, even during times of stress in local and global markets, indicating the resilience of this funding base. Similarly, deposits by non-financial counterparties exhibit a high proportion of wholesale funds which are held at the Bank over long periods of time, contributing to the stability of the Bank's unsecured funding.

The Bank's funding from other financial institutions includes money market borrowings and transactional and structured instruments on bilateral or syndicated bases. These funding sources leverage the Bank's trade finance franchise and transaction flow reciprocity. The Bank also makes use of secured funding from

> **“INTEGRITY IS A NON-NEGOTIABLE CORE VALUE OF GBI, AND IS EMBEDDED IN THE BANK’S ORGANIZATION BY VARIOUS MEANS LIKE RECRUITMENT, TRAINING, AND AWARENESS, AND INTEGRITY-RELATED PRINCIPLES ARE IMPLEMENTED THROUGH VARIOUS POLICIES AND PROCEDURES”**

time to time in order to increase the diversity of resources.

GBI aims primarily for a stable funding profile and conducts business activities that are characterized by short-term lending. This 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 has passed.

Compliance with regulatory requirements related to liquidity risk is an integral part of liquidity risk management at 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 Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as per the Capital Requirement Regulation (CRR). Hence, GBI actively manages the level and composition of its High Quality Liquid Asset (HQLA) buffer, which is composed of various types of assets including cash held at central banks and creditworthy financial counterparties, as well as freely available central bank-eligible or investment grade-marketable securities.

Furthermore, GBI frequently monitors liquidity risk through various analyses including loan-to-deposit ratios, contractual maturity gap analyses, and stress tests that are designed according to a variety of scenarios. These allow the Bank to assess the impacts of diverse shocks on its liquidity position. Shock factors are based on bank- or market-specific liquidity squeezes. Shocks are applied to all on- and off-balance sheet items, including derivatives, to estimate cash flows under different stress scenarios. By using regulatory and internally developed stress tests, the Bank aims to hold a sufficient liquidity buffer in order to meet any sudden liquidity needs in times of stress.

## OPERATIONAL RISK

### Governance

The Bank has embedded the Three Lines of Defense model in its day-to-day activities. The first line of defense is business lines. Risk and control functions, including the compliance function, act as the second line and are responsible for developing compliance policies, overseeing, monitoring, and challenging first line’s execution. Second line of defense is also responsible for facilitating, advising, and supporting first lines. Finally, the Internal Audit Department (IAD) acts as the third line of defense. IAD provides management with objective assurance on the overall adequacy of the design and effectiveness of controls in first line and second line.

The operational risk strategy of GBI is founded on the principles that the risk management system is independent, sound, and implemented with integrity. The Risk Committee of the Supervisory Board (RCSB), together with the Audit and Compliance Committee of the Supervisory Board (ACSB), establish and periodically review the Operational Risk Management framework.







> **“GBI IS COMMITTED TO SAFEGUARDING ITS REPUTATION AS A RELIABLE, PROFESSIONAL, AND TRUSTWORTHY PROVIDER OF FINANCIAL SERVICES IN THE EYES OF ALL STAKEHOLDERS.”**

The Risk Management Committee (RMC) coordinates the risk management activities of GBI and ensures that a strong operational risk management culture exists throughout the organization.

The ICU, Compliance Department, IAC, and ISD use daily routine internal control mechanisms which are the foundation of the second line of defense. They monitor and report operational risks and establish preventive control measures where necessary. Internal controls are typically embedded in the Bank’s day-to-day business and are designed to make certain, to the extent possible, that daily operational activities are effective; that information is reliable, timely, and complete; and that the Bank is compliant with applicable laws and regulations. Findings are presented to the related committees periodically.

### Approach

GBI uses policies and procedures to set rules and event management to collect data on items that are not in compliance with these rules.

The Bank’s internal control framework consists of daily controls performed by business lines and control functions. These make sure that the activities of the Bank are in compliance with internal policies and that corrections are done in a timely manner on a consolidated basis.

GBI uses a Risk and Control Matrix to identify the process risks that occur in the daily course of business and to assess the effectiveness of the control points that mitigate these risks. It is based on the self-assessment of individual departments and aims to control the operational risks inherent in all key processes of the Bank. Identified risk levels and process control points are then reported to the RMC.

The implementation of an Information Security Management System in accordance with internationally recognized standards (ISO 27001) is a key objective that demonstrates our commitment to Information Security. This involves the systematic examination of the Bank’s information security risks; the identification of threats and vulnerabilities to our information assets and assessment of the associated risk exposures; the implementation of a comprehensive suite of security controls to reduce or mitigate information security risks; information security awareness training for all employees; the establishment of information security and information technology policies to manage potential exposures; a robust management process to ensure controls continue to meet the Bank’s information security needs and; lastly, centralizing, standardizing, and automated identity management services that reduce risk and cost while improving operational efficiency.

Pursuant to Section 10 of the Decree on Prudential Rules for Financial Undertakings (Besluit prudentiële regels Wft), banks must ensure systematic analysis of integrity risks. Integrity risks are defined as the “threat to the

CORPORATE GOVERNANCE

reputation of, or the current or future threat to the capital or the results of a financial institution due to insufficient compliance with the rules that are in force under or pursuant to the law."

GBI is aware of the integrity risks that are possible and common in the banking industry in general and more specific in its core activities: international trade finance, correspondent banking and retail banking. Integrity is a non-negotiable core value of GBI, and is embedded in the Bank's organization by various means like recruitment, training, and awareness, and integrity-related principles are implemented through various 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 and risk management controls applied within the Bank. All first line of defense functions perform self-assessments to identify, measure and mitigate integrity-related risk scenarios inherent in GBI's products, services, customers, and geographical locations.

GBI uses the Basic Indicator Approach to determine the regulatory capital requirements arising from operational risk.

## REPUTATIONAL, STRATEGIC AND OTHER 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.

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 to determine potential increases in capital or liquidity requirements based on the business and funding models of the Bank.

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

## KEY REGULATORY RATIOS

TThe Capital Requirements Regulation and Directive (CRR/CRD) IV has been in place since January 1, 2014, and will be phased in completely by 2019.

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 percent in the CRD IV, at 20.44 percent of CET 1 and 22.75 percent 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 and NSFR are at 360 percent and 199 percent levels as of 31 December 2017, well above the regulatory minimum levels. The Bank maintains a high liquidity buffer and, given its stable funding base, 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 leverage ratio, 12.24 percent as of 31 December 2017, is well above the Basel III proposal of 3 percent.

More information on the risk management practices at GBI and the risk profile of the Bank can be found in the "Report on Capital Adequacy and Risk Management," published on GBI's website www.garantibank.eu.







GARANTIBANK INTERNATIONAL N.V. ANNUAL REPORT 2017

Strong solvency,
high liquidity,
low leverage,
improved asset quality,
and *visibly* improved
profitability.

Net result
after tax stood at
EUR 24.7 million,
which is an increase of
50 percent.

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GARANTIBANK INTERNATIONAL N.V. ANNUAL REPORT 2017

# Balance Sheet as at 31 December 2017 (before profit appropriation)

| | | 2017 | | 2016 | |
|---|---|---|---|---|---|
| | | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 |
| **ASSETS** | | | | | |
| Cash | 3 | | **339,431** | | 441,985 |
| Banks | 4 | | **382,743** | | 538,436 |
| Loans and advances | 5 | | **3,022,302** | | 2,889,555 |
| Interest-bearing securities | 6 | | **426,603** | | 811,076 |
| Shares | 7 | | **2,231** | | 4,621 |
| Property and equipment | 8 | | **26,992** | | 22,956 |
| Intangible assets | 9 | | **4,098** | | 4,593 |
| Other assets | 10 | | **5,557** | | 8,268 |
| Prepayments and accrued income | 11 | | **56,982** | | 114,029 |
| **TOTAL ASSETS** | | | **4,266,939** | | 4,835,519 |
| **LIABILITIES** | | | | | |
| Banks | 12 | | **663,951** | | 768,859 |
| Funds entrusted | 13 | | **2,892,890** | | 3,348,663 |
| Other liabilities | 14 | | **26,658** | | 17,818 |
| Accruals and deferred income | 15 | | **38,377** | | 84,956 |
| Provisions | 16 | | **2,115** | | 826 |
| | | | **3,623,991** | | 4,221,122 |
| Subordinated liabilities | 17 | | **50,000** | | 50,000 |
| Paid-in and called-up capital | | **136,836** | | 136,836 | |
| Revaluation reserves | | **5,823** | | 1,958 | |
| Other reserves | | **425,603** | | 409,191 | |
| Net profit | | **24,686** | | 16,412 | |
| Shareholders' equity | 18 | | **592,948** | | 564,397 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | | **4,266,939** | | 4,835,519 |
| **OFF-BALANCE SHEET LIABILITIES** | 19 | | **390,098** | | 398,761 |





FINANCIAL STATEMENTS

# Profit and Loss Account for the Year 2017

| | | 2017 | | 2016 | |
|---|---|---|---|---|---|
| | | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 |
| Interest income | 20 | **140,820** | | 189,346 | |
| Interest expense | 21 | **80,718** | | 126,164 | |
| **NET INTEREST** | | | **60,102** | | 63,182 |
| Commission income | 22 | **26,172** | | 27,280 | |
| Commission expense | 23 | **2,524** | | 2,478 | |
| **NET COMMISSION** | 24 | | **23,648** | | 24,802 |
| Result on financial transactions | 25 | | **5,580** | | 6,030 |
| **TOTAL INCOME** | | | **89,330** | | 94,014 |
| Staff costs | | **29,436** | | 27,067 | |
| Other administrative expenses | | **15,121** | | 14,454 | |
| Administrative expenses | 27 | | **44,557** | | 41,521 |
| Depreciation | 28 | | **3,431** | | 2,943 |
| Value adjustments to receivables | 29 | | **8,368** | | 27,627 |
| **TOTAL EXPENSES** | | | **56,356** | | 72,091 |
| **OPERATING RESULT BEFORE TAX** | | | **32,974** | | 21,923 |
| Tax on result on ordinary activities | 30 | | **8,288** | | 5,511 |
| **NET RESULT AFTER TAX** | | | **24,686** | | 16,412 |



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# Cash Flow Statement for the Year 2017

| | 2017 | 2016 |
|---|---|---|
| | EUR 1,000 | EUR 1,000 |
| **NET CASH FLOW FROM OPERATIONAL ACTIVITIES** | | |
| Net profit | **24,686** | 16,412 |
| Adjustments for net interest | **(60,102)** | (63,182) |
| Adjustments for corporate taxation | **8,288** | 5,511 |
| Adjustments for depreciation | **3,431** | 2,943 |
| Adjustments for value adjustments to tangible fixed assets | - | – |
| Adjustments for value adjustments to receivables | **8,622** | 27,991 |
| Adjustment for impairments on shares | **1,828** | – |
| Adjustments for exchange rate differences on investment portfolio | **25,184** | (1,731) |
| Adjustments for amortization of premiums and discounts on investment portfolio | **2,013** | 168 |
| Adjustment for amortization of revaluation reserve tangible fixed assets | **(56)** | (27) |
| Adjustments for provisions relating to deferred tax | **(18)** | (9) |
| Net cash flow from operating profit | **13,876** | (11,924) |
| | | |
| Changes in: | | |
| Due from banks, excluding due from banks on demand and value adjustments to receivables | **141,970** | 34,120 |
| Loans and advances, excluding value adjustments to receivables | **(141,369)** | (196,908) |
| Other securities portfolio | **307,744** | 165,132 |
| Shares | – | – |
| Other assets | **2,711** | (254) |
| Prepayments and accrued income | **9,772** | (4,942) |
| Due to banks, excluding due to banks on demand | **(116,900)** | (195,632) |
| Funds entrusted | **(455,773)** | 100,964 |
| Other liabilities | **8,840** | (4,028) |
| Accruals and deferred income | **(46,579)** | (50,253) |
| | | |
| Interest received | 188,095 | 181,391 |
| Interest paid | (116,895) | (180,124) |
| Taxes paid | (2,393) | (5,750) |
| | **(176,619)** | (114,009) |







| | 2017 | 2016 |
|---|---|---|
| **NET CASH FLOW FROM INVESTMENT ACTIVITIES** | | |
| Investments in: | | |
| • Property and equipment | **(223)** | (2,350) |
| • Intangible assets | **(1,521)** | (1,127) |
| Divestments in: | | |
| • Property and equipment | – | – |
| • Investment portfolio due to sales, excluding value adjustments to receivables | **50,094** | 13,555 |
| | **48,350** | 10,078 |
| **NET CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Subordinated liabilities | – | (30,000) |
| | | |
| **NET CASH FLOW** | **(128,269)** | (133,931) |

| | EUR 1,000 | EUR 1,000 |
|---|---|---|
| Cash and cash equivalents as at 1 January | **462,092** | 596,023 |
| Cash and cash equivalents as at 31 December | **333,823** | 462,092 |
| **NET CASH FLOW** | **(128,269)** | (133,931) |

**SPECIFICATION OF CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER**

| | EUR 1,000 | EUR 1,000 |
|---|---|---|
| Cash | **339,431** | 441,985 |
| Due to/from banks on demand | **(5,608)** | 20,107 |
| | **333,823** | 462,092 |

# Notes to the 2017 Financial Statements

## 1 OVERVIEW OF GARANTIBANK INTERNATIONAL N.V.

**General**

GarantiBank International N.V. (hereafter: 'GBI or 'the Bank') has its statutory seat in Amsterdam, The Netherlands.

The financial information of GBI is included in the financial statements of Türkiye Garanti Bankasi A.Ş., incorporated in Turkey. GBI works in close cooperation with its 100 percent shareholder Türkiye Garanti Bankasi A.Ş.

GBI is mainly active in international trade finance and corporate lending, as well as in retail banking.

**Basis of presentation**

The financial statements are compiled in conformity with the provisions governing the financial statements as included in Part 9, Book 2 of the Netherlands Civil Code, as well as the Guidelines of the Council for Annual Reporting (Raad voor de Jaarverslaggeving - RJ), including the specific guidelines for Banks included in RJ 600 and the formats prescribed for the balance sheet and profit and loss account of banks under the Financial Statements Formats Decree.

All amounts are stated in thousands of euros, unless otherwise indicated.

**Going concern**

These financial statements have been prepared on the basis of the going concern assumption.

**Principles for consolidation**

Subsidiaries, i.e. all companies and other entities (including special purpose entities) in respect of which GBI has the power to determine the financial and operating policies, whether directly or indirectly, are consolidated. This is the case if more than half of the voting rights may be exercised, or if GBI has control in any other manner. Subsidiaries are fully consolidated from the date on which control is transferred to GBI. They are de-consolidated from the date control ceases.

For the year 2017, there were no subsidiaries that met the above-mentioned requirements for consolidation.

## 2 SIGNIFICANT ACCOUNTING POLICIES

**General**

Assets and liabilities are stated at nominal value, unless otherwise stated below.

An asset is disclosed in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. A liability is recognised in the balance sheet when it is expected to result in an outflow from the entity of resources embodying economic benefits and the amount of the obligation can be measured with sufficient reliability.

Income is recognised in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability.

If a transaction results in a transfer of future economic benefits and when all risks relating to an asset or a liability are transferred to a third party, the asset or liability is no longer included in the balance sheet. Assets and liabilities are not included in the balance sheet if economic benefits are not probable and/or cannot be measured with sufficient reliability.

The revenue and expenses are allocated to the period to which they relate. Revenues are recognized when the company has transferred the significant risks and rewards of ownership of the goods to the buyer.

The financial statements are presented in euros, the Bank's functional currency. All financial information in euros has been rounded to the nearest thousand.

**Use of estimates**

The preparation of the financial statements requires the management to form opinions and to make estimates and assumptions that influence the application of principles and the reported values of assets and liabilities and of income and expenditure. Actual results may differ from these estimates. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognised in the period in which the estimate is revised and in future periods for which the revision has consequences.

**Foreign currencies**

Assets and liabilities denominated in foreign currencies are translated at the balance sheet date into the functional currency at the exchange rate applying on that date. Translation gains and losses are recorded in the profit and loss account as 'Result on financial transactions'.

Transactions denominated in foreign currency are translated into the functional currency at the exchange rate applying on the transaction date. The resulting exchange rate gains and losses are accounted for as 'Result on financial transactions' in the profit and loss account.

**Financial instruments**

Financial instruments include investments in loans and other financing commitments, shares and bonds, other receivables, cash items and other payables. These financial statements contain the following financial instruments: loans and advances to banks/customers, interest-bearing securities, financial instruments held for trading (financial assets and liabilities), equity instruments, receivables, payables, other financial liabilities and derivatives.

Financial instruments are initially recognized at fair value. The basis for subsequent measurement of the various types of financial instruments is included in the following paragraphs.

**Loans and advances to banks/customers**

Loans and advances to banks/customers are valued at amortized cost, after deduction of specific provisions for doubtful debts.

The additions to or releases from the specific provisions for doubtful debts are recognized in 'Value adjustments to receivables' in the profit and loss account.

Results from the sale of loans and advances to banks/customers are recorded in the profit and loss account as 'Result on financial transactions'.

**Investment, trading and other securities portfolio**

The Investment portfolio included in the financial statement captions 'Interest-bearing securities' and 'Shares' comprise all investments, which are intended to be held on a permanent basis or to maturity.

The Other securities portfolio included in the financial statement captions 'Interest-bearing securities' and 'Shares' comprises all

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investments which are neither intended to be held on a permanent basis or to maturity, nor intended to be used to gain transaction results on a short-term basis.

Interest-bearing securities belonging to the Investment portfolio and the Other securities portfolio are measured at amortized cost. The difference between redemption value and acquisition price is deferred and is amortized over the remaining life of the relevant securities.

Shares belonging to the Other securities portfolio refer to investments in equity instruments, which are not listed and are measured at cost price. Realised valuation changes and impairment losses are processed into profit and loss account.

**Derivatives**
Derivatives are financial instruments embodied in contracts of which the value depends on one or more underlying assets or indices.

**Foreign exchange contracts**
For derivative contracts concluded to mitigate currency risk GBI applies cost price hedge accounting as defined in the Dutch Accounting Standard RJ 290. Whenever GBI determined that the hedge relations are effective, derivative instruments used to hedge the Bank's own currency positions are recognized in accordance with the accounting principles applicable to these positions, i.e. derivatives are measured at spot rate. The forward points on currency swaps are amortized to the profit and loss account on a linear basis over the duration of the currency derivative and included under 'Interest income/interest expense'. The ineffective portion of the cost price hedge accounting relationships is recorded in the profit and loss account as 'Result on financial transactions' using the lower of cost or fair value when valuing the derivative.

Currency contracts that are not subject to hedge accounting are recorded at fair value as at balance sheet date and are included under the caption 'Accruals and deferred income'. The resulting price and valuation differences are recorded in the profit and loss account as 'Result on financial transactions'.

**Interest rate contracts**
For derivative contracts concluded to mitigate interest rate risk GBI applies cost price hedge accounting as defined in the Dutch Accounting Standard RJ 290. Whenever GBI determined that the hedge relations are effective, derivative instruments used to hedge the Bank's own interest rate exposure are recorded at cost and the accrued interest on these instruments are recognized under 'Interest income' and/or 'Interest expense'. The ineffective portion of the cost price hedge accounting relationships is recorded in the profit and loss account as 'Result on financial transactions' using the lower of cost or fair value when valuing the derivative.

Interest rate contracts that are not subject to hedge accounting are recorded at fair value as at balance sheet date and are included under the caption 'Accruals and deferred income'. The resulting price and valuation differences are recorded in the profit and loss account as 'Result on financial transactions'.

**Other contracts**
Other derivatives are recorded at fair value as at balance sheet date. The resulting price and valuation differences are recorded in the profit and loss account as 'Result on financial transactions'.

**Impairment of financial assets**
A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

The entity considers evidence of impairment for financial assets measured at amortised cost (loans and advances to banks/customers, investment securities and other securities) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances to banks/customers, investment securities or other securities. Interest on the impaired asset continues to be recognised, unless the collection of the interest is doubtful.

When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

## FINANCIAL FIXED ASSETS

**Property and equipment**

The accounting principles for tangible fixed assets are as follows:

**Land and buildings**
Premises are recorded at fair value. Changes in fair value are accounted for in the revaluation reserve, taking into account deferred tax liabilities. The fair value is determined periodically by an independent external party.

If the fair value is lower than the cost price, the difference is taken to the profit and loss account under the item value adjustments to tangible fixed assets. Properties not in use and land are not depreciated.

Depreciation periods applied are as follows:
- Properties: 50 years.
- Improvement of properties: 50 years.

**Other fixed assets**
These are stated at acquisition price less straight-line depreciation on the basis of estimated economic useful lives.

Depreciation periods applied are as follows:
- Renovation of properties: 10 to 15 years.
- Furniture and equipment: 5 to 10 years.
- Intangibles: 2 to 10 years.

Intangibles include development costs, which are capitalised insofar as incurred in respect of potentially profitable projects and are stated at cost. These costs mainly comprise the




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cost of direct labour; upon completion of the development phase, the capitalised costs are written down over their expected useful life. Depreciation takes place on a straight-line basis.

## DISPOSAL OF FIXED ASSETS

Fixed assets available for sale are stated at the lower of their carrying amount and net realisable value.

## PROVISIONS

**General**
Provisions are carried on the balance sheet to cover obligations and losses at the balance sheet date for which the amounts are uncertain as at the balance sheet date but which can be reliably estimated and for which cash outflow is likely.

**Deferred tax**
Deferred tax is recorded using the balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax assets are accounted for only if it is probable that they will be realized.

## INCOME

All income items are attributed to the period in which they arise or in which the service was provided.

Interest income and interest expenses are recognized in the period to which they relate. Accrued interest on derivative instruments used to hedge GBI's own positions, is recognized in 'Interest income' and/or 'Interest expense'. Commission income and commission expense are recognized in the period to which they relate.

Interest and commission income from impaired financial assets are not stated as income if the collection of the interest and commission is doubtful.

Positive results on the sale of interest-bearing securities belonging to the Investment portfolio or Other securities portfolio are directly recognized in interest income. If, on balance, losses on the sale of interest-bearing securities belonging to the Investment portfolio or Other securities portfolio would arise, the surplus losses are charged directly to 'Interest expense'.

## OPERATING EXPENSES

Expenses are allocated to the period in which they arise.

Employee benefits are charged to the profit and loss account in the period in which the employee services are rendered and, to the extent not already paid, as a liability on the balance sheet. If the amount already paid exceeds the benefits owed, the excess is recognised as a current asset to the extent that there will be a reimbursement by the employees or a reduction in future payments by the Company.

In accordance with the Group remuneration policy, for certain employee's part of their remuneration related to long term incentives is settled in BBVA shares. BBVA is reimbursed by GBI in exchange for the issuance of the shares. For further details regarding the remuneration policy reference is made to the Report of the Supervisory Board.

## CORPORATE INCOME TAX

In determining the effective tax rate, all permanent and timing differences between pre-tax profit and the taxable amount in accordance with tax legislation, are taken into account.
Income tax in the profit and loss account for the year comprises current and deferred tax. Income tax is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

## CASH FLOW STATEMENT

The cash flow statement details the source of cash and cash equivalents which became available during the year and the use of the funds over the course of the year. The cash flow statement has been prepared using the indirect method. The cash flows are classified into cash flows from operational activities, investment activities and financing activities. Liquid funds include cash in hand, net credit balances on current accounts with other banks and net demand deposits with central banks.

Movements in loans, total customer accounts and interbank deposits are included in the cash flow from operational activities. Investment activities comprise purchases, sales and redemptions in respect of investment portfolios, as well as investments in and sales of participating interests and property & equipment. The issuance of shares and the borrowing and repayment of long-term funds and subordinated liabilities are treated as financing activities.

The cash flow statement has been drawn up using the same accounting principles as applied to the balance sheet and profit and loss account.

## DETERMINATION OF FAIR VALUE

A number of accounting policies and disclosures in the financial statements require the determination of fair value for financial assets and liabilities. 'Fair value' is the price that would be received when selling an asset or paid when transferring a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. For measurement and disclosure purposes, fair value is determined on the basis of the following methods.

**Financial assets**
When available, the Bank measures the fair value of a financial asset using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same and discounted cash flow models. Valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data.

**Derivatives**
The fair value of derivatives is obtained from active markets or determined on the basis of generally accepted valuation models such as discounted cash flow calculations or option pricing models, unless there is an observable market price. Valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data.

# Notes to the balance sheet as at 31 December 2017

| | 2017 | 2016 |
|---|---|---|
| | EUR 1,000 | EUR 1,000 |
| **3 CASH** | **339,431** | 441,985 |

This item includes all legal tender, as well as demand deposits held at the central banks in countries in which GBI's Head Office and its branch are located.

| | | |
|---|---|---|
| **4 BANKS** | **382,743** | 538,436 |

This item comprises all loans and advances to banks falling under regulatory supervision and insofar as not embodied in the form of debt securities. This item also includes money market placements to financial institutions that have been pledged as collateral (see note 31). Furthermore, this item includes drawings under letters of credit, for which all relevant documents have been presented, shipments have been made and payment obligation is therefore certain.

There are no provisions related to this item.

| | | |
|---|---|---|
| **5 LOANS AND ADVANCES** | **3,022,302** | 2,889,555 |

These include all loans and advances, excluding those to banks and those embodied in debt securities. This item also includes drawings under letters of credit, for which all relevant documents have been presented, shipments have been made and payment obligation is therefore certain.

This amount is shown net of provisions amounting to EUR 41.7 million (2016: EUR 44.6 million).

The changes in the provisions were as follows:

| | | |
|---|---|---|
| Position as at 1 January | **44,634** | 77,836 |
| Additions | **11,219** | 29,368 |
| Write-offs | **(4,650)** | (61,983) |
| Releases | **(4,426)** | (1,377) |
| Exchange rate differences | **(5,094)** | 790 |
| Position as at 31 December | **41,683** | 44,634 |







| | 2017 | 2016 |
|---|---|---|
| | EUR 1,000 | EUR 1,000 |
| **6 INTEREST-BEARING SECURITIES** | **426,603** | 811,076 |

Included under this item are debt securities with a fixed or floating interest rate.

The breakdown by issuer is as follows:

| | | |
|---|---|---|
| • Issued by public bodies and national governments | **183,048** | 198,029 |
| • Issued by others | **243,555** | 613,047 |
| | **426,603** | 811,076 |

Of the interest-bearing securities held as at 31 December 2017, EUR 20.1 million will mature in 2018, EUR 8.3 million is unlisted (31 December 2016: EUR 9.5 million) and no securities have been issued by a group company (31 December 2016: EUR 12.7 million).

This item includes interest-bearing securities that have been pledged as collateral (see note 31).

The breakdown by portfolio is as follows:

| | | |
|---|---|---|
| • Investment portfolio | **5,070** | 59,684 |
| • Other securities portfolio | **421,533** | 751,392 |
| | **426,603** | 811,076 |

The changes of the interest-bearing securities in the Investment portfolio are as follows:

| | | |
|---|---|---|
| Balance sheet value as at 1 January | **59,684** | 71,820 |
| Purchases | **–** | – |
| Sales | **(50,094)** | (13,555) |
| Redemptions | **–** | – |
| Amortized premiums and discounts | **(103)** | (168) |
| Exchange rate differences | **(4,417)** | 1,587 |
| Balance sheet value as at 31 December | **5,070** | 59,684 |

As at 31 December 2017, the purchase price of the Investment portfolio was EUR 1.1 million above the redemption value (31 December 2016: EUR 2.5 million above).

As at 31 December 2017, the market value of the Investment portfolio was EUR 26 thousand above the redemption value (31 December 2016: EUR 2.3 million below).

| | 2017 | 2016 |
|---|---|---|
| | EUR 1,000 | EUR 1,000 |

The changes of the interest-bearing securities in the Other securities portfolio are as follows:

| | 2017 | 2016 |
|---|---|---|
| Balance sheet value as at 1 January | **751,392** | 916,524 |
| Purchases | - | 273,476 |
| Sales | **(307,744)** | (426,548) |
| Redemptions | - | (16,201) |
| Amortized premiums and discounts | **(1,910)** | (2,326) |
| Exchange rate differences | **(20,205)** | 6,467 |
| Balance sheet value as at 31 December | **421,533** | 751,392 |

As at 31 December 2017, the purchase price of the other securities portfolio was EUR 10.7 million above the redemption value (31 December 2016: EUR 16.9 million above).

As at 31 December 2017, the market value of the other securities portfolio was EUR 13.1 million above the redemption value (31 December 2016: EUR 1.3 million below).



## 7 SHARES

| | 2017 | 2016 |
|---|---|---|
| 7 SHARES | **2,231** | 4,621 |
| The changes of shares are as follows: | | |
| Balance sheet value as at 1 January | **4,621** | 4,965 |
| Impairments | **(1,828)** | – |
| Exchange rate differences | **(562)** | (372) |
| Balance sheet value as at 31 December | **2,231** | 4,621 |

This item consists of investments in equity instruments which are not listed and which are included in the Other securities portfolio.

## 8 PROPERTY AND EQUIPMENT

| | 2017 | 2016 |
|---|---|---|
| 8 PROPERTY AND EQUIPMENT | **26,992** | 22,956 |

The changes in this balance sheet item are as follows:

| | Land and buildings | Other fixed assets | Total |
|---|---|---|---|
| Balance sheet value as at 1 January 2017 | **20,050** | **2,906** | **22,956** |
| Investments | **127** | **96** | **223** |
| Revaluations* | **5,228** | **-** | **5,228** |
| Depreciation | **(498)** | **(917)** | **(1,415)** |
| Balance sheet value as at 31 December 2017 | **24,907** | **2,085** | **26,992** |
| Accumulated depreciation | **8,214** | **3,446** | **11,661** |

* The building where the Bank's Head Office is located was appraised in December 2017.





## 9 INTANGIBLE ASSETS

| | 2017 EUR 1,000 | 2016 EUR 1,000 |
|---|---|---|
| 9 INTANGIBLE ASSETS | **4,098** | 4,593 |
| The changes in this balance sheet item are as follows: | | |
| Balance sheet value as at 1 January | **4,593** | 4,965 |
| Purchases | **1,521** | 1,127 |
| Depreciation/amortization | **(2,016)** | (1,499) |
| Balance sheet value as at 31 December | **4,098** | 4,593 |

## 10 OTHER ASSETS

| | 2017 | 2016 |
|---|---|---|
| 10 OTHER ASSETS | **5,557** | 8,268 |

This item includes those amounts, which are not of an accrued or deferred nature or which cannot be classified with any other balance sheet asset item. This concerns, for example, balances of payment transactions still to be settled.

As at 31 December 2017, it primarily consists of a receivable of EUR 4.5 million (31 December 2016: EUR 4.3 million) with regard to the Deposit Guarantee Scheme for the bankrupted DSB Bank. This receivable is recorded at its estimated fair value.



## 11 PREPAYMENTS AND ACCRUED INCOME

| | 2017 | 2016 |
|---|---|---|
| 11 PREPAYMENTS AND ACCRUED INCOME | **56,982** | 114,029 |

As at 31 December 2017, this item includes prepaid expenses, as well as accrued income, such as accrued interest and commission amounting to EUR 32.5 million (31 December 2016: EUR 47.3 million). It also includes the valuation of derivative contracts amounting to EUR 25.2 million (31 December 2016: EUR 70.2 million). See notes 32.1.e and 33 for more information on derivatives.

## 12 BANKS

| | 2017 | 2016 |
|---|---|---|
| 12 BANKS | **663,951** | 768,859 |

This includes the non-subordinated amounts owed to banks insofar as not embodied in debt certificates. As at 31 December 2017, this includes a syndicated loan amounting to EUR 208.2 million (31 December 2016: EUR 256.9 million), a secured borrowing amounting to EUR 145.7 million (31 December 2016: EUR 154.1 million) and repurchase agreements (including the participation under TLTRO-II facility) amounting to EUR 136.4 million (31 December 2016: EUR 129.1 million) (see note 32).

| | 2017 | 2016 |
|---|---|---|
| | EUR 1,000 | EUR 1,000 |
| **13 FUNDS ENTRUSTED** | **2,892,890** | 3,348,663 |

Included under this item are all non-subordinated debts, insofar as these are not amounts owed to banks or embodied in debt certificates.

This item can be specified as follows:

| | 2017 | 2016 |
|---|---|---|
| • Savings accounts | **2,301,983** | 2,534,643 |
| • Other funds entrusted | **590,907** | 814,020 |
| | **2,892,890** | 3,348,663 |

As at 31 December 2017, the funds entrusted with a remaining maturity of more than one year amounted to EUR 345.0 million (31 December 2016: EUR 405.3 million) with an average interest rate of 1.27 percent (31 December 2016: 1.54 percent).

| | 2017 | 2016 |
|---|---|---|
| **14 OTHER LIABILITIES** | **26,658** | 17,818 |

This item includes those amounts, which are not of an accrued or deferred nature or which cannot be classified under any other balance sheet liability item.

As at 31 December 2017, this item also includes the current tax position amounting to EUR 1.9 million receivable (31 December 2016: EUR 3.9 million receivable).

| | 2017 | 2016 |
|---|---|---|
| **15 ACCRUALS AND DEFERRED INCOME** | **38,377** | 84,956 |

As at 31 December 2017, this item includes prepayments received in respect of profits attributable to subsequent periods and amounts still to be paid, such as accrued interest amounting to EUR 18.9 million (31 December 2016: EUR 18.5 million).
It also includes valuation of derivative contracts amounting to EUR 18.1 million (31 December 2016: EUR 57.8 million). See notes 32.1.e and 33 for more information on derivatives.

| | 2017 | 2016 |
|---|---|---|
| **16 PROVISIONS** | **2,115** | 826 |

The changes in this item were as follows:

| | DEFERRED TAX LIABILITIES FOR BUILDINGS | PENDING LEGAL ISSUES | TOTAL |
|---|---|---|---|
| Balance as at 1 January 2017 | **826** | – | **826** |
| Releases | **(19)** | – | **(19)** |
| Additions | **1,307** | – | **1,307** |
| To/from current tax position | **1** | – | **1** |
| Balance as at 31 December 2017 | **2,115** | – | **2,115** |







| | | | |
|---|---|---|---|
| Balance as at 1 January 2016 | **491** | – | **491** |
| Releases | **(9)** | – | **(9)** |
| Additions | **349** | – | **349** |
| To/from current tax position | **(5)** | – | **(5)** |
| Balance as at 31 December 2016 | **826** | – | **826** |

Please see note 30 for further details.

| | EUR 1,000 | EUR 1,000 |
|---|---|---|
| **17 SUBORDINATED LIABILITIES** | **50,000** | 50,000 |

As at 31 December 2017, this item contains a subordinated loan of EUR 50.0 million received from GBI's shareholder Türkiye Garanti Bankası A.Ş. The subordinated loan is subordinate to the other current and future liabilities of GBI. It was granted in 2015 with an original maturity of 10 years and has a yearly interest rate of 4.55 percent.

In 2017, the interest expense in respect of the subordinated loans amounted to EUR 2.3 million (2016: EUR 3.8 million).

| | | |
|---|---|---|
| **18 SHAREHOLDERS' EQUITY** | **592,948** | 564,397 |
| **Paid-in and called-up capital** | **136,836** | 136,836 |

The authorized share capital amounts to EUR 500 million and is subdivided into 500,000 shares with a nominal value of EUR 1,000 each, of which 136,836 shares have been issued and fully paid-in.

| | | |
|---|---|---|
| **Revaluation reserves** | **5,823** | 1,958 |
| Position as at 1 January | **1,958** | 938 |
| Reversal of impairment on building | - | – |
| Revaluation building | **3,921** | 1,047 |
| Amortization to profit and loss account | **(56)** | (27) |
| Position as at 31 December | **5,823** | 1,958 |

| | | |
|---|---|---|
| **Other reserves** | **425,603** | 409,191 |
| Position as at 1 January | **409,191** | 397,850 |
| Appropriation profit previous year | **16,412** | 11,341 |
| Position as at 31 December | **425,603** | 409,191 |

| | 2017 EUR 1,000 | 2016 EUR 1,000 |
|---|---|---|
| **Net profit** | **24,686** | 16,412 |
| The changes in this item were as follows: | | |
| Position as at 1 January | **16,412** | 11,341 |
| Profit appropriation | **(16,412)** | (11,341) |
| Result after tax | **24,686** | 16,412 |
| Position as at 31 December | **24,686** | 16,412 |

## 19 OFF-BALANCE SHEET LIABILITIES

| | 2017 EUR 1,000 | 2016 EUR 1,000 |
|---|---|---|
| 19 OFF-BALANCE SHEET LIABILITIES | **390,098** | 398,761 |

This includes all liabilities arising from transactions in which GBI has guaranteed the commitments of third parties.

The off-balance sheet liabilities can be broken down into liabilities in respect of:

| | 2017 EUR 1,000 | 2016 EUR 1,000 |
|---|---|---|
| • Guarantees | **40,111** | 49,869 |
| • Irrevocable letters of credit | **198,893** | 206,280 |
| • Other commitments | **151,094** | 142,612 |
| | **390,098** | 398,761 |

## 20 INTEREST INCOME

| | 2017 EUR 1,000 | 2016 EUR 1,000 |
|---|---|---|
| 20 INTEREST INCOME | **140,820** | 189,346 |

This includes income arising from the lending of funds and related transactions and the interest-related result of derivatives as well as commissions and other income, which have an interest characteristic.
This item comprises interest and similar income from:

| | 2017 EUR 1,000 | 2016 EUR 1,000 |
|---|---|---|
| • Banks | **10,366** | 8,872 |
| • Loans and advances | **113,284** | 144,084 |
| • Debt securities including fixed-income securities | **17,170** | 36,390 |
| | **140,820** | 189,346 |

Interest income from debt securities includes positive results on sales from the Investment and Other securities portfolio of EUR 2.6 million (2016: EUR 7.6 million).







## 21 INTEREST EXPENSE

| | 2017 EUR 1,000 | 2016 EUR 1,000 |
|---|---|---|
| 21 INTEREST EXPENSE | **80,718** | 126,164 |

This item includes the costs arising from the borrowing of funds and the interest-related result of derivatives as well as other charges, which have an interest characteristic.

## 22 COMMISSION INCOME

| | 2017 EUR 1,000 | 2016 EUR 1,000 |
|---|---|---|
| 22 COMMISSION INCOME | **26,172** | 27,280 |

This amount comprises the income from fees received in respect of banking services supplied to third parties insofar as these do not have an interest characteristic. This relates primarily to trade finance activities.

## 23 COMMISSION EXPENSE

| | 2017 EUR 1,000 | 2016 EUR 1,000 |
|---|---|---|
| 23 COMMISSION EXPENSE | **2,524** | 2,478 |

This concerns the expenses paid in respect of fees for banking services supplied by third parties insofar as these do not have the characteristics of interest.

## 24 NET COMMISSION

| | 2017 EUR 1,000 | 2016 EUR 1,000 |
|---|---|---|
| 24 NET COMMISSION | **23,648** | 24,802 |
| Net commission comprises: | | |
| • Trade finance | **11,939** | 10,720 |
| • Corporate finance | **6,300** | 8,600 |
| • Payment and investment services | **3,548** | 4,156 |
| • Brokerage and private banking services | **2,557** | 2,279 |
| • Other | **(696)** | (953) |
| | **23,648** | 24,802 |

## 25 RESULT ON FINANCIAL TRANSACTIONS

| | 2017 EUR 1,000 | 2016 EUR 1,000 |
|---|---|---|
| 25 RESULT ON FINANCIAL TRANSACTIONS | **5,580** | 6,030 |

This item covers unrealized and realized profits and losses belonging to the Trading portfolio and currency differences and price/rate differences arising from dealing in other financial instruments. The impact of ineffectiveness of hedging derivatives is nil (2016: EUR 1 thousand).

This item comprises:

| | 2017 EUR 1,000 | 2016 EUR 1,000 |
|---|---|---|
| • Securities trading | **355** | 718 |
| • Foreign exchange dealing | **2,133** | 3,483 |
| • Forfaiting | **206** | 154 |
| • Other | **2,886** | 1,675 |
| | **5,580** | 6,030 |

| | 2017 | 2016 |
|---|---|---|
| | EUR 1,000 | EUR 1,000 |
| **26 SEGMENTATION OF INCOME** | **172,572** | 222,656 |
| The total of interest income, income from participating interests, commission income and result on financial transactions can be broken down into the following geographical areas based on customer domicile: | | |
| • The Netherlands | **24,940** | 22,842 |
| • Turkey | **84,225** | 134,408 |
| • Great Britain | **11,526** | 11,474 |
| • Switzerland | **6,685** | 4,172 |
| • Germany | **3,543** | 2,832 |
| • Rest of Europe | **23,020** | 26,856 |
| • CIS countries | **1,293** | 4,429 |
| • Rest of the world | **17,340** | 15,643 |
| | **172,572** | 222,656 |

| | | |
|---|---|---|
| **27 ADMINISTRATIVE EXPENSES** | **44,557** | 41,521 |
| This includes: | | |
| • Staff costs | **29,436** | 27,067 |
| • Other administrative expenses | **15,121** | 14,454 |
| | **44,557** | 41,521 |
| The staff costs comprise: | | |
| • Wages and salaries | **23,492** | 21,456 |
| • Pension costs | **2,500** | 2,401 |
| • Other social costs | **2,357** | 2,160 |
| • Other staff costs | **1,087** | 1,050 |
| | **29,436** | 27,067 |

Pension plans have been established for the employees in the Netherlands and the majority of staff employed outside the Netherlands in accordance with the regulations and practices of the relevant countries. Third parties, mostly insurance companies, administer and execute these plans.

The nature and substance of the plans are decisive for their treatment in the financial statements. Contributions to the pension schemes are charged directly to the profit and loss account in the year to which they relate. A pension provision needs to be included in the balance sheet for pension premiums payable and possible additional obligations to the pension plan or employees outstanding as per the balance sheet date. As of the end of 2017, no premiums payable and possible additional obligations were outstanding.

| The average number of full-time equivalent employees was 242 (2016: 236), which can be split as follows: | | |
|---|---|---|
| • Netherlands | **207** | 200 |
| • Other | **35** | 36 |
| | **242** | 236 |

Other administrative expenses include expenses related to services provided by KPMG Accountants N.V. (external auditor of GBI) and other members of the international KPMG network.







The breakdown, in which these expenses have been allocated to the relevant period, is as follows:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **KPMG ACCOUNTANTS N.V.** | **OTHER KPMG NETWORK** | **TOTAL KPMG NETWORK** | KPMG ACCOUNTANTS N.V | OTHER KPMG NETWORK | TOTAL PMG NETWORK |
| Statutory audit of financial statements | **234** | **27** | **261** | 197 | 29 | 226 |
| Other assurance services | **115** | – | **115** | 210 | 35 | 245 |
| Tax advisory services | – | – | – | – | – | – |
| Other non-audit services | – | – | – | – | – | – |
| | **349** | **27** | **376** | 407 | 64 | 471 |

For the period to which our statutory audit relates, in addition to this audit, KPMG has provided the following services to the GarantiBank International N.V.:
- audit and review of financial information for consolidation purposes of the parent company;
- audit and audit-related services on prudential returns and other regulatory reporting to Supervisory Authorities.

| | 2017 | 2016 |
|---|---|---|
| | EUR 1,000 | EUR 1,000 |
| **28 DEPRECIATION** | **3,431** | 2,943 |
| For a breakdown of this item, please see the overview of changes in property and equipment (note 8) and intangible assets (note 9). | | |
| **29 VALUE ADJUSTMENTS TO RECEIVABLES AND SHARES** | **8,368** | 27,627 |
| This item relates to provisions for loans and advances to customers and shares and can be broken down as follows: | | |
| • Additions | **13,047** | 29,368 |
| • Releases | **(4,426)** | (1,377) |
| • Repayments after write-off | **(253)** | (364) |
| | **8,368** | 27,627 |

| | 2017 | 2016 |
|---|---|---|
| **30 TAX ON RESULT ON ORDINARY ACTIVITIES** | **8,288** | 5,511 |
| The corporate income tax has been calculated using the nominal tax rate of 25 percent over the Dutch taxable income and the local applicable tax rate for taxable income in Germany (30 percent). The overall effective tax rate in 2017 was 25.2 percent (2016: 25.2 percent). | | |
| Dutch tax rate | **25.0%** | 25.0% |
| Effect of closing current tax positions previous year(s) | **0.1%** | 0% |
| Effect of deviating tax rates in foreign jurisdictions | **0.1%** | 0.2% |
| | **25.2%** | 25.2% |

The 2017 taxes amounted to EUR 8,288 thousand (2016: EUR 5,511 thousand).

The deferred tax liabilities relate to tax liabilities that will arise in the future resulting from the difference between the book value of specific assets and their valuation for tax purposes.

The deferred tax liabilities fully relate to buildings and amounted to EUR 2,115 thousand (2016: EUR 826 thousand) (see also note 16).





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## FURTHER DISCLOSURES

### 31 ASSET ENCUMBRANCE

The following tables give an overview of the Bank's encumbered assets and the related financial liabilities. Encumbered assets are assets which are not freely available because they have been pledged or are subject to an arrangement to secure, collateralise or credit enhance a transaction.

| | CARRYING AMOUNT OF ENCUMBERED ASSETS | | FAIR VALUE OF ENCUMBERED ASSETS | | CARRYING AMOUNT OF NON-ENCUMBERED ASSETS | | FAIR VALUE OF NON ENCUMBERED ASSETS | |
|---|---|---|---|---|---|---|---|---|
| | | of which ECB eligible | | of which ECB eligible | | of which ECB eligible | | of which ECB eligible |
| | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 |
| **As at 31 December 2017** | | | | | | | | |
| Banks | 13,084 | - | n/a | n/a | 369,659 | - | n/a | n/a |
| Loans and advances | 267,858 | - | n/a | n/a | 2,754,444 | - | n/a | n/a |
| Interest-bearing securities | 151,767 | 143,510 | 157,708 | 149,713 | 274,836 | 157,739 | 274,851 | 161,975 |
| **Total** | **432,709** | **143,510** | **157,708** | **149,713** | **3,398,939** | **157,739** | **274,851** | **161,975** |
| **As at 31 December 2016** | | | | | | | | |
| Banks | 42,301 | - | n/a | n/a | 496,135 | - | n/a | n/a |
| Loans and advances | 263,524 | - | n/a | n/a | 2,626,031 | - | n/a | n/a |
| Interest-bearing securities | 161,705 | 79,106 | 154,006 | 80,182 | 649,371 | 291,543 | 636,201 | 295,510 |
| **Total** | **467,530** | **79,106** | **154,006** | **80,182** | **3,771,537** | **291,543** | **636,201** | **295,510** |

These encumbered assets have been pledged as collateral for the following financial liabilities:

| | CARRYING AMOUNT OF FINANCIAL LIABILITIES |
|---|---|
| | EUR 1,000 |
| **As at 31 December 2017** | |
| Banks | 282,075 |
| Derivatives | 10,555 |
| **Total** | **292,630** |
| **As at 31 December 2016** | |
| Banks | 283,757 |
| Derivatives | 19,805 |
| **Total** | **303,562** |

## 32 RISK MANAGEMENT

### 32.1 Credit risk

Credit risk encompasses all forms of exposures where counterparties may default on their obligations to GBI in relation to lending, hedging, settlement and other financial activities.

Concentrations of credit risks, including country and industry risks, indicate the relative sensitivity of GBI's performance to developments affecting a particular geographical region or industry.

#### 32.1.a Breakdown by geographical regions

The geographical breakdown of assets and off-balance sheet liabilities is based on customer domicile as follows:

| | CASH | BANKS | LOANS AND ADVANCES | INTEREST-BEARING SECURITIES | OFF-BALANCE LIABILITIES |
|---|---|---|---|---|---|
| **As at 31 December 2017:** | | | | | |
| • The Netherlands | **327,267** | **39,716** | **373,204** | **87,967** | **85,903** |
| • Turkey | - | **255,091** | **1,191,334** | **96,879** | **37,317** |
| • Great Britain | - | **7,066** | **151,232** | **31,142** | **26,221** |
| • Switzerland | - | **17** | **280,679** | - | **107,112** |
| • Germany | **12,164** | **4,689** | **245,615** | **19,811** | **4,409** |
| • Rest of Europe | - | **5,615** | **572,251** | **149,133** | **19,743** |
| • CIS countries | - | **401** | - | - | - |
| • Rest of the world | - | **70,148** | **249,670** | **41,671** | **109,393** |
| | **339,431** | **382,743** | **3,063,985** | **426,603** | **390,098** |
| Provisions | – | – | **(41,683)** | – | – |
| | **339,431** | **382,743** | **3,022,302** | **426,603** | **390,098** |
| **As at 31 December 2016:** | | | | | |
| • The Netherlands | 428,527 | 40,446 | 413,405 | 124,273 | 30,623 |
| • Turkey | – | 306,919 | 1,078,678 | 348,946 | 37,169 |
| • Great Britain | – | 13,137 | 283,359 | 31,294 | 63,763 |
| • Switzerland | – | 142 | 238,021 | 9,953 | 66,799 |
| • Germany | 13,458 | 55,650 | 188,012 | 19,785 | 14,183 |
| • Rest of Europe | – | 10,296 | 482,868 | 183,075 | 31,386 |
| • CIS countries | – | 1,053 | 7,050 | 51,737 | 8,041 |
| • Rest of the world | – | 110,793 | 242,796 | 42,013 | 146,797 |
| | 441,985 | 538,436 | 2,934,189 | 811,076 | 398,761 |
| Provisions | – | – | (44,634) | – | – |
| | 441,985 | 538,436 | 2,889,555 | 811,076 | 398,761 |







#### 32.1.b Breakdown by collateral

The loans and advances can be broken down by collateral as follows:

| | 2017 EUR 1,000 | 2016 EUR 1,000 |
|---|---|---|
| Bank guarantees | **310,418** | 369,375 |
| Securities and cash | **34,158** | 72,715 |
| Other and unsecured* | **2,719,410** | 2,492,099 |
| | **3,063,986** | 2,934,189 |
| Provisions | **(41,683)** | (44,634) |
| | **3,022,302** | 2,889,555 |

* Other collateral consists of co-debtorship, pledge on goods and receivables, mortgages, etc.

The collateral value of securities is based on the fair value. The value of other collateral (bank guarantees, cash) is based on the notional value.

**32.1.c Breakdown by sector and industry**

The loans and advances can be broken down by sector and industry[1] as follows:

| | 2017 | 2016 |
|---|---|---|
| | EUR 1,000 | EUR 1,000 |
| Agriculture | **247,559** | 150,639 |
| Basic materials | **370,460** | 355,684 |
| Chemicals | **235,420** | 232,094 |
| Construction | **193,199** | 209,104 |
| Consumer products | **214,217** | 249,838 |
| Financial services | **698,213** | 612,138 |
| Food, beverages & tobacco | **102,759** | 146,310 |
| Leisure and tourism | **14,000** | 13,536 |
| Oil & gas | **286,939** | 311,906 |
| Private individuals | **20,808** | 6,707 |
| Retail | **93,100** | 97,039 |
| Services | **8,677** | 10,672 |
| Telecom | **11,516** | 23,909 |
| Transport & logistics | **380,253** | 405,022 |
| Utilities | **59,948** | 37,015 |
| Other | **126,917** | 72,576 |
| | **3,063,985** | 2,934,189 |
| Provisions | **(41,683)** | (44,634) |
| | **3,022,302** | 2,889,555 |

[1] The breakdown is based on management interpretations on the business nature and industry regulation

**32.1.d Non-performing loans and NPL ratio**

A loan is recognized as non-performing if there is objective evidence of impairment. This evidence could arise from, but is not limited to, the following events:

- 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.







The NPL ratio is calculated as follows:

| | 2017 | 2016 |
|---|---|---|
| | EUR 1,000 | EUR 1,000 |
| Loans and advances | **3,022,302** | 2,889,555 |
| Provisions | **41,683** | 44,634 |
| Gross loans | **3,063,985** | 2,934,189 |
| Non-performing loans | **59,189** | 62,583 |
| NPL ratio | **1.93%** | 2.13% |
| Loan loss coverage ratio | **70.42%** | 71.32% |

**32.1.e Derivatives**

Derivatives are financial instruments taking the form of contracts whose value depends on one or more underlying assets, reference prices or indices. Examples of derivatives are forward exchange contracts, swaps, options and forward rate agreements. Transactions in derivatives are contracted by GBI to hedge interest rate risks and foreign exchange risks on GBI's own positions and to hedge positions following from derivatives transactions with clients. GBI applies cost price hedge accounting for its hedging derivatives. For the hedge relationships that were ineffective the negative impact was recognized in the profit and loss account under Result on financial transactions (see note 25).

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 note 31 (Asset encumbrance).

During 2016 and 2017 the maximum monthly net change in the collateral, resulting from the fluctuations in the market value of (hedging) derivatives, amounted to EUR 44.9 million.

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 degree to which GBI is active in the respective markets or market segments is shown in the following analysis by means of notional amounts. However, the notional amounts give no indication of the size of the cash flows and the market risk or credit risk attached to derivatives transactions.

The market risk arises from movements in variables determining the value of derivatives, such as interest rates and quoted prices. The positive replacement value is the loss that would arise if counterparty was to default. However, this exposure is to a large extent mitigated by the fact that collateral was received based on the CSA of the ISDA derivatives agreements and other collateral agreements entered into with other clients. In calculating the positive replacement value shown in the following table, netting agreements have been conservatively taken into consideration and netting is performed only if both the counterparties and the critical terms of the derivatives are identical.

| | | NOTIONAL AMOUNTS <= 1 YEAR | NOTIONAL AMOUNTS >1<= 5 YEARS | NOTIONAL AMOUNTS >5 YEARS | TOTAL | POSITIVE REPLACEMENT VALUE |
|---|---|---|---|---|---|---|
| | | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 |
| **As at 31 December 2017:** | | | | | | |
| **Interest rate contracts** | | | | | | |
| OTC | Swaps | **291,424** | **20,816** | **150,000** | **462,240** | **263** |
| **Currency contracts** | | | | | | |
| OTC | Swaps | **873,411** | **68,146** | **-** | **941,557** | **14,175** |
| | Forwards | **239,107** | **1,280** | **-** | **240,387** | **1,484** |
| | Options | **146,075** | **-** | **-** | **146,075** | **7,999** |
| **Other contracts** | | | | | | |
| OTC | Forwards | **21,588** | **-** | **-** | **21,588** | **1,559** |
| | | **1,571,605** | **90,242** | **150,000** | **1,811,847** | **25,480** |

| | | NOTIONAL AMOUNTS <= 1 YEAR | NOTIONAL AMOUNTS >1<= 5 YEARS | NOTIONAL AMOUNTS >5 YEARS | TOTAL | POSITIVE REPLACEMENT VALUE |
|---|---|---|---|---|---|---|
| **As at 31 December 2016:** | | | | | | |
| **Interest rate contracts** | | | | | | |
| OTC | Swaps | 293,895 | 331,816 | 173,701 | 799,412 | 313 |
| **Currency contracts** | | | | | | |
| OTC | Swaps | 1,459,073 | 61,958 | – | 1,521,031 | 47,748 |
| | Forwards | 203,979 | – | – | 203,979 | 3,700 |
| | Options | 447,997 | – | – | 447,997 | 17,182 |
| **Other contracts** | | | | | | |
| OTC | Forwards* | 66,321 | – | – | 66,321 | 930 |
| | Options | 8,343 | – | – | 8,343 | 26 |
| | | 2,479,608 | 393,774 | 173,701 | 3,047,083 | 69,899 |

In the capital adequacy calculations according to the Capital Requirements Directive of the European Union, the Bank applies the Current Exposure Method to determine the unweighted credit equivalent of the derivatives by taking a percentage of the relevant notional amounts, depending on the nature and original term of the contract, in addition to the positive replacement values per transaction. The analysis below shows the resulting credit equivalent, which is then weighted for the counterparty risk (mainly banks).

The figures include the impact of collateral on risk exposure and capital adequacy.





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| | **As at 31 December 2017** | | As at 31 December 2016 | |
|---|---|---|---|---|
| | **EUR 1,000** | **EUR 1,000** | EUR 1,000 | EUR 1,000 |
| | **UNWEIGHTED*** | **WEIGHTED**** | UNWEIGHTED* | WEIGHTED** |
| Interest rate contracts | **2,617** | **1,179** | 4,578 | 2,545 |
| OTC currency contracts | **39,615** | **18,420** | 92,838 | 32,095 |
| Other contracts | **2,854** | **939** | 5,435 | 2,667 |
| | **45,086** | **20,538** | 102,851 | 37,307 |

* Exposure value before deduction of collateral

** Risk weighted exposure value after deduction of collateral

**32.2 Market risk**

Market risk arises from fluctuations in interest rates, foreign currency exchange rates and security prices. It is GBI's policy to avoid exposure to significant open positions in interest and foreign currency risk.

**32.2.a Currency risk**

The total equivalent of on-balance assets in foreign currencies is EUR 1,852 million, while the total equivalent of on-balance liabilities in foreign currencies is EUR 1,252 million. The currency position is reduced through derivative instruments.

| | **As at 31 December 2017** | | | | As at 31 December 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| CURRENCY | GROSS LONG POSITION | GROSS SHORT POSITION | NET LONG POSITION | NET SHORT POSITION | GROSS LONG POSITION | GROSS SHORT POSITION | NET LONG POSITION | NET SHORT POSITION |
| | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 |
| USD | **1,640,411** | **1,639,708** | **703** | – | 2,436,773 | 2,436,347 | 426 | – |
| TRY | **565,109** | **564,733** | **376** | – | 725,413 | 725,232 | 181 | – |
| GBP | **95,992** | **95,975** | **17** | – | 167,074 | 167,113 | – | 39 |
| JPY | **48,148** | **48,133** | **15** | – | 23,291 | 23,332 | – | 41 |
| RON | **29,650** | **29,610** | **40** | – | 20,235 | 20,152 | 83 | – |
| ZAR | **10,246** | **10,212** | **34** | – | 18,034 | 17,941 | 93 | – |
| CHF | **3,562** | **3,532** | – | – | 9,995 | 9,993 | 2 | – |
| CAD | **5,174** | **5,208** | – | **34** | 3,496 | 3,513 | – | 17 |
| RUB | **53,498** | **53,603** | – | **105** | 1,015 | 1,034 | – | 19 |
| AUD | **351** | **340** | **11** | – | 891 | 928 | – | 37 |
| NOK | **2** | – | **2** | – | 53 | 52 | 1 | – |
| SEK | **27** | **51** | – | **24** | 29 | – | 29 | – |
| Other | **63** | **14** | **49** | – | 928 | 865 | 63 | – |

### 32.2.b Interest rate risk

The following table provides a maturity calendar of all interest-bearing financial instruments, including derivatives as of 31 December 2017, which is based on remaining days to maturity for fixed rate instruments and next repricing date for floating rate instruments:

| | VARIABLE | < = 3 MONTHS | > 3 MONTHS <= 1 YEAR | > 1 YEAR <= 5 YEARS | > 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 |
| Assets | **60,263** | **2,087,651** | **1,161,207** | **622,626** | **369,985** | **4,301,733** |
| Liabilities | **(158,516)** | **(1,071,671)** | **(1,551,454)** | **(489,745)** | **(58,531)** | **(3,329,916)** |
| Derivatives | **-** | **135,153** | **(136,110)** | **140,720** | **(152,920)** | **(13,157)** |
| Net interest position 31 December 2017 | **(98,252)** | **1,151,133** | **(526,357)** | **273,601** | **158,534** | **958,660** |
| Net interest position 31 December 2016 | (358,902) | 1,699,556 | (704,488) | 136,310 | 347,916 | 1,120,392 |

The calculation of the sensitivity analysis as at 31 December 2017 shows that, assuming an unchanged structure of assets, liabilities and off-balance sheet items, an interest increase of one percent, taking into account a parallel movement of the risk-free yield curves, would result in a decrease in the economic value of the Bank's equity amounting to approximately EUR 10,402 thousand (31 December 2016: EUR 26,967 thousand decrease).







### 32.3 Liquidity risk

The following table provides a maturity analysis of assets and liabilities according to their contractual remaining maturity:

| | ON DEMAND | <= 3 MONTHS | > 3 MONTHS <= 1 YEAR | > 1 YEAR <= 5 YEARS | > 5 YEARS | UNDIS-TRIBUTED | TOTAL |
|---|---|---|---|---|---|---|---|
| | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 |
| ASSETS | | | | | | | |
| Cash | **339,431** | **-** | **-** | **-** | **-** | **-** | **339,431** |
| Banks | **31,461** | **91,035** | **233,626** | **26,621** | **-** | **-** | **382,743** |
| Loans and advances (i) | **212,267** | **926,157** | **839,770** | **1,002,105** | **24,827** | **17,176** | **3,022,302** |
| Interest-bearing securities | **-** | **-** | **20,149** | **59,464** | **346,990** | **-** | **426,603** |
| Shares | **-** | **-** | **-** | **-** | **-** | **2,231** | **2,231** |
| Property and equipment | **-** | **-** | **-** | **-** | **312** | **26,680** | **26,992** |
| Intangible assets | **-** | **-** | **-** | **-** | **-** | **4,098** | **4,098** |
| Other assets (ii) | **1,918** | **24,062** | **25,122** | **2,059** | **6,099** | **3,279** | **62,539** |
| **Total assets 31 December 2017** | **585,077** | **1,041,254** | **1,118,667** | **1,090,249** | **378,228** | **53,464** | **4,266,939** |
| LIABILITIES | | | | | | | |
| Banks | **37,069** | **94,401** | **319,217** | **213,264** | **-** | **-** | **663,951** |
| Funds entrusted (iii) | **1,719,856** | **487,254** | **340,738** | **341,606** | **3,436** | **-** | **2,892,890** |
| *Savings accounts* | ***1,376,683*** | ***261,438*** | ***329,133*** | ***333,280*** | ***1,250*** | **-** | ***2,301,784*** |
| *Other funds entrusted* | ***343,173*** | ***225,816*** | ***11,604*** | ***8,327*** | ***2,186*** | **-** | ***591,106*** |
| Other liabilities (iv) | **6,804** | **24,025** | **20,709** | **2,516** | **24** | **10,957** | **65,035** |
| Provisions | **-** | **-** | **-** | **-** | **2,115** | **-** | **2,115** |
| Subordinated liabilities | **-** | **-** | **-** | **-** | **50,000** | **-** | **50,000** |
| Shareholders' equity | **-** | **-** | **-** | **-** | **-** | **592,948** | **592,948** |
| **Total liabilities 31 December 2017** | **1,763,729** | **605,680** | **680,664** | **557,386** | **55,575** | **603,905** | **4,266,939** |
| **Net liquidity 31 December 2017** | **(1,178,652)** | **435,574** | **438,003** | **532,863** | **322,653** | **(550,441)** | **–** |
| Total assets 31 December 2016 | 495,769 | 1,259,900 | 1,202,500 | 1,242,621 | 582,115 | 52,614 | 4,853,519 |
| Total liabilities 31 December 2016 | 2,082,249 | 625,356 | 965,064 | 533,953 | 54,463 | 574,434 | 4,853,519 |
| Net liquidity 31 December 2016 | (1,586,480) | 634,544 | 237,436 | 708,668 | 527,652 | (521,820) | – |

(i) Non performing loans are netted with their provision and shown under Undistributed.
(ii) This item includes the balance sheet captions 'Other assets' and 'Prepayments and accrued income'.
(iii) This includes on demand retail funding which has on average a longer-term characteristic.
(iv) This item includes the balance sheet captions 'Other liabilities' and 'Accruals and deferred income'.

**32.4 Capital adequacy**
The standards applied for the capital requirements are based on the Capital Requirements Directive (CRD IV) and Capital Requirements Regulation (CRR) of the European Union. In accordance with the CRR, the Bank is using the Foundation Internal Rating Based (F-IRB) approach to calculate the regulatory capital ratios.

These ratios compare GBI's total capital and Common Equity Tier 1 (CET1) with the required pillar I capital for credit risk (based on the total of risk-weighted assets and off-balance sheet items), the market risk associated with the trading portfolios and the operational risk.

The following table analyzes actual capital in accordance with regulatory requirements:

| | 2017 | 2016 |
|---|---|---|
| | EUR 1,000 | EUR 1,000 |
| Total Risk Weighted Assets | **2,657,981** | 3,233,326 |
| The required pillar I capital can be broken down as follows: | | |
| Credit risk | **199,309** | 245,053 |
| Market risk | **314** | 360 |
| Operational risk | **13,016** | 13,253 |
| Total required pillar I capital | **212,639** | 258,666 |
| The actual capital can be broken down as follows: | | |
| Common Equity Tier 1 (CET1) capital | **543,295** | 539,870 |
| Additional Tier 1 capital | **–** | – |
| Tier 2 capital | **61,280** | 57,259 |
| Total capital | **604,575** | 597,129 |
| CET 1 ratio | **20.44%** | 16.70% |
| Total capital ratio | **22.75%** | 18.47% |

The CET1 ratio and Total capital ratio does not include the 2017 net result, in line with the reports submitted to DNB. When including the audited full year net result of 2017 the CET1 ratio is 21.37 percent and the Total capital ratio is 23.67 percent.

## 33 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

These financial instruments include loans and advances to banks and customers, deposits from banks and customers, obligations under repurchase agreements, loans and advances from banks and other short-term assets and liabilities which are of a contractual nature. The carrying amount of these particular assets and liabilities approximates their fair value, which is mainly due to their short average tenor.

As at 31 December 2017, the fair value of the interest-bearing securities in the Investment portfolio amounts to EUR 4.1 million (31 December 2016: EUR 55.6 million), whereas the book value amounts to EUR 5.1 million (31 December 2016: EUR 59.7 million). As at 31 December 2017 the fair value of the interest-bearing securities in the Other securities portfolio amounts to EUR 428.3 million (31 December 2016: EUR 740.5 million), whereas the book value amounts to EUR 421.5 million (31 December 2016: EUR 751.4 million).







The fair value of the derivatives can be broken down as follows:

| | NOTIONAL AMOUNT EUR 1,000 | BOOK VALUE EUR 1,000 | FAIR VALUE EUR 1,000 | HEDGE INEFFECTIVENESS (PL IMPACT) EUR 1,000 |
|---|---|---|---|---|
| **As at 31 December 2017:** | | | | |
| **Hedging derivatives** | | | | |
| Interest rate contracts | **462,240** | **(122)** | **(3,565)** | – |
| Currency contracts | **699,883** | **6,801** | **6,578** | – |
| | **1,162,123** | **6,679** | **3,013** | – |
| **Non-hedging derivatives** | | | | |
| Currency contracts | **777,630** | **406** | **406** | – |
| Other contracts | **21,588** | **33** | **33** | – |
| | **799,218** | **439** | **439** | – |
| **Total derivatives as at 31 December 2017** | **1,961,341** | **7,118** | **3,452** | – |
| **As at 31 December 2016:** | | | | |
| **Hedging derivatives** | | | | |
| Interest rate contracts | 799,412 | (466) | (6,697) | – |
| Currency contracts | 1,123,077 | 16,546 | 16,204 | (1) |
| | 1,922,489 | 16,080 | 9,507 | (1) |
| **Non-hedging derivatives** | | | | |
| Currency contracts | 1,493,699 | (3,780) | (3,780) | – |
| Other contracts | 83,006 | 90 | 90 | – |
| | 1,576,705 | (3,690) | (3,690) | – |
| **Total derivatives as at 31 December 2016** | 3,499,194 | 12,390 | 5,817 | (1) |

## 34 COUNTRY-BY-COUNTRY REPORTING

In line with Article 89 of the Capital Requirements Directive (CRD IV), the information on country-by-country reporting is as follows:

**As of 31 December 2017**

| NAME | COUNTRY | LOCATION | TURNOVER | AVERAGE NUMBER OF FTE | RESULT BEFORE TAX | TAX ON RESULT | PUBLIC SUBSIDIES RECEIVED |
|---|---|---|---|---|---|---|---|
| GarantiBank International N.V., Head Office | **Netherlands** | Amsterdam | 85,535 | 207 | 32,227 | 8,064 | - |
| GarantiBank International N.V., Düsseldorf Branch | **Germany** | Dusseldorf | 3,795 | 18 | 747 | 224 | - |

**As of 31 December 2016**

| NAME | COUNTRY | LOCATION | TURNOVER | AVERAGE NUMBER OF FTE | RESULT BEFORE TAX | TAX ON RESULT | PUBLIC SUBSIDIES RECEIVED |
|---|---|---|---|---|---|---|---|
| GarantiBank International N.V., Head Office | **Netherlands** | Amsterdam | 89,962 | 200 | 21,120 | 5,270 | - |
| GarantiBank International N.V., Düsseldorf Branch | **Germany** | Dusseldorf | 4,052 | 19 | 803 | 241 | - |

Next to the abovementioned countries GBI also has representative offices in Turkey, and Switzerland. These offices do not perform any activities themselves. All transactions are recorded by GBI's Head Office or GBI's branch in Germany.

## 35 GROUP RELATED BALANCES

Group related balances include the balances with the 100 percent shareholder Türkiye Garanti Bankasi A.Ş. (GBI's parent company), all its subsidiaries, its controlling shareholder Banco Bilbao Vizcaya Argentaria S.A, its former shareholder Doğuş Holding A.Ş. and the members of the Supervisory Board and Managing Board of GBI. During the course of the business, GBI has made placements with, granted loans to and also received deposits from these parties at commercial terms.







### 35.1 Outstanding balances

GBI has the following outstanding group related balances:

| | **As at 31 December 2017** | | | As at 31 December 2016 | | |
|---|---|---|---|---|---|---|
| | PARENT COMPANY | OTHER | TOTAL | PARENT COMPANY | OTHER | TOTAL |
| | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 | EUR 1,000 |
| **Assets** | | | | | | |
| Banks | **8,844** | **47** | **8,891** | 7,794 | 12 | 7,806 |
| Loans and advances | – | **127,690** | **127,690** | – | 99,885 | 99,885 |
| Interest-bearing securities | – | – | – | 12,694 | – | 12,694 |
| Prepayments and accrued income | – | **2,207** | **2,207** | 194 | 1,366 | 1,560 |
| | **8,844** | **129,944** | **138,788** | 20,682 | 101,263 | 121,945 |
| **Liabilities** | | | | | | |
| Banks | **31,371** | – | **31,371** | 9,316 | 1,180 | 10,496 |
| Funds entrusted | – | **4,015** | **4,015** | – | 9,702 | 9,702 |
| Subordinated liabilities | **50,000** | – | **50,000** | 50,000 | – | 50,000 |
| Other liabilities | – | **38** | **38** | – | – | – |
| Accruals and deferred income | **416** | – | **416** | 417 | – | 417 |
| | **81,787** | **4,053** | **85,840** | 59,733 | 10,882 | 70,615 |
| Off balance sheet liabilities | **130** | **20** | **150** | 57 | 20 | 77 |

### 36 REMUNERATION OF MANAGING BOARD DIRECTORS AND SUPERVISORY BOARD DIRECTORS

In accordance with the Articles of Association, the remuneration of the members of the Managing Board is subject for approval by the shareholder at the Annual General Shareholders' Meeting.

The remuneration proposal for the members of the Managing Board will be submitted to the next Annual General Shareholders' Meeting in 2018 for adoption. The objective of the remuneration policy is to attract, motivate and retain a qualified Managing Board with an international mind-set and background.

The remuneration of current and former members of the Managing Board amounted to EUR 3,091,882 in 2017 (2016: EUR 2,760,011). Part of this remuneration amounting to EUR 37,500 (2016: nil) will be settled in an equivalent number of shares of BBVA in accordance with the remuneration policy. BBVA is reimbursed by GBI in exchange for the issuance of the shares. For further details regarding the remuneration policy reference is made to the Report of the Supervisory Board.

The remuneration of current and former members of the Supervisory Board amounted to EUR 236,317 in 2017 (2016: EUR 212,208).

### 37 PROFIT APPROPRIATION

In the Annual General Shareholders' Meeting, it will be proposed to add the net result of 2017 (EUR 24,686,000) to the other reserves.

### 38 SUBSEQUENT EVENTS

There have been no significant events between the end of the year 2017 and the date of approval of these financial statements which would require a change to or disclosure in the financial statements.



Amsterdam, 31 January 2018

The Managing Board

**Mr. S. E. Zeyneloğlu,** Chief Executive Officer
**Ms. Ö. Etker-Simons**
**Mr. M.Ö. Şişman**
**Mr. M. Witteveen**
**Mr. C.B. Mutlu**

The Supervisory Board

**Mr. Aydın Düren,** Vice Chairman
**Mr. P.R.H.M. van der Linden**
**Mr. B.J.M.A. Meesters**
**Mr. W.F.C. Cramer**





# Other Information

## PROVISIONS IN THE ARTICLES OF ASSOCIATION GOVERNING THE APPROPRIATION OF PROFIT

The profit appropriation has been proposed in conformity with article 31 of the Articles of Association, which states:

**Article 31**

- The profits shall be at the disposal of the general meeting.
- Dividends may be paid only up to an amount which does not exceed the amount of the distributable part of the net assets.
- Dividends shall be paid after adoption of the annual accounts from which it appears that payment of dividends is permissible.
- The general meeting may resolve to pay an interim dividend provided the requirement of the second paragraph has been complied with as shown by interim accounts drawn up in accordance with the provision of the law.
- The general meeting may, subject to due observance of the provision of paragraph 2, resolve to make distributions to the charge of any reserve which need not be maintained by virtue of the law.

**Independent auditor's report**

The independent auditor's report is set forth on the following pages.

# Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of GarantiBank International N.V.

## Report on the audit of the financial statements 2017 included in the annual report

### Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of GarantiBank International N.V. as at 31 December 2017 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

### What we have audited

We have audited the financial statements 2017 of GarantiBank International N.V. based in Amsterdam. The financial statements comprise:

1 the balance sheet as 31 December 2017;

2 the profit and loss account for 2017; and

3 the notes comprising a summary of the accounting policies and other explanatory information.

### Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of GarantiBank International N.V. in accordance with the EU Regulation on specific requirements regarding statutory audits of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## Audit approach

### Summary

MATERIALITY
- Materiality of EUR 2 million
- 6% of profit before taxation
- Misstatements in excess of EUR 100,000 are reported to the Supervisory Board

KEY AUDIT MATTERS
- Estimation uncertainty with respect to impairment losses on loans and advances
- Reliability and continuity of the electronic data processing

UNQUALIFIED OPINION

### Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 2 million (2016: EUR 1.1 million). The materiality is determined with reference to profit before taxation (6%). We consider profit before taxation as the most appropriate benchmark given the nature and business of the Bank.We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of EUR 100,000 which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

## Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Estimation uncertainty with respect to impairment losses on loans and advances

**Description**

Certain aspects of the accounting for loan loss impairments require significant judgment, such as the identification of loans that are deteriorating, the assessment of objective evidence for impairment, the value of collateral and the assessment of the recoverable amount. The use of different estimates and assumptions and changes of the economic conditions could result in different impairments for loan losses over time, as disclosed in the Accounting policies (note2).

**Our response**

Our audit approach included both the testing of effectiveness of controls as well as substantive audit procedures. Our audit procedures included, among others, a comprehensive testing of the Bank's credit risk management and credit risk monitoring procedures including the internal controls related to the timely recognition and measurement of impairments for loan losses, including loans that have been renegotiated and/or forborne. We examined a selection of individual loan exposures in detail, and challenged management's assessment of the recoverable amount. We applied professional judgment in selecting the loan exposures for our detailed inspection with an emphasis on exposures that pose an increased uncertainty for recovery in the current market circumstances. In this selection we considered the geographical diversity of the loan portfolio. Our examination of specific loan files included exposures that where placed under the Bank's close monitoring procedures. We also tested the appropriateness of the assumptions such as the expected cash flows and the collectability of collateral and data used by the Bank to measure loan loss impairments. We challenged those assumptions amongst others with the use of external information such as secondary market pricing and appraisal reports.

**Our observation**

Our procedures relating to the Bank's credit risk management and credit risk monitoring procedures including the internal controls related to the timely recognition and measurement of impairments for loan losses were satisfactory for our audit purposes.

Overall our observation is that the assumptions used and related estimates resulted in a neutral valuation of loans and advances after deduction of loan loss impairments in the context of the financial statements as a whole.





### Reliability and continuity of the electronic data processing

**Description**

The Bank is dependent on its IT-infrastructure for the continuity of its operations. The Bank makes investments in its IT systems and –processes as it is continuously improving the efficiency and effectiveness of the IT-infrastructure and the reliability and continuity of the electronic data processing.

**Our response**

We have assessed the reliability and continuity of the electronic data processing, as far as necessary within the scope of our audit. For that purpose we included IT-auditors in our audit team. As part of the audit of the financial statements, we obtained an understanding of the entity's IT environment, and how GBI has mitigated the risks arising from the IT systems by testing internal controls insofar relevant for the purpose of our audit, that maintain the integrity of information and the security of the data that such systems process. Our procedures included amongst others the assessment of change management and user access management in the IT-domain and testing of the relevant internal controls with respect to relevant IT-systems and -processes. We have also assessed the increasing initiatives and processes of the Bank to fight cybercrime.

**Our observation**

Our procedures relating to the IT-domain and testing of the relevant internal controls with respect to relevant IT-systems and –processes were satisfactory for our audit purposes.

We have no material findings as part of our audit of the financial statements in respect of the reliability and continuity of the electronic data processing of the Bank.

## Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the managing board's report;
- the supervisory board's report;
- the message from the chairman;
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.



KPMG Accountants N.V., registered with the trade register in the Netherlands under number 33263683, is a member firm of the KPMG network of independent companies affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

## Report on other legal and regulatory requirements

### Engagement

We were engaged by the Managing Board as auditor of GarantiBank International N.V. in 1991 and have operated as statutory auditor since then.

### No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

## Description of responsibilities regarding the financial statements

### Responsibilities of Management of GarantiBank International B.V. and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, Management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, Management is responsible for assessing the GarantiBank International N.V.'s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, Management should prepare the financial statements using the going concern basis of accounting unless Management either intends to liquidate the GarantiBank International N.V. or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the GarantiBank International N.V.'s financial reporting process.





### Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is included in the appendix of this auditor's report. This description forms part of our auditor's report.

Amstelveen, 31 January 2018

KPMG Accountants N.V.

M.L.M. Kesselaer RA

1237566/18W00155491AVN

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## Appendix: Description of our responsibilities for the audit of the annual accounts

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the GarantiBank International N.V.'s internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;
- concluding on the appropriateness of Management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on GarantiBank International N.V.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group components. Decisive were the size and/or the risk profile of the group components or operations. On this basis, we selected group components for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audits of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.





We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

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KPMG Accountants N.V., registered with the trade register in the Netherlands under number 33263683, is a member firm of the KPMG network of independent companies affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.

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## REPRESENTATIVE OFFICES

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# Notes

# Notes

AMSTERDAM | DUSSELDORF | GENEVA | ISTANBUL