GarantiBank NV
BBVA Group

2018 ANNUAL REPORT

GARANTIBANK INTERNATIONAL N.V.

SUSTAINABLE VALUE CREATION SINCE 1990

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GBI IS A MID-SIZED **EUROPEAN BANK** ESTABLISHED IN AMSTERDAM, THE NETHERLANDS SINCE 1990 AND SERVES TO RETAIL, CORPORATE, AND INSTITUTIONAL CLIENTELE.

WHO WE ARE

KEY FIGURES

EUR 1,000	2018*	2017*	2016*	2015*	2014*
Total assets	4,288,512	4,274,149	4,835,519	5,021,465	4,978,439
Banks (assets)	324,599	383,104	538,436	651,717	826,674
Loans and advances	2,847,874	3,048,906	2,889,555	2,720,638	2,548,911
Banks (liabilities)	803,199	663,792	768,859	989,260	770,536
Funds entrusted	2,801,236	2,903,080	3,348,663	3,247,699	3,330,125
Subordinated liabilities	50,398	50,417	50,000	80,000	30,000
Shareholders' equity (including result after tax)	582,562	594,699	564,397	546,965	535,835
Operating result before tax and value adjustments	28,588	43,405	49,550	61,309	82,129
Result after tax and value adjustments	12,020	26,234	16,412	11,341	45,761

RATIOS

Common Equity Tier 1 ratio %	21.27	20.44	16.70	16.26	16.70
Total capital ratio %	23.58	22.74	18.47	19.04	17.45
Cost to income ratio % **	60	49	47	41	34
Return on average equity % ***	2.10	4.53	3.00	2.12	9.35
Return on average assets %	0.29	0.58	0.33	0.23	0.94

* Financial years 2014, 2015 and 2016 are based on Dutch GAAP. As from 2017 onwards the figures are based on IFRS as endorsed by the EU.
** Cost-to-income ratio is calculated using total expenses and total income. Changes to fair value of 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	2018	2017	2016	2015	2014
Total average number of employees	251	242	236	236	229
Foreign branches and representative offices	3	3	4	4	4

ABOUT US

GBI is a wholly-owned subsidiary of Garanti and has presence in Germany, Switzerland and Turkey.

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

We embrace a personal approach towards our clients and counterparties and claim ownership of their challenges. 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 Turkiye Garanti Bankasi A.S. (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 by Garanti and Garanti is fully consolidated by 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. Ali Fuat Erbil
Chairman
Member of the Remuneration Committee
Mr. Ali Fuat Erbil was appointed Chairman on 25 May 2018. He has been serving as the President and CEO of Türkiye Garanti Bankası A.Ş. (Garanti) since September 2015. Mr. Erbil graduated from the Middle East Technical University's Department of Computer Engineering. He earned his MBA degree from Bilkent University and his PhD degree in Banking and Finance from Istanbul Technical University. Following his work as an executive at various private companies and banks, he joined Garanti in 1997 where he became the Senior Vice President of Distribution Channels. In 1999, he was appointed Executive Vice President (EVP) at Garanti, responsible for several areas including Retail Banking, Corporate Banking, Investment Banking, Human Resources and Financial Institutions before he was ultimately appointed the President and CEO of the Board of Garanti. Mr. Erbil is also the Chairman of the Board of Directors at GarantiBank SA in Romania and Garanti's domestic subsidiaries, namely Garanti Securities, Garanti Pension and Life, Garanti Factoring, Garanti Leasing, Garanti Payment Systems and Garanti Technology. Additionally, he serves as a Board Member in the Banks Association of Turkey. Mr. Erbil has 25 years of experience in banking and business administration.

Mr. Aydın Düren
Chairman of Audit and Compliance Committee
Member of Risk Committee
Following the Extraordinary Meeting of the Shareholders and regulatory approvals, Mr. Düren was appointed a member and Vice-Chairman of the Supervisory Board, Chairman of the Audit and Compliance Committee and a 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. Drawing upon his 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 has also served 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 Board of Blue Sky Group Holding BV; Chairman of the Supervisory Board of Stichting Behoud Boeier.

Mr. Bart Meesters
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, Chairman of the Supervisory Board of FairPlaza B.V.

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. His most recent role was as Executive Director responsible for Structured Finance and Retail Banking. Mr. Zeyneloğlu holds a Bachelor of Arts degree in Economics from Boğaziçi University.

Ms. Özgen Etker-Simons

Member of the Managing Board,
since October 2015

Ms. Etker-Simons began her banking career in the Netherlands in 1991. 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's professional life began in 1985. Mr. Witteveen has enjoyed a 30-year banking career. Twelve of these years involved expatriate assignments in Jakarta, London, New York and Geneva. During this time, he has held various managerial positions across several Dutch banks. Mr. Witteveen joined GBI in 2016 as the 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 began his career in 1999. Before joining GBI in 2003, he held risk management positions at Garanti. Before joining GBI's Managing Board, he was the Executive Director of Risk Management, Control and Reporting. Dr. Şişman holds a Management Engineering degree from Istanbul Technical University, a 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 the Executive Director of Credits. Following all necessary approvals, Mr. Mutlu was formally appointed a member of the Managing Board and the Chief Credit Officer as of 11 January 2018. During his 25-year banking career, Mr. Mutlu held various positions across 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 a 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

HUMAN RESOURCES

Ms. Mijke van Tilburg-van Alfen
Director

COMPLIANCE

Ms. Nienke Pepers-Hohmann
Chief Compliance Officer

INTERNAL AUDIT

Mr. Cenk Taşpınar
Executive Director

WE MONITOR A RANGE OF RISK METRICS TO ENSURE THAT OUR **RISK PROFILE** IS IN LINE WITH OUR **RISK APPETITE.**

REPORT OF THE MANAGING BOARD

ECONOMIC DEVELOPMENTS

In 2018, global growth has remained steady at 2017 levels. The momentum lost some pace in the third quarter after a strong second quarter.

These softer readings in the third quarter are attributed to weaker growth dynamics in China amidst trade disputes with the US; a softer manufacturing sector in the Eurozone, UK and Japan; and slowdown in some emerging markets such as Argentina, Brazil and Turkey. On the other hand, the US economy remains strong thanks to fiscal stimulus measures, the lowest unemployment in the last 48 years and consumer confidence rising to its highest point in the last 17 years.

In October, the International Monetary Fund (IMF) downgraded its world economic growth projections for both this year and 2019 to 3.7 percent. The IMF believes the world economic growth has plateaued.

In the US, solid consumer and government spending has helped the economy grow by 3.5 percent in the third quarter on an annualized quarter-on-quarter basis, following a 4.2 percent advance in the second quarter. However, although the short-term economic outlook remains solid, the flattening of the yield curve could signal the risk of a recession in the medium-term. Risk factors going forward include rising interest rates, the diminishing effects of tax-cut stimuli and trade disputes with China.

After a stellar performance, the Eurozone economy is expected to have grown 2.0 percent in 2018. This growth is 0.4 percent lower than 2017, reflecting a weaker-than-expected performance of 2018's first half. Slowdown in global trade and a weak manufacturing sector have dragged on the Eurozone's performance. Brexit discussions have continued to add significant uncertainty to the European economic climate. On the other hand, headline inflation continues its upward trajectory, primarily because of rising energy prices and wage growth. In June, the European Central Bank (ECB) announced that the quantitative easing program fulfilled its aim of putting inflation on course. Consequently, ECB decided to halve its monthly bond purchases to €15 billion after September before ending them completely in December 2018.

Germany, the Eurozone's largest economy, also lost some momentum in 2018 and is likely to mark its weakest performance since 2015. Germany's growth forecast this year is 1.6 percent, which is 0.6 percent lower than it was in 2017. Sentiment for exports and economic activity has been negatively affected by the US-China trade disputes as well as the challenges in emerging markets. Tightening conditions in the German labor market and slower construction activity have also created some headwinds.

Compared to last year, momentum in the Dutch economy has somewhat cooled but it is still doing well. The growth was 0.7 percent on a quarterly basis in the second quarter of 2018. Fixed investment and private consumption rose, while exports returned to the expansion phase after a first-quarter contraction. However, the third quarter saw industrial production decelerated and PMI figures edged down. Consumer confidence declined in October, reaching its lowest point in the last two years. While the figures are slightly weaker than expected, the Dutch economy is anticipated to outperform many other Eurozone countries with a GDP growth rate of 2.5 percent in 2018.

As for the emerging economies, markets have experienced financial turmoil with sharp corrections at currencies, debt and equities, following a buoyant start to 2018. Although shocks were predominantly idiosyncratic in Argentina and Turkey, there were also some negative spill-over effects on other emerging markets. Global tightening of liquidity conditions also contributed to the weakness. Despite all, IMF forecasts that emerging economies will see steady growth of 4.6 percent in 2018.

FINANCIAL ANALYSIS

The geographical composition of GBI's assets continued to change in line with the risk policies adopted by the Bank.

GBI has adopted International Financial Reporting Standards (IFRS) starting from 2018. The financial statements of the Bank have been prepared in accordance with IFRS-EU as issued by the International Accounting Standards Board (IASB) and adopted by the European Union. For all periods up to and including the year ended 31 December 2017, the Bank prepared its financial statements in accordance with Dutch generally accepted accounting principles (Dutch GAAP). 2017 financials presented in this report are restated for comparative purposes.

The net result after tax stood at EUR 12.0 million in 2018, which is a decrease of 54 percent compared to 2017 (EUR 26.2 million). Net operating income before impairment losses amounted to EUR 79.0 million, which is 14 percent lower than in 2017 (EUR 91.5 million).

This decrease in total income is mostly explained by the decrease in trading income. In 2018 the total of realized and unrealized trading loss has been EUR 0.5 million, whereas the net trading gain was EUR 10.3 million in 2017. The Bank has decided to sell EUR 221.4 million of its interest bearing securities in the first half of 2018, in an effort to align its security portfolio to its risk appetite and Group policies. This has resulted in a loss of EUR 6.0 million including the realized and unrealized losses on hedging derivatives as a result of the discontinuation of hedge relations with the securities.

Although the net interest income has slightly decreased to EUR 68.2 million in 2018 (2017: EUR 69.7 million), the Net Interest Margin (NIM) has improved to 1.59% (2017: 1.53%). Despite the substantial increase in the cash at central banks by 146% and a significant decrease in earning assets (loans by 7% and securities by 56%), the Bank has sustained and even slightly improved its NIM by effectively managing its assets and liabilities. The improvement in the NIM is an important indicator for GBI's adjusted business model, especially considering the significant change in the geographical composition of its assets, i.e. reduction in the Turkish assets and increasing exposures to customers in Europe.

Net commission income endured a minuscule decrease from EUR 11.5 million in 2017 to EUR 11.3 million in 2018 as GBI has continued to provide trade finance and investment services to its customers.

Total operating expenses amounted to EUR 50.4 million, which is EUR 2.4 million higher than in 2017. This was primarily caused by the increased staffing costs, as well as the increased information technology and advisory expenses for the investments made for the digitalization of products and processes of the Bank, including enhancements in Bank's processes related to its control processes.

Impairment losses on financial assets increased from EUR 8.4 million in 2017 to EUR 13.0 million in 2018. Impairment losses on assets that are credit impaired (Stage 3) is EUR 13.6 million. This is composed of an increase in the provisioning of existing impaired loans as a result of decreased collateral values (EUR 7.3 million), provisions set aside for loans that became impaired within 2018 (EUR 8.7 million) and repayments after write-off (EUR 2.4 million). These provisions relate to loans to companies that are active in the trading of commodities and the shipping industry, predominantly established in Europe and Turkey. The impairment losses on assets that are not credit impaired (Stage 1 and Stage 2) has decreased by EUR 0.6 million

Total tax expenses amounted to EUR 3.5 million, which represents an effective tax rate of 23 percent (2017: 25 percent).

The size of the balance sheet stands at the same level as EUR 4.3 billion. However the composition of the balance sheet has changed. Cash at Central Bank increased by EUR 497million to create a liquidity buffer against financial risks. Decreases relate to the following assets: interest-bearing securities (EUR 221,4 million) due to the sales of securities in order to align GBI's securities portfolio with the requirements of internal policies, banks (EUR 59 million) the loans and advances (EUR 201 million). On the liability side of the balance sheet, the decrease is attributable to the following items: deposits from customers (EUR 102 million), and shareholder's equity (EUR 12 million) mostly driven by the first time implementation of IFRS 9, whereas bank funding has increased (EUR 139 million).

Contingent liabilities decreased by EUR 46 million; this is attributable to a decrease in guarantees and irrevocable letters of credit (EUR 50 million), an increase in other commitments (EUR 4 million).

The geographical composition of GBI's assets continued to change in line with the risk policies adopted by the Bank. The carrying value of the assets and commitments and contingencies to Turkey has decreased to 27.3% (2017: 34.8%), whereas the Bank has increased its exposures to Europe to 62.6% (2017: 55.0%).

BUSINESS STRATEGY AND DEVELOPMENTS

We were able to offer a better customer experience with paperless processes and mobile compatible internet banking, which led to shorter processing times.

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

CLIENTS AND COUNTERPARTIES

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

We embrace a personal approach towards our clients and counterparties and claim ownership of their challenges. 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 which 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 over 80,000 clients in these markets. Almost half of GBI's balance sheet is funded through Euro-denominated savings deposits by our retail clients.

We offer simple and well-appreciated savings products through digital channels, which include display and search-engine networks, affiliate marketing, and local comparison websites. Our dedicated retail banking teams deliver a unique customer experience with native speaking and personable call-centers in the Netherlands and Germany, which differentiates GBI and bolsters client loyalty.

The major developments and achievements in 2018 are as follows:

In the Netherlands, our retail banking clientele was the first customer segment to enjoy GBI's digital transformation following the replacement of the mid-office CRM system (Matrix) in 2017. We were able to offer a better customer experience with paperless processes and mobile compatible internet banking, which led to shorter processing times.

In April 2018, we conducted a customer satisfaction survey for our savings customers in the Netherlands and Germany. The customers evaluated GBI on the aspects of value for money, contact, responsiveness, effort, transparency, online transactions and navigation. The results were impressive ranging from 8.2 to 9.0 over a 10-point scale in terms of customer satisfaction, customer retention and customer experience.

Following the customer survey, an action plan was implemented focusing on possible improvement areas to further improve customer satisfaction and experience. In the next survey, we will have the opportunity to assess the effects of these improvements.

Low interest rates in the European savings market are curbing savers' appetites to save while intensifying the competition. Against this backdrop, we have been able to retain our customer base through our exceptional customer service quality.

In 2019, we will continue digitalizing our internal processes and external capabilities with an aim to further augment customer experience. In 2019, internet banking services in Germany will be renewed and upgraded to allow for many additional functionalities, such as secure online video identification process.

Corporate and Institutional Clients and Counterparties (CICC)

In this segment, we serve and interact with corporations as well as selected financial institutions and investors. While our retail clientele is based in the Netherlands and Germany, CICC are predominantly 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. Cross-selling is emphasized to deliver the best possible value and experience to the clients and counterparties.

Trade & Commodity Finance

International trade and the financing of commodities and merchandise can be complex and challenging. 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, 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 with trade flows spanning across Europe, Middle-East, Africa, Americas and Asia.

"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. 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 our vast array of banking and trade finance products, we strive to deliver the best value and risk coverage to our clientele with fast and seamless execution. Consequently, our clients enjoy simple solutions and smooth handling while we deal with all the challenges and complexities in the background.

Because of our superior client experiences and targeted geographical and product coverages, the year under review witnessed a 13 percent growth in our trade finance flow volume.

Going forward, we aim to expand potential cooperation synergies with other BBVA entities.

Corporate Banking

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

As with our trade and commodity finance solutions, our offerings through this window can 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. To promote cross-selling, any of the aforementioned can be combined together, or alongside documentary credits, collections, correspondent banking arrangements, and hedging products, to serve the best interest of our clients.

In addition to delivering various services and lending products, we also attract deposits from our corporate clients. These are 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 include clear communication and coordination, a personal approach, swift execution, and our willingness to embrace ownership of our clients' challenges.

With the support of ongoing digitalization of processes and products, GBI will continue serving its clients throughout 2019.

Other Clients and Counterparties

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

The "Financial Institutions and Investor Relations (FI&IR)" unit covers 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, facilitating origination and distribution of 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.

Through the "Global Markets Sales (GMS)" unit, GBI provides exclusive investment advisory and execution services to support our corporate and individual clients, making use of financial markets instruments to meet their financial objectives while providing cross-selling solutions.

As a result of the successful implementation of MiFID II regulation as of 3 January 2018, GBI has further enhanced its processes to ensure client protection, effective execution and 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.

GBI remains committed to serving its clients by adhering to the 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 GBI's corporate and individual investor clientele, through relevant relationship managers, and by taking very limited positions in the cited financial markets. We are able to reach sizeable transaction volumes through our broad network of market counterparties. This ensures fast, accurate and competitive pricings for our customers in compliance with Mifid-II regulations, which have been implemented in the EU and EEA since 3 January 2018. Proactive cooperation with other client-facing units has resulted in cross-selling activities and enhanced revenue generation.

ASSET AND LIABILITY MANAGEMENT

"Asset and Liability Management (ALM)" acts as the central point where front offices are isolated from market risks. 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. ALM's main responsibilities 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 a funds transfer pricing mechanism as a medium for these goals.

RISK AND CAPITAL MANAGEMENT

Financial Risk management at GBI is directed and overseen by the independent Risk Management function. The function's primary roles are to properly identify, measure and propose management actions for risks to ALCO and Risk Management Committees as well as to the Supervisory Board in normal and stressed economic conditions, and to oversee our business activities to ensure that they are consistent with GBI's risk appetite.

In its day-to-day business, GBI is exposed to multiple financial risks. These include credit losses in our lending and banking transactions, gains and losses from market risk in our trading positions, and liquidity or funding risks in general.

In addition to these financial risks, GBI is subject to non-financial risks across our business. These pertain to IT and cybersecurity, operational processes, integrity risks, compliance to rules (in particular in relation to "Know Your Customer" and "Anti Money Laundering" and "Sanctions"), regulations, laws as well as the ethical norms that are generally considered to apply to our people and activities by society at large.

The overall amount of risk that GBI is willing to take is set out in the Risk Appetite Framework. We monitor a range of risk metrics to ensure that our risk profile is in line with our risk appetite. The Risk Appetite Statement, the Principles of Risk Appetite and the Limit Framework, all of which are approved by the Supervisory Board, are designed to be able to withstand market volatility and stress, while meeting strategic goals and regulatory requirements. They combine various financial and non-financial risk disciplines into a single converged approach and provide the businesses with a clear and fair view on their risks and the way these risks are managed. The Risk Appetite Statement, the Principles of Risk Appetite and the Limit Framework, including all underlying assumptions and metrics, are regularly reviewed by Risk Management to ensure they stay relevant in an ever-changing environment. Amendments resulting from those reviews are subject to approval by the Risk Committee.

In 2018 we took considerable actions to increase risk management skills and awareness across the bank and focused on the businesses in alignment with our strategy and risk appetite. We further improved our internal control system, ensuring compliance with applicable laws and regulations and observing related market practices, especially in relation to the management of Anti Money Laundering risks. Further disclosures on risk management are provided in the 'Risk Management' section of the financial statements in this Annual Report.

GBI's overall approach to capital management is intended to ensure that capital is adequate to cover the (economic) risks at all levels and to ensure compliance with regulations. GBI's Capital Management strategy is driven by its strategic aims and its risk appetite. Our policy is to retain sufficient financial flexibility to implement GBI's strategy in all market conditions. GBI's Risk Appetite Statement forms the basis of the capital plan. The capital plan sets targets well above the minimum regulatory requirements. The Risk Appetite Statement and targets are developed and communicated to all affiliated businesses. Policies for recovery planning are a natural extension of GBI's capital management policies. Within this context and as a BBVA Group entity, GBI is subject to the Internal Liquidity Adequacy Assessment Process (ILAAP) and Internal Capital Adequacy Assessment Process (ICAAP) as stipulated by the European Central Bank to BBVA Group.

DIGITAL TRANSFORMATION

AWARD-WINNING DIGITAL TRANSFORMATION

GBI's bank-wide digital transformation attracted another prestigious award during the year-under-review in March. The prestigious "The Innovation Manager (TIM) Award" was proudly received by GBI's Chief Operating Officer for the most innovative IT-leadership in the Netherlands.

GBI's digital transformation was planned back in 2016 as a component of the BBVA Alignment Process and it was put into motion at the beginning of 2017 with the aim to sustain and improve a unique customer experience while improving efficiency and productivity. For GBI, digital transformation is all about:

- **Engaging Customers:** offering them new experiences that they will love
- **Empowering Employees:** reinventing productivity and creating a data-driven culture
- **Optimizing Operations:** modernizing portfolios, and transforming skills and processes
- **Transforming Products:** innovating products and business models

BUILDING BLOCKS OF DIGITAL TRANSFORMATION

GBI has accommodated four building blocks to shift towards a bank-wide digital transformation.

Shift-1: Continuous Improvements

GBI has launched an integrated operational improvement program organised around end-to-end processes that ultimately benefit customers and other stakeholders. In our dynamic world the "Process Owners" are re-assessing the processes on a monthly basis and enact possible improvements in the policies, procedures, workflows and control framework. Regulatory changes, business requirements, incidents and audit findings typically trigger such changes.

Shift-2: Continuous Change

This goes hand in hand with Shift-1. For continuous change to occur, GBI initiated a more "agile" method of working at the beginning of 2017. The Process Owners, who now hold the role of "Product Owners" lead the IT's scrum team, which guarantees a well-functioning business-IT partnership. GBI has established a near-shore development capacity, utilizing various agile tools and investing in automated testing and continuous deployment of new functionalities in bi-weekly releases.

Shift-3: Enterprise Architecture

The digital transformation at GBI recognizes a two-speed IT architecture. Our core-banking system has been gradually reduced to a System-of-Record only, while all end-to-end processes are being migrated to the cloud on a rapid development application platform with full audit trails and best-in-class security.

Shift-4: DevOps IT Organisation

Taking strength from the above mentioned shifts, GBI has transformed the ICT-department to accommodate the "engineering" mentality for integrating "build" and "run". This "agile" method of working has also encouraged mentality shifts in other units of GBI. The DevOps structure enables shorter time to market for business opportunities. It also optimizes contracts, enables and integrates business intelligence and optimizes the use of innovative technologies.

END-PRODUCTS

GBI has completed establishment of a solid foundation for digital transformation back in 2017. Since then, it has delivered the following:

- Organizational change and opening of new career opportunities
- Treasury Order Management application
- Client Lifecycle Management application: on-boarding, maintenance, off-boarding, KYC/CDD
- Software upgrade and launch of GBI's internet banking portal for Retail Banking
- All developed on a rapid development platform in the cloud delivering new functionalities in bi-weekly sprints
- With the completion of the digital transformation foundation, combined with a reduction of legacy systems and delivery of the projects, GBI will improve its efficiency and deliver an enhanced customer experience as of 2019.

OUTLOOK 2019

Our strategic priorities in 2019 include increasing our trade finance volume, increasing and further diversifying the loan book towards European corporations, and continuing the digitalization of operational flows and customer services.

GBI's 2019 operational plan is based on the global economic environment. In this environment, the economic recovery in Europe is losing its momentum, US growth is expected to slow down on the back uncertainties around global trade activity. Brexit negotiations and extended trade wars, which lead to a further slowdown in global trade, pose downside risks to both growth and inflation outlook. Tighter global liquidity conditions are expected to pressure emerging market economies. Our considered risk-management approach will continue to sustain strong solvency, high liquidity and low leverage to maintain our asset quality while targeting a cost-effective structure.

Our strategic priorities in 2019 include increasing our trade finance volume, increasing and further diversifying the loan book towards European corporations, and continuing the digitalization of operational flows and customer services. We will continue focusing on international trade flows to further develop the loan book, which is composed of select simple transactional banking products.

We will continue with our stable funding strategy, which aims to preserve the retail franchise and diversify our wholesale funding base. In 2019, we are aiming for an improved return on investment through improved revenue base and effective cost management. On the other hand, we continue to support our talent pool. Our main aim in 2019 is to maintain strong customer satisfaction and create value for our stakeholders in a responsible manner.

GBI HAS PRESERVED ITS **PRUDENT** APPROACH TO CAPITAL AND LIQUIDITY MANAGEMENT IN 2018.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

GBI's internal control over financial reporting is a process designed under the supervision of management.

FINANCIAL REPORTING PROCESS

As GBI is a consolidated subsidiary of Turkiye Garanti Bankasi A.S. (Garanti), which is in turn a consolidated subsidiary of Banco Bilbao Vizcaya Argentaria S.A. (BBVA), GBI's policies and procedures for establishing and maintaining adequate internal control over financial reporting are similar to those applied by Garanti, the parent and BBVA, the ultimate parent.

GBI's internal control over financial reporting is a process designed under the supervision of management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of GBI;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorisations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of our assets that could have a material effect on our financial statements.

MANAGING BOARD COMPOSITION

GBI aims to have an adequate and balanced composition of its Managing Board. Thereto, annually, the Supervisory Board assesses the composition of the Managing Board. In the context of such assessment, GBI aims to have a gender balance by having at least 30% men and at least 30% women amongst its Managing Board members. However, because of the fact that GBI needs to balance several other relevant selection criteria when composing its Managing Board, the composition of the Managing Board did not meet the above mentioned gender balance in 2018 (20% women). GBI will continue to strive for an adequate and balanced composition of its Managing Board in future appointments, by taking into account all relevant selection criteria including but not limited to gender balance, executive experience, experience in corporate governance of large stock-listed companies and experience in the political and social environment.

INFORMATION ON MEMBERS OF THE MANAGING BOARD

The Managing Board comprises 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
Mr. 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

(a) Upon receipt of the approvals from the regulatory authorities, Mr. Cem Bahadır Mutlu was appointed the Chief Credit Officer and a member of the Managing Board as of 11 January 2018.

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

GBI needs to balance several relevant selection criteria when composing its Supervisory Board but strives for an adequate and balanced composition thereof, by taking into account all relevant selection criteria including, but not limited to experience in banking, gender balance, executive experience, experience in corporate governance and experience in the political and social environment.

The Supervisory Board assesses its composition annually (2018: 0% women). In the context of such assessment, GBI aims to have a gender balance by having at least 30% men and at least 30% women amongst its Supervisory Board members.

INFORMATION ON MEMBERS 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 of December 2018 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 comprises the following members:

Name	Year of Birth	Position	Member since	End of Term
Mr. F. Erbil (a)	1968	Chairman	2018	2022
Mr. G. Erün (b)	1968	Chairman	2016	2020
Mr. A. Düren	1968	Vice Chairman	2017	2021
Mr. R. van der Linden	1943	Member	2012	2020
Mr. B. Meesters	1954	Member	2012	2020
Mr. W. Cramer	1961	Member	2013	2019

a) Following the Extraordinary Meeting of the Shareholders and the regulatory approvals, Mr. Erbil was appointed as a new member of the Supervisory Board for a term of four years and as the Chairman of the Supervisory Board and a member of the Remuneration Committee of the Supervisory Board, effective as of 25 May 2018.
b) Mr. Erün resigned as of 15 January 2018 from his roles as a member and Chairman of the Supervisory Board.

FUTURE ORIENTED BANKING

As a successor of the Dutch Banking Code (Code Banken) the Dutch Banking Association (NVB) introduced in 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 reporting by banks on their compliance with the new Code will be based on self-regulation.

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

GBI applies the principles of "Future-oriented Banking" by embedding the assumptions of the Social Charter of the NVB in its Code of Conduct and by embedding the principles of the updated Banking Code in the governance structure.

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

Amsterdam, 28 February 2019

The Managing Board

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

THE SUPERVISORY BOARD WILL ENSURE **RESPONSIBLE, VALUE-DRIVEN MANAGEMENT** AND CONTROL OF THE BANK THROUGH STRONG CORPORATE GOVERNANCE.

REPORT OF THE SUPERVISORY BOARD

FINANCIAL STATEMENTS

The Supervisory Board has voted to adopt the Managing Board's proposal to transfer the net profit of 2018, which totals EUR 12.0 million, to the other reserves rather than paying a dividend.

The financial statements were drawn up by the Managing Board and were audited in accordance with Article 27, paragraph 1 of the Articles of Association by KPMG Accountants N.V. (KPMG). In compliance with the provisions of the Articles of Association of GarantiBank International N.V. (GBI, the Bank), the Supervisory Board has reviewed the Annual Report and approved the financial statements of the year 2018. In accordance with Article 29 of the Articles of Association, the Supervisory Board advises and proposes that the Shareholder adopt the 2018 financial statements at the next Annual General Meeting of Shareholders to be held in 2019. 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 2018.

FINANCIAL STATEMENTS AND PROPOSED DIVIDEND

The Supervisory Board has voted to adopt the Managing Board's proposal to transfer the net profit of 2018, which totals EUR 12.0 million, to the other reserves rather than paying a dividend.

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, the current business developments and performance of the Bank were discussed thoroughly 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, actions to address the requirements 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 our stakeholders. The 2017 annual figures and all related reports were assessed in the presence of the Bank's external auditor during the Supervisory Board meeting held on 29 January 2018. The budget for 2019 was discussed and approved during the Supervisory Board meeting held on 6 December 2018. The external audit plan has been approved and the independence of the external auditor has been confirmed. 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 steps required to realize the Bank's digital vision. Compliance-related updates were discussed at all meetings. 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 as listed below and further outlined in the Supervisory Board Charter:

- Audit and Compliance Committee
- Risk Committee
- Remuneration Committee

AUDIT AND COMPLIANCE COMMITTEE

Members: Mr. A. Duren (Chairman) and Mr. B. Meesters

In 2018, 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 can complete 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; (g) overseeing external auditor independence and fees.

During 2018, 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 and 2018, in relation to Customer Due Diligence and Anti Money Laundering.

Due to the ongoing regulatory changes in 2018 the Bank has taken measures to further strengthen and improve GBI's compliance framework by introducing an extensive quality assurance framework, digitalization of client processes, ongoing training and strengthening of three lines of defence controls, including related processes and procedures, culture and awareness of non-financial and integrity risks. Further attention has also been paid to the implementation of laws and regulations, such as DGS (3.0), AnaCredit, 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 meeting regulatory recommendations. The Committee has discussed the external audit plan and assessed the independence of the external auditor through the Group.

RISK COMMITTEE

Members: Mr. W. Cramer (Chairman), Mr. G. Erün (till 15 January 2018), and Mr. A. Duren

The Risk Committee of the Supervisory Board met five times in 2018. 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 Limit 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, at the initiative of 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, Reputational 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 reviewing and approving the Bank's Pillar III Disclosures before publication.

REMUNERATION COMMITTEE

Members: Mr. R. van der Linden (Chairman), Mr. G. Erün (till 15 January 2018) and Mr. F. Erbil (as of 25 May 2018)

The Remuneration Committee of the Supervisory Board met four times in 2018. 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, the total amount of fixed salaries for 2018 and the 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.

GOVERNANCE

Effective corporate governance in accordance with high international standards is fundamental to the existence of GBI. The Supervisory Board will ensure responsible, value-driven management and control of the Bank through strong corporate governance. This 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 Bank's mission, strategy and objectives.

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. This includes (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 includes a Supervisory Board profile. In addition, personal details of each board member are described. GBI meets the requirements that the Supervisory Board is composed in such a way that it is able to perform its tasks properly, ensuring 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 declare 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. Furthermore, as per the decision of the Ministry of Finance, all GBI personnel, the Supervisory Board members and Managing Board members have taken the Banker's Oath.

PERMANENT EDUCATION

GBI organizes yearly a 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 April 2018, a workshop was held on blockchain technology for financial institutions. The workshop included an overview on the potential use of the blockchain technology for developing smart contracts in finance and the anticipated impact of such innovative technologies on the dynamics of the financial industry.

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 regular topic in the Supervisory Board meetings and in the meetings of the Supervisory Board's Risk Committee. The Bank's risk appetite 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 is 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. The Bank's risk policy is characterized by a comprehensive approach, it is transparent and it has both a short and long term focus, taking into account reputational and non-financial risks. Detailed disclosures of the Bank's risk management practices 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, from the initial proposal of the related business line to approval of the business or product according to the assessment and approval processes explained in 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, and without the approval of the NBPC and the final approval of 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.

Any new business subject to the NBPA process will be further escalated to the Supervisory Board for final approval.

INTERNAL 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 4 June 2018.

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 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 down in DNB's Guidelines on Controlled Remuneration Policy and the Dutch Banking Code, except for one item which has been neutralized by applying the proportionality principle. GBI will not meet the bonus share part of the guidelines as employees of GBI are not rewarded with shares of GBI. Furthermore, 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 percent of the 2018 annual variable compensation will be paid in BBVA shares, and the remaining amount will be paid in cash. For 2018, 60 percent of the annual variable compensation, as shares or as cash, will be paid in 2018 and the remaining 40 percent will be payable, if applicable, in 2022. Amounts deferred from the 2018 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 2018, 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 1.7 million in 2018, which includes the deferred payments of the previous performance years amounting to EUR 0.6 million. In 2018, three GBI employees were identified who 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, 28 February 2019

The Supervisory Board
Mr. F. Erbil, (Chairman)
Mr. A. Düren, (Vice Chairman)
Mr. P.R.H.M. van der Linden
Mr. B.J.M.A. Meesters
Mr. W.F.C. Cramer

REPORT OF THE SUPERVISORY BOARD
GARANTIBANK INTERNATIONAL N.V. ANNUAL REPORT 2018

GBI PREPARES ITS ANNUAL FINANCIAL STATEMENTS FOR THE FIRST TIME IN ACCORDANCE WITH **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)** IN ORDER TO ALIGN ITS STATUTORY FINANCIAL STATEMENTS TO ITS GROUP REPORTING.

FINANCIAL STATEMENTS

Content of Financial Statements

GarantiBank International N.V. Financial Statements as of and for the Year Ended 31 December 2018
(Currency: Thousands of Euros)

FINANCIAL STATEMENTS

Statement of Financial Position

AS AT 31 DECEMBER 2018

	Notes	31 December 2018[1]	31 December 2017[1]	1 January 2017[1]
Assets				
Cash and balances with central banks	3	836,208	339,431	441,985
Loans and advances to banks	4	324,599	383,104	539,361
Derivative financial instruments	RM	21,973	25,480	69,898
Financial assets at fair value through profit or loss	6	11,399	-	-
Financial assets at fair value through other comprehensive income	7	194,641	-	-
Available-for-sale financial assets	7	-	438,500	809,648
Loans and advances to customers	5	2,847,874	3,048,906	2,921,923
Tangible and intangible assets	8	34,341	31,090	27,549
Current tax asset	15	10,640	-	3,930
Deferred tax asset	15	-	-	4,334
Other assets	9	6,837	7,638	7,011
Total Assets		**4,288,512**	**4,274,149**	**4,825,639**
Liabilities				
Due to banks	10	114,253	105,281	120,798
Due to customers	11	2,801,236	2,903,080	3,366,777
Derivative financial instruments	RM	28,189	22,028	64,081
Obligations under repurchase agreements	12	190,724	136,364	129,129
Loans and advances from banks and other institutions	13	498,221	422,147	518,636
Current tax liability	15	-	1,899	-
Deferred tax liability	15	3,006	2,721	-
Other liabilities, accrued expenses and provisions	16	19,923	35,513	26,900
Other borrowed funds	14	50,398	50,417	50,417
Total Liabilities		**3,705,950**	**3,679,450**	**4,276,738**
Equity				
Share capital	17	136,836	136,836	136,836
Retained earnings	17	440,911	450,055	423,821
Other reserves	17	4,815	7,808	(11,756)
Total Equity attributable to owners of the Bank		**582,562**	**594,699**	**548,901**
Total Liabilities and Equity		**4,288,512**	**4,274,149**	**4,825,639**
Commitments and Contingencies		**346,903**	**401,823**	**402,468**

[1] The amounts for the period ended 31 December 2018 related to financial instruments have been prepared in accordance with IFRS 9 and prior period amounts related to financial instruments have been prepared in accordance with IAS 39 as permissible under IFRS 9. Refer to note 'Change in Accounting Policies'.

(Currency: Thousands of Euros)

Statement of Comprehensive Income
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	1 January 2018 - 31 December 2018	1 January 2017 - 31 December 2017
Statement of Income:			
Interest and similar income	20	171,090	150,856
Interest and similar expense	20	(102,932)	(81,178)
Net Interest Income		**68,158**	**69,678**
Fee and commission Income	21	13,967	13,451
Fee and commission expense	21	(2,641)	(1,978)
Net fee and commission income		**11,326**	**11,473**
Net trading income	22	(480)	10,309
Other operating income		-	6
Total other operating income		**(480)**	**10,315**
Impairment losses on financial assets	RM	(13,028)	(8,368)
Net operating income		**65,976**	**83,098**
Personnel expenses	24	(31,217)	(29,436)
Depreciation and amortization	8	(2,979)	(3,431)
Other operating expenses	23	(16,220)	(15,194)
Total operating expenses		**(50,416)**	**(48,061)**
Profit before tax		**15,560**	**35,037**
Income tax expense	15	(3,540)	(8,803)
Profit for the year		**12,020**	**26,234**
Other Comprehensive Income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	-
Revaluation of building		-	-
Gains/(losses) during the year	17	3,079	5,228
Deferred tax		(770)	(1,306)
Net gain on revaluation of building		**2,309**	**3,922**

Statement of Comprehensive Income
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	1 January 2018 - 31 December 2018	1 January 2017 - 31 December 2017
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		-	-
Cash flow hedges		-	-
Recycling to profit or loss	17	508	372
Income tax effect (deferred)		(127)	(93)
Net gain on cash flow hedges		**381**	**279**
Debt instruments at fair value through other comprehensive income		-	-
Gains/(losses) during the year	17	(12,290)	-
Impairment for the current year		171	-
Recycling to profit or loss		4,073	-
Impairment reversal		(475)	-
Income tax effect (deferred)		2,130	-
Net gain on debt instruments at fair value through other comprehensive income		**(6,391)**	**-**
Available-for-sale financial assets	17	-	
Gains/(losses) during the year		-	23,078
Reclassified to profit or loss		-	(2,592)
Related tax		-	(5,123)
Net gain on Available-for-Sale financial assets		**-**	**15,363**
Total other comprehensive income for the year, net of tax attributable to the shareholder		**(3,701)**	**19,564**
Total comprehensive income for the year, net of tax attributable to the shareholder		**8,319**	**45,798**

* In accordance with the transitional provisions in IFRS 9 comparative figures have not been restated. Results relating to financial instruments are therefore determined in accordance with IAS 39.

(Currency: Thousands of Euros)

Statement of Changes in Equity

	Share Capital and Share Premium	Fair value reserve	FVOCI reserve	Cashflow Hedge Reserve	Revaluation Surplus on Building	Retained Earnings	Total Equity
Balance as at 1 January 2017	**136,836**	**(13,219)**		**(179)**	**1,642**	**423,821**	**548,901**
Net profit/(loss) for the period	-	-	-	-	-	**26,234**	**26,234**
Other comprehensive income	-	-	-	-	-	-	
Net unrealized gains/ (losses) on fair value assets[2] portfolio	-	**19,415**	-	-	-	-	**19,415**
Net gains/(losses) on fair value assets[2] and cash flow hedges transferred to profit or loss on disposal	-	**(1,944)**	-	-	-	-	**(1,944)**
Foreign currency translation differences on fair value portfolio	-	**(2,108)**	-	-	-	-	**(2,108)**
Net fair value gains/ (losses) from cash flow hedges	-	-	-	**279**	-	-	**279**
Revaluation surplus on building	-	-	-		**3,922**	-	**3,922**
Total other comprehensive income	-	**15,363**		**279**	**3,922**	-	**19,564**
Translation differences	-	-	-	-	-	-	**-**
Other movements	-	-	-	-	-	-	**-**
Balances as at 31 December 2017	**136,836**	**2,144**	**-**	**100**	**5,564**	**450,055**	**594,699**

[2] Fair value assets (general description that encompasses AFS under IAS 39 and FVOCI under IFRS 9)

Statement of Changes in Equity

	Share Capital and Share Premium	Fair value reserve	FVOCI reserve	Cashflow Hedge Reserve	Revaluation Surplus on Building	Retained Earnings	Total Equity
Balances as at 31 December 2017	**136,836**	**2,144**	**-**	**100**	**5,564**	**450,055**	**594,699**
Reclassification of AFS into FVOCI	-	**(2,144)**	**2,144**	-	-	-	-
Adjustment on adoption of IFRS 9 (net of tax)	-	-	**708**	-	-	**(21,164)**	**(20,456)**
Restated total equity at 1 January 2018	**136,836**	**-**	**2,852**	**100**	**5,564**	**428,891**	**574,243**
Net profit/(loss) for the period	-	-	-	-	-	**12,020**	**12,020**
Other comprehensive income	-	-	-	-	-	-	-
Net unrealized gains/ (losses) on fair value assets portfolio	-	-	**(9,509)**	-	-	-	**(9,509)**
Net gains/(losses) on fair value assets and cash flow hedges transferred to profit or loss on disposal	-	-	**3,055**	-	-	-	**3,055**
Foreign currency translation differences on fair value portfolio	-	-	**291**	-	-	-	**291**
Net fair value gains/ (losses) from cash flow hedges	-	-		**381**	-	-	**381**
Impairment on FVOCI portfolio	-	-	**(228)**	-	-	-	**(228)**
Revaluation surplus on building	-	-		-	**2,309**	-	**2,309**
Total other comprehensive income	-	-	**(6,391)**	**381**	**2,309**	-	**(3,701)**
Translation differences	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-
Balances as at 31 December 2018	**136,836**		**(3,539)**	**481**	**7,873**	**440,911**	**(582,562)**

In accordance with the Dutch Civil Code legal reserves have to be established in relation to the revaluation surplus on the building, cash flow hedging reserve and fair value through other comprehensive income (FVOCI) reserve. Legal reserves are not available for distribution to the Company's shareholders.

(Currency: Thousands of Euros)

Statement of Cash flows
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	1 January 2018 - 31 December 2018	1 January 2017 - 31 December 2017
Cash flows from operating activities:			
Profit for the period		12,020	26,234
Adjustments for:		-	-
Depreciation	*8*	2,979	3,431
Net impairment provision change on cash and balances with central banks		21	-
Net impairment provision change on loans and advances	*RM*	14,859	6,541
Net impairment provision change on FVOCI	*RM*	(304)	-
Net impairment provision change on FVTPL	*RM*	-	1,827
Net impairment provision change on Commitments and Contingencies	*RM*	(802)	-
Change in financial assets at fair value through profit or loss	*6*	(877)	-
Change in interest accruals		8,687	13,048
Change in provisions	*16*	1,811	1,410
Tax expense	*15*	3,540	8,803
		41,933	61,294
Changes in:			
Due to/from banks	*3, 4, 10*	86,249	121,095
Due to/from customers	*5, 11*	(42,629)	(686,060)
Loans and advances from banks and other institutions	*13*	85,572	(86,938)
Derivative financial instruments	*RM*	50,082	39,717
Other asset/liabilities	*9, 16*	(15,088)	8,558
		164,186	(602,870)
Cash generated from operating activities			
Interests received		156,712	188,095
Interests paid		(78,981)	(114,590)
Cash payments to employees and suppliers		(2,297)	(1,980)
		75,434	71,525

Statement of Cash flows (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	1 January 2018 - 31 December 2018	1 January 2017 - 31 December 2017
Net cash flows from operating activities before taxes and duties paid		281,553	(470,051)
Income taxes paid		**(7,844)**	**(2,441)**
Net cash outflows from operating activities		**273,709**	**(472,492)**
Cash flows from investing activities:			
Proceeds in investment portfolio	*6*	253,917	370,346
Purchase of tangible and intangible assets	*8*	(3,151)	(1,744)
Net cash flows from investing activities		**250,766**	**368,602**
Cash flows from financing activities:			
Interest paid on other borrowed funds	*14*	(2,324)	(2,305)
(Decrease)/increase in subordinated liabilities, net		2,305	2,305
Net cash flows from financing activities		**(19)**	**-**
Effect of exchange rate changes		**3,112**	**(5,094)**
Net increase in cash and cash equivalents		**527,568**	**(108,984)**
Cash and cash equivalents at the beginning of the period	*1*	351,347	460,331
Cash and cash equivalents at the end of the period	*1*	**878,915**	**351,347**

NOTES TO THE FINANCIAL STATEMENTS

Notes to the accounting policies

OVERVIEW OF THE BANK

GarantiBank International N.V. (hereafter: 'GBI' or 'the Bank') has its statutory seat in Amsterdam, The Netherlands. Its head office is located at Keizersgracht 569-575, 1017 DR Amsterdam, The Netherlands. Its Chamber of Commerce number is 33225009. The Bank also operates a branch in Germany.

The financial information of GBI is included in the financial statements of its parent Türkiye Garanti Bankasi A.Ş. (TGB), incorporated in Turkey, and in those of the ultimate parent of the group, Banco Bilbao Vizcaya Argentaria S.A., incorporated in Spain. GBI works in close cooperation with its parent, which owns 100% of the shares of GBI, and with the ultimate parent of the group, which owns 49.85% of the shares of Türkiye Garanti Bankasi A.Ş.

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

The annual accounts of GBI, as at and for the year ended 31 December 2018, were authorised for issue in accordance with a resolution of the Supervisory Board on 28 February 2019 to propose that the Shareholder adopt the 2018 financial statements at the next Annual General Meeting of Shareholders to be held in 2019.

STATEMENT OF COMPLIANCE

As of 1 January 2018, GBI prepares its annual financial statements for the first time in accordance with International Financial Reporting Standards (IFRS) in order to align its statutory financial statements to its group reporting, which is already based on IFRS. The financial statements of the Bank for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and adopted by the European Union and the relevant articles of Part 9 of Book 2 of the Dutch Civil Code. For all periods up to and including the year ended 31 December 2017, the Bank prepared its financial statements in accordance 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), including the specific guidelines for Banks included in RJ 600 and the formats prescribed, collectively referred to as Dutch generally accepted accounting principles (Dutch GAAP).

For an effective and efficient transition to IFRS, GBI applied the voluntary exemption under IFRS 1 to apply TGB's transition date to IFRS. This effectively allowed GBI to apply the IFRS accounting policies as adopted by the group for the preparation of its statutory annual financial statements. (i.e. the carrying amounts of the GBI's assets and liabilities will be aligned to the ones included in the parent's consolidated financial statements). This transition approach as well as the financial impact of the change from Dutch GAAP to IFRS is presented in the note "First time adoption of IFRS" while the accounting policies itself are summarized in the note "Significant accounting policies".

Although GBI applies IFRS as of 1 January 2018, its comparative financial statements as included in the financial statements for the year ended 31 December 2018 must be presented in accordance with IFRS as well. As a consequence, new standards that came into effect as of 1 January 2018 are treated as change in accounting policy and explained in the paragraph "New standards adopted by the Bank" of this note.

BASIS OF PREPARATION

The GBI annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the relevant articles of Part 9 of Book 2 of the Dutch Civil Code.

IFRS as adopted by the EU are IFRS Standards and IFRS Interpretations as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC).

GBI's annual accounts have been prepared on a going concern basis.

USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Notable areas that involved judgements, estimates and assumptions are:

- Impairment of financial instruments:
  Judgement is exercised in determining the extent of the loan loss provision (impairment) for financial assets assessed for impairment both individually and collectively. The loan loss provision for financial assets are based on assumptions about risk of default and expected loss rates. GBI uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Changes in such judgements and analyses may lead to changes in the loan loss provisions over time. The key judgement areas are:

    - Assumptions used to measure expected credit losses, including the use of forward-looking and macro-economic information for individual and collective impairment assessment:

      Individually assessed loans (Stage 2 and 3): Individual provisions are calculated using the discounted expected future cash flow method. To determine expected future cash flows, two or more scenarios are used. Each scenario is analysed based on the probability of occurrence and including forward looking information. In determining the scenarios, all relevant factors impacting the future cash flows are taken into account. These include expected developments in credit quality, business and economic forecasts, and estimates of if/when recoveries, including the recoveries from the collaterals where applicable, will occur, taking into account the structure of the financial asset and GBI's restructuring/recovery strategy. The macroeconomic forecast is captured in the estimation, as the expected future macroeconomic situation serves as basis for the cash flows in the scenarios. For the individual assessment,

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with granular (company- or deal-specific) scenarios, specific factors can have a larger impact on the future cash flows than macroeconomic factors (i.e. for the country as a whole).

Collectively assessed loans (Stages 1 and 2): For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Expected future cash flows in a portfolio of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets in the portfolio, GBI's expectations on future economic developments and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The outcome of the models reflects forward looking macro-economic information.

- The criteria for identifying a significant increase in credit risk:

  When determining whether the credit risk on a financial asset has increased significantly, GBI considers reasonable and supportable information available in order to compare the risk of default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial asset. GBI also uses professional judgement to determine the qualitative and quantitative criteria for the definition of significant increase in credit risk. The criteria as applied by GBI is described on the significant accounting policies on significant increase in credit risk.

- The definition of default: Judgement is exercised in GBI's evaluation of whether there is objective evidence that an impairment loss on an asset has been incurred. Significant judgement is required in assessing evidence of credit-impairment and estimation of the amount and timing of future cash flows when determining expected credit losses.

- Fair value measurement of financial instruments and tangible assets in level 3 fair value hierarchy:

  Even if market prices are available, when markets are less liquid there may be a range of prices for the same security from different price sources. Selecting the most appropriate price requires judgement and could result in different estimates of fair value. Valuation techniques are subjective in nature and significant judgement is involved in establishing fair values for certain financial assets and liabilities. Valuation techniques involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value.

- Classification of financial instruments

  Judgement is exercised in determining the business model of the bank in relation to certain financial instruments as well as assessing the 'Solely Payment of Principle and Interest' criteria for financial instruments. For the business model related choices, mainly the assessment of historic and future

anticipated sales required judgement while for assessing the SPPI criteria in some cases judgment was needed to assess whether contracts include considerations for the time value of money, credit risk and also consideration for liquidity risk and costs associated with holding the financial asset for a particular period of time.

CHANGE IN ACCOUNTING POLICIES

The Bank has applied the following new or amended standards as endorsed by the EU as at 1 January 2018.

IFRS 9 Financial Instruments

GBI adopted the requirements of IFRS 9 'Financial Instruments' as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for the classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

As permitted by IFRS 9, GBI has elected to continue to apply the hedge accounting requirements of IAS 39 and therefore IFRS 9 mainly impacts classification and measurement of financial assets and liabilities and impairment of financial assets. Furthermore IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures.

The Bank applies the voluntary exemption in IFRS 1 to apply TGB's transition date to IFRS. As TGB's date of initial application of IFRS 9 will be 1 January 2018 and it will make use of the transitional relief not to restate its comparative figures for IFRS 9, GBI will also apply IFRS 9 from 1 January 2018 onwards and elected not to restate comparative figures. In chapter Significant accounting policies this is further explained.

Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition IFRS 9, 1 January 2018, were recognised in the opening balance of retained earnings and other reserves of the current period. The adjustments made from its adoption of IFRS 9 are included in section Transition to IFRS 9 with the full impact of adopting the standard.

Classification and measurement of financial assets and liabilities

IFRS 9 contains three principal classification categories upon initial recognition; financial instrument is classified as either fair value through profit or loss (FVTPL), amortised cost or fair value through other comprehensive income (FVOCI).

The classification of financial assets under IFRS 9 is generally based on its contractual cash flow characteristics (SPPI test) and the business model in which a financial asset is managed. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. In accordance with IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVTPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVTPL. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Depending on the classification, IFRS 9 distinguishes three measurement categories:

- Amortised Cost - financial instruments measured at amortised cost are debt instruments within a hold to collect business model with fixed or determinable payment which meet the SPPI criteria.
- FVTPL - FVTPL instruments are measured at fair value with recognition of unrealised fair value movements within the income statement.
- FVOCI - FVOCI instruments are measured at fair value with recognition of unrealised fair value movements within the OCI statement.

Equity financial assets and derivatives are required to be classified at initial recognition as FVTPL (as they do not meet the SPPI criteria by default) unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss. The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVTPL. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

<u>SPPI Test</u>
To pass the SPPI test, the contractual terms of the debt instruments need to lead to future payments that are solely payment of principal and interest. In other words, the SPPI test involves assessing whether the contractual cash flow characteristics of a financial debt instrument are consistent with a basic lending arrangement. Key element of the SPPI criteria is that the contractual cash flows of the instrument should be consistent with a basic lending agreement. In a basic lending agreement the contractual cash flows may include principle payments and compensation for:

- Time value of money – the element that provides consideration of only the passage of time;
- Credit risk;
- Liquidity risk;
- Administrative costs;
- Profit margin.

<u>Business model Test</u>
Debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVTPL.

Management of GBI assessed the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. GBI monitors financial assets measured at amortised cost or FVOCI that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the GBI's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Impairment of financial assets
In IFRS 9 the incurred loss impairment model is replaced with a more forward looking expected loss approach. The impairment requirements of IFRS 9 apply to financial assets that are measured at amortised cost or at FVOCI (except equity instruments) and off-balance sheet items as contingent liabilities (e.g. financial guarantees) and irrevocable facilities.

Expected credit loss (ECL) amount is calculated on a probability-weighted basis as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive. The new standard outlines a 'three-stage' approach ('general model') for impairment based on changes in credit quality since initial recognition.

- **Stage 1:** includes financial instruments that have not had a significant increase in credit risk since initial recognition and are considered performing loans. For these assets, 12-month expected credit losses ('ECL') are recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that a default will occur in the next 12 months.
- **Stage 2:** When a performing loan has shown a significant increase in credit risk since origination, an allowance for the lifetime expected credit losses is calculated. Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the probability of default ('PD') as the weight.
- **Stage 3** includes financial assets that have objective evidence of impairment at the reporting date, taking into account a probability of default of 100%. For these assets, lifetime ECL is recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

Details of the bank's impairment policy are disclosed in the Significant Accounting Policies section and quantitative disclosures are included in Risk Disclosure.

(Currency: Thousands of Euros)

Key similarities and differences between IAS 39, Dutch GAAP and IFRS 9 in respect to impairment of financial assets

	IFRS 9 (applied in 2018 figures)	IAS 39 and IAS 37 (applied in 2017 figures)	Dutch GAAP -RJ 290 (applied in 2017 opening balance figures)
Adoption date	1 January 2018	As per 1 January 2018 GBI adopted IFRS-EU and elected the option to apply TGB accounting principles (including IAS 39 and IAS 37 for impairments) to measure its assets and liabilities as included in the comparative information.	Prior to 1 January 2017
Scope	The same recognition and measurement requirements apply to both amortised cost and FVOCI financial assets, including loan commitments. Impairment is not recognised on equity securities which are measured at FVOCI. New under IFRS 9 is recognition of expected losses on guarantees and letter of credits (off-balance sheet exposures). Impairment is recognised for all financial assets in scope at either 12- month ECL or lifetime ECL. All reasonable and supportable information, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date is used in measuring ECL.	For amortised cost assets, impairment is recognised when there is objective evidence of impairment. Losses are measured by comparing the carrying amount with the discounted future cash flows (using the original effective interest rate). Losses which may arise from future events are not recognised. For available-for-sale financial assets, impairment is recognised when there is objective evidence of a shortfall in the recovery of future cash flows. Impairment is measured as the decrease in fair value below the original cost at initial recognition. For Financial guarantees and "onerous" loan commitments, provisions are set aside to reflect a present obligation arising from past events, the settlement of which is expected to result in an outflow of Resources embodying economic benefits, however the timing or the amount is uncertain.	Dutch GAAP (RJ 290) in respect to impairment of financial assets are similar to IAS 39 but provides less detailed guidance.
Application	The distinction between individual and collective assessment is less relevant. In general, whether loans are managed through wholesale credit risk systems or retail credit risk systems is relevant because of differences in the types of information available and the way credit risk is managed.	Accounting policies generally make a distinction between individually significant loans and homogeneous groups of loans which are assessed collectively.	Dutch GAAP (RJ 290) in respect to impairment of financial assets is similar to IAS 39 but provides less detailed guidance.
Stage 1	Financial assets which are not considered to have significantly increased in credit risk have loss allowances measured at an amount equal to 12-month ECL. This 12-month time horizon is likely to be equal to or longer than the period estimated under IAS 39.	This is not an IAS 39 concept.	This is not a Dutch GAAP concept.
Stage 2	The accounting policies setting out the criteria for loans to be transferred to Stage 2 and the measurement of lifetime ECL are set out in next chapter.	This is not an IAS 39 concept.	This is not a Dutch GAAP concept.
Stage 3	The stage 3 population is consistent with impaired loans under IAS 39 which are considered individually significant. However, the net realisable value of security is adjusted for expected future changes in market and the losses reflecting cash flows under different scenarios are probability weighted to determine the ECL rather than using the best estimate of cash flows.	Under IAS 39, a financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the asset's initial recognition (a 'loss event'). The criteria used to determine whether there is objective evidence of impairment are the same for individually significant loans assessed under IAS 39 and for IFRS 9.	In line with IAS 39 treatment
Impact Transition	Additional gross impairment allowances were booked for EUR 28,218 (see next chapter 'Transition to IFRS 9'.) The impact on retained earnings is EUR 21,164.	Transitioning from Dutch GAAP to IAS 39 and IAS 37 had no impact on impairment allowances and retained earnings.	N/A

(Currency: Thousands of Euros)

Hedge Accounting

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit voluntary hedge de-designation (a derecognition is required when the (economic) hedge objective is no longer met and rebalancing would not resolve that). IFRS 9 includes a policy choice that would allow to continue to apply the existing hedge accounting rules. The Bank has decided to continue applying IAS 39 for hedge accounting, including the application of the EU carve-out.

Financial impact of the transition to IFRS 9

The business model and the financial instrument's contractual cash flows (SPPI test) determine the classification and measurement. On 1 January 2018, the date of initial application of IFRS 9, the Bank performed the SPPI test and assessed which business models apply to the financial assets held by the company and classified its financial instruments into the appropriate IFRS 9 categories. The below table sets out the impact of adopting IFRS 9 on the statement of financial position and equity including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs as per 1 January 2018.

Transition to IFRS 9 'Financial Instruments'

1 January 2018	**Classification Measurement Category & Carrying amount**					
	Original (IAS 39)	**New (IFRS 9)**	***IAS 39 1 January 2018 Carrying amount***	***IFRS 9 Reclassification Effect***	***IFRS 9 ECL Effect***	**IFRS 9 1 January 2018 Carrying Amount**
Assets						
Cash and balances with central banks	**AC**	**AC**	**339,431**	-	**(21)**	**339,410**
Expected credit losses Stage 1	-	-	-	-	*(21)*	*(21)*
Loans and advances to banks	**AC**	**AC**	**383,104**	-	**(820)**	**382,284**
Expected credit losses Stage 1	-	-	-	-	*(820)*	*(820)*
Financial assets at fair value through profit or loss (Derivatives)	**FVTPL**	**FVTPL**	**25,480**	-	-	**25,480**
Fair value through Profit and Loss	**AFS**	**FVTPL**	**-**	**10,522**	-	**10,522**
Fair value through OCI (debt instruments)	**AFS**	**FVOCI**	**438,500**	**(10,522)**	-	**427,978**
Loans and advances to customers	**AC**	**AC**	**3,048,906**	**-**	**(24,822)**	**3,024,084**
Incurred loss	-	-	*(41,683)*	-	*41,683*	-
Expected credit losses Stage 1	-	-	-	-	*(10,259)*	*(10,259)*
Expected credit losses Stage 2	-	-	-	-	*(15,082)*	*(15,082)*
Expected credit losses Stage 3	-	-	-	-	*(41,164)*	*(41,164)*
Tangible and Intangible Assets	-	-	31,090	-	-	31,090
Current Tax Asset	-	-	-	-	7,055	7,055
Deferred Tax Asset	-	-	-	-	-	-
Other Assets	-	-	7,638	-	-	7,638
Total Assets	-	-	**4,274,149**		**(18,608)**	**4,255,541**
Financial liabilities						
Due to banks	**AC**	**AC**	**663,792**	-	-	**663,792**
Due to customers	**AC**	**AC**	**2,903,080**	-	-	**2,903,080**
Derivative financial instruments	**FVTPL**	**FVTPL**	**22,028**	-	-	**22,028**
Current Tax Liability	-	-	1,899	-	-	1,899
Deferred Tax Liability	-	-	2,721	-	236	2,957
Other Liabilities, accrued expenses and provisions	-	-	35,513	-	1,611	37,125
Other borrowed funds	-	-	50,417	-	-	50,417
Total Liabilities	-	-	**3,679,450**		**1,847**	**3,681,298**
Equity						
Share capital	-	-	136,836	-	-	136,836
Other reserves (unrealised gains/losses)	-	-	7,808	72	635	8,516
Retained earnings	-	-	450,055	(72)	(21,091)	428,891
Total Equity	**-**		**594,699**	**-**	**(20,456)**	**574,243**

(Currency: Thousands of Euros)

The transitioning to IFRS 9 'Financial Instruments' resulted in the following reclassifications:

1. Reclassification from available-for-sale to fair value through profit or loss

A debt instrument was reclassified from available-for-sale to financial assets at fair value through profit or loss for an amount of EUR 8,291 as at 1 January 2018. The security did not meet the criteria to be classified as Fair Value through Other Comprehensive Income (FVOCI) in accordance with IFRS 9, because its cash flows do not represent solely payments of principal and interest. Related net fair value gains of EUR 72 were transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018. This amount cannot be recycled through the income statement.

2. Reclassification from available-for-sale to fair value through profit or loss

Equity investments previously classified as available-for-sale that did not meet the 'solely payments of principal and interest' ('SPPI') requirement for FVOCI classification under IFRS 9. As a result, assets with a fair value of EUR 2,231 were reclassified from available-for-sale financial assets to financial assets at FVTPL. The reclassification had no impact on equity as no reserve was included in other comprehensive income as the instrument was impaired at year-end 2017.

3. Reclassification from vailable-for-sale debt instruments classified as FVOCI

Non-contractually linked debt instruments were reclassified from available for sale to FVOCI, as the Bank's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. As a result, non-contractually linked debt instruments with a fair value of EUR 427,978 were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value gains of EUR 2,144 were reclassified from the available-for-sale financial assets reserve to the financial assets at FVOCI reserve on 1 January 2018.

Transitioning to IFRS 9 'Financial Instruments' resulted in the following measurement impact:

1. Expected credit loss

- Increase in allowances for loans and advances to customers with EUR 24,822 as consequence of the change from an incurred loss approach to an expected loss approach, mainly affecting stage 1 and stage 2 allowances, whereby stage 1 represent performing loans while stage 2 concerns performing loans with significant increase in credit risk. Provisioning for stage 3 loans remain for a large part consistent with IAS 39 incurred loans.
- New impairment allowances for Cash and Balances of EUR 21 are recognised and new allowances for Loans and Advances to Bank of EUR 820. IFRS 9 also introduced ECL allowances of EUR 1,611 for off balance sheet commitments (loan commitments and financial guarantees).
- IFRS 9 ECL has no effect on the carrying value of FVOCI financial assets, the adoption of IFRS 9 results in a transfer from the FVOCI reserve (formerly AFS reserve) to retained earnings to reflect the cumulative impairment recognised in profit or loss in accordance with IFRS 9 (net of impairment losses previously recognised in profit or loss under IAS 39). The resulting cumulative ECL allowance for financial assets measured at FVOCI is recognised in other comprehensive income (Other Reserves) for an amount of EUR 635 post tax (pre-tax EUR 847).

2. Equity impact from classification and measurement change

Due to IFRS 9 adoption the equity decreased by EUR 20,456 (gross EUR 27,274) consisting of:

- A EUR 72 reclassification of the unrealised revaluation gains and losses (gross: EUR 97) from the available-for-sale financial assets reserve (Other Reserves) to retained earnings on 1 January 2018 related to investments in contractually linked debt instruments that are reclassed from available-for-sale to fair value through profit or loss.
- An ECL impact of EUR 20,456 (gross: EUR 27,274) affecting:
  - Retained earnings, which decreased by EUR 21,091 (gross: EUR 28,121) because of additional impairment allowances.
  - Other reserves, which increased by EUR 635 (gross: EUR 847) and relates to the ECL of securities in the FVOCI category.

Regulatory Capital impact

GBI has opted for the full transition to IFRS9 and remains strongly capitalised following the transition. The transition had a negative effect of EUR 5,521 (after tax) on CET1 capital.

These changes had a total negative impact of approximately 8 bps on the TCR ratio. Detailed information is disclosed in the Capital Management section. The following table shows the reconciliation of impairment allowance under IAS 39 and provisions IAS 37 with the expected credit losses model (IFRS 9).

Reconciliation incurred credit losses (IAS 39) with expected credit losses (IFRS 9)	***Classification***		**IAS 39 and IAS 37 - Incurred Loss Provision**	**IFRS 9 - Expected Credit Loss Provision**
	(IAS 39)	(IFRS 9)	31.12.2017	01.01.2018
Totals			**41,683**	**69,804**
Cash and balances with central banks	L&R	AC	**-**	**21**
Stage 1 - Performing	-	-	-	21
Loans and advances to banks	L&R	AC	**-**	**820**
Stage 1 - Performing	-	-	-	820
Loans and advances to customers	L&R	AC	**41,683**	**66,505**
Stage 1 - Performing	-	-	-	10,259
Stage 2 - Underperforming (significant increase in credit risk)	-	-	-	15,082
Stage 3 - Non-performing	-	-	41,683	41,164
Financial assets at fair value through profit or loss (Derivatives)	FVTPL	FVTPL	-	-
Fair value through OCI (Debt instruments)	**AFS**	**FVOCI**	**-**	**847**
Stage 1 - Performing	-	-	-	847
Fair Value through OCI (Trading equities)	AFS	FVTPL	-	-
Off-balance sheets Commitments & Contingencies			-	1,611

IFRS 15 Revenue from Contracts with Customers

IFRS 15 introduces a five-step approach for recognising revenue as and when the agreed performance obligations are satisfied. Agreed performance obligations are individual promises made to the customer that deliver benefit from the customer's perspective. Revenue should either be recognised at a point-in-time or over-time depending on the service being delivered to the customer.

GBI offers various services that are within the scope of IFRS 15. Examples of those services are:

- Brokerage for foreign exchange and derivatives
- Cash management services
- Payment services
- Trade related products such as letters of credit, standby letters of credit, letters of guarantee
- Intergroup referrals

Based on a detailed study of the revenue streams per product type, GBI concluded that the adoption of IFRS 15 has no significant impact on its fee and commission income from contracts with customers and hence comparative figures have not been restated. The impact of IFRS 15 was limited to the new disclosure requirements.

Amendment to IFRS 2, Share-based payments:

This amendment is effective for the periods beginning on or after January 1, 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash- settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

The amendment does not have impact on the Bank's financial position and performance as the measurement basis for GBI's cash-settled share-based payment is not affected.

Annual improvements to IFRS for 2014-2016 cycle:

These improvements are effective for the periods beginning on or after January 1, 2018. Relevant improvement of this cycle is:

IFRS 1, 'First time adoption of IFRS', this improvement removes the short-term exceptions on the first time adoption in the scope of IFRS 7, IAS 19 and IFRS 10.

The improvement does not have an impact on the Bank as they apply IFRS 1 in full in relation to the first time adoption of IFRS.

IFRIC 22, 'Foreign currency transactions and advance consideration':

This interpretation is effective for the periods beginning on or after January 1, 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

The interpretation does not have an impact on the Bank's financial position and performance because exchange rates per transaction are already determined based on the date of the transactions.

SIGNIFICANT ACCOUNTING POLICIES

Foreign currency

Transactions in the financial statements of the Bank are recorded in EUR, which is the Bank's functional currency and the presentation currency for the accompanying financial statements. Transactions in foreign currencies are translated into the functional currency of the Bank at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into EUR at the exchange rates ruling at date of the statement of financial position with the resulting exchange differences recognized in income as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in income as realized during the period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Exchange rate differences on non-monetary items, measured at fair value through profit or loss, are reported as part of the fair value gain or loss. Non-monetary items are retranslated at the date fair value is determined.
Tangible and intangible assets and related depreciation and amortisation

Tangible and intangible assets and related depreciation and amortisation

Tangible assets

At initial recognition, tangible assets are measured at their cost. After initial recognition, the Bank applies the revaluation model for properties and the cost model for all other tangible assets. Accordingly, properties are carried at a revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. For all significant properties, a valuation study is performed by independent expertise firms in accordance with the Royal Institution of Chartered Surveyors (RICS) on an annual basis as part of the year-end closing routine to assess the fair value, which is defined as the price received to sell an asset in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions.

Internally generated software

As per IAS 38, internally generated software should be recognised as intangible assets, if they meet all the below listed criteria:

- The technical feasibility of completing the asset so that it will be available for use,
- Availability of the intention to complete and use the asset,
- The ability to use the asset,
- Clarity in probable future economic benefits to be generated from the asset,
- The availability of adequate technical, financial and other resources to complete the development phase and to start using the asset, and
- The availability to measure reliably the expenditure attributable to the asset during the development phase.

The directly attributable development costs of intangible assets are included in the cost of such assets, however the research costs are recognised as expense as incurred.

Subsequent expenditure

Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of such assets. All other expenditures are reflected as expense in the statement of income as incurred.

(Currency: Thousands of Euros)

Expenditures for major renewals and improvement of tangible and intangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

Depreciation

The estimated useful lives and depreciation rates of tangible and intangible assets are as follows. Depreciation and amortisation method in use is the straight-line method and was not changed in the current period.

Tangible and intangible assets	***Estimated useful lives (years)***	***Depreciation Rates (%)***
Properties	50	2
Improvement of properties	50	2
Renovation of properties	10-15	6.67-10
Furniture and equipment	5-7	14.29-20
Intangible assets	2-10	10-50

The estimated useful lives, residual values and depreciation methods are reviewed at least once a year, with the effect of any changes in estimate accounted for on a prospective basis.

Financial instruments - accounting policies applied from 1 January 2018

Classification and initial measurement

From 1 January 2018, the Bank classifies its financial assets in the following measurement categories:

– those to be measured at fair value (either through other comprehensive income, or through profit or loss), and
– those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows at initial recognition.

a. Business models

Business models are classified as either Hold to Collect (HtC), Hold to Collect and Sell (HtC&S) or Other depending on how a portfolio of financial instruments as a whole is managed. GBI's business models are based on the existing management structure of the bank, and refined based on an analysis of how businesses are evaluated and reported, how their specific business risks are managed and on historic and expected future sales.

Sales are permissible in a HtC business model when these are due to an increase in credit risk, take place close to the maturity date, are insignificant in value (both individually and in aggregate) or are infrequent.

The Bank reclassifies debt investments when and only when its business model for managing those assets changes.

b. Assessing whether contractual cash flows are solely payments of principal and interest (SPPI test)

The contractual cash flows of a financial asset are assessed to determine whether they represent SPPI. Interest includes consideration for the time value of money, credit risk and also consideration for liquidity risk and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

In assessing whether the contractual cash flows are SPPI, GBI considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, terms such as the following are considered:

- prepayment terms. For example a prepayment of an outstanding principal amount plus a penalty capped to three or six months of interest;
- leverage features, which increase the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest;
- terms that limit GBI's claim to cash flows from specified assets - e.g. non-recourse asset arrangements. This could be the case if payments of principal and interest are met solely by the cash flows generated by the underlying asset, for example in real estate and shipping financing; and
- features that modify consideration of the time value of money. These are contracts with for example an interest rate which is reset every month to a one-year rate. GBI performs either a qualitative or quantitative benchmark test on a financial asset with a modified time value of money element. A qualitative test is performed when it is clear with little or no analysis whether the contractual cash flows solely represent SPPI.

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement

Debt instruments

Subsequent measurement of debt instruments depends on the Bank's business model for managing the asset and the cash flow characteristics of the asset (SPPI test). There are three measurement categories into which the Bank classifies its debt instruments:

– *Amortised Cost:* Debt instruments that are held for collection of contractual cash flows under a HtC business model where those cash flows represent SPPI are measured at amortised cost. Any gain or loss arising on derecognition is recognised directly in profit or loss. Interest income from these financial assets is included in interest income using the effective interest rate method.
– *Fair value through other comprehensive income (FVOCI):* Debt instruments that are held for collection of contractual cash flows and for selling the financial assets under a HtC&S business model, where the assets' cash flows represent SPPI, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is

derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other operating income. Interest income from these financial assets is included in interest income using the effective interest rate method.

– Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the profit or loss statement within other operating income in the period in which it arises. Interest income from these financial assets is included in interest income.

Equity instruments

The Bank subsequently measures all equity investments at fair value with changes recognised to profit or loss. Dividends from such investments are recognised in profit or loss as other operating income when the Bank's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in net trading income in the statement of profit or loss as applicable.

Derivatives

Derivative contracts are measured at fair value through profit or loss, except for derivatives that are designated in a cash flow hedge and revalued at fair value through equity. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

Impairment of financial assets

An Expected Credit Loss (ECL) model is applied to on-balance sheet financial assets accounted for at amortised cost and FVOCI such as loans and debt securities as well as off balance instruments including financial guarantees and loan commitments. Under the ECL model GBI calculates the allowance for credit losses (loan loss provision, LLP) by considering the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The LLP is the sum of these probability-weighted outcomes and the ECL estimates are unbiased and include supportable information about past events, current conditions, and forecasts of future economic conditions. GBI's approach leverages on the existing credit rating models that used within the scope of Foundation Internal Ratings Based (F-IRB) models for regulatory capital calculation purposes. Those credit rating models are modified to meet the requirements of IFRS 9.

Three stage approach

Financial assets are classified in any of the below 3 Stages at each reporting date. A financial asset can move between Stages during its lifetime. The Stages are based on changes in credit quality since initial recognition and defined as follows:

- Stage 1: 12 month ECL: Financial assets that have not had a significant increase in credit risk since initial recognition (i.e. no Stage 2 or 3 triggers apply). Assets are classified as Stage 1 upon initial recognition (with the exception of purchased or originated credit impaired (POCI) assets) and a provision for ECL associated with the probability of default (PD) events occurring with the next 12 months (12 months ECL);
- Stage 2: Lifetime ECL not credit impaired: Financial assets showing a significant increase in credit risk since initial recognition. A provision is made for the life time ECL representing losses over the life of the financial instrument (lifetime ECL) associated with the probability of default (PD) events occurring with the lifetime; or
- Stage 3: Loans considered as credit impaired, it is accounted lifetime expected credit losses. The methodology is similar to stage 2 and the probability of default is taken into account as 100%, while interest is recognized on the amortised cost.

Significant increase in credit risk

A financial asset moves from Stage 1 to Stage 2 when there is a significant increase in credit risk (SICR) since initial recognition. GBI established a framework which incorporates quantitative and qualitative information to identify this on an asset level applying a relative assessment. Each financial asset is assessed at the reporting date on the triggers for significant deterioration. GBI assesses significant increase in credit risk using:

- Change in the lifetime probability of default (both absolute and relative);
- Loans with more than 30 days past due at the reporting date
- Forbearance status;
- Watch list status;
- credit authority decision in order to flag customers in financial difficulties.

The change in lifetime probability of default is the main trigger for movement between Stage 1 and Stage 2. For exposures originated after 1 January 2018, the trigger compares lifetime probability of default at origination versus lifetime probability of default at reporting date, considering the remaining maturity. For exposures originated before 2018 a comparison is made based on the 'Through The Cycle' PD's (both current and origination).

Assets can move in both directions, meaning that they will move back to Stage 1 or Stage 2 when the Stage 2 or Stage 3 triggers are not applicable anymore.

Definition of default

GBI uses the definition for defaulted financial assets which is used for internal risk management purposes and has aligned the definition of credit impaired under IFRS 9 (Stage 3) with the definition of default for prudential purposes that stems from CRR article 178.

The definition of default may differ across products and considers both quantitative and qualitative factors, such as the terms of financial covenants and days past due. A default occurs when the borrower is more than 90 days past due on any material obligation to GBI, and/or GBI considers the borrower unlikely to make its payments in full without recourse action on GBI's part, such as taking formal possession of any collateral held.

Macroeconomic scenarios

GBI has established a quarterly process whereby forward-looking macroeconomics scenarios and probability weightings are developed for ECL calculation purposes. GBI applies data from its parent company enriched with the internal views. A baseline, up-scenario and a down-scenario are determined to reflect an unbiased and probability-weighted ECL amount. As a baseline scenario, GBI applies the market-

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neutral view combining consensus forecasts for economic variables (e.g. GDP growth). Applying market consensus in the baseline scenario ensures unbiased estimates of the expected credit losses.

The alternative scenarios are based on observed events in the past. The probabilities assigned are based on the likelihoods of observing the three scenarios and are derived from confidence intervals on a probability distribution. The scenarios are adjusted on a quarterly basis.

Measurement of ECL

a) Model based measurement of ECL (Stage 1 and 2)

For individually non-significant financial assets (at the borrower level) the ECL is calculated using PD x EAD x LGD models that reflect the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered and incorporate the time value of money.

Probability of Default (PD): PD's are assessed on the borrower level and refer to the likelihood that a borrower will default. For IFRS9, two different PDs are applied:

- 12-month PD: as the estimated probability of default occurring within the next 12 months;
- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

The internal credit risk rating methodology is the basis on which the PD is calculated. The underlying internal rating models used for the corporate portfolio include customer financial information and qualitative survey factors.

Ideally, when building the PD term structures for its range of portfolios, a bank should use its own historical customer default information, which yields a high-level of consistency between a bank's customer default characteristics and the resulting PD term structures. GBI's Corporate and Commodity Finance portfolios, which can be identified as LDPs, does not rely on GBI's own historical customer data as there is an insufficient number of customers and defaults to generate PD term structures. As a result, it was decided to use external data to generate the PD term structure curves.

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.

LGD calculations are performed using professional judgement, external benchmarks and historical data which best reflects current conditions, by formation of segments based on certain risk factors that are deemed important for each portfolio and inclusion of forward-looking information and macroeconomic expectations. LGD summarizes all cash flows from customers subsequent to default. It covers all costs and collections that occur during the collection cycle, including collections from collaterals. The historical data that is used, is derived from external benchmarks due to the low number of historical observations.

Exposure at Default (EAD): For cash loans, the expected outstanding balance at default corresponds to the amount of loan granted as of the reporting date plus expectations about future draw-downs. For non-cash loans and commitments, it is the value calculated through using credit conversion factors. Credit conversion factor corresponds to the factor, which adjusts the potential increase of the exposure between the current date and the default date.

With the exception of revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless there is the legal right to call it earlier.

The expected credit losses on cash loans are discounted using the effective interest rate.

The expected credit losses on a loan commitment is discounted using the effective interest rate, or an approximation thereof, that will be applied when recognising the financial asset resulting from the loan commitment. This is because for the purpose of applying the impairment requirements, a financial asset that is recognised following a draw down on a loan commitment shall be treated as a continuation of that commitment instead of as a new financial instrument. The expected credit losses on the financial asset are therefore measured considering the initial credit risk of the loan commitment from the date when becoming a party to the irrevocable commitment.

Expected credit losses on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined are discounted by applying a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

b) Individual measurement of ECL (Stage 2)

For individually significant financial assets (with exposures greater than EUR 10 million at the borrower level) within Stage 2 GBI estimates the expected credit loss on an individual level at each reporting date and more frequently when circumstances warrant further assessment. Individual provisions are calculated using the discounted expected future cash flow method. To determine expected future cash flows, two or more scenarios are used. Each scenario is analysed based on the probability of occurrence and including forward looking information.

The best estimate of loan loss is calculated as the weighted average of the shortfall (gross carrying amount minus discounted expected future cash flow using the original effective interest rate) per scenario. The expected future cash flows are based on the Bank's best estimate when recoveries are likely to occur. Recoveries can be from different sources including repayment of the loan, additional drawing, collateral recovery, asset sale etc. Cash flows from collateral and other credit enhancements are included in the measurement of the expected credit losses of the related financial asset when it is part of or integral to the contractual terms of the financial asset and the credit enhancement is not recognised separately. The estimation of future cash flows are subject to significant estimation uncertainty and assumptions.

c) Credit impaired financial assets (Stage 3)

GBI estimates individual impairment provisions for individually significant credit impaired financial assets within Stage 3. Financial assets are assessed for credit-impairment at each reporting date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the borrower is experiencing significant financial difficulty, a breach of contract, probability of bankruptcy or other financial reorganization, as well as a measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payment status of the borrower or economic conditions that correlate with defaults.

An asset that is in stage 3 will move back to stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired, taking into account the EBA guidance on forborn exposures. The asset will migrate back to stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition.

When a financial asset has been identified as credit-impaired, expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. To determine expected future cash flows, two or more scenarios are used. Each scenario is analysed based on the probability of occurrence and including forward looking information. For impaired financial assets with drawn and undrawn components, expected credit losses also reflect any credit losses related to the portion of the loan commitment that is expected to be drawn down over the remaining life of the instrument before default.

When a financial asset is credit-impaired, interest ceases to be recognised on the regular accrual basis, which accrues income based on the gross carrying amount of the asset. Rather, interest income is calculated by applying the original effective interest rate to the amortised cost of the asset, which is the gross carrying amount less the related loan loss provision.

The loan loss provision for credit-impaired loans in Stage 3 are established at the borrower level, where losses related to impaired loans are identified on individually significant loans, or collectively assessed and determined through the use of portfolio-based rates, without reference to particular loans.

d) Non-integral financial guarantee contracts

GBI assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. A guarantee contract is for example considered integral of a financial instrument if the guarantee is given to the same customer and carries the same credit risk, or the guarantee is implicitly or expilicitly part of the contractual terms of the debt instrument or other factors can also be taken into consideration.

In case the guarantee is integral part of the debt instrument, in the ECL model the guarantee is included in PD calculation and this leads in most cases to a lower ECL amount. If GBI determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and, if the following criteria are met also a reimbursement right for credit losses:

– The reference obligation is a debt instrument;
– GBI is only compensated for a loss that it incurs;
– GBI is not compensated for more than its loss.

A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired.

Purchase or Originated Credit Impaired (POCI) assets

POCI assets are financial assets that are credit-impaired on initial recognition. Impairment on a POCI asset is determined based on lifetime ECL from initial recognition. POCI assets are recognised initially at an amount net of impairments and are measured at amortised cost using a credit-adjusted effective interest rate. In subsequent periods any changes to the estimated lifetime ECL are recognised in the income

Purchase or Originated Credit Impaired (POCI) assets (continued)

statement. Favourable changes are recognised as an impairment gain even if the lifetime ECL at the reporting date is lower than the estimated lifetime ECL at origination.

Write-off and debt forgiveness

Loans and the related ECL are written off, either partially or in full, when there is no realistic prospect of recovery. Write-offs are made:

- After a restructuring has been completed and there is no reasonable expectations of recovering the remaining loan exposure (including partial debt waivers) in its entirety or a portion thereof;
- In a bankruptcy liquidation scenario (not as a result of a reorganisation);
- When there is no reasonable expectations of recovering of the remaining loan exposure or certainty that no recovery can be realised;
- After a sale of a credit facility at a discount in relation bad debt collection efforts;
- Upon conversion of a credit facility into equity as forbearance measurement and part of debt forgiveness;

GBI releases a legal (monetary) claim it has on its customer.

Impairment gains and losses

Impairment gains and losses are recorded in the statement of profit or loss on the line impairment losses on financial assets.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognised in OCI, instead of deducting the carrying amount of the asset.

Recognition and derecognition of Financial instruments

Initial recognition of financial instruments

Financial assets or a financial liability measured at fair value through profit or loss and at FVOCI are initially recognized, and only when, an entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using settlement date accounting. Financial assets and liabilities measured at amortised costs are recognized in the statement of financial position on the date they are originated.

Derecognition of financial instruments

Derecognition of financial assets due to modification

Financial assets may be modified due to regular way renegotiation of contractual terms based on requests from clients in the ordinary course of business or because GBI, in certain circumstances, grants borrowers postponement and/or reduction of loan principal and/or interest payments for a temporary period of time to maximise collection opportunities, and if possible, avoid default, foreclosure, or repossession. When such postponement and/or reduction of loan principal and/or interest payments is executed based on credit concerns it is also referred to as forbearance.

If the forbearance results in a substantial modification of the terms of the loan, the original loan is derecognised and a new loan is recognised at its fair value at the modification date. The Bank determines whether there has been a substantial modification (i.e. whether the cash flows of the original contract and the modified or replace contract are substantially different) using both quantitative and qualitative factors.

Derecognition of a financial asset without any change in the contractual terms

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, it derecognises the financial asset if it no longer has control over the asset.

Derecognition of financial liabilities

Financial liabilities are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished and the consideration paid is recognised in profit or loss.

Financial guarantees

A financial guarantee contract is a contract that requires the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract is recognised at the date that the Bank becomes a party to the irrevocable commitment. Income from issued financial guarantees, and expenses for bought financial guarantees, are amortised over the duration of the instruments and classified as "Fee and commission income" and "Fee and commission expense" respectively. The IFRS 9 impairment requirements apply to financial guarantee contracts that are not measured at fair value through profit or loss under IFRS 9 (see impairment section in this chapter).

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets that are subject to an insignificant risk of changes in their fair value, and are readily available for use by GBI in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Fair values of financial assets and liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It uses the assumptions that market participants would use and takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability. Fair values of financial assets and liabilities are based on unadjusted quoted market prices where available. Such quoted market prices are primarily obtained from exchange prices for listed financial instruments. Where an exchange price is not available, quoted prices in an active market may be obtained from independent market vendors, brokers, or market makers. In general, positions are valued at the bid price for a long position and at the offer price for a short position or are valued at the price within the bid-offer spread that is most representative of fair value in the circumstances. In some cases where positions are marked at mid-market prices, a fair value adjustment is calculated.

For certain financial assets and liabilities quoted market prices are not available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to various valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations and credit ratings), and customer behaviour are taken into account. GBI maximises the use of market observable inputs and minimises the use of unobservable inputs in determining the fair value.

To include credit risk in the fair value, GBI applies both Credit and Debit Valuation Adjustments (CVA, DVA) for its derivatives, depending whether they are classified as asset or liability. The CVA is of a bilateral nature as both the credit risk on the counterparty as well as the credit risk on GBI are included in the adjustment. All input data that is used in the determination of the CVA is based on market implied data. Additionally, wrong-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty deteriorates) and right-way risk (when exposure to a counterparty is increasing and the credit quality of that counterparty improves) are taken into account in the measurement of the valuation adjustment.

Financial Instruments - Accounting policies applied prior to 1 January 2018

The Bank has applied IFRS 9 retrospectively but has elected not to restate comparative information to IFRS 9. GBI applied the voluntary exemption in IFRS 1 to apply TGB's transition date to IFRS in order to align its stand-alone IFRS financial statements. As a result, the comparative information provided continues to be accounted for in accordance with the IFRS as applicable for 2017. Those policies are set out below.

Classification

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss are derivatives and those instruments that are principally held for the purpose of short-term profit taking. These include derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

Available-for-sale assets

Available-for-sale assets are financial assets that are not held for trading purposes, provided by the Bank. Available-for-sale instruments include debt and equity investments.

Measurement

Financial instruments are initially measured at fair value, including transaction costs.

Subsequent to initial recognition all trading instruments and available-for-sale assets are measured at fair value.

All non-trading financial liabilities and loans and receivables are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of available-for-sale assets are deferred as a separate component of equity until the available-for-sale assets are sold or impaired.

Impairment

Financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

Loans and receivables

The recoverable amounts of loans and receivables are calculated as the present values of the expected future cash flows discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Financial asset or group of financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the Bank estimates the amount of impairment. Impairment loss incurs if, and only if, there is an objective evidence that the expected future cash flows of financial asset or group of financial assets are adversely effected by an event(s) ("loss event(s)") incurred subsequent to recognition. The losses expected to incur due to future events are not recognized even if the probability of loss is high. If there is an objective evidence that certain loans will not be collected, the Bank provides specific loss allowances for those loans and other receivables in accordance with internal impairment policies.

Objective evidence could be given by, but is not limited to, the events listed below:

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

Loans and receivables are presented net of specific- and portfolio basis allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value using the loans' original effective interest

rates. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the date of financial position. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in income. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through income.

Available for sale financial assets

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments under investment securities and purchased loans remeasured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value is impaired, the write-down is recognized in income.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through income.

Financial guarantees

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount or the present value of any expected payment (when a payment under the guarantee has become probable).

Derivatives held for risk management purposes

Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment for the changes in their fair value depends on their classification into the following categories:

Cash flow hedge

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the income, the effective portion of changes in the fair value of the derivative are recognized directly in other comprehensive income and presented in hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in income.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognized in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects the income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in other comprehensive income is recognized immediately in income.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to income from that date.

Securities borrowing and lending business

Investments lent under securities lending arrangements continue to be recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. Cash collateral received in respect of securities lent is recognized as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognized in the statement of financial position as the related risks and rewards of such securities are not retained. Borrowed securities are recorded under commitments and contingencies. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers depending on the type of counterparty.

Repurchase and resale agreements over investments

The Bank enters into purchases of investments under agreements to resell (reverse repo) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements (repo) are recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. The proceeds from the sale of the investments are reported as "obligations under repurchase agreements", a liability account.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

Items held in trust

Assets, other than cash deposits, held by the Bank in fiduciary or agency capacities for its customers and government entities are not included in the accompanying statement of financial position, since such items are not under the ownership of the Bank.

Taxes on income

Taxes on income for the period comprise current taxes and deferred taxes. Current taxes on income comprises tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and; any adjustment in taxes payable for previous years.

Deferred income tax is provided, using the statement of financial position method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities and assets are recognized when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank. A deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Currently, enacted tax rates are used to determine deferred taxes on income.

The Bank offsets deferred tax asset and deferred tax liability if the Bank has a legally enforceable right to set off current tax assets against current tax liabilities and if the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

Deferred taxes related to fair value remeasurement of financial assets measured at fair value through other comprehensive income and cash flow hedges, are charged or credited directly to equity and subsequently recognized in income together with the deferred gains or losses that are realized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position if, and only if there is a legally enforceable right to set off the amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses from a group of similar transactions.

Impairment of non-financial assets

Non-financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

Income and expense recognition

Interest income and expense

Interest income and expense is recognized on an accrual basis by taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fees received from the syndication loans purchased in the secondary markets or entered into in the primary markets are recorded as interest income as these are an integral part of the effective interest.

Fees for the syndicated loan that is received by GBI is recorded as interest expense as these are an integral part of the effective interest.

Fee and commission

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commissions, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's Financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Net trading income

Net trading income includes gains and losses arising from derivatives and investments that are recorded at fair value through profit or loss.

Employee benefits

Below we provide a description of the most significant accounting policies relating to post-employment and other employee benefit commitments assumed by the employees in the Netherlands and the majority of staff employed outside the Netherlands.

Short-term employee benefits

Benefits for current active employees which are accrued and settled during the year and for which a provision is not required in the entity´s accounts. These include wages and salaries, social security charges and other personnel expenses.

Costs are charged and recognized under the heading "Personnel expenses of the income statement.

Post-employment benefits – Defined-contribution plans

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. GBI has no further payment obligations once the contributions have been paid.

The contributions made to these plans are charged and recognized under the heading "Personnel expenses of the income statement.

Share-based payment transactions

BBVA shares granted by GBI to selected employees are treated as cash-settled share-based payment from GBI's perspective.

GBI recognises and measures the services received from Identified Staff that are subject to share-based payment and the liability to pay for these services at the fair value of the liability. The fair value constitutes an estimate of the variable remuneration, taking into account market conditions. Once the BBVA shares are granted by the ultimate parent company to Identified Staff of GBI, the moneraty equivalent thereof

(based on fair value at the time of granting the shares) is charged by BBVA to GBI. The fair value of the share-based payment is determined at the grant date.

Any difference between this charge and estimated liability is recognized as a personnel expense in the income statement. The fair value of cash-settled share-based payment transactions are measured at each balance sheet date. Vesting conditions, other than market conditions, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Rights granted will remain valid until the expiry date, even if the share based payment scheme is discontinued.

Cash flow statement

The statement of cash flows is prepared in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities. In the net cash flow from operating activities, the result before tax is adjusted for those items in the statement of profit or loss and changes in items per the statement of financial position, which do not result in actual cash flows during the year. For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with central banks, treasury bills and other eligible bills, amounts due from other banks, and deposits from banks. Investments qualify as a cash equivalent if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash flows arising from foreign currency transactions are translated into the functional currency using the exchange rates at the date of the cash flows.

The difference between the net cash flow in accordance with the statement of cash flows and the change in Cash and cash equivalents in the statement of financial position is due to exchange rate differences and is accounted for separately as part of the reconciliation of the net cash flow and the change in Cash and cash equivalents in the statement of financial position.

New and revised IFRSs in issue but not yet effective

Standards endorsed by the EU

The following published standards and amendments are effective for annual periods beginning on or after 1 January 2019 and have been endorsed by the EU and have not been early adopted by GBI.

IFRS 16 'Leases'

IFRS 16 is the new accounting standard for leases and will replace IAS 17 'Leases' and IFRIC 4 'Determining whether an Arrangement contains a Lease'. The new standard removes the distinction between operating or finance leases for lessee accounting, resulting in all leases being treated as finance leases. All leases will be recognised on the statement of financial position with the optional exceptions for short-term leases with a lease term of less than 12 months and leases of low-value assets (for example mobile phones or laptops). A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The main reason for this change is that this approach will result in a more comparable representation of a lessee's assets and liabilities in relation to other companies and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. The standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach. Furthermore, the standard provides some practical options and exemptions to ease the costs of transition. Lessor accounting remains substantially unchanged.

GBI will adopt the standard at its effective date and is planning to use the modified retrospective approach. GBI assessed the impact of IFRS 16 on its existing and expected lease arrangements and expects that it will not have a significant impact on the financial statements in the period of initial application.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain).

Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

Under the amendments, the sign of the prepayment amount is not relevant, i. e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

GBI has preliminary concluded that prepayment features with negative compensation within the scope of this amendment does not have not have a significant impact as a result of its business model.

IFRIC 23 Uncertainty over Income Tax Treatments

This standard is effective for the periods beginning on or after January 1, 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS Interpretation Committee had clarified previously that not IAS 12, but IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

GBI has concluded that it has no uncertainties in its income tax.

Standards not yet endorsed by the EU

For the following published amendments that have not been endorsed by the EU yet, GBI is in the process of assessing the detailed impact thereof:

- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018).
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018).

The following amendments that have not been endorsed by the EU yet are not applicable to GBI:

- IFRS 17 Insurance Contracts (issued on 18 May 2017);
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017);

- Annual improvements cycle 2015 – 2017: Amendments to IFRS 3 'Business Combinations', IFRS 11 'Joint Arrangements' (issued on 12 December 2017);
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018);
- Amendment to IFRS 3 Business Combinations (issued on 22 October 2018).
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
- IFRS 14 Regulatory Deferral Accounts.

FIRST-TIME ADOPTION OF IFRS

As explained in the note 'Statement of Compliance, GBI prepares its annual financial statements for the first time in accordance with IFRS as of 1 January 2018.

This note explains the principal adjustments made by the Bank in restating its Dutch GAAP financial statements, including the statement of financial position as at 1 January 2017 and the financial statements for the year ended 31 December 2017.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Bank has applied the following exemptions:

- As a subsidiary becoming an IFRS adopter later than its parent, the Bank has applied the IFRS 1 exemption to measure its own assets and liabilities in its financial statements at the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition, if no adjustments were made for consolidation procedures or the effects of the business combination in which the parent acquired the Bank. Use of this exemption means that the Bank aligns its financial statements as much as possible with its group reporting package.
- Application of hedge accounting from the date of transition to IFRS onwards is possible, if a hedging relationship has been documented on or before the transition date. As the Bank has already applied hedge accounting in its group reporting package, whereby it already met the designation and documentation requirements in IAS 39 Financial Instruments: Recognition and Measurement, IFRS 1 allows it to continue it in its financial statements from the transition date onwards.

Estimates

The estimates at 1 January 2017 and at 31 December 2017 are consistent with those made for the same dates in accordance with Dutch GAAP, apart from the following item where application of Dutch GAAP did not require estimation:

- Derivatives subject to hedge accounting were accounted at cost price under Dutch GAAP.

The estimates used by the Bank to present these a mounts in accordance with IFRS reflect conditions at 1 January 2017, the date of transition to IFRS, and at 31 December 2017.

(Currency: Thousands of Euros)

Reconciliation of equity as at 1 January 2017 (date of transition to IFRS)

	Notes	Dutch GAAP	Re-Measurements and Reclassifications	IFRS
Assets				
Cash and balances with central banks		441,985	-	441,985
Loans and advances to banks	*D*	538,436	925	539,361
Derivative financial instruments	*A, K*	70,206	(308)	69,898
Available-for-sale financial assets	*B, C, D*	815,697	(6,049)	809,648
Loans and advances to customers	*D*	2,889,555	32,368	2,921,923
Tangible and intangible assets		27,549	-	27,549
Current tax asset		3,930	-	3,930
Deferred tax asset	*E*	-	4,334	4,334
Other assets	*D*	48,161	(41,150)	7,011
Total Assets		**4,835,519**	**(9,880)**	**4,825,639**
Liabilities				
Due to banks	*F, G*	120,747	51	120,798
Due to customers	*F, G*	3,348,663	18,114	3,366,777
Derivative financial instruments	*A, K*	57,817	6,264	64,081
Obligations under repurchase agreements	*G*	129,094	35	129,129
Loans and advances from banks and other institutions	*F, G*	519,018	(382)	518,636
Deferred tax liability	*E*	826	(826)	-
				-
Current tax liability		-	-	-
Other liabilities, accrued expenses and provisions	*F, G*	44,957	(18,057)	26,900
Other borrowed funds	*G, H*	50,000	417	50,417
Total Liabilities		**4,271,122**	**5,616**	**4,276,738**
Equity				
Share capital		136,836		136,836
Retained earnings	*A, K,*	425,603	(1,782)	423,821
Other reserves	*A, B, C, K*	1,958	(13,714)	(11,756)
Total Equity		**564,397**	**(15,496)**	**548,901**
Total Liabilities and Equity		**4,835,519**	**(9,880)**	**4,825,639**

Reconciliation of equity as at 31 December 2017

	Notes	Dutch GAAP	Re-Measurements and Reclassifications	IFRS
Assets				
Cash and balances with central banks	-	339,431	-	339,431
Loans and advances to banks	*D*	382,743	361	383,104
Derivative financial instruments	*A*	25,185	295	25,480
Available-for-sale financial assets	*B, C, D*	428,834	9,666	438,500
Loans and advances to customers	*D*	3,022,302	26,604	3,048,906
Tangible and intangible assets	*K*	31,090	-	31,090
Current tax asset		-	-	-
Deferred tax asset	*E*	-	-	-
Other assets	*D*	37,354	(29,716)	7,638
Total Assets		**4,266,939**	**7,210**	**4,274,149**
Liabilities				
Due to banks	*F, G*	105,216	65	105,281
Due to customers	*F, G*	2,892,890	10,190	2,903,080
Derivative financial instruments	*A*	18,068	3,960	22,028
Obligations under repurchase agreements	*G*	136,362	2	136,364
Loans and advances from banks and other institutions	*F, G*	422,373	(226)	422,147
Current tax liability		1,899	-	1,899
Deferred tax liability	*E*	2,115	606	2,721
Other liabilities, accrued expenses and provisions	*F, G*	45,068	(9,555)	35,513
Other borrowed funds	*G, H*	50,000	417	50,417
Total Liabilities		**3,673,991**	**5,459**	**3,679,450**
Equity				
Share capital		136,836	-	136,836
Retained earnings	*A, K*	450,289	(234)	450,055
Other reserves	*A, B, C, K*	5,823	1,985	7,808
		592,948	**1,751**	**594,699**
Total Equity		**1,185,896**	**-**	**-**
Total Liabilities and Equity		**4,266,939**	**7,210**	**4,274,149**

(Currency: Thousands of Euros)

Reconciliation of total comprehensive income for the year ended 31 December 2017

	Notes	Dutch GAAP	Re-Measurements and Reclassifications	IFRS for the year ended
Statement of Income:				
Interest and similar income	*I, J*	140,820	10,036	150,856
Interest and similar expense	*I, J*	(80,718)	(460)	(81,178)
Net interest income		***60,102***	***9,576***	***69,678***
Fee and commission income	*J*	26,172	(12,721)	13,451
Fee and commission expense	*J*	(2,524)	546	(1,978)
Net fee and commission income		***23,648***	***(12,175)***	***11,473***
Net trading income	*A, B, I*	5,580	4,729	10,309
Other operating income	*C*		6	6
Total other operating income		**5,580**	**4,735**	**10,315**
Impairment losses on financial assets		(8,368)		(8,368)
Net operating income		**80,962**	**2,136**	**83,098**
Personnel expenses		(29,436)	-	(29,436)
Depreciation and amortisation		(3,431)	-	(3,431)
Other operating expenses	*K*	(15,121)	(73)	(15,194)
Total operating expenses		**(47,988)**	**(73)**	**(48,061)**
Profit before tax		**32,974**	**2,063**	**35,037**
Income tax expense	*E*	(8,288)	(515)	(8,803)
Profit for the year		**24,686**	**1,548**	**26,234**
Other Comprehensive Income:				
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		-	-	-
Revaluation of building		-	-	-
Gains/(losses) during the year		5,155	73	5,228
Income tax effect	*K*	(1,288)	(18)	(1,306)
Net gain on revaluation of building	*E*	3,867	55	3,922
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Cash flow hedges		-	-	-
Recycling to profit or loss	*A*	-	372	372
Recycling to profit or loss		-	-	-
Income tax effect		-	(93)	(93)
Net gain on cash flow hedges	*E*	**-**	**279**	**279**
Available-for-sale financial assets		-	-	-
Gains/(losses) during the year		-	23,078	23,078
Recycling to profit or loss	*B*	-	(2,592)	(2,592)
Income tax effect	*B*	-	(5,123)	(5,123)
Net gain on available-for-sale financial assets	*E*	**-**	***15,363***	***15,363***
Total other comprehensive income for the year, net of tax		***3,867***	***15,697***	***19,564***
Total comprehensive income for the year, net of tax		***28,553***	***17,245***	***45,798***

Notes to the reconciliation of equity as at 1 January 2017 and 31 December 2017 and total comprehensive income for the year ended 31 December 2017.

A. Derivatives

Derivatives that are not designated in a hedge relation are measured at fair value under both Dutch GAAP and IFRS. Derivatives that are designated in a hedge relation to mitigate interest rate and foreign currency risk are measured at cost under Dutch GAAP (which is referred to as 'cost-price hedge accounting'). Under IFRS, GBI applies:

- cash flow hedge accounting for derivatives that are designated in hedge relations to mitigate currency risks of highly probable future transactions;
- fair value hedge accounting for derivatives that at designated in hedge relations to mitigate interest rate risk related to GBI's bond portfolio.

For the transfer to IFRS, a cash flow hedge reserve is created in equity that includes, in short, the cumulative effective portion of the fair value change of the derivatives (as at the date of transition and for the full year 2017) that are designated in hedge relations to mitigate currency risks.

For fair value hedge accounting, the cumulative effective portion of the fair value change of the hedged item that relates to the hedged risk (being the fair value change of bonds due to changes in the interest rate) is transferred from other comprehensive income to retained earnings at the date of transition and the fair value change of the fair value change of the hedged items during 2017 is transferred from other comprehensive income to the statement of income.

B. Debt securities

Under Dutch GAAP, the Bank measured its debt securities at amortised cost and realized results on sale of debt securities are recognized under interest income and expense. Under IFRS, the Bank classifies these instruments as available-for-sale assets and, accordingly, measures them at fair value with fair value changes through other comprehensive income. Realised results are recorded under net trading income.

C. Equity securities

Under Dutch GAAP, the Bank measured its equity securities at cost. Under IFRS, the Bank classifies these instruments as available-for-sale assets and, accordingly, measures them at fair value with fair value changes through other comprehensive income.

D. Accrued income

Under Dutch GAAP, the Bank presented accrued income within Prepayments and accrued income. Under IFRS, accrued income is presented within the associated assets (interest earnings only) on the Statement of Financial Position.

E. Deferred tax

The various transitional adjustments lead to different temporary differences. According to the note Significant accounting policies, the Bank has to account for such differences. Deferred tax adjustments are recognised in relation to the underlying transaction either in retained earnings or a separate component of equity.

Under Dutch GAAP, deferred tax liabilities were presented within Provisions on the Statement of Financial Position. Under IFRS, deferred tax liabilities are presented as a separate item on the Statement of Financial Position.

(Currency: Thousands of Euros)

F. Deferred income

Under IFRS, received up-front fees that are an integral part of the amortised cost (using the effective interest rate method) of an instrument are not presented separately, whereas under Dutch GAAP those fees were presented separately from the related instrument under other liabilities.

Under Dutch GAAP, the Bank presented deferred income within Accrued liabilities and deferred income. Under IFRS, deferred income is presented within the associated assets on the Statement of Financial Position.

For all income items that are not related to instruments at amortised cost or FVOCI, deferred income is recognized under other liabilities and hence there is no difference between Dutch GAAP and IFRS.

G. Accrued liabilities

Under Dutch GAAP, the Bank presented interest accruals within Accrued liabilities and deferred income. Under IFRS, interest accruals are presented within the associated liabilities on the Statement of Financial Position.

H. Other borrowed funds

Under Dutch GAAP, subordinated loans were presented as a separate item between equity and liabilities on the Statement of Financial Position. Under IFRS, subordinated loans are presented within Other borrowed funds on the Statement of Financial Position.

I. Interest income and expense

Under Dutch GAAP, the Bank recognised interest income and expense based on the straight-line method of amortisation. Under IFRS, the Bank recognises interest income and expense based on the effective interest method except in case financial assets have become credit-impaired financial assets. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Under Dutch GAAP realized results on debt securities are recognized under interest income and expense while for IFRS these are recorded under net trading income.

J. Fee and commission income

Under Dutch GAAP, the Bank presented certain fees that are an integral part of the effective interest rate of a financial instrument within Commission income on the Income Statement. Under IFRS, the Bank presents fees that are integral part of the effective interest rate as interest income, unless the financial instrument is measured at fair value, with the change in fair value being recognized in profit or loss. In those cases, the fees are recognized as fee and commission income or expense.

K. Tangible Assets (property and plant in own use)

Under Dutch GAAP as well as IFRS, property in own use is accounted for at fair value, with changes in fair value reported in a revaluation reserve in equity. The revaluation reserve is depreciated into profit and loss over the life of the asset under Dutch GAAP whereas for IFRS-EU no depreciation is applied. An amount of EUR 73K has been transferred to Other Reserves from Retained Earnings the change in accounting of the revaluation reserve.

Statement of cash flows for 2017

There are no material differences between the statement of cash flows presented under IFRSs and the statement of cash flows presented under Dutch GAAP.

Notes to the Statement of Financial Position and Statement of Comprehensive Income

1. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash balances on hand, loans and advances to banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as of 31 December 2018 and 2017, included in the accompanying statements of cash flows are as follows:

	31 December 2018	31 December 2017	1 January 2017
Cash	-	2	1
Unrestricted balances with central banks	836,250	339,429	441,984
Loans and advances to banks on demand	61,979	28,917	45,184
Due to banks on demand	(19,314)	(17,001)	(26,838)
	878,915	**351,347**	**460,331**

2. RELATED PARTY DISCLOSURES

For the purpose of this report, the 100 percent shareholder Türkiye Garanti Bankasi A.Ş. (GBI's parent company), its controlling shareholder Banco Bilbao Vizcaya Argentaria S.A, its other shareholder Doğuş Holding A.Ş, (until March 2017) and all their subsidiaries and key management personnel (being the members of the Supervisory Board and Managing Board of GBI) are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank had the following balances outstanding from and transactions with related parties.

Transactions with the parent

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

	31 December 2018	31 December 2017
Loans and advances to banks	14,058	8,844
Derivative financial instruments	459	240
Financial assets at fair value through other comprehensive income (previously Available for Sale under IAS 39)	-	-
Total assets	**14,517**	**9,084**
Due to banks	13,366	31,371
Due to customers	-	-
Derivative financial instruments	169	192
Other borrowed funds	50,398	50,417
Total liabilities	**63,933**	**81,980**

(Currency: Thousands of Euros)

Off Balance Sheet liabilities	340	340
Loan commitments, financial guarantees and other commitments received	89,444	120,984
Notional amount of derivatives	52,239	20,946

	2018	**2017**
Interest and similar income	1,966	666
Interest and similar expense	(8,959)	(2,305)
Fee and commission income	196	172
Fee and commission expense	(1,638)	(518)
Net income/expense	**(8,435)**	**(1,985)**

EUR 45 of expected credit losses have been recorded against balances outstanding during the period with the parent company (2017: nil) and none of the exposures are credit impaired.

Transactions with other related parties

The outstanding balances and income and expense is as follows:

	31 December 2018	*31 December 2017*
Loans and advances to banks	423	47
Derivative financial instruments	8,760	2,818
Loans and advances to customers	111,250	129,897
Total assets	**120,433**	**132,762**
Due to banks	9,733	-
Due to customers	5,094	3,374
Derivative financial instruments	-	-
Other liabilities	-	38
Total liabilities	**14,826**	**3,412**
Off Balance Sheet liabilities	-	-
Notional amount of derivatives	26,238	25,779

	2018	**2017**
Interest and similar income	2,735	3,504
Interest and similar expense	(3,400)	(260)
Fee and commission income	90	176
Fee and commission expense	-	-
Other operating expenses	(32)	(30)
Net income/expense	**(608)**	**3,391**

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

EUR 454 of expected credit losses have been recorded against balances outstanding during the period with other related parties (2017: nil) and none of the exposures are credit impaired.

Transactions with key management personnel

Key management personnel compensation

Key management personnel compensation comprises the remuneration of the Supervisory Board and Managing Board, which is disclosed in note 27.

Key management personnel transactions

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

	31 December 2018	*31 December 2017*
Due to customers	3,153	7,756
Total liabilities	**3,153**	**7,756**
Off Balance Sheet liabilities	20	20
Notional amount of derivatives	788	803

	2018	*2017*
Interest and similar income	15	-
Interest and similar expense	20	57
Fee and commission income	-	-
Fee and commission expense	14	79
Net income/expense	**49**	**136**

Interest rates charged on balance outstanding from related parties are a quarter of the rates that would be charged in an arm's length transaction.

3. CASH AND BALANCES WITH CENTRAL BANKS

Classification of financial assets as loans and advances to banks

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

	31 December 2018	*31 December 2017*	*1 January 2017*
Cash at branches	-	2	1
Balances with central banks	836,250	339,429	441,984
	836,250	**339,431**	**441,985**
Provision for impairment	(42)	-	-
	836,208	**339,431**	**441,985**

Cash and balances with central banks includes cash on hand and all legal tenders, as well as demand deposits held at the central banks in countries in which GBI's Head Office and its branch are located. Details related to provision for impairment are disclosed in credit risk note 21.

4. LOANS AND ADVANCES TO BANKS

Classification of financial assets as loans and advances to banks

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

	31 December 2018	*31 December 2017*	*1 January 2017*
Placements in demand deposits	62,036	32,259	45,184
Placements in time deposits	237,143	298,388	411,981
Reverse repo	22,939	-	-
Loans given	-	49,200	78,748
Income accrual on loans and advances	3,859	3,257	3,448
Provision for impairment (note 21)	(1,378)	-	-
Net loans and advances to banks	**324,599**	**383,104**	**539,361**

(Currency: Thousands of Euros)

Impairment and risk exposure

Information about the impairment of loans and advances to banks, their credit quality and the company's exposure to credit risk can be found in note 21.

Total loans and advances to banks includes non-cash loans amounting to EUR 2,064 (31 December 2017: EUR 1,296, 1 January 2017: EUR 1,520) for letter of credits that the Bank has provided (note 16).

5. LOANS AND ADVANCES TO CUSTOMERS

Classification of financial assets as loans and advances to customers

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

	31 December 2018	31 December 2017	1 January 2017
Non-financial corporations	2,450,915	2,342,857	2,335,402
Non-bank financial corporations	401,628	697,372	582,414
Households	20,742	16,681	6,707
	2,873,285	**3,056,910**	**2,924,523**
Non-impaired loans	2,781,964	2,997,720	2,861,940
Impaired loans	91,321	59,190	62,583
Interest accrual	36,084	33,679	42,034
Provision for impairment	(61,495)	(41,683)	(44,634)
	2,847,874	**3,048,906**	**2,921,923**

Impairment and risk exposure

Information about the impairment of loans and advances to customers, their credit quality and the company's exposure to credit risk can be found in note 21.

Total loans and advances to customers includes non-cash loans amounting to EUR 2,929 (31 December 2017: EUR 22,535, 1 January 2017: EUR 12,896) for letter of credits that the Bank has provided (note 16), for which the payment obligation is certain.

6. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Classification of financial assets at fair value through profit or loss

Financial assets mandatorily measured at fair value through profit or loss include:

	31 December 2018	31 December 2017*	1 January 2017**
Corporate bonds issued by financial institutions	8,628	8,291	9,422
Equity shares (**)	2,771	2,231	5,349
	11,399	**10,522**	**14,771**

* These investments were classified as available-for-sale at 31 December 2017 and 1 January 2017 as explained in note Change in accounting policies.
** Carrying amount of the equity share is available-for-sale at 31 December 2017and includes an impairment of EUR 1,827.

These investments are contractually linked instruments. The Bank's investment in these instruments does not meet the criteria for classification at fair value through other comprehensive income as the contractual cash flows are not solely payments of principal and interest. Accordingly, these investments are carried at fair value through profit or loss.

There are no financial assets designated as fair value through profit or loss by option.

Refer to note Changes in accounting policies for explanations regarding the change of accounting policy and the reclassification of debt investments from available-for-sale to financial assets at fair value through profit or loss and note Significant accounting policies (f) for the remaining accounting policies applicable for financial assets.

7. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Classification of financial assets at fair value through other comprehensive income

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

	31 December 2018	31 December 2017*	1 January 2017*
Bonds issued by financial corporations	10,180	104,245	385,683
Bonds issued by non-financial corporations	20,525	135,811	215,654
Bonds issued by general governments	163,936	187,922	193,540
	194,641	**427,978**	**794,877**

* These investments were classified as available-for-sale at 31 December 2017 and 1 January 2017 as explained in note Change in accounting policies.

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

Refer to note Changes in accounting policies for explanations regarding the change of accounting policy and the reclassification of equity investments from available-for-sale to financial assets at FVOCI and note Significant accounting policies (f) for the remaining accounting policies applicable for financial assets.

Debt securities include securities pledged under repurchase agreements with counterparties amounting to EUR 123,003 (2017: EUR 162,098), of which EUR 123,003 is eligible by the European Central Bank (ECB) (2017: EUR 155,041).

8. TANGIBLE AND INTANGIBLE ASSETS

Movement in tangible and intangible assets from 1 January to 31 December 2018 is as follows:

	1 January	Additions	Carrying Revaluation surplus	Disposals and Transfer	31 December
Cost					
Land and building	27,238	210	4,532	(4,278)	27,702
Furniture and equipment	5,036	402	-	(873)	4,565
Software	10,371	2,539	-	(1,244)	11,666
	42,645	**3,151**	**4,532**	**(6,395)**	**43,933**
Less: Accumulated depreciation	*(2,329)*	*(496)*	*(1,453)*	4,278	-
Land and building	*(2,947)*	*(648)*	-	873	(2,722)
Furniture and equipment	*(6,279)*	*(1,835)*	-	**1,244**	**(6,870)**
Software	**(11,555)**	**(2,979)**	**(1,453)**	**6,395**	**(9,592)**
	31,090	**172**	**3,079**	**-**	**34,341**

(Currency: Thousands of Euros)

Movement in tangible and intangible assets from 1 January to 31 December 2017 is as follows:

	1 January	Additions	Carrying Revaluation surplus	Disposals and Transfer	31 December
Cost					
Land and building	20,537	129	6,883	(311)	27,238
Furniture and equipment	6,201	94	-	(1,259)	5,036
Software	9,034	1,521	-	(184)	10,371
	35,772	**1,744**	**6,883**	**(1,754)**	**42,645**
Less: Accumulated depreciation	*(487)*	*(498)*	*(1,655)*	311	(2,329)
Land and building	*(3,291)*	*(915)*	-	1,259	(2,947)
Furniture and equipment	*(4,445)*	*(2,018)*	-	184	(6,279)
Software	**(8,223)**	**(3,431)**	**(1,655)**	**1,754**	**(11,555)**
	27,549	**(1,687)**	**5,228**	**-**	**31,090**

Depreciation expense of tangible assets for the year ended 31 December 2018 amounted to EUR 2,979 (2017: EUR 3,431).

An independent valuator was involved to assess the valuation of the land and buildings. As per 31 December 2018 (the effective date of revaluation), the revaluation of land and buildings, net of deferred tax, amounting to EUR 2,309 was accounted under shareholders' equity (2017: EUR 3,922).

As of 31 December 2018, the net book value of property under cost model instead of revaluation model is EUR 17,206 (2017: EUR 17,491).

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

	2018	*2017*
Opening balance as at January 1st	**7,417**	**2,189**
Current year charge in OCI	3,079	5,228
Closing balance as at December 31st	**10,496**	**7,417**

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

9. OTHER ASSETS

	31 December 2018	*31 December 2017*	*1 January 2017*
Prepaid expenses, insurance claims and similar items	1,430	1,673	2,225
Miscellaneous receivables	5,152	5,817	4,627
Other	255	148	159
	6,837	**7,638**	**7,011**

As at 31 December 2018 miscellaneous receivables consists of a receivable of EUR 4.5 million (31 December 2017: EUR 4.5 million) with regards to the Deposit Guarantee Scheme for the bankrupted DSB Bank. This receivable is recorded at its estimated fair value.

10. DEPOSITS FROM BANKS

Deposits from banks comprise the following:

	31 December 2018	*31 December 2017*	*1 January 2017*
Payable on demand	19,314	17,001	26,838
Term deposits	94,716	88,216	93,909
	114,030	**105,217**	**120,747**
Expense accrual on deposits from banks	223	64	51
	114,253	**105,281**	**120,798**

11. DEPOSITS FROM CUSTOMERS

Deposits from customers comprise the following:

	31 December 2018		
	Demand	**Time**	**Total**
Households	1,152,557	1,154,361	2,306,918
Non-financial corporations	188,042	219,175	407,217
Financial corporations	21,401	55,061	76,462
	1,362,000	**1,428,597**	**2,790,597**
Expense accrual on deposits	3,285	7,354	10,639
	1,365,285	**1,435,951**	**2,801,236**

	31 December 2017		
	Demand	**Time**	**Total**
Households	1,379,694	915,129	2,294,823
Non-financial corporations	332,929	255,868	588,797
Financial corporations	9,170	100	9,270
	1,721,793	**1,171,097**	**2,892,890**
Expense accrual on deposits	1,438	8,752	10,190
	1,723,231	**1,179,848**	**2,903,080**

	1 January 2017		
	Demand	**Time**	**Total**
Households	1,571,117	963,319	2,534,436
Non-financial corporations	471,058	330,307	801,365
Financial corporations	10,862	2,000	12,862
Gold and other precious metals	0		0
	2,053,037	**1,295,626**	**3,348,663**
Expense accrual on deposits		18,114	18,114
	2,053,037	**1,313,740**	**3,366,777**

(Currency: Thousands of Euros)

12. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

	31 December 2018	31 December 2017	1 January 2017
Obligations under reverse repurchase agreements	22,939	-	-
Obligations under repurchase agreements	(190,724)	(136,364)	(129,129)
	(167,785)	**(136,364)**	**(129,129)**

Assets sold under repurchase agreements are further detailed as follows:

	Carrying value of collateral assets	Fair value of collateral assets	Carrying amount of corresponding liabilities	Range of repurchase dates	Repurchase price
31 December 2018					
Financial investments at fair value through other comprehensive income	178,834	178,834[3]	190,724	22/01/2019-24/03/2021	189,800
31 December 2017					
Available-for-sale securities	160,557	160,557	136,364	24/06/2020-24/03/2021	136,378
1 January 2017					
Available-for-sale securities	161,027	161,027	129,129	24/06/2020-16/12/2020	129,510

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements.

Expense accrual on obligations under repurchase agreements amounting to EUR -960 (2017: EUR 2) is included in the carrying amount of corresponding liabilities.

[3] On top of the on-balance collateral, as of 31 December 2018, GBI also holds EUR 22.9 thousand of securities related to reverse repurchase transactions. Part of these securities (EUR 11.9 thousand) are used is also used for the collateral pool in relation to funding obtained from ECB.

13. LOANS AND ADVANCES FROM BANKS AND OTHER INSTITUTIONS

Loans and advances from banks and other institutions are recorded at amortised cost and comprise the following:

31 December 2018	Loan Amount	Interest accrual	Total	Maturity range
Short-term loans	*382,737*	*1,612*	*384,349*	-
Syndicated spot	-	-	-	-
USD	161,621	78	161,699	26/06/2019 - 26/06/2019
Non-syndicated	-	-	-	-
USD	221,116	1,534	222,650	03/01/2019 - 19/12/2019
Short-term portion of long-term loans	*91,346*	*659*	*92,005*	-
USD	91,346	659	92,005	15/07/2019 - 20/12/2019
Long-term loans	*21,865*	*2*	*21,867*	-
USD	21,865	2	21,867	20/12/2020 - 20/12/2020
	495,948	**2,273**	**498,221**	**-**

31 December 2017	Loan Amount	Interest accrual	Total	Maturity range
Short-term loans	*276,465*	*361*	*276,826*	-
Syndicated spot	-	-	-	-
USD	207,963	71	208,034	26,06,2018 - 26,06,2018
Non-syndicated	-	-	-	-
USD	68,502	290	68,792	02,02,2018 - 20,07,2018
Short-term portion of long-term loans	*61,977*	*327*	*62,304*	-
USD	61,977	327	62,304	20,12,2018 - 20,12,2018
Long-term loans	*82,484*	*533*	*83,017*	-
USD	82,484	533	83,017	20,12,2019 - 20,12,2019
	420,926	**1,221**	**422,147**	**-**

1 January 2017	Loan Amount	Interest accrual	Total	Maturity range
Non-interest bearing loans	*8,067*	-	*8,067*	-
USD	6,268	-	6,268	03,02,2017 - 12,06,2017
EUR	1,799	-	1,799	10,01,2017 - 25,09,2017
Other short-term loans	*355,868*	*345*	*356,213*	
Syndicated	-	-	-	-
USD	120,752	25	120,777	26,06,2017 - 26,06,2017
EUR	135,850	7	135,857	26,06,2017 - 26,06,2017
Non-syndicated	-	-	-	-
USD	83,898	207	84,105	23,01,2017 - 08,12,2017
EUR	15,368	106	15,474	02,03,2017 - 03,03,2017
Short-term portion of long-term loans	*95,171*	*257*	*95,428*	-
USD	95,171	257	95,428	16,10,2017 - 20,12,2017
				-
Long-term loans	58,527	401	58,928	20,12,2018 - 20,12,2018
USD	58,527	401	58,928	-
	517,633	**1,003**	**518,636**	-

(Currency: Thousands of Euros)

14. OTHER BORROWED FUNDS

As at 31 December 2018, other borrowed funds contains a subordinated loan received from GBI's shareholder Türkiye Garanti Bankası A.Ş. with a total amount of EUR 50 million (2017: EUR 50 million). The subordinated loan is subordinate to the other current and future liabilities of GBI.

A subordinated loan amounting to EUR 50 million was granted in 2015 with an original maturity of 10 years and has a yearly interest rate of 4.55% (31 December 2017: 4.55%, 1 January 2017: 4.55%).

In 2018, the interest expense in respect of the subordinated loans amounts to EUR 2,305 million (2017: EUR 2,305) (note 20).

15. TAXATION

In the Netherlands, corporate income tax is levied at the rate of 20% for tax profits up to EUR 200 and 25% for the excess part over this amount on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the related year. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies. Under the Dutch taxation system, tax losses can be carried forward for nine years to offset against future taxable income. Tax losses can be carried back to one prior year. Companies must file their tax returns within five months following the end of the tax year to which they relate, unless the company applies for an extension (normally an additional ten months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings. The corporate income tax rate for the Germany branch is 30%.

Tax assets and liabilities are as follows:

	31 December 2018	31 December 2017	1 January 2017
Current tax asset	10,640	-	3,930
Deferred tax asset	-	-	4,334
Tax assets	**10,640**	**-**	**8,264**
Current tax liability	-	(1,899)	-
Deferred tax liability	(3,006)	(2,721)	-
Tax liabilities	**(3,006)**	**(4,620)**	**-**
Net tax assets/(liabilities)	**7,634**	**(4,620)**	**8,264**

The tax income and expense are as follows:

	2018	2017
Current tax income/(expense)	(3,540)	(8,270)
Deferred tax income/(expense)	-	(533)
Tax income/(expense)	**(3,540)**	**(8,803)**

The movement of current tax asset/liability is as follows:

	2018	2017
Opening balance as at January 1st	**(1,899)**	**3,930**
Adjustment on adoption of IFRS 9	7,055	-
Current period taxation charge in the statement of profit or loss	(3,540)	(8,270)
Current period taxation charge in the statement of other comprehensive income	2,130	-
Movement from deferred to current tax due to change in tax base to IFRS 9	(816)	-
Other movement from deferred to current tax	(65)	-
Other transition related changes	(69)	-
Less: Advance taxes paid during the period	7,844	2,441
Closing balance as at December 31st	**10,640**	**(1,899)**

In accordance with the related regulation for prepaid taxes on income, such advance payments during the year are being deducted from the final tax liability for the period. Accordingly, the taxation charge on income is not equal to the final tax liability appearing on the statement of financial position.

Deferred tax assets and liabilities are as follows:

	31 December 2018	31 December 2017	1 January 2017
Valuation of AFS portfolio	-	-	3,560
Valuation of derivatives	-	909	1,609
Total deferred tax assets	**-**	**909**	**5,169**
Valuation of AFS portfolio	-	(1,489)	-
Valuation of hedges	(160)	-	-
Revaluation of building	(2,737)	(1,967)	(661)
Other	(109)	(174)	(174)
Total deferred tax liabilities	**(3,006)**	**(3,630)**	**(835)**
Net deferred tax assets/(liabilities)	**(3,006)**	**(2,721)**	**4,334**

Movements in deferred tax assets and liabilities are detailed in the table below:

	2018	2017
Opening balance as at January 1st	**(2,721)**	**4,334**
Adjustment on adoption of IFRS 9	(236)	-
Movement from deferred to current tax due to change in tax base to IFRS 9	816	-
Other movement from deferred to current tax	65	(533)
Deferred tax charge recognized in the statement of other comprehensive income	(930)	(6,522)
Closing balance as at December 31st	**(3,006)**	**(2,721)**

(Currency: Thousands of Euros)

The total provision for taxes on income is different than the amount computed by applying the Dutch statutory tax rate to income before provision for taxes as shown in the following reconciliation:

	2018	2017
Profit before tax	15,560	35,037
Tax using the GBI's domestic tax rate	(3,880)	(8,759)
Effect of different tax rates in other countries	(33)	(37)
Disallowable expenses		(7)
Changes related to previous years taxation	373	
Tax income/(expense)	**(3,540)**	**(8,803)**
Effective tax rate	22.8%	25.1%

16. OTHER LIABILITIES, ACCRUED EXPENSES AND PROVISIONS

The principal components of other liabilities, accrued expenses and provisions are as follows:

	31 December 2018	31 December 2017	1 January 2017
Non-cash loans for letter of credits (*)	4,993	23,831	14,416
Unearned income	2,134	2,417	3,213
Short-term employee benefits	**1,784**	**2,284**	**2,859**
Withholding taxes	1,129	1,132	1,694
Vacation pay liability	128	114	109
Miscellaneous payables	8,918	5,735	4,609
	19,086	**35,513**	**26,900**
Expected credit loss for non-cash loans (note 21)	837	-	-
	19,923	**35,513**	**26,900**

* The Bank gives non-cash loans for letter of credits it provides. As of 31 December 2018, non-cash loans provided to the banks and customers are EUR 2,064 (note 4) and EUR 2,929 (note 5), respectively (31 December 2017: EUR 1,296 and EUR 22,535; 1 January 2017: EUR 1,520 and EUR 12,896).

Management has set aside a provision in relation to short term employee benefits (variable remuneration to be paid within 12 months after the reporting date), long term employee benefits (deferred variable remuneration to be paid more than 12 months after the reporting date) and termination benefits (usually to be paid within 12 months after the reporting date). The amount of provision that is set aside in relation to variable remuneration is based on the actual performance versus the budgets and is approved by the Supervisory Board. The amount set aside for termination benefits is based on management judgement (or Supervisory Board judgement in case of termination of member of the Managing Board) in relation to negotiations between parties involved. Movement in the provision for employee benefits is as follows:

	2018	2017
Opening balance as at January 1st	**2,284**	**2,859**
Provision for the period	1,683	1,295
Payments during the period	(2,183)	(1,870)
Closing balance as at December 31st	**1,784**	**2,284**

Movement in the provision for vacation pay liability is as follows:

	2018	2017
Opening balance as at January 1st	**114**	**109**
Provision for the period	128	115
Payments during the period	(114)	(110)
Closing balance as at December 31st	**128**	**114**

17. EQUITY

Share capital

As of 31 December 2018, the authorized nominal share capital of the Bank 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.

Other comprehensive income/loss not to be reclassified to profit or loss in subsequent periods:

- Revaluation of building:

  The Bank has elected to revaluate the building reported under buildings in tangible assets (note 8). Under revaluation model instead of cost model, revaluation surplus is recognized in the other comprehensive income and shall not be recycled to the statement of profit or loss in the subsequent periods.

  The reconciliation of revaluation reserve in other comprehensive income (net of tax) are as follows;

	2018	2017
Opening balance as at January 1st	**5,564**	**1,642**
Gains/(losses) during the year	3,079	5,228
Deferred tax effect	(770)	(1,306)
Closing balance as at December 31st	**7,873**	**5,564**

Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:

- Financial assets at fair value through other comprehensive income reserve (FVOCI) is detailed as follows:

  In 2018, the Bank recognises changes between the amortised cost and market value of the securities measured at fair value through other comprehensive income in the other comprehensive income. In 2017 and prior periods, this portfolio included available-for-sale securities as explained in note 'Changes in accounting policies' but the accounting was the same.

  These changes are accumulated within the FVOCI reserve under equity. The Bank transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

(Currency: Thousands of Euros)

	2018	2017
Opening balance at January 1st	**2,144**	**(13,219)**
ECL adjustment due to IFRS 9 (note changes in accounting policies)	847	-
Reclassification as FVTPL due to IFRS 9	97	-
Tax impact of IFRS 9 transition	(236)	-
Restated opening balance	**2,852**	**(13,219)**
Gains/(losses) during the year	(12,290)	23,078
Impairment for the current year	171	-
Recycling to profit or loss	4,073	(2,592)
Impairment reversal	(475)	-
Income tax effect	2,130	(5,123)
Closing balance as at December 31st	**(3,539)**	**2,144**

- Cashflow hedge reserve

The hedging reserve comprises the effective portions of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (refer to note 'Derivatives and Hedge Accounting' for the details).

	2018	21,572
Opening balance as at January 1st	**100**	**(179)**
Recycling to profit or loss	508	372
Deferred tax effect	(127)	(93)
Closing balance as at December 31st	**481**	**100**

Capital management

GBI is part of the BBVA Group. Therefore, the European Central Bank (ECB) sets and monitors capital requirements for the Group as a whole and for GBI individually. The banking operations are directly supervised by De Nederlandsche Bank (DNB).

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.

GBI's regulatory capital consists of the sum of the following elements.

- Common Equity Tier 1 (CET1) capital, which includes ordinary share capital, related share premiums, retained earnings and reserves after adjustment for dividends proposed after the year end and deductions for goodwill, intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities.

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

	2018	2018	2017
	December 31, 2018	January 1,2018 (IFRS 9 impact)	December 31, 2017
Total Equity	562,633	541,244	562,408
Current year Profit	-	-	-
Eligible year end profit after approval	**-**	**-**	**-**
Non-eligible monitority interest	-	-	-
Deductions from revaluation Reserve - AFS	-	-	-
Prudential filters	(759)	(480)	(57)
Cash flow hedge reserve	-	-	-
Prudent valuation	**(759)**	**(480)**	**(57)**
Intangible asset [4]	(3,577)	(3,024)	(3,024)
Transitional adjustments to CET1 Capital[5]	-	-	(16,066)
Core Tier 1	**558,297**	**537,740**	**543,261**
Perpetual Tier 1 capital	-	-	-
Transitional adjustments to AT1 Capital	**-**	**-**	**-**
Additional Tier 1	-	-	-
Total Tier I capital	**558,297**	**537,740**	**543,261**
Tier II Capital	10,671	14,497	11,280
Subordinated capital	50,000	50,000	50,000
Total Tier II capital	**60,671**	**64,497**	**61,279**
Total own funds	**618,968**	**602,237**	**604,570**
CET 1 ratio	21.27%	20.23%	20.44%
Total capital ratio (TCR)	**23.58%**	**22.66%**	**22.74%**

The CET1 ratio and Total capital ratio does not include the 2018 net result, in line with the reports submitted to the regulatory authorities. When including the audited full year net result of 2018 the CET1 ratio is 21.77 percent and the Total capital ratio is 24.09 percent.

GBI has preserved its prudent approach to capital and liquidity management in 2018. Common Equity Tier 1 (CET1) has increased to 21.27% percent from 20.44 percent in 2017, whereas the total capital ratio has increased to 23.58% percent from 22.75 percent in 2017. Due to the first time implementation of the IFRS9 provisioning requirements, the opening equity of the Bank has been restated, which led to a decrease in total capital ratio of 8 bps as of 1 January 2018. This ratio is comfortably above the minimum required regulatory level and provides a strong cushion for the Bank.

[4] Under CRD IV frame, additional items listed below shall be deducted fully by 31 December 2018 to enhance own funds quality: Non-eligible minority interest, Other intangible asset (Non-solvency deductible under Basel II framework) and Deferred tax assets that rely on future profitability and do not arise from temporary differences.

[5] Transitional adjustment is permitted to apply the calculation referred in article 473 (2) and of CRD IV by deducting fully under prudential filter and adding 40% back to total own funds.

(Currency: Thousands of Euros)

Impact to excess of expected losses over impairment allowances deduction

For exposures that are subject to internal ratings based (IRB)approach, the calculation of own funds takes account of the expected loss via a comparison with the impairment allowances. Under IAS 39, this resulted in an excess of expected loss that was deducted from CET1 capital. Under IFRS 9, the impairment allowances change to an expected credit loss model and therefore the regulatory shortfall has been eliminated.

GBI's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' returns is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater earning and the advantages and security afforded by a stronger capital position.

GBI has complied with all externally imposed capital requirements.

The lead regulatory approach for the measurement of capital adequacy is primarily based on monitoring the relationship of the capital resources requirement to available capital resources. As part of the annual Supervisory Review and Evaluation Process (SREP), the lead regulator sets individual capital guidance (ICG) for GBI in excess of the minimum capital resources requirement. A key input to the SREP is GBI's internal capital adequacy assessment process (ICAAP).

Management uses regulatory capital ratios to monitor its capital base. Although maximisation of the return on risk-adjusted capital is the principal basis applied in determining how capital is used within the Bank for particular operations or activities, itis not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of other resources, and the fit of the activity with the longer-term strategic objectives of the Group. The policies in respect of capital management and allocation are reviewed regularly by the Supervisory Board.

18. FAIR VALUE INFORMATION

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. While management uses available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

The Bank analyses financial instruments held at fair value in the three categories described below. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

The fair value hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to valuation techniques supported by unobservable inputs.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities,

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices),

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Financial assets and liabilities measured at fair value

The table below analyses financial instruments carried at fair value, by valuation method:

	Level 1 *Quoted prices (unadjusted) in active markets*	**Level 2** *Valuation techniques - observable inputs*	**Level 3** *Valuation techniques - significant unobservable inputs*	**Total**
31 December 2018				
Financial assets measured at fair value	-	-	-	-
Derivative financial assets	-	-	-	-
Hedging derivatives	-	18,578	-	18,578
Non-Hedging derivatives	-	3,395	-	3,395
Financial investments at fair value through profit or loss	-	8,628	2,771	11,399
Financial investments at fair value through other comprehensive income	194,641	-	-	194,641
Total	**194.641**	**21,973**	**2,771**	**228,013**
Financial liabilities measured at fair value	-	-	-	-
Derivative financial assets	-	-	-	-
Hedging derivatives	-	25,362	-	25,362
Non-Hedging derivatives	-	2,827	-	2,827
Total	**-**	**28,189**	**-**	**28,189**

(Currency: Thousands of Euros)

	Level 1 *Quoted prices (unadjusted) in active markets*	**Level 2** *Valuation techniques - observable inputs*	**Level 3** *Valuation techniques - significant unobservable inputs*	**Total**
31 December 2017				
Financial assets measured at fair value				
Derivative financial assets	-	-	-	-
Hedging derivatives	-	15,326	-	15,326
Non-Hedging derivatives	-	10,154	-	10,154
Available at sale value	427,978	-	10,522	438,500
Total	**427,978**	**25,480**	**10,522**	**463,980**
Financial liabilities measured at fair value				
Derivative financial assets	-	-	-	-
Hedging derivatives	-	17,482	-	17,482
Non-Hedging derivatives	-	4,546	-	4,546
Total	**-**	**22,028**	**-**	**22,028**

There were no significant transfers between Level 1 and Level 2 in 2018 and 2017. There were no significant changes in the valuation techniques during the 2018 and 2017.

Level 3 fair value measurements

The movement of financial assets in level 3 is as follows:

	2018	***2017***
Balance as at January 1st	**10,522**	**14,770**
Transfer to stage 2	(8,291)	-
Gains/(losses) in the statement of profit or loss	540	(4,248)
Closing as at December 31st	**2,771**	**10,522**

The financial instrument categorised as Level 3 in the fair value hierarchy concerns an equity security. The value is based on a weighted average of four valuation methods. The following table sets out information about significant unobservable inputs used at 31 December 2018 and 2017.

Fair value at 31 December 2018	**Valuation technique**	**Significant unobservable input**	**Fair value measurement sensitivity to unobservable inputs**
2,771 (2017: 2,231)	*Discounted cash flow (30% weight)*	*Expected net cash flows derived from the entity*	*A significant increase in expected net cash flows would result in a higher fair value*
	EBITDA multiplier (30% weight)	Actual EBITDA derived from the entity	A significant increase in EBITDA would result in a higher fair value
	Net asset value (30% weight)	Actual balance sheet derived from the entity	A significant increase in reported net assets would result in a higher fair value
	Key value driver (10% weight)	Net operating profit less adjusted taxes	A significant increase in reported operating profit would result in a higher fair value

Significant unobservable inputs are developed as follows:

- Expected cash flows are derived from the customer's business plan whereby quality of the business plan is judged based on historical comparison between plans and actual results.

- Actual financial statements (EBITDA, balance sheet and net operating profits) are derived from periodic financial information prepared by management to inform its shareholders. The information obtained is analysed and to the extent necessary changes are made (e.g. corrections are made for incidental items).

Although GBI believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value of the equity security. For fair value measurements in Level 3, changing the unobservable inputs by 10% upward (favourable) and 10% downward (unfavourable) would have the following effects:

	Effect on profit or loss	
Valuation method	***Favourable***	***(Unfavourable)***
Discounted cash flow (30% weight)	127	(127)
EBITDA multiplier (30% weight)	57	(57)
Net asset value (30% weight)	59	(59)
Key value driver (10% weight)	75	(75)

Financial assets and liabilities not measured at fair value

The bank assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

	Level 1 *Quoted prices (unadjusted) in active markets*	**Level 2** *Valuation techniques - observable inputs*	**Level 3** *Valuation techniques - significant unobservable inputs*	**Total**
31 December 2018				
Assets for which fair values are disclosed but not recognised at fair value:	-	**-**	**3,216,552**	**3,216,552**
Loans and advances to banks	-	-	266,503	266,503
Loans and advances to customers	-	-	2,950,049	2,950,049
	-			
Liabilities for which fair values are disclosed but not recognised at fair value:	-	**-**	**2,293,996**	**2,293,996**
Due to banks	**-**	-	94,582	94,582
Due to customers	-	-	1,441,886	1,441,886
Obligations under repurchase agreements	-	-	192,043	192,043
Loans and advances from banks and other institutions	-	-	501,006	501,006
Subordinated liabilities	-	-	64,478	64,478

(Currency: Thousands of Euros)

	Level 1 *Quoted prices (unadjusted) in active markets*	Level 2 *Valuation techniques - observable inputs*	Level 3 *Valuation techniques - significant unobservable inputs*	Total
31 December 2018				
Assets for which fair values are disclosed but not recognised at fair value:	**-**	**-**	**3,315,503**	**3,315,503**
Loans and advances to banks	-	-	351,548	351,548
Loans and advances to customers	-	-	2,963,955	2,963,955
Liabilities for which fair values are disclosed but not recognised at fair value:	**-**	**-**	**1,889,601**	**1,889,601**
Due to banks	-	-	146,445	146,445
Due to customers	-	-	1,175,341	1,175,341
Obligations under repurchase agreements	-	-	129,903	129,903
Loans and advances from banks and other institutions	-	-	372,327	372,327
Subordinated liabilities	-	-	65,585	65,585

On-demand deposits and cash are excluded from the table. Deposits and loans with maturity, the fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities.

19. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in the accompanying financial statements, including letters of guarantee and letters of credit. Commitments and contingent liabilities comprise the following:

	31 December 2018	*31 December 2017*	*1 January 2017*
Letters of credit	151,661	198,893	206,280
Commitments for loan granting	157,181	150,747	136,546
Letters of guarantee	28,469	40,111	40,131
Other irrevocable commitments	8,746	8,326	9,480
Other guarantees	846	3,746	10,031
	346,903	**401,823**	**402,468**

Most of the contingencies have a short term nature and any outflow is normally reimbursed by the clients of the bank.

Letters of credit mainly secure payments to third parties for a customer's foreign and domestic trade transactions in order to finance a shipment of goods. GBI's credit risk in these transactions is limited since these transactions involve with the shipment of physical commodities shipped and are of a short duration.

Commitments for loan granting mainly relate to the regular lending activities of the bank.
Guarantees relate both to credit (other guarantees) and non-credit substitute guarantees (letters of

guarantee). Many of them are expected to expire without being drawn on and therefore do not necessarily represent future cash outflows.

Other irrevocable commitments relate to a credit linked note that GBI holds.

Furthermore, GBI leases assets (real estate, lease cars and office equipment) from third parties under operating leases as lessee. The agreements in place at year end 2018 do not include purchase options and have regular renewal clauses. The future commitments to be paid under non-cancellable operating leases only involve minimum lease payments and are as follows:

	Commitment
2019	394
2020	249
2021	222
2022	199
2023	169

20. NET INTEREST INCOME

	2018	*2017*
Interest loans to customers	152,285	123,851
Interest on securities	6,775	14,592
Interest on loans to banks	10,986	12,413
Negative interest on liabilities	1,044	-
Total interest income	**171,090**	**150,856**
Interest on swap funding	(56,312)	(36,696)
Interest on saving, commercial and public deposits	(25,566)	(30,338)
Interest on borrowings	(14,537)	(9,167)
	(2,305)	(2,305)
Interest on subordinated liabilities	1,572	762
Interest on bank deposits		
Interest on obligations under repurchase agreements	(272)	(379)
Negative interest on assets	(2,370)	(1,531)
Total interest expense	**(102,932)**	**(81,178)**
	(56,312)	(36,696)
Net interest income	(25,566)	(30,338)

Negative interest on Cash and balances with central banks is classified as interest payable and on Obligations under repurchase agreements is classified as interest receivable.

(Currency: Thousands of Euros)

21. NET FEE AND COMMISSION INCOME

Disaggregation of fee and commission income

Fees and commissions the Bank charges and incurs due to the transaction engaged are as follows:

	2018	2017
Commissions on documentary credits and non-cash loans	6,980	6,256
Brokerage and advisory fees	2,142	1,517
Custody fees	1,029	1,193
Commissions on account maintenance	1,152	1,000
Commissions on funds transfers	2,555	3,253
Other fees and commissions	109	232
Total fee and commission income	13,967	13,451
Brokerage and custody fees	(359)	(335)
Commissions and fees paid on foreign correspondents	(520)	(825)
Corporate banking fees	(1,673)	(525)
Other fees and commissions	(89)	(293)
Total fee and commission expense	**(2,641)**	**(1,978)**
Net fee and commission income	**11,326**	**11,473**

Contract balances

The following table provides information about receivables and contract liabilities from contracts with customers.

	31 December 2018	31 December 2017
Receivables included in miscellaneous receivables in note 9	255	148
Contract liabilities, which are included in other liabilities in note 16	2,048	2,085
	2,303	**2,233**

The contract liabilities mainly relate to the fees received from customers in relation to retail and corporate banking services. This is recognised as revenue over the period for which the services are provided.

The amount of €1,883 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2018.

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. GBI recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)
Retail and corporate banking service	GBI provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, brokerage of securities, brokerage of spot foreign exchange, brokerage of derivatives, custody of services, security transfers, third party funds, and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. GBI sets the rates separately for retail and corporate banking customers at least on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed at least annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
Trade Finance	GBI provides trade finance services to its corporate customers which include letters of credit, standby letters of credit, collection, letters of guarantee The type of services is transaction based and are charged when the transaction takes place.	Revenue from account service and servicing fees is recognised over time as the services are provided.

22. NET TRADING INCOME

Gains and losses from derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading income including the effective portion of fair value hedges, whereas gains and losses arising from changes in the effective portion of the fair value of cash flow hedges are reflected as a separate component of equity. Net trading income from trading of financial assets is detailed in the table below:

	2018	2017
Results from sale of FVOCI instruments*	(447)	3,781
Derivatives trading results	(1,856)	2,134
Recycled gains from FVOCI - effective portion of hedge	(790)	2,626
Gains from FVTPL instruments	342	-
Cash flow hedges - ineffective portion	194	(372)
Foreign exchange transaction results	2,077	2,140
Valuation results and net trading income	**(480)**	**10,309**

* These investments were classified as available-for-sale in 2017 as explained in note Changes in Accounting Policies.

(Currency: Thousands of Euros)

23. OTHER OPERATING EXPENSES

Operating expenses of the Bank is as follows:

	2018	2017
Saving deposits insurance fund	3,565	3,538
Electronic data processing	4,928	3,409
Consulting fees	2,930	2,754
Communication	1,643	1,914
Supervisory fees	1,035	1,191
Insurance	465	570
Rent	334	267
Repair and maintenance	263	265
Advertising	210	190
Utility	123	109
Stationary	70	106
Others	654	881
	16,220	**15,194**

Other operating 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:

	2018			2017		
	KPMG Accountants N.V.	**Other KPMG network**	**Total KPMG network**	KPMG Accountants N.V	Other KPMG network	Total KPMG network
Statutory audit of financial statements	**385**	**16**	**401**	234	27	261
Other assurance services	**141**	**–**	**141**	115	–	115
Tax advisory services	**–**	**–**	**–**	–	–	–
Other non-audit services	**–**	**–**	**–**	–	–	–
	526	**16**	**542**	349	27	376

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.

24. PERSONNEL EXPENSES

	2018	2017
Short-term employee benefits - salaries	22,570	20,368
Short-term employee benefits - social security and insurance	2,724	2,356
Short-term employee benefits (other)	1,626	1,087
Other employee benefits – bonus reservation	1,224	1,287
Post employment benefits (pension insurance premium)	2,678	2,500
Termination benefits	395	1,838
	31,217	**29,436**

25. BOARD REMUNERATION

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 2019 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 2,549 in 2018 (2017: EUR 3,092). The total remuneration consists of:

	2018	2017
Short-term employee benefits*	2,365	2,458
Post-employment benefits	184	170
Other long-term employee benefits*	-	47
Termination benefits	-	380
Share-based payment that will be settled in BBVA shares (see section 26)**	-	37
	2,549	**3,092**

* Bonuses: 60% of this amount is paid in the next financial year (short-term benefits) and the remainder is deferred for 3 more years
** 60% of this amount is paid in the next financial year and the remainder is deferred for 3 more years. The amount paid in 2018 is also blocked for one year and cannot be cashed out.

The remuneration of current and former independent members of the Supervisory Board amounted to EUR 197 in 2018 (2017: EUR 236). The non-independent (current and former) members of the Supervisory Board did not receive remuneration.

For further details regarding the remuneration, policy reference is made to the Report of the Supervisory Board. In Note 2 Related party disclosures, contracts transacted with key management personnel including the managing board is disclosed and is extension of this note. See also Note 26 Share-based payments.

26. SHARE-BASED PAYMENTS

Selected employees of GBI are marked as Identified Staff by the ultimate parent company (BBVA) under its remuneration policy for the years 2017, 2018 and 2019 as approved by the Board of Directors on 9 February 2017. Consequently, the variable compensation generated by the Identified Staff of GBI is subject to the settlement and payment scheme as laid down in the remuneration policy. The main features of this scheme are:

- A significant percentage of variable remuneration – 60% in the case of Identified Staff members with particularly high variable remuneration (> EUR 500), and 40% for the rest of the Identified Staff– shall be deferred over a three-year period.
- 50% of the variable remuneration of each year (including both upfront and deferred portions), shall be established in BBVA shares.

(Currency: Thousands of Euros)

- The variable remuneration will be subject to ex ante adjustments, so that it will not be accrued, or will be accrued in a reduced amount, should a certain level of profit or capital ratio not be obtained. Likewise, the Annual Variable Remuneration will be reduced upon performance assessment in the event of negative evolution of the Bank's results or other parameters such as the level of achievement of budgeted targets.
- The deferred component of the variable remuneration (in shares and in cash) may be reduced in its entirety, yet not increased, based on the result of multi-year performance indicators aligned with the Bank's fundamental risk management and control metrics, related to the solvency, capital, liquidity, funding or profitability, or to the share performance and recurring results of the Group.
- During the entire deferral period and retention period, variable remuneration shall be subject to malus and clawback arrangements, both linked to a downturn in financial performance of the Bank, specific unit or area, or individual, under certain circumstances.
- All shares shall be withheld for a period of one year after delivery, except for those shares required to honor the payment of taxes.
- No personal hedging strategies or insurance may be used in connection with remuneration and responsibility that may undermine the effects of alignment with sound risk management.
- The deferred amounts in cash subject to multi-year performance indicators that are finally paid shall be subject to updating, in the terms determined by the Bank's Board of Directors, upon proposal of the Remunerations Committee, whereas deferred amounts in shares shall not be updated.
- Finally, the variable component of the remuneration of the Identified Staff members shall be limited to a maximum amount of 100% of the fixed component of total remuneration, unless the General Meeting resolves to increase this percentage up to 200% (due to local regulation in The Netherlands, the maximum amount is capped at 20% of the fixed component of total remuneration.

As part of the variable remuneration granted for 2017 to Identified Staff, a number of 1,612 shares corresponding to the initial payment were delivered to the beneficiaries in 2018. The deferred portion of the variable remuneration granted for 2017 constitutes 1,074 shares.

For 2018 no variable remuneration was granted to the managing board, hence no amount (2017: EUR 37.500) was recognised in the income statement for 2018 in relation to share based payments under personnel expenses. In 2018 the liability related to 2017 was settled with the ultimate parent company.

27. TRANSFERRED ASSETS

GBI enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised. GBI is unable to use, sell or pledge the transferred assets for the duration of the transaction, and remains exposed to interest rate risk and credit risk on these transferred assets.

Transferred assets are part of the assets pledged such as debt securities held by counterparties as collateral under repurchase agreements and equity securities lent under securities lending agreements. For secured borrowings, the transferred asset collateral continues to be recognised in full and a related liability, reflecting the Group's obligation to repurchase the assets for a fixed price at a future date is recognised on the balance sheet.

GBI transacted repurchase agreement and transferred securities for the participation under TLTRO-II facility.

The below table represents the carrying amounts of transferred assets under repurchase agreements, and securities lending that do not qualify for derecognition. The associated liabilities which are reported after offsetting, compared to the gross positions of the encumbered assets.

	2018		**2017**	
	Equities under repurchase agreement		Equities under repurchase agreement	
	Carrying amount of:	Fair value of:	Carrying amount of:	Fair value of:
As at 31 December 2018				
Transferred Assets	-	-	-	-
Financial assets at fair value through other comprehensive income	123,003	123,003	162,098	162,098
Associated liabilities	-	-	-	-
Loans and advances from banks and other institutions	110,587	110,587	130,000	130,000
Net position	**12,416**	**12,416**	**32,098**	**32,098**

GBI has no assets that are derecognized in their entirety with continuing involvement.

Under a reverse repurchase agreement the bank has pledged cash margin of EUR 81,098 (2017: EUR 6,361) and received securities of EUR 89,705 (2017: EUR 7,952). The borrowed security is reported off balance as the counterparty retains substantially all the risks and rewards of ownership of the security.

RISK MANAGEMENT

Introduction

GBI has an overall risk management model tailored to its business and its organization. This model allows GBI to develop its activity in accordance with the risk strategy, risk controls and management policies defined by the governing bodies of the Bank and to adapt to a changing economic and regulatory environment.

GBI follows a clear and proactive risk management strategy and adjusts its risk management structure continuously 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 the Single Supervisory Mechanism (SSM). Since then, the alignment of risk management policies and practices with those of BBVA 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 2018 Common Equity Tier 1 (CET1) has increased to 21.27 percent from 20.44 percent in 2017, whereas the total capital ratio has increased to 23.58 percent from 22.75 percent in 2017. Both ratios are comfortably above the minimum required regulatory levels and provide a strong cushion for the Bank. Due to the first time implementation of the IFRS9 provisioning requirements, the opening equity of the Bank has been restated, which led to a decrease in TCR by 0.08 percent as of 1 January 2018. Please refer to Equity note 17-section capital management for further information.

The Bank has continued to operate with a significant liquidity buffer, evidenced by a high LCR of 583 percent. The liquidity buffer is composed of placements to European Central Bank and investments in high quality liquid assets. The well-balanced maturity profile and high level of stable funding marked by an NSFR of 246 percent, 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 Managing Board 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 for coordinating and monitoring risk management activities at the Bank level. 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.

The Credit Division has a separate risk control function, independent of commercial activities, ensuring 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 Department 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 Department is responsible for AML-CTF Compliance, Corporate Compliance, Customer Compliance, Securities Compliance, and conducts its activities in scope of those areas.

The Corporate Information Security Department (CISD) 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 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 risk 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 set the maximum risk levels that the Bank is willing to assume.
- To establish guidelines and the 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 compliance with the regulatory requirements
- To facilitate communication with the regulators, 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.

GBI's Risk Policy is aimed to promote a responsible banking model, through prudent management and integrity, while targeting sustainable growth, risk adjusted profitability and recurrent value creation. To achieve these objectives, the risk management model is oriented to maintain a moderate risk profile that allows to keep strong financial fundamentals in adverse environments preserving our strategic goals, an integral view of risks, and a portfolio diversification by asset class and client segment, focusing on keeping a long term relationship with our customers.

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 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, the Supervisory Board 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 focuses in particular on ensuring 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 through the introduction of limits on specific risk types i.e. credit, market, structural interest rate, structural FX, liquidity and operational risk.

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.

Credit Risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the institution or otherwise fail to perform as agreed. At GBI, credit risk arises mainly from trade and commodity finance, corporate lending and the holding of securities in the banking book. GBI is predominantly involved in portfolios such as sovereigns, banks, large corporates and trade finance activities, where limited number of defaults are observed. GBI's objective is to preserve a moderate risk profile by proactively managing an adequate return on available capital.

GBI applies the Foundation Internal Ratings Based (F-IRB) Approach for credit risk of Corporate, Institution and Sovereign portfolios since 1 January 2008 based on the permission obtained from DNB. GBI has dedicated internal rating models to evaluate the credit worthiness of counterparties. The rating models are integrated in the credit decision making and monitoring processes. Credit rating models serve as a basis for the calculation of regulatory capital and economic capital that GBI has to maintain to cover expected and unexpected losses from its lending activities. Ratings are also integral parts of pricing and risk based performance measurement processes. Independent third party experts on an annual basis validate all rating models.

The Bank is exposed to credit risk on various financial assets, including derivative instruments used for hedging and debt investments and the Bank is exposed to off balance sheet credit risk through guarantees issued. As per 1st of January 2018 the Bank has adopted an ECL methodology that makes use of the credit rating models that are also used for the calculation of regulatory requirement under Internal Rating Based (IRB) approach. Since the regulatory rating models produce Through the Cycle (TTC) probability of defaults (PD), certain layers have been introduced to produce point in time estimates of PDs to be able to use these models in line with the IFRS 9 requirements.

APPROACH IMPAIRMENT OF FINANCIAL ASSETS

As of 1 January 2018, GBI recognizes a loss allowance for expected credit losses on financial assets and loans measured at amortized cost and financial assets measured at FVOCI, loan commitments and financial guarantee contracts not measured at FVTPL based on IFRS 9 which came into force starting from 1 January 2018. IFRS 9 impairment requirements are not applicable for equity instruments. In chapter Significant accounting policies, expected credit losses approach is further elaborated.

As of 31 December 2018, the breakdown of individually and collectively assessed expected credit losses for loans, cash and non-cash loans is as follows:

(Currency: Thousands of Euros)

Summary of financial instruments to which the IFRS9 impairment requirements apply

31 December 2018	Stage 1		Stage 2				Stage 3		Total carrying amount	Total allowance for ECL
	Collective		Individual		Collective		Individual	-		
	Carrying amount	Allowance for ECL	Carrying amount	Allowance for ECL	Carrying amount	Allowance for ECL	Carrying amount	Allowance for ECL		
Cash and balance with Central Banks	836,208	42	-	-	-	-	-	-	**836,208**	**42**
Loans and Advances to Banks	323,121	1,359	-	-	1,478	19	-	-	**324,599**	**1,378**
Loans and Advances to Customer	2,674,736	10,128	92,156	4,201	36,487	341	44,495	46,826	**2,847,874**	**61,495**
Interest-bearing securities (FVOCI)	194,641	543	-	-	-	-	-	-	**194,641**	**543**
Total On-balance sheet assets	**4,028,706**	**12,072**	**92,156**	**4,201**	**37,965**	**359**	**44,495**	**46,826**	**4,203,322**	**63,459**
Off-balance sheet assets	342,581	467	101	2	-	-	4,221	368	**346,903**	**837**
Total	**4,371,287**	**12,540**	**92,258**	**4,203**	**37,965**	**359**	**48,716**	**47,194**	**4,550,224**	**64,295**

There are three stages within the impairment calculation process, which are based on the change in credit quality since initial recognition as per the IFRS 9 as explained below. A financial asset can change between the three stages during its lifetime. Definitions of the three stages is disclosed in chapter "Changes in accounting Policies". Assets can move in both directions, meaning financial assets can be transferred from one stage to another stage. When a new asset is originated, it is classified as stage 1 (normal origination). Assets are not classified as stage 2 at origination. Movement from stage 1 to stage 2 is based on a key judgment. An important criteria whether an asset should be transferred from stage 1 to stage 2 (lifetime expected credit losses) is whether there is evidence of a significant increase in credit risk since initial recognition on an individual instrument level. The definition and what GBI considers a significant increase of credit risk and what is considered as default, is enclosed in the chapter Significant accounting Policies. In chapters Changes in Accounting Policies and Significant accounting policies additional information is captured regarding ECL calculations. Chapter "Changes in accounting policies' captures the impact of IFRS 9 adoption and the reconciliation between impairment allowance under IAS 39 in comparison with IFRS 9 adoption per 1st January 2018. The write-off policy of the bank is included in chapter Significant Accounting Policies.

The table below summarizes the loss allowance by carrying amount, ECL per stage and balance sheet line item. Finally, the table shows the changes in ECL calculation during 2018 and if the credit risk has increased significantly (e.g. write-offs or transfer to lifetime ECL not impaired or transfer to ECL credit impaired).

Loss Allowance Analysis

Financial Asset - 31 December 2018

	12-month ECL (*)	Lifetime ECL not	Lifetime ECL credit	Total
Cash and balance with Central Banks				
Balance at 1 January 2018 (*)	(21)	-	-	(21)
Provision for the period	(21)	-	-	(21)
Balance at period end	**(42)**	**-**	**-**	**(42)**
Loans and advances to banks				
Balance at 1 January 2018 (*)	(820)	-	-	(820)
Addition	(1,272)	(19)	-	(1,291)
Release	733	-	-	733
Amounts written off		-	-	-
Balance at period end	**(1,359)**	**(19)**	**-**	**(1,378)**
Loans and advances to customers				
Balance at 1 January 2018 (*)	(10,259)	(15,082)	(41,164)	(66,505)
Addition	(7,580)	(3,202)	(14,777)	(25,559)
Transfers to Stage 1	(97)	97	-	-
Transfers to Stage 2	609	(609)	-	-
Transfers to Stage 3	70	11,368	(11,438)	-
Release	7,258	97	-	7,355
Recoveries	-	3,149	754	3,903
Amounts written off	-	-	22,423	22,423
Exchange differences	(129)	(360)	(2,623)	(3,112)
Balance at period end	**(10,128)**	**(4,542)**	**(46,825)**	**(61,495)**
Financial assets at FVOCI[6]				
Balance at 1 January 2018 (*)	**(847)**	**-**	**-**	**(847)**
Addition	(171)	-	-	(171)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Release	475	-	-	475
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Exchange differences	-	-	-	-
Balance at period end	**(543)**	**-**	**-**	**(543)**
Off balance Assets				
Balance at 1 January 2018 (*)	(567)	(1,044)	-	(1,611)
Addition	(355)	-	-	(723)
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	(368)	-
Release	454	1,071	-	1,525
Exchange differences	-	(28)	-	**(28)**
Balance at 31 December 2018	(467)	(2)	(368)	**(837)**

[6] IFRS 9 classification FVOCI is similar to Available for Sale (AFS) debt instruments classification under IAS 39. Thus, AFS movements are included in this table.

*As restated. Reference is made to IFRS 9 Transition Impact Analysis

(Currency: Thousands of Euros)

GBI's allowance for ECL per 31 December 2018 is EUR 64,295. In chapter "Changes in accounting policies" table is disclosed with the reconciliation from the closing balance 2017 to the opening balance 2018 for the financial instruments to which the impairment requirements of IFRS 9 are applied. The comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

GBI's ECL model incorporates macroeconomic adjustments, to account for forward-looking view. The Bank applies the market-neutral view combining consensus forecasts for economic variables (e.g. GDP growth). Therefore the ECL could change as per the changes in GDP growths. In case of a decrease in GDP estimates by 25 basis points, the impairment amount for collectively assessed loans would increase by EUR 844, whereas the increase of 25 basis points would result a decrease by Eur 459.

CONCENTRATION RISK

GBI has a sound governance around the credit concentration risk. The Bank's Wholesale Credit Risk Policy establishes the Bank's decision-making process in granting credit limits, setting rules and guidelines for exposures that give rise to credit risk. In view of the internal ratings and credit assessment analyses of the obligors, the Credit Committee assigns the credit exposure limit. All obligors have individual credit limits based on their creditworthiness. Groups of connected obligors are subject to regulatory 'group exposure' limits, as well as internal Group Concentration Policy, to manage the concentration risk of the Bank effectively. 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. The effectiveness of risk monitoring is supported by internal systems ensuring proper compliance with the principle of segregation of duties and authorization levels. Regular monitoring of GBI's exposure and compliance with the established credit limits ensures timely management of credit risk. The exposures to various customers, business lines and geographical locations are monitored on a regular basis by the Credit Division to ensure compliance with the established limits.

Breakdown by geographical regions

The geographical breakdown of carrying amounts assets and off-balance sheet assets is based on customer domicile as follows.

The geographical breakdown of financial assets based on domicile

		Cash and Central Banks		Banks		Loans and advances		Interest-bearing securities		Off-balance assets		Total	
As at 31 December 2018		Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL
— the Netherlands		**823,712**	**41**	**34,081**	**46**	**342,396**	**1,097**	**10,180**	**-**	**39,231**	**48**	**1,249,600**	**1,232**
	Stage 1	*823,712*	*41*	*34,081*	*46*	*333,614*	*972*	*10,180*	*-*	*39,231*	*48*	*1,240,818*	*1,107*
	Stage 2	-	-	-	-	*7,493*	*29*	-	-	-	-	*7,493*	*29*
	Stage 3	-	-	-	-	*1,289*	*96*	-	-		-	*1,289*	*96*
— Turkey		**-**	**-**	**159,411**	**1,199**	**990,704**	**8,548**	**71,638**	**447**	**12,235**	**59**	**1,233,988**	**10,253**
	Stage 1	-	-	*157,934*	*1,180*	*936,322*	*3,781*	*71,638*	*447*	*12,235*	*59*	*1,178,015*	*5,467*
	Stage 2	-	-	*1,477*	*19*	*41,102*	*433*	-	-	-	-	*42,693*	*343*
	Stage 3	-	-	-	-	*13,280*	*4,333*	-	-	-	-	*13,280*	*4,333*
— Great Britain		**-**	**-**	**12,367**	**39**	**121,005**	**22,471**	**10,411**	**16**	**12,513**	**42**	**156,296**	**22,568**
	Stage 1	-	-	*12,367*	*39*	*112,045*	*581*	*10,411*	*16*	*12,412*	*40*	*147,235*	*676*
	Stage 2	-	-	-	-	*7,204*	*96*	-	-	*101*	*2*	*7,305*	*98*
	Stage 3	-	-	-	-	*1,756*	*21,794*	-	-	-	-	*1,756*	*21,794*
— Switzerland		**-**	**-**	**5,711**	**1**	**272,297**	**3,442**	**-**	**-**	**145,643**	**106**	**423,651**	**3,549**
	Stage 1	-	-	*5,711*	*1*	*264,754*	*887*	-	-	*145,643*	*106*	*416,108*	*994*
	Stage 2	-	-	-	-	*3,298*	*12*	-	-	-	-	*3,298*	*12*
	Stage 3	-	-	-	-	*4,245*	*2,543*	-	-	-	-	*4,245*	*2,543*
— Germany		**12,496**	**1**	**20,442**	**4**	**236,578**	**1,093**	**-**	**-**	**3,134**	**2**	**272,650**	**1,100**
	Stage 1	*12,496*	*1*	*20,442*	*4*	*236,578*	*956*	-	-	*3,134*	*2*	*272,650*	*963*
	Stage 2	-	-	-	-	-	-	-	-	-	-	-	-
	Stage 3	-	-	-	-	-	*137*	-	-	-	-	-	*137*
— Rest of Europe		**-**	**-**	**33,953**	**39**	**560,087**	**18,869**	**102,412**	**80**	**53,484**	**102**	**749,936**	**19,090**
	Stage 1	-	-	*33,953*	*39*	*493,765*	*1,942*	*102,412*	*80*	*53,484*	*102*	*683,614*	*2,163*
	Stage 2	-	-	-	-	*52,299*	*3,401*	-	-	-	-	*52,299*	*3,401*
	Stage 3	-	-	-	-	*14,023*	*13,526*	-	-	-	-	*14,023*	*13,526*
— Rest of the world		**-**	**-**	**58,634**	**50**	**324,807**	**5,975**	**-**	**-**	**80,663**	**478**	**464,104**	**6,503**
	Stage 1	-	-	*58,634*	*50*	*297,773*	*1,008*	-	-	*76,441*	*110*	*432,848*	*1,168*
	Stage 2	-	-	-	-	*17,131*	*571*	-	-	-	-	*17,131*	*571*
	Stage 3	-	-	-	-	*9,903*	*4,396*	-	-	*4,222*	*368*	*14,125*	*4,764*
Total:		**836,208**	**42**	**324,599**	**1,378**	**2,847,874**	**61,495**	**194,641**	**543**	**346,903**	**837**	**4,550,225**	**64,295**

(Currency: Thousands of Euros)

As at 31 December 2017	Cash and Central Banks		Banks		Loans and advances		Interest-bearing securities		Off-balance assets		Total	
	Carrying amount	Reserve	Carrying amount	Reserve	Carrying amount	Reserve	Carrying amount	Reserve	Carrying amount	Reserve	Carrying amount	Reserve
— the Netherlands	**327,267**	**-**	**39,768**	**-**	**378,796**	**51**	**90,552**	**-**	**85,884**	**-**	**922,267**	**51**
Performing	*327,267*	-	*39,768*	-	*378,796*	-	*90,552*	-	*85,884*	-	*922,267*	-
Non-performing		-		-	-	*51*	-	-		-	-	*51*
— Turkey	**-**	**-**	**258,741**	**-**	**1,210,207**	**1,638**	**92,908**	**-**	**40,881**	**-**	**1,602,737**	**1,638**
Performing	-	-	*258,741*	-	*1,210,207*	-	*92,908*	-	*40,881*	-	*1,602,737*	-
Non-performing		-		-	-	*1,638*	-	-		-	-	*1,638*
— Great Britain	**-**	**-**	**7,066**	**-**	**133,025**	**17,308**	**34,377**	**-**	**26,222**	**-**	**215,414**	**17,308**
Performing	-	-	*7,066*	-	*127,842*	-	*34,377*	-	*26,222*	-	*210,231*	-
Non-performing		-		-	*5,183*	*17,308*	-	-		-	*5,183*	*17,308*
— Switzerland	**-**	**-**	**17**	**-**	**261,863**	**13,769**	**-**	**-**	**107,113**	**-**	**368,993**	**13,769**
Performing	-	-	*17*	-	*254,642*		-	-	*107,113*	-	*361,772*	-
Non-performing		-		-	*7,221*	*13,769*	-	-		-	*7,221*	*13,769*
— Germany	**12,164**	**-**	**3,734**	**-**	**246,108**	**145**	**20,075**	**-**	**4,409**	**-**	**286,490**	**145**
Performing	*12,164*	-	*3,734*	-	*246,108*	-	*20,075*	-	*4,409*	-	*286,490*	-
Non-performing	-	-		-	-	*145*	-	-		-	-	*145*
— Rest of Europe	**-**	**-**	**3,230**	**-**	**567,694**	**8,772**	**157,662**	**-**	**28,037**	**-**	**741,900**	**8,772**
Performing	-	-	*3,230*	-	*563,829*		*157,662*	-	*28,037*	-	*738,035*	-
Non-performing		-		-	*3,865*	*8,772*	-	-		-	*3,865*	*8,772*
— CIS countries	**-**	**-**	**401**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**401**	**-**
Performing	-	-	*401*	-	-	-	-	-	-	-	*401*	-
Non-performing		-		-	-	-	-	-		-	-	-
— Rest of the world	**-**	**-**	**70,147**	**-**	**251,211**	**-**	**42,926**	**-**	**109,277**	**-**	**473,561**	**-**
Performing	-	-	*70,147*	-	*251,211*	-	*42,926*	-	*109,277*	-	*473,561*	-
Non-performing		-		-	-	-	-	-		-	-	-
Total:	**339,431**	**-**	**383,104**	**-**	**3,048,906**	**41,683**	**438,500**	**-**	**401,823**	**-**	**4,611,763**	**41,683**

Concentration risk by sector and industry

	31 December 2018		31 December 2017	
Carrying amounts and ECL	**Carrying amount**	**ECL**	**Carrying amount**	**Reserve**
Agriculture	231,331	3,479	235,604	12,877
Basic materials	458,395	23,609	357,470	18,200
Chemicals	185,433	1,068	236,882	-
Construction	265,137	1,442	194,286	144
Consumer products	189,768	727	176,676	-
Financial services	405,773	4,248	710,641	-
Food, beverages and Tobacco	66,904	2,402	103,688	-
Leisure and Tourism	16,030	90	14,111	-
Oil & Gas	365,618	1,290	288,140	-
Other	126,376	386	176,375	-
Private individuals	17,473	253	16,505	51
Retail	40,600	154	92,607	145
Services	9,318	40	8,012	-
Telecom	33,263	26	11,350	-
Transport & logistics	363,305	21,971	364,864	10,267
Utilities	73,150	311	61,695	-
Total Loans and Advances to Customers	**2,847,874**	**61,495**	**3,048,906**	**41,684**

Below is an overview of the portfolios split in Investment Grade (rating AAA until BBB-) and Non-Investment Grade (Below BBB-) as of 31 December 2018 and 31 December 2017. All exposures that are covered under the F-IRB approach have a credit rating. Exposures subject to the Standardised Approach (SA) are classified based on the external credit ratings of Moody's, S&P and Fitch, with the 'average' formula prescribed by Article 138 of the CRR are used. Exposures that are subject to SA, but do not have an eligible external credit rating are classified as not rated. Table also shows whether assets measured at Amortised Cost or FVOCI were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit-impaired.

Specialized Lending are distinguished and separately rated according the CRR based on Risk Weights Category.

(Currency: Thousands of Euros)

Credit Quality of Financial Assets[7]

	31 December 2018									
	FVTPL	**FVOCI**	**Amortised cost**			**Total**	**Total**	**Amortised Cost**	**Available for Sale**	**Total**
On-balance Assets	*Not impaired*	*Stage 1*	*Stage 1*	*Stage 2*	*Stage 3*	*Total*				
Cash and balances	**-**	**-**	**836,208**	**-**	**-**	**836,208**	**836,208**	**339,431**	**-**	**339,431**
Investment Grade	-	-	*836,208*	-	-	*836,208*	836,208	339,431	-	339,431
Sub-Investment Grade	-	-	-	-	-	-	-	-	-	-
Loans and Advances to Banks	**-**	**-**	**323,121**	**1,478**	**-**	**324,599**	**324,599**	**383,104**	**-**	**383,104**
Investment Grade	-	-	*144,598*	-	-	*144,598*	144,598	327,861	-	327,861
Sub-Investment Grade	-	-	*171,063*	*1,478*	-	*172,541*	172,541	49,222	-	49,222
Not rated	-	-	*7,460*	-	-	*7,460*	7,460	6,021	-	6,021
Loans and Advances to Customer	**-**	**-**	**2,674,851**	**128,528**	**44,495**	**2,847,874**	**2,847,874**	**3,048,899**	**-**	**3,048,899**
Investment Grade	-	-	*751,985*	-	-	*751,985*	751,985	1,057,480	-	1,057,480
Sub-Investment Grade	-	-	*1,606,154*	*113,586*	-	*1,719,740*	1,719,740	1,684,323	-	1,684,323
Specialized Lending (RW 50% - 90%)	-	-	*254,760*	*7,449*	-	*262,209*	262,209	202,536	-	202,536
Specialized Lending (RW 115% - 250%)	-	-	*16,286*	-	-	*16,286*	16,286	3,198	-	3,198
Not rated	-	-	*45,666*	*7,493*		*53,159*	53,159	83,856	-	83,856
Credit Imparied	-	-	-	-	*44,495*	*44,495*	44,495	17,505	-	17,505
Financial assets at FVOCI	**11,399**	**194,641**	**-**	**-**	**-**	**-**	**206,040**	***0***	***438,500***	***438,500***
Investment Grade	*8,628*	*123,003*	-	-	-	-	**131,631**	0	319,683	319,683
Sub-Investment Grade	-	*71,638*	-	-	-	-	**71,638**	0	105,270	105,270
Not rated	*2,771*	-	-	-	-	-	**2,771**	0	13,546	13,546
Carrying amount On-balance Assets	**11,399**	**194,641**	**3,834,180**	**130,006**	**44,495**	**4,008,680**	**4,214,720**	**3,771,434**	**438,500**	**4,209,933**
Off-balance assets	**-**	**-**	**342,581**	**101**	**4,221**	**346,903**	**346,903**	**401,824**	**-**	**401,824**
Investment Grade	-	-	*188,343*	-	-	188,343	188,343	179,772	-	179,772
Sub-Investment Grade	-	-	*75,634*	*101*	-	75,735	75,735	112,489	-	112,489
Specialized Lending (RW 50% - 90%)	-	-	*73,246*	-	-	73,246	73,246	97,424	-	97,424
Specialized Lending (RW 115% - 250%)	-	-	*26*	-	-	26	26	10,149	-	10,149
Not rated	-	-	*5,332*	-	-	5,332	5,332	1,990	-	1,990
Credit Imparied	-	-	-	-	*4,221*	4,221	4,221	-	-	-
Carrying Amount of Total Financial Assets	**11,399**	**194,641**	**4,176,760**	**130,107**	**48,715**	**4,355,583**	**4,561,623**	**4,173,257**	**438,500**	**4,611,757**

[7] Table consists of gross exposure (IFRS carrying amount) excluding impaired loans.

PAST-DUE ANALYSIS

Loans that are past due are monitored closely, with impairment allowances raised as appropriate and in line with the internal impairment policies. A financial asset is, among others, considered to be defaulted if 90 days have past since its repayment date (i.e. past due starts on the 91st day). The table below presents an analysis of the carrying amount, impairment allowance and an analysis of the age of financial assets that are past due as at the reporting date but not impaired.

Portfolio Breakdown based on number of days past due

	Stage 1	Stage 2			Stage 3					
31 December 2018	**Not past due**	**Not past due**	**<=30 days past due**	**Total Stage 2**	**Not past due**	**<=30 days past due**	**>30 till 90 days past due**	**>= 90 days**	**Total Stage 3**	**Total**
Cash and balances with Central Bank	836,208	-	-	-	-	-	-	-	-	**836,208**
Loans and Advances to Banks	323,122	1,477	-	1,477	-	1,056	2,269	30,025	-	**324,599**
Loans and Advances to Customer	2,674,851	119,018	9,511	128,528	11,145	-	-	-	44,495	**2,847,874**
Financial assets at FVOCI	194,641	-	-	-	-	-	-	-	-	**194,641**
Total carrying amount	**4,028,822**	**120,495**	**9,511**	**130,005**	**11,145**	**1,056**	**2,269**	**30,025**	**44,495**	**4203,322**
Off-balance assets	*342,581*	*101*	-	*101*	*4,221*	-	-	-	*4,221*	**346,903**

31 December 2017	**Not past due**	**<=30 days past due**	**>30 till 90 days past due**	**>= 90 days**	**Total Past due**	**Total**
Cash and balances with Central Bank	339,431	**-**	**-**	**-**	**-**	**339,431**
Loans and Advances to Banks	383,104	-	-	-	-	**383,104**
Loans and Advances to Customer	3,020,306	18,357	7,671	2,572	28,600	**3,048,905**
Financial assets at AFS	438,500	-	-	-	-	**438,500**
Total carrying amount	**4,181,341**	**18,357**	**7,671**	**2,572**	**28,600**	**4,209,940**
Off-balance assets	*401,823*					*401,823*

(Currency: Thousands of Euros)

OVERVIEW OF MODIFIED LOANS

The bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. If the modifications of the financial asset lead to cash flows that are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In that case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

In case the modification of the terms leads to cash flows that are not tantially different, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the modification of the financial asset will result in forgiveness of cash flows, then it first considers whether a portion of the asset will be written off before modification takes place. Subsequently, the modification of the asset measured at FVOCI or Amortised cost, GBI recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

Modifications of a financial asset that do not result in derecognition may impact profit or loss in two ways:
- by recognising the modification gain or loss that is equal to the change in the gross carrying amount of the modified financial asset; and
- by changing the amount of ECLs recognised as an impairment allowance.

From a risk management point of view, once an asset is forborne or modified, the Bank's special department for distressed assets continues to monitor. Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1. Section 'Significant accounting policies' paragraph 'Significant increase in credit risk' explains when there is significant increase or decrease in credit risk.

The following table provides the summary of the loans and advances to customers that are modified but not derecognised.

	31 December 2018	*31 December 2017*
Amortised costs of financial assets modified during the period	23,613	38,889
Net Modification Loss	-	-

No financial assets have been modified for which the loss allowance has changed to a 12-month measurement during the period. For 2018 there were no loans which have been derecognised due to modification measurements.

OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

GBI manages the counterparty credit exposure by using enforceable netting agreements with counterparties. In accordance with IAS 32 Financial Instruments, the bank reports financial assets and financial liabilities on a net basis (offsetting) on the balance sheet only if there is a legally enforceable right to set-off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. After applying offsetting, the credit risk exposure is further reduced by other available enforceable netting agreements in case of default or bankruptcy. There are no exposures that are subject to offsetting in 2018 and 2017.

COLLATERALS AND NETTING AGREEMENTS - GENERAL

GBI applies strict policy restrictions in accepting collateral types. The collateral is considered as integral part of the credit exposure and is taken into consideration for the calculation of impairment. The Loss Given Default (LGD) summarizes all cash flows from customers subsequent to default, including collections from collaterals. For impaired loans, GBI attempts to ensure recovery by restructuring, obtaining additional collateral and/or proceeding with legal actions. Therefore the loan loss allowance are determined based on weighted ECL scenarios that take into account the outstanding amount of the defaulted credit facility after deduction of expected recoveries and/or liquidation value of the collaterals.

Financial collateral is recorded at fair value and subject to revaluation on a daily basis. The table below includes the fair values for financial instruments and in all other cases on the notional amount in line with the legally enforceable documents in place. Other collaterals include various collaterals such as; pledge on goods and receivables, mortgage on real-estate and vessels and pledge on shares and other collaterals in similar nature. Although the Bank accepts personal and corporate guarantees as collateral, they are not included in the tables below.

The amounts of financial assets and financial liabilities and their net amounts disclosed in the below tables have been measured in the statement of financial position either:
- derivative assets and liabilities: fair value;
- assets and liabilities resulting from sale-and-repurchase agreements, reverse sale-and repurchase agreements and securities lending and borrowing: amortised cost;
- loans and advances to customers: amortised cost; and
- customer deposits: amortised cost

(Currency: Thousands of Euros)

Breakdown by collateral type

31 December 2018	Carrying amount[8]	Financial Instruments	Cash Collaterals Received/ Pledged	Financial Instrument Collaterals Recognized in the Off Balance sheet	Other collateral[9]	Net credit exposure
Assets						
Loans and advances to banks	**324,599**	-	-	2,082	-	**322,517**
Derivatives	**21,973**	-	4,994	-	-	**16,979**
Loans and advances to customers	**2,847,874**	-	15,163	139,109	732,953	**1,960,649**
Total	**3,194,446**	**-**	**20,156**	**141,191**	**732,953**	**2,300,146**
Liabilities						
Derivatives	**28,189**	-	21,035			**7,154**
Obligations under repurchase agreements	**190,724**	190,724	-	-	-	**-**
Loans and advances from banks and other institutions	**498,221**	446,426	-	-	-	**51,795**
Total	**717,134**	**637,150**	**21,035**	**-**	**-**	**58,949**

31 December 2017						
Assets						
Derivatives	25,480	-	4,580	-	-	20,900
Loans and advances to customers	3,048,906	-	24,170	310,418	642,589	2,071,729
Total	**3,074,386**	**-**	**28,750**	**310,418**	**642,589**	**2,092,629**
Liabilities						
Derivatives	22,028	-	13,084	-	-	8,944
Obligations under repurchase agreements	136,364	136,364	-	-	-	-
Loans and advances from banks and other institutions	422,147	270,133	-	-	-	152,014
Total	**580,539**	**406,497**	**13,084**	**-**	**-**	**160,958**

[8] No offsetting is applied by the Bank for 2018 and 2017.
[9] Other collateral consists of physical collateral such as vessels, real estate, and receivables.
[10] No offsetting is applied by the Bank for 2018 and 2017.

COLLATERAL AND NETTING AGREEMENTS - LOANS AND ADVANCES

GBI transacts different types of enforceable collateral agreements to manage the credit risk exposure. For example, loans are collateralised by (or sometimes in combination); pledged goods, mortgage on real estate or pledged cash or deposit. GBI receives letter of credits and/or guarantees for granting loans to customers.

The 'Net amounts' presented in the below tables are not intended to represent the banks actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to netting and collateral arrangements. The collateral amounts included in the below tables are limited to net balance sheet exposure and thus over-collateralization is not included.

Breakdown of collateralized exposure by collateral type - Loans to Customers

As at 31 December 2018				Amounts subject to enforceable master netting agreements or similar agreements (not offset in the statement of financial position)				
	Gross Amount	ECL Allowance	Carrying amount	Cash and Financial Collateral	Financial Instrument Collaterals Recognized in the Off Balance sheet	Net amount	Other collateral	Net amount credit risk exposure
On-Balance								
Loans and Advances to banks	**325,976**	**1,378**	**324,599**	**-**	**2,082**	**322,517**	**-**	**322,517**
Stage 1	324,480	1,359	323,121	-	2,082	321,039	-	321,039
Stage 2	1,496	19	1,478	-	-	1,478	-	1,478
Loans and Advances to Customers	**2,909,369**	**61,495**	**2,847,874**	**15,163**	**139,109**	**2,693,603**	**732,953**	**1,981,926**
Stage 1	2,684,979	10,128	2,674,851	15,163	126,866	2,532,823	584,071	1,948,752
Stage 2	133,070	4,541	128,528	-	12,243	116,285	83,112	33,174
Stage 3	91,321	46,826	44,495	-	-	44,495	65,770	-
Off-Balance	**346,903**	**837[10]**	**346,903**	**-**	**-**	**346,903**	**-**	**346,903**
As at 31 December 2017								
On-Balance								
Loans and advances to banks	**324,599**	**-**	**324,599**	**-**	**-**	**324,599**	**-**	**324,599**
Performing	324,599	-	324,599	-	-	324,599	-	324,599
Non-performing	-	-	-	-	-	-	-	-
Loans and Advances to Customers	**3,090,589**	**41,683**	**3,048,906**	**24,170**	**310,418**	**2,714,318**	**636,419**	**2,077,899**
Performing	**3,031,400**	**-**	**3,031,400**	**24,170**	**310,418**	**2,696,813**	**618,914**	**2,077,899**
Non-performing	59,189	41,683	17,505	-	-	17,505	17,505	-
Off-Balance assets	**401,823**	**-**	**401,823**	**-**	**-**	**401,823**	**-**	**401,823**

[10] ECL allowance for off-balance sheet assets is EUR 837 and is not deducted from the off-balance carrying amounts.

(Currency: Thousands of Euros)

COLLATERAL AND NETTING AGREEMENTS - DERIVATIVES AND REPURCHASE AGREEMENTS

Derivatives transactions with professional market participants are subject to netting agreements, such as the International Swaps and Derivatives Association (ISDA) derivatives agreements and clearing counterparty agreements. In addition to the ISDA agreement, the bank transacted a Credit Support Annex (CSA) so that 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 ISDA and similar master agreements typically allow for netting of credit risk exposure to a counterparty resulting from derivative transactions against the obligations to the counterparty in the event of default, and so produce a lower net credit exposure.

GBI enters into Repurchase and Reverse Repurchase, lending and borrowing agreements and are recognised at amortised cost. Under the netting agreements: Global Master Repurchase Agreements and Global Master Securities Lending Agreements amounts can be off-set and close-out netting can be applied across all outstanding transactions covered by the same agreements if an event of default or other predetermined events occur. As at 31 December 2018, there is only one trade of repurchase agreements. The bank has no intention to settle on a net-basis. Note 12 discloses the obligations under repurchase agreements and in Note 27 discloses the assets transferred (also pledged) and the associated Liabilities.

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 paragraph Asset encumbrance. For derivatives transactions with clients the Bank does not provide collateral, but most of the cases has the right to receive collateral from clients based on enforceable collateral and margining agreements.

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.

Summary credit risk mitigation for derivatives

							Amounts subject to enforceable master netting agreement ISDA (not offset)		
31 December 2018	**EUR 1.000**	**Notional amounts <- 1 year**	**Notional amounts > 1< 5 years**	**Notional amounts > 5 years**	**Total**	**Positive replacement value**	**Cash collateral**	**Netting agreements**	**Net amounts**
Interest rate contracts									
OTC	Swaps	-	71,865	50,000	121,865	447	n/a	447	-
Currency contracts									
OTC	Swaps	642,725	5,784	-	648,509	17,167	n/a	8,261	8,906
	Forwards	**51,952**	**-**	**-**	**51,952**	**123**	**n/a**	**61**	**62**
	Options	24,819	12,968	-	37,787	2,781	n/a	1,049	1,732
Other contracts									
OTC	Commodity forwards	29,442	-	-	29,442	1,456	n/a	727	729
Total		**748,938**	**90,617**	**50,000**	**889,555**	**21,973**	**4,994[11]**	**10,544**	**11,429[12]**

							Amounts subject to enforceable master netting agreement ISDA (not offset)		
31 December 2017	**EUR 1.000**	**Notional amounts <- 1 year**	**Notional amounts > 1< 5 years**	**Notional amounts > 5 years**	**Total**	**Positive replacement value**	**Cash collateral**	**Netting agreements**	**Net amounts**
Interest rate contracts									
OTC	Swaps	291,424	20,816	150,000	462,240	263	n/a	263	-
Currency contracts									
OTC	Swaps	873,411	68,146	-	941,557	14,175	n/a	10,760	3,414
	Forwards	**239,107**	**1,280**	**-**	**240,387**	**1,484**	**n/a**	**697**	**787**
	Options	146,075	-	-	146,075	7,999	n/a	789	7,210
Other contracts									
OTC	Commodity forwards	21,588	-	-	21,588	1,559	n/a	1,417	143
Total		**1,571,605**	**90,242**	**150,000**	**1,811,847**	**25,480**	**4,580**	**13,926**	**11,554[13]**

[11] Cash collateral is placed or received per counterparty. As GBI transacts multiple derivative contracts with one counterparty, cash collateral received cannot be allocated to a specific derivative contract.

[12] The net amount for 2017 does not include cash collateral received as it cannot be allocated to a specific derivative contract (see footnote 16). The net amount including cash collateral amounts to EUR 6,435.

[13] The net amount for 2018 does not include cash collateral received as it cannot be allocated to a specific derivative contract (see footnote 16). The net amount including cash collateral amounts to EUR 6,974.

(Currency: Thousands of Euros)

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.

Asset Encumbrance and Pledged Assets

As at 31 December 2018	Carrying amount of encumbered assets	Of which: ECB eligible	Fair value of encumbered assets	Of which: ECB eligible	Carrying amount of non-encumbered assets	Of which: ECB eligible	Fair value of non-encumbered assets	Of which: ECB eligible
Loans and advances to banks	23,038	-	n/a	n/a	301,560	-	n/a	n/a
Loans and advances to customers	221,426	-	n/a	n/a	2,626,448	-	n/a	n/a
Financial assets at fair value through other comprehensive income	123,003	123,003	123,003	123,003	71,638	-	71,638	-
Total	**371,042**	**123,003**	**123,003**	**123,003**	**2,996,072**	**-**	**71,638**	**-**

As at 31 December 2017	Carrying amount of encumbered assets	Of which: ECB eligible	Fair value of encumbered assets	Of which: ECB eligible	Carrying amount of non-encumbered assets	Of which: ECB eligible	Fair value of non-encumbered assets	Of which: ECB eligible
Loans and advances to banks	13,084	-	n/a	n/a	370,020	-	n/a	n/a
Loans and advances to customers	270,133	-	n/a	n/a	2,778,773	-	n/a	n/a
Financial assets at fair value through other comprehensive income	162,098	155,041	162,098	155,041	276,402	161,975	276,402	161,975
Total	**445,315**	**155,041**	**162,098**	**155,041**	**3,425,195**	**161,975**	**276,402**	**161,975**

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

Liabilities for which assets have been pledged

Carrying amounts of financial liabilities	*31 December 2018*	*31 December 2017*
Loans and advances from banks and other institutions	244,003	282,075
Derivatives	24,070	10,555
Total	**268,072**	**292,630**

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, while optimising the return.

The main market risks to which GBI is exposed are banking book interest rate risk and foreign currency risk. Either market risk arises through positions in banking books or trading books. GBI uses derivatives to manage market risks for trading and banking book. The banking book positions are intended to be held for the long-term (or until maturity) or for hedging other banking book positions. The trading book positions are typically held with a short-term trading intent or in order to hedge other positions in the trading book. 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 predefine limits.

GOVERNANCE

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) are established as independent control bodies. They monitor and follow up all trading transactions and positions on an ongoing basis. Trading activities are followed-up as per the position, stop-loss, sensitivity and VaR limits. Single transaction and price tolerance limits have been established in order to minimize the operational risks involved in the trading processes. RMD is responsible for the maintenance of internal models, monitoring of risk-based limits and performing stress tests and presenting the results to the related committees. VaR is supplemented by stress tests and scenario analyses in order to determine the effects of potential extreme market developments on the value of market risk sensitive exposures. Stress tests have the advantage of out-of-model analyses of the trading book. Hypothetical or historical scenarios are chosen and applied to the Bank's position regularly. These scenarios are reviewed periodically and updated when necessary.

Due to the fact that the bank hedges the market risk for the banking book and the trading book, concentration risk is insignificant.

As per first of January 2017 GBI adopted IFRS, GBI applied for the first time cash flow and fair value hedge accounting according with IAS 39. The Bank has chosen to apply the exemption and use the date of transition of the parent. The measurement of GBI's assets and liabilities are the same in both its opening IFRS statement of financial position at 1 January 2017 and TGB's consolidated statement of financial position (except for adjustments for consolidation procedures) and are based on TGB's date of transition. For the annual report 2017 GBI managed hedge accounting relations in accordance with cost price hedge accounting under Dutch Accounting Standards. As per 1th of January 2018 the Bank decided to continue to apply the hedge accounting guidance of IAS 39 under the EU-carve out as explicitly permitted by IFRS 9. Hedge accounting in accordance with IAS 39 is further elaborated in next chapter.

(Currency: Thousands of Euros)

The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios.

Market risk - trading and non-trading portfolios

31 December 2018	Carrying amount	Trading portfolio	Non-trading portfolio
Assets			
Cash and balances with central banks	836,208	-	836,208
Derivative financial instruments	21,973	13,562	8,411
Loans and advances to banks	324,599	-	324,599
Loans and advances to customers	2,847,874	-	2,847,874
Financial assets at fair value through profit or loss	11,399	-	11,399
Financial assets at fair value through other comprehensive income	194,641	-	194,641
Current tax asset	10,640	-	10,640
Tangible and intangible assets	34,341	-	34,341
Deferred tax asset	-	-	-
Other assets	6,837	-	6,837
Total Assets	**4,288,512**	**13,562**	**4,274,950**
Liabilities			
Due to banks	114,253	-	114,253
Due to customers	2,801,236	-	2,801,236
Derivative financial instruments	28,189	13,484	14,705
Obligations under repurchase agreements	190,724	-	190,724
Loans and advances from banks and other institutions	498,221	-	498,221
Current tax liability	-	-	-
Deferred tax liability	3,006	-	3,006
Other liabilities, accrued expenses and provisions	19,923	-	19,923
Other borrowed funds	50,398	-	50,398
Total Liabilities	**3,705,950**	**13,484**	**3,692,466**

31 December 2017	Carrying amount	Trading portfolio	Non-trading portfolio
Assets			
Cash and balances with central banks	**339,431**	**-**	**339,431**
Derivative financial instruments	25,480	16,480	9,000
Loans and advances to banks	383,104	-	383,104
Loans and advances to customers	3,048,906	-	3,048,906
Available-for-sale financial assets	438,500	-	438,500
Current tax asset	-	-	-
Tangible and intangible assets	31,090	-	31,090
Deferred tax asset	-	-	-
Other assets	7,638	-	7,638
Total Assets	**4,274,149**	**16,480**	**4,257,669**
Liabilities			
Due to banks	105,281	-	105,281
Due to customers	2,903,080	-	2,903,080
Derivative financial instruments	22,028	16,041	5,987
Obligations under repurchase agreements	136,364	-	136,364
Loans and advances from banks and other institutions	422,147	-	422,147
Current tax liability	1,899	-	1,899
Deferred tax liability	2,721	-	2,721
Other liabilities, accrued expenses and provisions	35,511	-	35,511
Other borrowed funds	50,417	-	50,417
Total Liabilities	**3,679,448**	**16,041**	**3,663,407**

Note 18 Fair Value Hierarchy elaborates on used fair value data by GBI.

(Currency: Thousands of Euros)

INTEREST RATE RISK ON THE BANKING BOOK (IRRBB)

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

IRRBB is measured and monitored at each meeting of ALCO by using Duration, Repricing Gap and Sensitivity analyses. Sensitivity analyses are based on both economic value and earnings perspectives. Interest sensitivity is measured by applying standard parallel yield curve shifts, historical simulation and user defined yield curve twist scenarios. All analyses are based on the interest rate repricing maturities. Behavioral analyses are used for the products that do not have contractual maturities; for GBI the only product that falls under this condition is demand deposits. To assess the interest rate related behavior of these liabilities, GBI conducts a demand deposit modelling analysis to predict deposit outflow patterns over time, taking into account historical deposit trends and various factors such as deposit age and market rates. The Repricing Gap analysis shows interest bearing assets and liabilities broken down by when they are next due for repricing. This analysis is used as a supplementary measure to duration in order to point out interest bearing inflows/outflows and their maturities.

The following table provides a maturity calendar of all interest-bearing financial instruments, including derivatives as of 31 December 2018, which is based on remaining days to maturity for fixed rate instruments and next repricing date for floating rate instruments:

IRRBB

	Demand	< = 3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Total
Assets	73,227	2,658,436	874,243	556,536	102,847	4,265,289
Liabilities	(131,360)	(1,247,626)	(1,606,818)	(494,828)	(54,616)	(3,535,248)
Derivatives	-	15,787	46,995	(30,348)	(50,892)	(18,458)
Net interest position 31 December 2018	**(58,133)**	**1,426,597**	**(685,580)**	**31,360**	**(2,661)**	**711,583**
Net interest position 31 December 2017	**(98,253)**	**1,151,133**	**(526,357)**	**273,601**	**158,534**	**958,658**

The calculation of the Economic Value of Equity (EVE) analysis as at 31 December 2018 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 an increase in the economic value of the Bank's equity amounting to approximately EUR 5,672 (31 December 2017: EUR 10,402 decrease).

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

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

The Bank has a moderate duration structure. The duration mismatch is stable as a natural consequence of the clear business model of the Bank.

All interest rate sensitivity analyses are also used for evaluating hedging strategies, internal limit setting and portfolio monitoring purposes, enabling GBI to manage interest rate risk in a proactive manner. The outcomes of these analyses are used in decision-making processes for hedging and pricing. GBI uses interest rate swaps and forward rate agreements to hedge interest rate risk in major currencies in its banking book, depending on the composition of the balance sheet.

CURRENCY RISK

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. GBI manages structural currency risk in line with the policies and the risk appetite set by the Supervisory Board. The Bank uses FX hedging derivatives such as currency swaps and currency forward contracts in convertible currencies to manage the currency risk inherent to the balance sheet. For the derivative contracts concluded to mitigate currency risk, GBI applies cashflow hedge accounting as defined under IAS 39.

The total equivalent of net balance in foreign currencies is EUR 1,920 (2017: EUR 1,980). The currency position is reduced through derivative instruments.

Table below shows the exposures for GBI the different currencies.

(Currency: Thousands of Euros)

Concentration risk by currency exposure

31 December 2018	USD	TL	Other	Total
Assets				
Cash and balances with central banks	-	-	-	-
Derivative financial instruments	-	-	-	-
Loans and advances to banks	186,518	133	2,050	188,701
Loans and advances to customers	916,721	278,192	154,304	1,349,217
Financial assets at fair value through profit or loss	11,399	-	-	11,399
Financial assets at fair value through other comprehensive income	71,638	-	-	71,638
Current tax asset	-	-	-	-
Tangible and intangible assets	-	-	-	-
Deferred tax asset	-	-	-	-
Other assets	200	29	58	287
Total Assets	**1,186,476**	**278,354**	**156,412**	**1,621,242**
Liabilities				
Due to banks	47,037	986	23,698	71,721
Due to customers	491,084	33,443	52,492	577,019
Derivative financial instruments	-	-	-	-
Obligations under repurchase agreements	61,768	-	-	61,768
Loans and advances from banks and other institutions	498,221	-	-	498,221
Current tax liability	-	-	-	-
Deferred tax liability	-	-	-	-
Other liabilities, accrued expenses and provisions	3,089	-	-	3,089
Other borrowed funds	-	-	-	-
Shareholder's equity	(5,759)			(5,759)
Total Liabilities	**1,095,440**	**34,429**	**76,190**	**1,206,059**
Net On Balance Sheet Position	91,036	243,925	80,222	415,183
Off Balance Sheet Position	**(89,466)**	**(243,316)**	**(80,481)**	**(413,263)**
Net Position	1,570	609	(259)	1,920

31 December 2017	USD	TL	Other	Total
Assets				
Cash and balances with central banks	-	-	-	-
Derivative financial instruments	-	-	-	-
Loans and advances to banks	232,901	153	10,116	243,170
Loans and advances to customers	997,174	404,482	77,991	1,479,647
Financial assets at fair value through profit or loss	103,430	-	-	103,430
Financial assets at fair value through other comprehensive income	-	-	-	-
Current tax asset	-	-	-	-
Tangible and intangible assets	-	-	-	-
Deferred tax asset	1,063	-	16	1,079
Other assets	-	-	-	-
Total Assets	**1,334,568**	**404,635**	**88,123**	**1,827,326**
Liabilities				
Due to banks	43,014	-	879	43,893
Due to customers	631,869	42,520	58,653	733,042
Derivative financial instruments	122	-	-	122
Obligations under repurchase agreements	6,364	-	-	6,364
Loans and advances from banks and other institutions	422,147	-	-	422,147
Current tax liability	-	-	-	-
Deferred tax liability	-	-	-	-
Other liabilities, accrued expenses and provisions	24,220	-	-	24,220
Other borrowed funds	-	-	-	-
Shareholder's equity	(3,780)			(3,780)
Total Liabilities	**1,123,956**	**42,520**	**59,532**	**1,226,008**
Net On Balance Sheet Position	210,612	362,115	28,591	601,318
Off Balance Sheet Position	**(209,874)**	**(360,869)**	**(28,594)**	**(599,338)**
Net Position	738	1,246	(3)	1,980

(Currency: Thousands of Euros)

Sensitivity analysis FX positions

Sensitivity analysis specifically on FX positions are not presented as result of effective risk mitigation whereby the net positions are immaterial.

DERIVATIVES AND HEDGE ACCOUNTING

Derivatives

The breakdown of the fair value of GBI's derivative portfolio to product type is as follows:

	31 December 2018	31 December 2017	1 January 2017
Risk Management purposes			
Swaps	8,407	8,998	36,030
Spots	4	2	1
	8,411	**9,000**	**36,031**
Other purposes (trading)	-	-	-
Swaps	9,206	5,440	12,031
Forwards	118	1,176	3,532
Option	2,781	7,999	17,208
Other	1,457	1,865	1,096
	13,562	**16,480**	**33,867**
Derivative financial assets	**21,973**	**25,480**	**69,898**
Risk Management purposes			
Swaps	14,706	5,987	26,524
Spots	-	-	
	14,706	**5,987**	**26,524**
Other purposes (trading)			
Swaps	8,869	4,989	16,417
Forwards	356	1,218	2,928
Option	2,781	7,999	17,208
Other	1,477	1,835	1,004
	13,483	**16,041**	**37,557**
Derivative financial liabilities	**28,189**	**22,028**	**64,081**

Derivatives for our clients

A considerable portion of our derivative transactions relate to client-driven sales and trading activities, and associated market risk hedging. Typical derivative transactions with clients mostly encompass standardised derivative products (so called "plain vanilla"). Any derivative transaction that is conducted with clients, is offset by GBI with a similar derivative transaction with a professional counterparty in order mitigate risks. Any realized and unrealized gains or losses on derivatives used for client driven trading business are recognized immediately in Net Trading Income (see Note 22).

Derivatives held for risk management

We also use derivatives for purposes other than trading, primarily for hedging, in conjunction with the management of interest rate and foreign exchange risk related to our funding, lending, and asset/liability management. This involves interest rate swaps to manage our exposures to interest rate risk and currency swaps to manager our foreign currency risk.

Certain derivatives are specifically designated and qualify for hedge accounting (see 'Hedge Accounting' section below). From time to time, we also enter into derivative transactions to economically hedge certain exposures that do not otherwise qualify for hedge accounting, or where hedge accounting is not considered economically feasible to implement. In such circumstances, changes in fair value are Net Trading Income (see Note 22).

The table presents the fair value of derivatives held for risk management purposes by type of instrument.

	2018		2017	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Instrument type				
Interest rate				
Designated in fair value hedges	357	2,918	256	3,701
Designated in cash flow hedges	-	-	1	83
Other risk management derivatives	90	1,267	6	44
Total interest rate derivatives	447	4,185	257	3,828
Foreign Exchange				
Designated in cash flow hedges	6,891	9,747	4,699	357
Other risk management derivatives	1,133	774	4,038	1,802
Total interest rate and foreign exchange derivatives	7,964	10,521	8,737	2,159
Total	**8,411**	**14,706**	**9,000**	**5,987**

Hedge Accounting

Fair value hedges of interest rate risk

GBI uses interest rate swaps to hedge its exposure to changes in the fair values of fixed rate bonds in our FVOCI portfolio. Pay-fixed/receive-floating interest rate swaps are matched to specific issuances of fixed-rate notes. GBI's approach to managing market risk, including interest rate risk, is discussed in market risk section of these disclosures. Interest rate risk to which GBI applies hedge accounting arises from fixed-rate bonds whose fair value fluctuates when benchmark interest rates change.

GBI hedges interest rate risk only to the extent of benchmark interest rates because the changes in fair value of a fixed-rate bonds are mainly influenced by changes in the benchmark interest rate. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria. By using derivative financial instruments to hedge exposures to changes in interest rates, GBI also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. GBI minimises counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties that are subject to standardised collateral posting and clearing requirements.

(Currency: Thousands of Euros)

Before fair value hedge accounting is applied by GBI, it first determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk. Occasionally, where deemed necessary, this is supported by quantitative analysis. GBI considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. In addition to this qualitative assessment, the prospective hedge effectiveness is assessed with a sensitivity analysis approach. This method consists of measuring the effect of a parallel shift in the underlying hedged risks (a flat shift of 200 base points) on both the hedging instrument and the hedged item.

At each reporting date (i.e. monthly) the effectiveness of the hedge relationship is assessed with a regressing analysis test on a cumulative basis. The hedge is demonstrated to be effective by dividing the cumulative change on the clean fair value (i.e. excluding accrued interest) of the hedging instrument with the cumulative change in clean fair value of the hedged items attributable to the hedged risk. If the ratio is within the range of 80%-125%, the hedge relationship is considered to be effective.

In these hedge relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and GBI's own credit risk on the fair value of the interest rate swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate; and
- differences in maturities of the interest rate swap and the loans or the notes.

There were no other sources of ineffectiveness in these hedge relationships.

As at 31 December 2018, GBI held interest rate swaps as hedging instruments in fair value hedges of interest risk with the following maturity profile:

		Maturity	
Risk category	**Less than 1 year**	**1–5 years**	**More than 5 years**
Interest rate risk	-	-	-
Hedge of bonds in FVOCI			
Nominal amount	-	67,492	15,000
Average fixed interest rate	-	1.32%	1.16%

The amounts relating to items designated as hedging instrument and hedge ineffectiveness are as follows:

		Carrying amount					
	Nominal amount	**Assets**	**Liabilities**	**Line item in the statement of financial position where the hedging instrument is included**	**Changes in fair value used for calculating hedge ineffectiveness**	**Hedge ineffectiveness recognised in profit or loss**	**Line item in profit or loss that includes hedge ineffectiveness**
Interest rate risk							
Interest Rate Swaps - bonds in FVOCI	82,492	357	2,918	Derivative Financial Instruments	2,305	173	Net Trading Income

The amounts relating to items designated as hedged item are as follows:

		Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedge item			
	Nominal amount	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Line item in the statement of financial position where the hedged item is included**	**Changes in fair value used for calculating hedge ineffectiveness**	**Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses**
Bonds in FVOCI	82,492	84,757	-	2,265	-	Financial Assets at Fair Value Through Other Comprehensive income	(2,305)	-

Comparative information under IAS 39

With respect to GBI's approach for hedging and hedge accounting, reference is made to preceding sections of this paragraph.

The fair values of derivatives designated as fair value hedges were as follows.

	2017		
Instrument type	***Nominal***	***Assets***	***Liabilities***
Interest Rate Swaps	220,774	256	3,701

Cash flow hedges of foreign currency

GBI use currency swaps to hedge against the foreign currency exposure. These swaps enable GBI to fix exchange rate and eliminate variability in cash flows the external parties (both borrowers and lenders) as a result of currency fluctuations. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

GBI's approach to managing market risk, including foreign currency risk, is discussed on page 122. GBI's exposure to market risk is disclosed on page 124. GBI determines the amount of the exposure to which it applies hedge accounting by assessing the potential impact of changes in foreign currency exchange rates on the future cash flows from its issuance of floating-rate notes denominated in foreign currencies. This assessment is performed using analytical techniques, such as cash flow sensitivity analysis.

As noted above for fair value hedges, by using derivative financial instruments to hedge exposures to changes in foreign currency exchange rates, GBI exposes itself to credit risk of the counterparties to the derivatives, which is not offset by the hedged items. This exposure is managed similarly to that for fair value hedges.

GBI determines whether an economic relationship exists between the cash flows of the hedged item and hedging instrument based on an evaluation of the qualitative characteristics of these items and the hedged risk. Occasionally, where deemed necessary, this is supported by quantitative analysis. GBI considers whether the critical terms (being: notional amount, contract currency, maturity date) of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship.

At each reporting date (i.e. monthly) the effectiveness of the hedge relationship is assessed using the same approach as used for prospective testing.

In these hedge relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and GBI's own credit risk on the fair value of the swap, which is not reflected in the fair value of the hedged item attributable to the change in interest rate and foreign currency; and
- differences in maturities or timing of cash flows of the swap and the notes.

There were no other sources of ineffectiveness in these hedge relationships.

As at 31 December 2018, GBI held the following instruments to hedge exposures to changes in interest rates and foreign currency.

	Maturity		
	Less than 1 year	1–5 years	More than 5 years
Foreign Currency Risk			
Cross-currency swaps (EUR:TRY)			
Nominal amount	186,348	8,968	-
Average EUR–TRY exchange rate	7.00	7.86	-
Cross-currency swaps (EUR:RON)			
Nominal amount (in millions of euro)	56,913	-	-
Average EUR–RON exchange rate	4.73	-	-

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows.

		Carrying amount								
Foreign currency risk	**Nominal amount**	**Assets**	**Liabilities**	**Line item in the statement of financial position where the hedging instrument is included**	**Changes in fair value used for calculating hedge ineffectiveness**	**Change in the value of the hedging instrument recognised in OCI**	**Hedge ineffectiveness recognised in profit or loss**	**Line item in profit or loss that includes hedge ineffectiveness**	**Amount reclassified from the hedge reserve to profit or loss**	**Line item in profit or loss affected by the reclassification**
Currency swaps (EUR:TRY)	195,316	6,861	9,287	Derivative Financial Instruments	655	544	-	Net Trading Income	324	Net Trading Income
Currency swaps (EUR:ZAR)	-	-	-	Derivative Financial Instruments	-	-	-	Net Trading Income	3	Net Trading Income
Currency swaps (EUR:RON)	56,913	1	467	Derivative Financial Instruments	(18)	(18)	-	Net Trading Income	(175)	Net Trading Income

The amounts relating to items designated as hedged items were as follows.

	Line item in the statement of financial position in which the hedged item is included	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied
Interest rate risk				
TRY Loans	Loans and advances to customers	(655)	(655)	-
RON Loans	Loans and advances to customers	18	18	-

Comparative information under IAS 39

With respect to GBI's approach for hedging and hedge accounting, reference is made to preceding sections of this paragraph.

The fair values of derivatives designated as cash flow hedges were as follows.

	2017		
	Nominal	Assets	Liabilities
Interest rate risk			
Interest Rate Swaps	124,735	1	83
Foreign currency risk			
Currency swaps (EUR:TRY)	230,957	4,205	226
Currency swaps (EUR:ZAR)	3,139	-	131
Currency swaps (EUR:RON)	19,276	494	-

During the year ended 31 December 2017, net gains of € 382 relating to the effective portion of cash flow hedges were recognised in OCI.

During the year ended 31 December 2017, gains of €227 and losses of €740 relating to FX cash flow hedges were transferred from equity to profit or loss and are reflected in net trading income. Net ineffectiveness recognised on cash flow hedges during the year ended 31 December 2017 is nil.

The time periods in which the hedged cash flows are expected to occur and affect profit or loss are as follows.

	2017		
	Less than 1 year	1-5 years	More than 5 years
Interest rate risk	124,735	-	-
Interest Rate Swaps	-	-	-
Foreign currency risk	-	-	-
Currency swaps (EUR:TRY)	213,404	17,553	-
Currency swaps (EUR:ZAR)	3,139	-	-
Currency swaps (EUR:RON)	19,276	-	-

Liquidity and Funding Risk

Liquidity risk is defined as the risk that the Bank may not be able to fulfil its payment obligations in a timely manner due to the lack of available cash or cash inflows in quality and in quantity to cover the cash outflows in a complete and timely manner due to imbalances in the cash flows of the Bank. Thus liquidity risk management focuses primarily on short-term scenarios and solutions. Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required or at extensive cost. Thus, funding risk management focuses primarily on long term scenarios and solutions.

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.

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.

FUNDING CONCENTRATION

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, owing to the Bank's well-established position in Dutch and German retail markets. This funding structure enables 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 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.

REGULATIONS

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.

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 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.

(Currency: Thousands of Euros)

EXPOSURE TO LIQUIDITY RISK

The following table provides a maturity analysis of assets and liabilities according to their contractual remaining maturity at the reporting date. The amounts are gross and undiscounted and exclude the impact of netting agreements.

Maturity analysis (contractual) assets and liabilities

31 December 2018	**On demand**	**< = 3 months**	**3 months - 1 year**	**1 - 5 years**	**> 5 years**	**Undistributed**	**Total**
Cash and balances with central banks	836,208	-	-	-	-	-	836,208
Derivative financial instruments	-	4,057	16,416	1,500	-	-	21,973
Loans and advances to banks	61,979	137,915	84,175	40,530	-	-	324,599
Loans and advances to customers	13,262	1,277,103	616,959	816,820	123,730	-	2,847,874
Financial assets at fair value through profit or loss	-	-	8,628	-	-	2,771	11,399
Financial assets at fair value through other comprehensive income	-	700	929	124,422	68,590	-	194,641
Current tax asset	-	10,640	-	-	-	-	10,640
Tangible and intangible assets	-	-	-	-	-	34,341	34,341
Other assets	-	828	1,520		4,489		6,837
Total Assets	**911,449**	**1,431,243**	**728,627**	**983,272**	**196,809**	**37,112**	**4,288,512**
Due to banks	19,314	82,524	12,415	-	-	-	114,253
Due to customers	1,365,285	611,425	472,394	351,292	840	-	2,801,236
Derivative financial instruments	-	9,283	12,234	4,873	1,799	-	28,189
Obligations under repurchase agreements	-	61,768		128,956	-	-	190,724
Loans and advances from banks and other institutions	-	122,020	354,334	21,867	-	-	498,221
Current tax liability	-	-	-	-	-	-	-
Deferred tax liability	-	-	-	-	-	3,006	3,006
Other liabilities, accrued expenses and provisions	-	19,027	896	-	-	-	19,923
Other borrowed funds	-	-	398	-	50,000	-	50,398
Shareholders' equity	-	-	-	-	-	582,562	582,562
Total Liabilities	**1,384,599**	**906,047**	**852,671**	**506,988**	**52,639**	**585,568**	**4,288,512**

31 December 2017	**On demand**	**< = 3 months**	**3 months - 1 year**	**1 - 5 years**	**> 5 years**	**Undistributed**	**Total**
Cash and balances with central banks	339,431	-	-	-	-	-	339,431
Derivative financial instruments	-	7,827	13,949	3,704	-	-	25,480
Loans and advances to banks	28,917	94,110	233,457	26,620	-	-	383,104
Loans and advances to customers	13,719	1,125,147	785,283	988,571	136,186	-	3,048,906
Available-for-sale financial assets	-	1,031	22,719	61,581	350,938	2,231	438,500
Tangible and intangible assets	-	-	-	-	-	31,090	31,090
Other assets	-	1,341	1,808	-	4,489	-	7,638
Total Assets	**382,067**	**1,229,456**	**1,057,216**	**1,080,476**	**491,613**	**33,321**	**4,274,149**
Due to banks	17,001	74,074	14,206	-	-	-	105,281
Due to customers	1,723,231	492,164	342,599	341,626	3,460	-	2,903,080
Derivative financial instruments	-	5,451	10,126	2,797	3,654	-	22,028
Obligations under repurchase agreements	-	6,364		130,000	-	-	136,364
Loans and advances from banks and other institutions	-	35,645	304,018	82,484	-	-	422,147
Current tax liability	-	1,899	-	-	-	-	1,899
Deferred tax liability	-	-	-	-	-	2,721	2,721
Other liabilities, accrued expenses and provisions	-	25,985	9,502	-	26	-	35,513
Other borrowed funds	-	-	417	-	50,000	-	50,417
Shareholders' equity	-	-	-	-	-	594,699	594,699
Total Liabilities	**1,740,232**	**641,582**	**680,868**	**556,907**	**57,140**	**597,420**	**4,274,149**

(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'.

The inflows/(outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are not usually closed out before contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash-settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement.

(Currency: Thousands of Euros)

COUNTRY BY COUNTRY REPORTING

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

Country by country reporting

As at 31 December 2018	Country	Location	Turnover	Average number of FTE	Result before Tax	Tax on result	Public subsidies received
Name							
GarantiBank International N.V., Head Office	Netherlands	Amsterdam	75,246	220	14,912	3,535	-
GarantiBank International Dusseldorf Branch	Germany	Dusseldorf	3,758	18	648	5	-
As of 31 December 2017							
Name							
GarantiBank International N.V., Head Office	Netherlands	Amsterdam	87,677	207	34,290	8,579	-
GarantiBank International Dusseldorf Branch	Germany	Dusseldorf	3,789	18	747	224	-

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.

SUBSEQUENT EVENTS

From January 1st 2019 to the date this report was drafted, no other events have occurred that significantly affect GBI's earnings or its equity position, and that are not mentioned in the notes to the financial statements.

Amsterdam, 28 February 2019

The Managing Board:	The Supervisory Board:
Mr S.E. Zeyneloğlu	Mr A.F. Erbil (Chairman)
Ms Ö. Etker-Simons	Mr A. Düren
Mr M.Ö. Şişman	Mr P.R.H.M. van der Linden
Mr M. Witteveen	Mr B.J.M.A. Meesters
Mr C.B. Mutlu	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

1. The profits shall be at the disposal of the general meeting.

2. Dividends may be paid only up to an amount which does not exceed the amount of the distributable part of the net assets.

3. Dividends shall be paid after adoption of the financial statements from which it appears that payment of dividends is permissible.

4. 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.

5. 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.

FINANCIAL STATEMENTS

KPMG

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 2018 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. ('the Company' or 'the Bank') as at 31 December 2018 and of its result and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2018 of GarantiBank International N.V. based in Amsterdam.

The financial statements comprise:

1 the statement of financial position as at 31 December 2018;

2 the following statements for 2018: the statements of comprehensive income, changes in equity and cash flows; and

3 the notes comprising a summary of the significant 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 1.6 million — 6.7% of three years' average (2016-2018) of profit before tax — We report misstatements in excess of EUR 80 thousand to the Supervisory Board

Key audit matters
— First-time adoption of the International Financial Reporting Standards — Estimation uncertainty with respect to impairment losses on loans and advances — Reliability and continuity of electronic data processing

Opinion
Unqualified

Materiality

Based on our professional judgement, we determined the materiality for the financial statements as a whole at EUR 1.6 million (2017: EUR 2 million). The materiality is determined with reference to the three years' average (2016-2018) of profit before tax (6.7%) as the relevant benchmark. We consider the three years' average (2016-2018) of profit before tax as the most appropriate benchmark, compared to the 2018 profit before tax, because we observed a number of non-recurring items (with a negative impact on profit before tax) in this year's profit before tax. Although these non-recurring items resulted in a decrease of our materiality compared to prior year, we concluded that eliminating part of the impact of these items, by using the three years' average of profit before tax, is appropriate. 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 80 thousand 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.

Audit scope in relation to fraud and non-compliance with laws and regulations

In accordance with the Dutch Standards on Auditing, we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. In determining the audit procedures, we will make use of the evaluation of management in relation to fraud risk (prevention, detection and response), including ethical standards to create a culture of honesty.

In our process of identifying fraud risks, we assessed fraud risk factors, which we discussed with management and the Supervisory Board. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. We also assessed factors related to the risk of non-compliance with laws and regulations which could have a direct or indirect impact on the financial statements.

Based on the auditing standards, we addressed the presumed fraud risk in relation to management override of controls and an inherent fraud risk in relation to the estimation of the impairment losses on loans and advances.

With respect to management override of controls, our audit procedures included an evaluation of the internal controls relevant to mitigate these risks, such as the authorisation of manual journal entries, and supplementary substantive audit procedures; primarily consisting of detailed testing of journal entries. When testing journal entries, we assessed whether management intervened in areas that require estimation, such as the Loan Loss Provisioning process, through inappropriate top-side adjustments.

With respect to the estimation of impairment losses on loans and receivables (Loan Loss Provision), we refer to the procedures described in the key audit matter related to the 'Estimation uncertainty with respect to impairment losses on loans and advances'. These procedures also address the inherent risk of fraud and management bias.

In relation to non-compliance with laws and regulations we addressed the risk of non-compliance with rules and regulations specific to a bank, including compliance with rules and regulations regarding customer due diligence and anti-money laundering.

In this context, we assessed the Bank's entity level controls, including its compliance function, we inquired of the compliance officer and those charged with governance, we read the minutes of the Managing and Supervisory Board and inspected the Bank's complaints register. We also inspected the Bank's correspondence with its regulators and, if applicable, assessed management's follow-up to such correspondence.

Our audit procedures differ from a specific forensic fraud investigation, which often has a more in-depth character.

Our procedures to address fraud risks and/or risk of non-compliance to laws and regulations did not result in findings with an impact on the financial statements that should be included in this auditor's report.

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.

First-time adoption of the International Financial Reporting Standards

Description

In 2018, the Bank transitioned from preparing its financial statements in accordance with Dutch Generally Accepted Accounting Principles (D-GAAP) to preparing its financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union (EU-IFRS).

To ensure transparency and comparable information over all periods presented in the financial statements and to provide a suitable starting point at the date of transition, the Bank disclosed on page 66 of the financial statements the impact of the transition from D-GAAP and restated the comparative information (i.e. the income statements for 2017, the statement of financial position as of 31 December 2017 and notes thereto) in the 2018 financial statements.

Due to the implementation of EU-IFRS, preparing the Bank's financial statements became more complex. EU-IFRS, for example, requires the Bank to record more assets and liabilities at fair value and requires more extensive disclosures. Furthermore, the Bank was required to implement the newly effective accounting standard for financial instruments, IFRS 9, as of January 2018, resulting in a double transition: from D-GAAP to the previous accounting standards for financial instruments (IAS 39) for the preparation of the comparative information in the 2018 financial statements, and subsequently to IFRS 9.

The abovementioned complexity increases the inherent risk of error when preparing the financial statements. We therefore considered the first-time adoption of IFRS to be a key audit matter.

Our response

Our audit approach comprised of substantive audit procedures on the transition adjustments as well as audit procedures regarding the disclosure of the impact of the transition as required by IAS 8 and IFRS 1.

We evaluated the Bank's accounting policies as well as the Bank's transition policy documents and considered the appropriateness of key accounting decisions and judgements made. In addition, we performed detailed testing of the underlying information used to determine the amounts at which assets and liabilities are measured after the transition. Furthermore, we verified whether the disclosures required by IFRS are included in the financial statements and are accurate and complete.

Our observation

Based on the procedures performed, we conclude that the financial statements comply with the International Financial Reporting Standards as adopted by the European Union and that the impact of the first-time adoption of IFRS is appropriately disclosed in note 'First-time adoption of IFRS' in the financial statements on pages 66 to 71.

Estimation uncertainty with respect to impairment losses on loans and advances

Description

As disclosed on page 75 of the financial statements, the Bank's portfolio of loans and advances to customers amounts to EUR 2.8 billion, as at 31 December 2018. These loans and advances are measured at amortised cost, less a provision for impairment (EUR 61.5 million).

In light of the transition of the Bank from preparing its financial statements in conformity with D-GAAP to International Financial Reporting Standards as adopted by the European Union ('EU-IFRS') – as disclosed on page 66 of the financial statements – the Bank also implemented the new accounting standard IFRS 9 (Financial Instruments), that is effective as of 1 January 2018.

The implementation of IFRS 9 has a significant impact on the Bank's impairment methodology, as it changes the impairment model from an incurred loss model (loan losses can only be recorded if there is objective evidence of credit impairment as of reporting date), to an expected loss model. The Expected Credit Loss ('ECL') model is a forward-looking model that takes into consideration expected future developments with respect to credit risk and losses and therefore requires additional judgement from management. For further details regarding the accounting principles and the impact of the implementation of IFRS 9, we refer to pages 40 to 47 of the financial statements.

As several aspects of the accounting for impairment on loans and advances require significant judgement of management – such as the identification of a significant increase in credit risk/credit impaired loans, the modelling of expected credit losses where a collective approach is used, and the development of future scenarios for the individually assessed loans – we consider this a key audit matter.

Our response

Our audit approach comprises of both the testing of controls and substantive audit procedures.

Our audit procedures included, among other things, 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 loans that have a significant increase in credit risk or that are credit impaired.

For the loans and advances where the Bank applies a collective (portfolio) approach to determine the provision for impairment, we assessed the collective impairment methodology. With the assistance of KPMG credit risk modelling specialists, we have evaluated the models, assumptions and the reliability and accuracy of the data used by the Bank for determining the collective provision for impairment, including the application of significant increase of credit risk criteria. Furthermore, we have assessed the methodology implemented by the Bank to evaluate the reasonableness of the collective impairment model outcomes.

For the loans and advances where the Bank determines the provision for impairment on an individual loan basis, we examined a selection of loan exposures in detail. We applied professional judgement in selecting the loan exposures for our detailed testing, with an emphasis on exposures in specific sectors or geographies that currently have an increased credit risk and the portfolio of loans that are under close monitoring by the Bank. As part of our procedures, we challenged management's estimate of future cash flows scenarios and the probability applied to those scenarios, we inspected supporting documentation, such as the legal documentation and appraisal reports for collateral and/or restructuring plans, we reconciled underlying loan data used in the loan loss calculation and we verified its mathematical accuracy.

Our observation

Based on the procedures performed, we assess that the impairment losses on loans and advances are fairly stated in financial statements.

Reliability and continuity of electronic data processing

Description

The Bank is dependent on its Information Technology (IT) infrastructure for the continuity of its operations. The Bank is currently in the process of making important investments in its IT systems as part of a bank-wide digital transformation process. Considering the importance of IT to the continuity of the Bank's operations and the increased inherent risk of unreliable data processing during the implementation of IT changes, we consider the reliability and continuity of electronic data processing a key audit matter.

Our response

As part of the audit of the financial statements, we obtained an understanding of the entity's IT environment and how the Bank 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, among other things, 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.

We included specialised IT auditors in our audit team.

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 furthermore reported our findings with respect to the IT control environment to management and the Supervisory Board. In the context of this report we have no material findings in respect of the reliability and continuity of the electronic data processing of the Bank.

FINANCIAL STATEMENTS

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 sections:

- Who we are;
- Report of the Managing Board;
- Corporate Governance;
- Report of the Supervisory Board;
- Other information (pursuant to Part 9 of Book 2 of the Dutch Civil Code);
- Contact Information.

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

- is consistent with the financial statements and does not contain material misstatements; and
- 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.

The Managing Board is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

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 ever since that financial year.

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.

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 member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity.
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FINANCIAL STATEMENTS

Description of responsibilities regarding the financial statements

Responsibilities of the Managing Board of GarantiBank International N.V. and the Supervisory Board for the financial statements

The Managing Board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Managing Board is responsible for such internal control as the Managing Board 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, the Managing Board is responsible for assessing GarantiBank International N.V.'s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Managing Board should prepare the financial statements using the going concern basis of accounting, unless the Managing Board either intends to liquidate GarantiBank International N.V. or to cease operations, or has no realistic alternative but to do so. The Managing Board 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 GarantiBank International N.V.'s financial reporting process.

Our responsibilities for the audit of the financial statements

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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 can be found at the website of 'Koninklijke Nederlandse Beroepsorganisatie van Accountants' (NBA, Royal Netherlands Institute of Chartered Accountants) at: http://www.nba.nl/ENG_oob_01. This description forms part of our independent auditor's report.

28 February 2019, Amstelveen

KPMG Accountants N.V.

J.A. van den Hengel RA

GARANTIBANK INTERNATIONAL N.V. ANNUAL REPORT 2018

CONTACT INFORMATION

Head Office

Keizersgracht 569-575
1017 DR Amsterdam
The Netherlands
Telephone: + 31 20 553 9700
Facsimile: + 31 20 624 2466
SWIFT: UGBINL2A
www.garantibank.eu
info@garantibank.eu

Düsseldorf Branch

Tersteegenstrasse 28 – Etage 5
40474 Düsseldorf, Germany
Telephone: + 49 211 86 222 301
Facsimile: + 49 211 86 222 350
Swift: UGBIDEDD
www.garantibank.de
info@garantibank.de

Representative Offices

TURKEY REPRESENTATIVE OFFICE

Mr. Berat İçinsel
Representative & Executive Director
Eski Büyükdere Cad. No: 9
Iz Plaza Giz, Kat: 12
Maslak 34398 Şişli, İstanbul, Turkey
Telephone: + 90 212 366 43 01
Facsimile: + 90 212 366 43 20
IstanbulRepOffice@garantibank.eu

SWITZERLAND REPRESENTATIVE OFFICE

Ms. Şirin Yüce Giess
Representative
Rue De-Candolle 12
1205 Geneva, Switzerland
Telephone: + 41 22 310 25 25
Facsimile: + 41 22 310 25 26
GenevaRepOffice@garantibank.eu

www.garantibank.eu

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