GarantiBank International N.V.

Report on Capital Adequacy and Risk Management

31 December 2008

Table of Contents

1. Introduction 3

2. Scope of Application 3

3. Overview on the Risk Governance at GBI 3

4. Own Funds 4
   - 4.1. Own Funds Composition 4
   - 4.2. Minimum Level of Own Funds 5

5. Credit Risk 5
   - 5.1. Organization of the Credit Function 5
   - 5.2. Information about Exposures 7
     - 5.2.1. Exposure Amounts before Credit Risk Mitigation 7
     - 5.2.2. Geographical Breakdown of the Exposures 7
     - 5.2.3. Breakdown of the Exposures by Industry 8
     - 5.2.4. Effective Maturity Breakdown 9
     - 5.2.5. Impaired and Past Due Exposures, Value Adjustments and Provisions 9
     - 5.2.6. Counterparty Credit Risk of Derivative Instruments 10
     - 5.2.7. Specialized Lending 10
     - 5.2.8. Credit Risk Mitigation 11
   - 5.3. Scope of Acceptance for F-IRB Approach 11
     - 5.3.1. Governance Framework around F-IRB Models and Processes 12
     - 5.3.2. General Description of Models 13

6. Market Risk 14

7. Operational Risk 14

8. ICAAP Framework 15
   - 8.1. Credit Risk 16
   - 8.2. Concentration Risk 16
   - 8.3. Market Risk 16
   - 8.4. Interest Rate Risk on the Banking Book (IRRBB) 16
   - 8.5. Liquidity Risk 17
   - 8.6. Other Risks 18
   - 8.7. Capital Planning 19

1. Introduction

Related to the implementation of the Capital Requirements Directive (CRD), financial institutions have to fulfil several disclosure requirements. The aim is to make information regarding the institution's solvency aspects and risk profiles available to public. These requirements are part of the so-called Pillar 3 of the CRD, or Disclosures and Market Discipline and have been included in the Financial Supervision Act (Wet op het financieel toezicht/Wft). These requirements are effective as of 1 January 2008. This document contains Pillar 3 disclosures of GarantiBank International N.V. (hereinafter referred to as "GBI") as at 31 December 2008.

2. Scope of Application

The scope of application of the Disclosures and Market Discipline Directive requirement is confined to GBI including its branches.

3. Overview on the Risk Governance at GBI

Risk management culture at GBI supports value creation by providing insight to the levels of risk that can be absorbed in comparison to earnings power and capital base. Integrated risk management has become a key ingredient of the Bank's strategy.

Senior management holds the ultimate responsibility to ensure that the Bank operates with a capital level sufficient for sustaining the financial stability of the Bank. The purpose of the Internal Capital Adequacy Assessment Process (ICAAP) is to assess both current and future adequacy of the Bank's capital.

Risk Management at GBI is structured as an integrated effort under various levels within the organization. The Supervisory Board and the Chief Executive Officer have overall responsibility for the capital management at GBI. The Audit and Risk Management Committee of the Supervisory Board is the ultimate authority for monitoring of risks and capital adequacy at Board level.

The Risk Management Committee (RMC) is responsible for coordination of risk management activities within the Bank; RMC reports directly to the Audit and Risk Management Committee of the Supervisory Board. Other risk committees were established to manage major banking risks more specifically ; the Credit Committee for credit risk, Asset & Liability Committee (ALCO) for market and liquidity risks, Legal Committee for legal risk and Compliance Committee for compliance/integrity risks. The Audit Committee of the Supervisory Board is the ultimate responsible body for operational and other risks. Compliance and Internal Audit Services (C&IAS) is responsible for monitoring of operational and other risks through FIRM analysis and regular audits, and reporting them to the Audit and Risk Management Committee of the Supervisory Board.

Risk Management Department (RMD) is an independent risk control unit that operates independent from commercial activities and reports directly to RMC. RMD is responsible for the quantification and

monitoring of material risks in terms of economic capital and regulatory capital in order to limit the impact of potential events on financial performance of the Bank. RMD develops and implements risk policies, procedures, methodologies and risk management infrastructures that are consistent with the regulatory requirements, best market practices and the needs of business lines. RMD also coordinates all efforts for compliance of the Bank's risk management policies and practices with Basel principles and the Financial Supervision Act (FSA, Wet op het financial toezicht / Wft).

ICAAP was appropriately designed to support the Audit and Risk Management Committee of the Supervisory Board and RMC in monitoring all types of risks and assessing capital requirements with regards to the Bank's risk perception and regulatory requirements. RMD presents the ICAAP report to the Audit and Risk Management Committee of the Supervisory Board semi-annually and a summary version of it to RMC on a quarterly basis.

4. Own Funds

4.1. Own Funds Composition

The own funds of GBI consist of Tier 1 paid-in and called-up capital, profit reserves, Tier 2 revaluation reserves and subordinated debt.

The subordinated debt comprises of subordinated retail deposits and subordinated lower Tier 2 notes issued. The subordinated debt is subordinate with respect to GBI's other current and future liabilities. The original maturity of the retail loans is 5, 6, 8 or 10 years.

The subordinated lower Tier 2 notes issued has an original maturity of 10 years.

In line with article 64, paragraph 3 c) of the directive 2006/48/EG, the amount of subordinated debt that is included in the own funds is gradually decreased if its remaining maturity falls within 5 years.

Please find below an overview of GBI's own funds composition as at 31 December 2008:

Own Funds	31.12.2008 (EUR 1,000)	31.12.2007 (EUR 1,000)
Tier 1		
Paid-in and called-up capital	196,567	159,470
Share premium account	-	2,086
Other reserves	15,796	15,796
TOTAL Tier 1	**212,363**	**177,352**
Tier 2		
Revaluation reserves	4,920	4,777
Subordinated debt	41,301	49,651
Subordinated retail deposits	*11,301*	*19,651*
Subordinated lower Tier 2 notes	*30,000*	*30,000*
TOTAL Tier 2	**46,221**	**54,428**
TOTAL Eligible Capital	**258,584**	**231,780**

4.2. Minimum Level of Own Funds

GBI applies Foundation Internal Ratings Based Approach for credit risk, Standardized Measurement Approach for market risk and Basic Indicator Approach for calculation of the minimum level of own funds.

Solvency as at 31.12.2008	
Credit Risk	153,218
Market Risk	6,647
Operational Risk	11,409
Total Capital requirement	**171,274**
Total RWA	2,140,925
Tier 1 Ratio	9.92%
Solvency ratio	12.08%

The Bank operates at a comfortable solvency level of 12.08% with a strong Tier 1 ingredient of 9.92%.

5. Credit Risk

5.1. Organization of the Credit Function

Credit risk is one of the biggest and most important risks that a financial institution might face. This type of risk is inevitably associated with the counterparties of a bank, with whom it has either directly or indirectly credit relations and is exposed to the risk of loss if counterparties fail to fulfil their agreed obligations and the pledged collateral does not cover GBI's claims.

At GBI, credit risk arises mainly from trade finance lending and treasury activities but also from various other sources. GBI is mainly involved in low default portfolios such as sovereigns, banks, large corporate companies and trade finance activities. The processes of the Bank are built in a way that allow classifying counterparties, segregating them and subsequently applying specific processes to effectively cope with the credit risks that may increase claims against these counterparties. All business flows implying credit risk are rooted via the credit division which is subdivided into separate teams responsible for assessing and managing credit risks pertinent to corporate counterparties, and financial institutions and sovereigns. The aggregation of business flows in the credit division allows adequate evaluation of the global balance of risks and exposures.

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

The measurement systems have been built in line with the general structure of the Bank and they differ depending on the type of counterparty. GBI has dedicated internal rating models for all asset classes for evaluating the creditworthiness of the counterparties. The rating models are integrated in the credit allocation and monitoring processes. Risk rating models also serve as a basis for calculation

of the regulatory capital and economic capital that GBI has to maintain to cover possible losses from its lending activities. Ratings are also integral parts of pricing and risk based performance measurement processes.

The Credit Committee is responsible for the control of all credit risks arising from the banking book and the trading book, i.e. counterparty risks (for sovereigns, banks, corporates and specialized lending facilities) and concentration risks (single name, country and sectoral concentrations).There are separate credit committees for different business lines in the Bank.

The effectiveness of risk monitoring is supported by internal systems that ensure proper compliance with segregation of duties and authorizations principle. Every transaction under approved credit limits requires a number of authorizations and controls prior to execution and cannot be finalized without those. For example, under this structure, every commercial initiative goes through multiple checks and is inputted in the system by authorized personnel who are functionally separated from the personnel with commercial targets. Regular monitoring of the Bank's exposure and compliance with the established credit limits ensure timely management of credit risk. The exposures to various customers, business lines and geographical locations are monitored on a daily basis by the assigned account and credit officers, while compliance with the established limits is controlled by an independent unit that provides independent judgment.

The credit follow-up process is divided into two main parts:

- follow-up of the customer, and
- follow-up of the credit facility itself.

Follow-up of the customer is associated with credit risk, whereas follow-up of documentation (credit facility) is related to operational risk. The credit facility follow-up is a dynamic process and distinguished in performing, watch list, default, provision and write-off stages. All shifts within those categories, either in the direction of downgrading or upgrading ,are done by approval of the Bank's credit committee. A loan may be shifted to the watch list based on the events outlaid in pre-defined warning signals. In case a loan is classified by the credit committee as 'in default', it is shifted to the provision list.

Under the provision list, the Bank attempts to ensure recovery of problematic loans by restructuring, obtaining additional security and/or proceeding with legal actions. Provisions are established for 100% of the outstanding amount of the defaulted credit facility after deduction of the expected recoveries. The provisioned credit facility is proposed to the credit committee for write-off after all possible ways of recovery have been exhausted.

In addition to the abovementioned specific credit provisions, GBI has a dynamic general loan loss provision that is calculated based on the Expected Loss amount as under the CRD.

The internal information system of the bank offers great flexibility in delivering information on regular and ad-hoc basis, allowing to produce a variety of daily reports that comprise bank exposures and concentrations by geographical location, commodity type, supplier and many other criteria.

5.2. Information about Exposures

5.2.1. Exposure Amounts before Credit Risk Mitigation

The total amount of exposure after provisions and before credit risk mitigation is as follows:

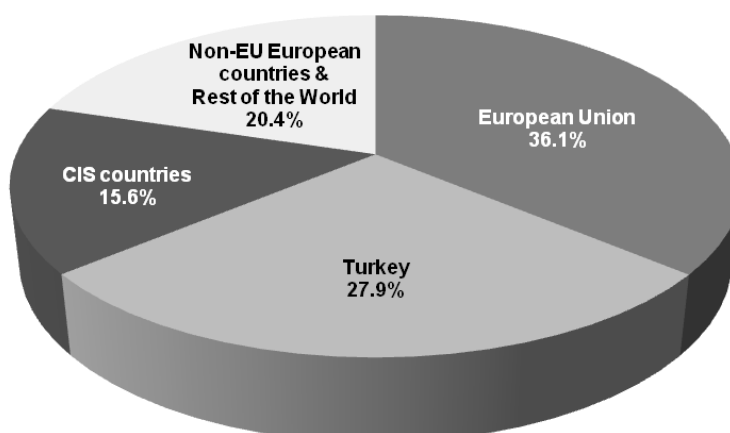
	(EUR 1,000)				
Exposure Class	**Average Exposure Q1-2008/Q4-2008**	**Total Exposure Q4-2008**	**Total Exposure Q3-2008**	**Total Exposure Q2-2008**	**Total Exposure Q1-2008**
Central Governments and Central Banks	798,272	1,120,859	579,198	755,372	737,660
Institutions	1,761,747	1,622,410	2,415,347	1,561,120	1,448,115
Corporates	1,321,876	1,064,354	1,509,451	1,384,121	1,329,577
Retail	104,119	136,436	136,264	92,102	51,673
Equity	320	318	321	321	318
Other non credit-obligation assets	53,204	53,704	53,240	53,041	52,831
Grand Total	**4,039,538**	**3,998,081**	**4,693,821**	**3,846,077**	**3,620,174**

5.2.2. Geographical Breakdown of the Exposures

The following table gives an overview of the geographical breakdown of the exposures by material exposure classes:

Geographical Region / Exposure Class	Total exposure (EUR 1,000)	Share in exposure
European Union	**1,441,743**	**36.1%**
Central governments and central banks	778,464	
Institutions	443,277	
Corporates	188,170	
Retail	1,706	
Equity	318	
Other non credit-obligation assets	29,808	
Turkey	**1,116,611**	**27.9%**
Central governments and central banks	274,610	
Institutions	569,013	
Corporates	268,775	
Retail	4,213	
CIS countries	**624,637**	**15.6%**
Institutions	472,800	
Corporates	151,813	
Retail	24	
Rest of the World	**815,090**	**20.4%**
Central governments and central banks	67,785	
Institutions	137,321	
Corporates	455,595	
Retail	130,492	
Other non credit-obligation assets	23,897	
Grand Total	**3,998,081**	**100.0%**

Total Exposure



5.2.3. Breakdown of the Exposures by Industry

The breakdown of the exposures by industry and exposure class is as follows:

Exposure class	Sector DNB	Total Exposure (EUR 1,000)
Central governments and Central Banks	Government	**1,120,859**
Institutions	Banking	**1,622,410**
Corporates		**1,064,354**
	Automotive	13,567
	Banks and Financial intermediation	166,947
	Capital goods	226,091
	Chemicals	30,252
	Construction and Infrastructure	84,604
	Consumer durables	14,808
	Diversified / other	339,330
	Food, beverages and Tobacco	12,272
	Leisure and Tourism	1,133
	Media	33,531
	Natural resources	41,102
	Oil and Gas	22,935
	Private individuals	16,339
	Retail	3,851
	Telecom	22,247
	Transport and logistics	15,291
	Utilities	20,054
Retail	Private individuals	**136,436**
Equity	Diversified / other	**318**
Other non credit-obligation Assets	Diversified / other	**53,704**
Grand Total		**3,998,081**

5.2.4. Effective Maturity Breakdown

The effective maturity breakdown of all exposures by exposure classes is as follows:

	Effective Maturity (EUR 1,000)							
Exposure class	< 3 months	< 6 months	< 12 months	< 24 months	< 36 months	< 60 months	>= 60 months	Grand Total
Centr.Gov's and Centr.Banks	832,573	56,455	30,536	104,996	27,253	26,653	42,393	**1,120,859**
Institutions	567,516	370,780	456,736	158,932	23,772	44,674	-	**1,622,410**
Corporates	242,424	119,285	120,599	258,850	120,208	141,793	61,195	**1,064,354**
Retail	133,996	414	358	1,450	57	123	38	**136,436**
Equity	318	-	-	-	-	-	-	**318**
Other non credit-obl. Assets	49,658	-	-	4,046	-	-	-	**53,704**
Grand Total	**1,826,485**	**546,934**	**608,229**	**528,274**	**171,290**	**213,243**	**103,626**	**3,998,081**

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

Below table gives an overview of the outstanding specific loan provision and related additions to provisions:

	(EUR 1,000)					
	31-12-2007	Write-offs	Repayments	Additions	FX differences	31-12-2008
Other Europe	**1,253**	**(76)**	**-**	**2,451**	**27**	**3,655**
- Corporates	498	(33)	-	595	27	1,087
- Retail	755	(44)	-	1,857	-	2,568
Rest of the world	**-**	**-**	**-**	**5,341**	**(459)**	**4,882**
- Corporates	-	-	-	5,341	(459)	4,882
- Retail	-	-	-	-	-	-
The Netherlands	**1,138**	**(265)**	**-**	**-**	**-**	**873**
- Corporates	-	-	-	-	-	-
- Retail	1,138	(265)	-	-	-	873
Turkey	**329**	**(385)**	**-**	**-**	**56**	**-**
- Corporates	329	(385)	-	-	56	-
- Retail	-	-	-	-	-	-
Total Consolidated Specific Provision	**2,720**	**(726)**	**-**	**7,792**	**(376)**	**9,410**

The breakdown of 90 days past due amounts by geographical areas as at 31 December 2008 is as follows:

90 Days past due amounts	31-12-2008 (EUR 1,000)
The Netherlands	575
Turkey	539
Other Europe	2,832
Rest of the world	2,486
Total amount past due	**6,432**

The 90 days past due amounts are inclusive of the provisioned amounts.

There are no value adjustments or recoveries recorded directly on the income statement.

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

Year	Retail (EUR 1,000)	Corporate (EUR 1,000)	TOTAL (EUR 1,000)
2008	1,857	5,935	7,792
2007	278	470	748
2006	71	270	341

5.2.6. Counterparty Credit Risk of Derivative Instruments

The Bank applies Original Exposure Method for determining the counterparty credit risk exposure. In this method, the exposure value of the counterparty credit risk is calculated by multiplying the notional principal amounts of each derivative instrument by the percentages as given in table 3 of Annex III, part 1 of the EC directive. The determination of the credit limits for counterparty credit risk follows a similar methodology.

Establishment of a credit limit for counterparty credit risk includes but is not limited to credit limits for:

- Spot and forward Foreign Exchange (FX) transactions
- Currency and interest rate transactions including swaps
- Options
- Forward Rate Agreement (FRA)
- Credit-Default Swap (CDS), etc

Please find below an overview of the net credit exposure of derivatives and repurchase transactions:

Derivatives and Repurchase Transactions	Gross positive fair value (EUR 1,000)	Collateral held (EUR 1,000)	Net derivatives credit exposure (EUR 1,000)
Repurchase transactions *)	282,074	176,737	105,337
Cross currency swaps	5,196	-	5,196
FX swaps	32,569	1,963	30,606
FX spot and forwards	1,010	394	616
FX options	11,484	3,432	8,052
Other options	3	3	-
T O T A L	**332,336**	**182,529**	**149,807**

**) Including volatility haircuts as per directive 2006/48/EG, ANNEX VIII part 3*

5.2.7. Specialized Lending

Within the corporate exposure class, credit institutions have to identify separately specialized lending exposure. Specialized lending exposures possess the following characteristics:

(a) the exposure is to an entity which was created specifically to finance and/or operate physical assets;

(b) the contractual arrangements give the lender a substantial degree of control over the assets and the income that they generate; and

(c) the primary source of repayment of the obligation is the income generated by the assets being financed, rather than the independent capacity of a broader commercial enterprise.

The following table discloses the specialized lending exposures assigned to different risk categories as at 31 December 2008:

Exposure Amounts (EUR 1,000)					
Remaining Maturity	**Strong**	**Good**	**Satisfactory**	**Weak**	**TOTAL**
Less than 2,5 years	67,018	43,883	12,827	1,667	**125,395**
Equal or more than 2,5 years	-	203	212	-	**415**
TOTAL	**67,018**	**44,086**	**13,039**	**1,667**	**125,810**

5.2.8. Credit Risk Mitigation

GBI applies diversified collateral requirements and systematic approaches to security submitted by customers, which depends on the transaction type and purpose, including but not limited to cash margins, physical commodities, receivables, cash flows, guarantees, accounts and physical commodities. The value of collateral is usually monitored on a daily basis to ensure timely corrections or measures to be taken if necessary. In addition , there are several main types of guarantors that are usually accepted as main or additional security. Among those are typically distinguished high net worth individuals and legal entities with extensive asset bases.

The total exposure value that is covered by eligible financial collateral and other eligible collateral is as follows:

Exposure Class	**Sum of Eligible Collateral (EUR 1,000)**
Institutions	146,726
Corporates	80,132
Retail	1,539
Grand Total	**228,397**

5.3. Scope of Acceptance for F-IRB Approach

GBI applies F-IRB approach for the following exposure classes:

- Central Governments,
- Institutions, and
- Corporates (including subclasses Corporates, Non-Bank Financial Institutions and Specialized Lending exposure class of Commodity Finance).

Retail exposures (including subclasses Retail and Private Banking) are subject to permanent exemption from F-IRB and treated under SA. Shipping Finance subclass is under temporary exemption as of year end 2008 and this portfolio will be treated under F-IRB Specialized Lending starting from June 2009.

Please find below an overview of the portfolios within the scope of F-IRB methodology as at 31 December 2008:

IRB Exposure Class	Exposure Amounts (EUR 1,000)	Risk Weighted Amounts (EUR 1,000)	Average PD Risk Weight
Central governments and Central Banks	1,120,859	238,890	0.20%
Institutions	1,622,410	790,311	0.71%
Corporates	757,739	459,035	0.74%
Grand Total	**3,501,008**	**1,488,236**	**0.56%**

All necessary approvals have been received from De Nederlandsche Bank N.V. (DNB) regarding the use of models for the purpose of calculating minimum own funds required.

GBI complies with the requirements set out in Directive 2006-48EC Annex VII, Part 4. The compliance is assured by several internal and external audit and validation processes.

5.3.1. Governance Framework around F-IRB Models and Processes

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

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

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

Model approval starts after the completion of model development and model documentation. All the relevant material regarding model development is submitted to the RMC for approval. The models are approved based on the criteria, i.e. the model should reflect risk perception of GBI, it should meet regulatory requirements and have a consistent methodology with the other models used by GBI, and it should perform adequately for that specific asset class.

Model implementation starts once the model is approved by RMC. IT related issues, data management, business line re-design and training of the user of the models are included in the generic roll-out plan of model implementation.

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

The correct use of models is audited by CIAS within the scope of the regular audit activities. RMD is responsible for ongoing monitoring of performance of the models. Model accuracy, stability, granularity, use of overrides and the data quality are key performance indicators for model performance.

Model validation framework is managed by a validation team that is composed of independent members from the model development team. In order to avoid the “Conflict of Interest” adequately, third parties are hired to ensure independence. RMC is the ultimate decision making authority in formation of the validation team and selection of the third party. The findings of the validation team are presented in the validation reports. These reports are immediately shared with DNB following the completion of the validation process and the developments are discussed annually within the scope of regular Supervisory Review Process. Model validation is conducted once a year and may be conducted more frequently based on the model’s performance.

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

5.3.2. General Description of Models

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

- PD Models: These models provide obligor grades based on the masterscale defined by the Bank. The masterscale has 22 rating grades and provide sufficient granularity for risk assessment. The rating grades are converted to Probability of Default (PD) via masterscale. Masterscale is reviewed on annual basis and updated where necessary based on internal and external changes of circumstances.
- SSC Models: GBI has developed rating models for Specialized Lending exposure classes of Commodities Finance and Shipping Finance based on the Supervisory Slotting Criteria (SSC) as per the conditions stated in CRD. SSC Models provide 5 grades, which are mapped to risk weights set by the regulator.

All rating methodologies within GBI have similar and consistent methodologies, which are based on two steps. The first step contains financial and non-financial models that produce a combined score. This score is further adjusted with a score for a number of warning signals. The second step has three layers of override mechanisms. These mechanisms include risk factors related with country of the obligor and parental support. The final override is the transfer risk policy, which caps the foreign currency rating, based on the country ceiling of the counterparty's country.

6. Market Risk

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

GBI assumes market risk in trading activities by taking positions in various financial instruments such as foreign exchange and fixed income. The Bank has historically been conservative in its trading activities. The strategy is mainly focusing on client driven intraday trading with limited overnight exposures.

Asset and Liability Committee (ALCO) holds overall responsibility for market risk and sets the limits for trading positions and stop loss levels on product and responsibility level basis. Treasury Department actively manages market risk within the limits provided by ALCO.

Internal Control Unit (ICU) controls and follows-up the transactions and positions on an ongoing basis, whereas Financial Control and Reporting Department follows-up the profit and loss on the transactions and the positions. Risk Management Department monitors market risk through regulatory and economic capital models and reports to ALCO.

Below table gives the breakdown of capital requirement for market risk:

Market Risk	**(EUR 1,000)**
Foreign Exchange Risk	6,524
Trading Book Risk	123
Total Capital Requirement	**6,647**

7. Operational Risk

Operational risk refers to the risk of loss because of inadequate or failed internal processes, staff and systems or external events, and also includes legal risk. Credit institutions are required to hold own funds against operational risk for which several approaches are possible.GBI applies the Basic Indicator Approach in order to determine the capital requirement for operational risk.

Under the Basic Indicator Approach the capital requirement is equal to 15% of the relevant indicator, where the relevant indicator is the average over three years of the sum of net interest income and net

non-interest income. The three-year average is calculated on the basis of the last three twelve-monthly observations at the end of the respective financial years. If audited figures are not available at the time, business estimates may be used. The average of net interest income and net non-interest income over the past three years amounted to EUR 76.1 mio, which results in a capital requirement for operational risk of EUR 11.4 mio.

8. ICAAP Framework

GBI has designed a comprehensive ICAAP framework by making use of qualitative and/or quantitative assessment methodologies where apply. The methodologies used are believed to be the most appropriate ones in line with the risk profile of the Bank and they reflect the underlying risks in a prudent manner.

ICAAP starts with the assessment of the capital allocated for Pillar 1 risks. The capital calculations under Pillar 1 are referred to as Regulatory Capital (RCAP). The Bank has dedicated assessment methodologies for credit, market and operational risks, which are used to come up with an Economic Capital (ECAP) figure. RCAP and ECAP are compared for each risk type under Pillar 1 and the one with higher result is taken as the outcome of the comparison. The total of the outcomes for each risk type is the final outcome of ICAAP for Pillar 1 risks.

The second step is to take into account the additional capital requirements arising from the risks, which are not taken into account in Pillar 1. The Bank has a dedicated assessment methodology for each material Pillar 2 risk. The capital requirement for the concentration risk and interest rate risk in the Banking Book are calculated through quantitative techniques, whereas the strategic risk is assessed within the scope of capital plan.

Risk Type	**Materiality**	**Covered in**
Credit Risk	Material	Pillar I and Pillar II
Concentration Risk	Material	Pillar II
Market Risk	Material	Pillar I and Pillar II
Operational Risk	Material	Pillar I and Pillar II
Interest Rate Risk on the Banking Book	Material	Pillar II
Liquidity Risk	Material	Pillar II
Strategic Risk	Material	Pillar II
Business Risk	Immaterial	Pillar II
Reputation Risk	Immaterial	Pillar II
Residual Risk	Immaterial	Pillar II
Pension Risk	Immaterial	Pillar II
Legal Risk	Immaterial	Pillar II
Settlement Risk	Immaterial	Pillar II
Underwriting Risk	Not Applicable	-
Securitization Risk	Not Applicable	-

8.1. Credit Risk

GBI has a dedicated Economic Capital (ECAP) model for credit risk, which is used as a benchmark to assess the adequacy of regulatory capital allocated for credit risk under Pillar 1. A 99.9% confidence level, which is in line with the Bank's external rating target, is used in the ECAP calculations.

8.2. Concentration Risk

GBI constantly follows the credit risk positions of all obligors via a comprehensive management information system. Exposures to countries and sectors are followed up on a daily basis by the Credits Department and monitored and discussed regularly at the Credit Committee.

Follow-up of large exposures is also an integral part of this process. The Bank monitors the large credit exposures to group of customers on a daily basis and proactively manages single name concentration. Large exposures are also reviewed by Credit Committee and Supervisory Board on a regular basis. RMD monitors concentration risk, quantifies its impact on the regulatory and economic capital, and reports to RMC.

GBI has developed an integrated quantitative methodology for the assessment of concentration risk. Concentration risk model is another economic capital methodology which takes into account the main concentration elements in the portfolio, namely single name concentration, country concentration and sector concentration, in a more conservative manner. The outcomes of the concentration risk model are supplemented by various stress tests.

8.3. Market Risk

GBI uses Value-at-Risk (VaR) methodology as a risk measure for the market risk on the trading book in order to assess the adequacy of the capital allocated under Pillar 1. VaR quantifies the maximum loss that could occur due to changes in risk factors (e.g. interest rates, foreign exchange rates, equity prices, etc) for a time interval of one day, and with a confidence level of 99.9%. VaR is supplemented by stress tests to determine the effects of potentially extreme market developments on the value of market risk sensitive exposures.

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

Day-to-day interest rate risk management is carried out by the Treasury Department in line with the policies and limits set by ALCO. GBI uses duration, gap and sensitivity analysis for quantification and monitoring of interest rate risk.

Sensitivity analyses are based on both economic value and earnings perspectives. Interest sensitivity is measured by applying standard parallel yield curve shifts, historical simulation approach and user defined yield curve twist scenarios.

Interest Rate Risk is measured and monitored by using Macaulay Duration, Duration Gap Analysis, Earning at Risk and Economic Value Sensitivity measures. Standard stress tests form a basis for quantification of interest rate risk in the banking book for Basel II, Pillar II.

Interest rate sensitivity analysis is also used for evaluating hedging strategies, internal limit setting and limit monitoring purposes, which enables the Bank to manage interest rate risk in a proactive manner. The outcomes of these analyses are discussed at ALCO and used effectively in decision making processes for hedging and pricing purposes. RMD provides reporting and contributes to the market risk management process in a proactive manner.

Economic Value Perspective [(1)]						
	EUR	**USD**	**TRY**	**RON**	**OTHER**	**TOTAL**
Shift Up Net (Eur mio) [(2)]	12.0	-7.5	-0.1	-0.7	0.1	3.8
Shift Down Net (Eur mio) [(2)]	-12.7	8.9	0.2	0.7	-0.1	-3.1
Capital	258.5					
Standard 200/300 Bps	Equity Change -3.1		Change 1.20%			
(1) Static balance sheet, based on instant liquidation						
(2) 200 Bps shock for G10 and 300 Bps shock for non-G10						

GBI follows the regulatory scenario (200 bps parallel shock) for IRRBB as per the regulatory requirements. The standard parallel shock in yield curve leads to a potential decrease in the economic value of EUR 3.1 mio (1.20% of total own funds), which is well below the regulatory threshold of 20%. This is a reflection of the limited interest rate risk profile of the Bank.

8.5. Liquidity Risk

The main objective of GBI's liquidity risk policy is to maintain sufficient liquidity in order to ensure safe and sound operations. ALCO holds overall responsibility for the liquidity risk strategy. ALCO has delegated day-to-day liquidity management to the Treasury Department, which is responsible for managing the overall liquidity risk position of the Bank. The Treasury Department monitors all maturing cash flows along with expected changes in core-business funding requirements to maintain the day-to-day funding.

The Bank aims for a well-diversified funding mix in terms of instrument types, fund providers, geographic markets and currencies. RMD monitors liquidity risk through gap analysis, which is supplemented by scenario analysis. These analyses allow applying shocks with different magnitudes on the liquidity position of the Bank. Scenarios are driven based on bank-specific and market-specific liquidity squeezes. In addition, cash capital concept, which shows the excess of long term funds over illiquid assets, is used as a measure for long-term funding mismatch. The Bank has a detailed contingency funding plan in place for management of a liquidity crisis situation. All liquidity analyses are reported to ALCO on a regular basis by RMD. ALCO reviews and plans the necessary actions to manage the liquidity gaps.

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

	On demand	< 3 months	> 3 months - < 1 year	> 1 year - < 5 years	> 5 years	Total
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Assets						
Cash	**851,796**	**–**	**–**	**–**	**–**	**851,796**
Banks	**28,577**	**394,226**	**574,129**	**102,095**	**–**	**1,099,027**
Loans and advances	**28,228**	**190,924**	**184,203**	**415,841**	**163,449**	**982,645**
Interest-bearing securities	**–**	**15,085**	**138,955**	**311,027**	**77,337**	**542,404**
Participating interests	**318**	**–**	**–**	**–**	**–**	**318**
Property and equipment	**–**	**–**	**–**	**–**	**53,704**	**53,704**
Other assets	**42,835**	**–**	**–**	**–**	**–**	**42,835**
Prepayments and accrued income	**54,014**	**–**	**–**	**–**	**–**	**54,014**
31 Dec. 2008	**1,005,768**	**600,235**	**897,287**	**828,963**	**294,490**	**3,626,743**
31 Dec. 2007	508,171	834,240	939,073	855,013	258,350	3,394,847
Liabilities						
Banks	**23,013**	**255,292**	**480,839**	**156,309**	**–**	**915,453**
Funds entrusted *	**850,651**	**613,347**	**514,087**	**238,634**	**415**	**2,217,134**
Debt securities	**–**	**714**	**11,335**	**33,839**	**–**	**45,888**
Other liabilities	**13,327**	**–**	**–**	**–**	**–**	**13,327**
Accruals and deferred income	**99,520**	**–**	**–**	**–**	**–**	**99,520**
Provisions	**–**	**–**	**–**	**–**	**5,199**	**5,199**
Subordinated liabilities	**–**	**24,258**	**17,115**	**36,634**	**–**	**78,007**
Shareholders’ equity	**–**	**–**	**–**	**–**	**252,215**	**252,215**
31 Dec. 2008	**986,511**	**893,611**	**1,023,376**	**465,416**	**257,829**	**3,626,743**
31 Dec. 2007	928,846	1,337,300	564,190	308,237	256,004	3,394,847

* This includes on demand retail funding which has a longer term characteristic.

8.6. Other Risks

The Bank has limited or no exposure to reputation risk, business risk, residual risk, pension risk, legal risk, settlement risk, underwriting risk and securitization risk. These risks, together with operational risk, are monitored in regular audit activities and by way of applying Financial Institutions Risk Analysis Method (FIRM) assessments, which is a methodology introduced by DNB. Strategic risk is taken into account in the capital planning process in order to account for a possible increase in the capital requirement based on the strategies or the business models that are chosen by the Bank.

8.7. Capital Planning

GBI has developed a capital planning structure based on two scenarios, one of which is in line with the Bank's current expectations and financial budget. The second scenario involves more conservative assumptions in order to assess the future capital adequacy of the Bank under stressed economic and financial conditions. GBI Stress test outcomes are used in order to assess the sufficiency of the capital buffer in order to cover the potential future capital requirements for the next three consecutive years.

Capital plan aims to cover as many aspects as possible, including expected profit, liquidity sources, portfolio mix, capital structure and asset quality, in order to reflect the impact of several risk factors on profitability and capital adequacy of the Bank simultaneously.