ANNUAL REPORT 2020

GARANTIBANK INTERNATIONAL N.V.

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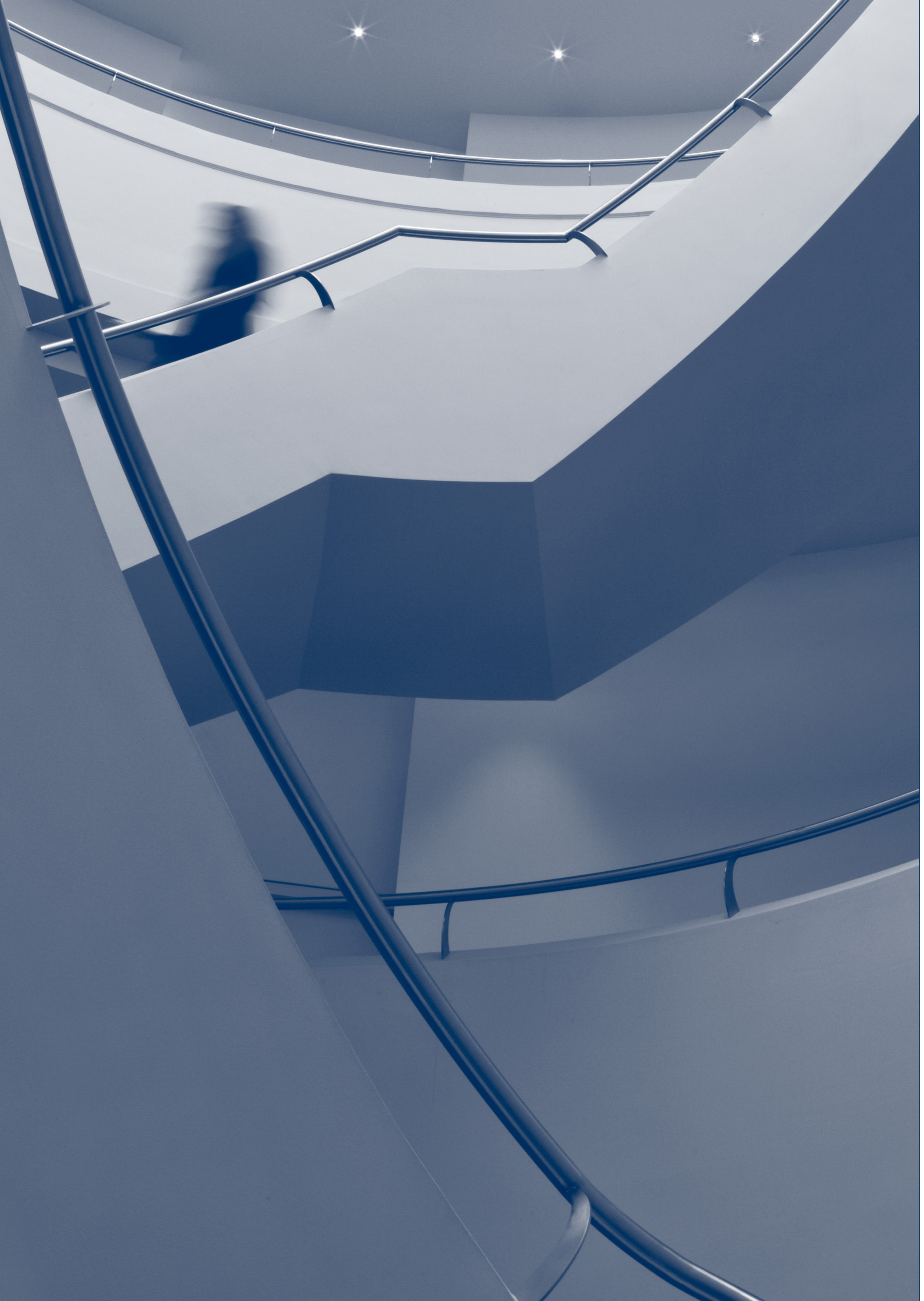

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GBI is a wholly-owned subsidiary of Garanti BBVA and a member of **BBVA GROUP**

Who We Are

Key Figures

EUR 1,000	2020	2019	2018	2017	2016[1]
Total Assets	3,430,176	3,615,038	4,288,512	4,274,149	4,835,519
Cash and balances with central banks	524,911	721,128	836,208	339,431	441,985
Loans and advances to banks	654,246	325,733	324,599	383,104	538,436
Loans and advances to customers	2,092,514	2,433,408	2,847,874	3,048,906	2,889,555
Financial assets at fair value through other comprehensive income	102,773	75,114	206,040	438,500	809,648
Deposits from banks	344,614	194,917	803,199	663,792	768,859
Deposits from customers	2,444,457	2,731,363	2,801,236	2,903,080	3,348,663
Equity	600,875	591,995	582,562	594,699	564,397
Total income	59,706	64,141	79,004	91,466	94,014
Profit for the year	6,803	6,612	12,020	26,234	16,412
RATIOS					
Common Equity Tier 1 ratio %	23.84	23.89	21.27	20.44	16.70
Total capital ratio %	23.88	26.42	23.58	22.74	18.47
LCR - Liquidity coverage ratio %	509.3	769.9	583.3	359.9	340.6
Cost to income ratio %[2]	74	67	60	49	47
Return on average equity %[3]	1.15	1.13	2.10	4.53	3.00
Non-performing loans %[4]	1.02	2.78	3.14	1.93	2.13
Return on average assets %	0.19	0.18	0.29	0.58	0.33
STAFF & NETWORK					
Total average number of employees	240	244	251	242	236
Foreign branches & representative offices	3	3	3	3	4

1 — Financial year 2016 is based on Dutch GAAP. From 2017 onwards, the figures are based on IFRS as endorsed by the EU.

2 — 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.

3 — Return on average equity is calculated using average shareholders' equity, excluding result after tax.

4 — Credit impaired loans to customers / Gross loans to customers

About Us

GBI is a **wholly-owned subsidiary of Garanti BBVA** and a **member of BBVA Group.**

GarantiBank International N.V. (aka Garanti BBVA International or GBI) is a mid-sized European bank established in Amsterdam, the Netherlands in 1990. It serves corporate, institutional and retail clientele, offering financial solutions in the areas of trade and commodity finance, corporate banking, global markets and retail banking.

GBI is a wholly-owned subsidiary of Turkiye Garanti Bankasi A.S. (Garanti BBVA). Our ultimate parent is Banco Bilbao Vizcaya Argentaria S.A. (BBVA). GBI operates in accordance with the Dutch and European Union laws and regulations, and is under the supervision of the European Central Bank (ECB), De Nederlandsche Bank (DNB) and De Autoriteit Financiële Markten (AFM).

Purpose & Values

OUR PURPOSE

—

TO BRING THE AGE OF OPPORTUNITY TO EVERYONE

OUR VALUES

—

CUSTOMER COMES FIRST
We Are Empathetic
We Have Integrity
We Meet Their Needs

WE THINK BIG
We Are Ambitious
We Break The Mold
We Amaze Our Customers

WE ARE ONE TEAM
We Are Committed
We Collaborate
This Is Our Bank

Supervisory Board

Mr. Recep Baştuğ
Chairman (as of 11 February 2020)
Member of the Remuneration Committee

—

Mr. Baştuğ graduated from Çukurova University's Faculty of Economics. He started his career in Garanti BBVA's Internal Audit Department in 1989. Mr. Baştuğ worked as a Corporate Branch Manager from 1995 to 1999; a Commercial Regional Manager from 1999 to 2004; a Commercial Banking Coordinator from 2004 to 2012; and served as an Executive Vice President of Commercial Banking and Consumer Finance from 2013 to 2018. Following a brief period as a Vice Chairman at a private company he was appointed as the Board Member, President & CEO at Garanti BBVA on 1 September 2019. Mr. Baştuğ has 30 years of experience in banking and business administration.

Mr. Aydın Düren
Chairman of Audit and Compliance Committee
Member of Risk Committee

—

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 BBVA in 2009 as the Executive Vice President in charge of Legal Services. With 23 years of experience in banking and business administration, as a Board Member at Garanti BBVA, his current responsibility areas include Legal Advisory Services, Legal Collections, Litigation, Garanti Payment Systems, Legal Services, 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 BBVA Mortgage. Since June 2015, Mr. Düren has also served as the Corporate Secretary of Garanti BBVA.

Mr. René van der Linden
Chairman of Remuneration Committee

—

Member of the Supervisory Board of Eureko Sigorta; Member of the Supervisory Board of Ballast Nedam; Advisor of Otto Workforce; Member of the Dutch Parliament between 1977 and 1998 and Secretary of State for Foreign Affairs between 1986 and 1988; Member of the Benelux Parliament and of the Assembly of the Western European Union (WEU) and Vice President of the WEU from 1999 to 2004; Chairman of the European People's Party (EPP) in the Council of Europe from 1999 to 2004; President of the Parliamentary Assembly of the Council of Europe from 2005 to 2008; Member of the Senate of the Netherlands from 1999 to 2015; President of the Dutch Senate from 2009 to 2011.

Mr. Harry de Roo
Chairman of Risk Committee (as of January 2020)

—

Non-executive member of the board and various committees of Rabobank Pensioenfonds since 2017; Board Treasurer of Stichting Nationaal Warmtefonds since 2013; Chairman Audit and Risk Committee at the International Maize and Wheat Improvement Center (CIMMYT) since 2016; Board member of Stichting Agri3; Non-executive member of the board and various committees at Banco Terra SA between 2013 and 2017; Advisor to Executive Board Rabobank between 2013 and 2014; CFRO/ managing board member at Rabobank International and board member of several nationally supervised retail bank subsidiaries - including the USA, Ireland and Poland of Rabobank International between 2006 and 2013; managing board member at Rabobank International between 2004 and 2006; CFO of Domestic Banking Activities at Rabobank Group between 2000 and 2004.

Mr. Bart Meesters
Member of Audit and Compliance Committee

—

Dutch qualified lawyer and partner at Loeff Claeys Verbeke/Allen & Overy from 1988 to 2010; Off-Counsel of Allen & Overy and independent lawyer from 2010 to 2015; Member of the Supervisory Board at Stichting Orkater between 2011 and 2019.

Managing Board

Mr. Erhan Zeyneloğlu
Chief Executive Officer

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. In his most recent role, he served as the Executive Director responsible for Structured Finance and Retail Banking. Mr. Zeyneloğlu holds a Bachelor of Arts degree in Economics from Boğaziçi University.

Mr. Marco Witteveen
Chief Operating Officer

Mr. Witteveen's professional life began in 1985. He has since enjoyed a 35-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 in several Dutch banks. Mr. Witteveen joined GBI in 2016 as the Chief Operating Officer responsible for technology and operations. He is a Business Economics graduate of Vrije Universiteit Amsterdam.

Dr. Övünç Şişman
Chief Financial Officer

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 and Capital Markets and Financial Institutions and a PhD in Economics from Istanbul University.

Mr. Cem Bahadır Mutlu
Chief Risk Officer

Mr. Mutlu joined GBI in June 2017 as the Executive Director of Credits. Following all necessary approvals, Mr. Mutlu was formally appointed as a member of the Managing Board and Chief Credit Officer as of 11 January 2018. During his 25-year banking career, Mr. Mutlu has held various positions in several Turkish banks. Between 2007 and 2008, Mr. Mutlu headed Garanti's Luxembourg Branch. Before joining GBI, Mr. Mutlu served as 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

CORPORATE BANKING
Mr. Osman Barutçu
Executive Director

DIGITAL INNOVATION
Mr. Alex Hurkmans
Chief Digital Officer

PROCESS & ORGANIZATIONAL DEVELOPMENT
Ms. Ecem Demirel
Process Development Executive

DUSSELDORF BRANCH
Mr. Nevzat Işık
Executive Director

TALENT & CULTURE
Ms. Mijke van Tilburg-van Alfen
Director

COMPLIANCE
Mr. Tahsin Ertan
Chief Compliance Officer

INTERNAL AUDIT
Mr. Cenk Taşpınar
Chief Audit Executive

GBI has continued its selective approach to its credit policy in 2020

Report of the Managing Board

Economic Developments

The outbreak of the COVID-19 pandemic had an unprecedented impact on the global economy. All areas of the economy, especially the services sector, were severely affected by the pandemic both from the supply and demand side. In order to minimize the impact of the pandemic and subsequent measures regarding lockdowns and social distancing, policymakers had to implement substantially expansionary fiscal and monetary policies. Fiscal support offered during the pandemic averaged 24 percent of GDP in developed markets, and 6 percent of GDP in emerging markets. Still, global economy is expected to contract by 6.9 percent in 2020. In 2021, with favorable base effects, increased vaccine distribution and hence relaxation of socialization restrictions, global economy is expected to grow by 4.4 percent.

Economic effects of the pandemic were quite deep in the US and in the Eurozone, despite strong fiscal and monetary policy response in the face of the pandemic. In the second quarter of 2020, in which the abrupt shutdown of the economy weighed most on GDP figures, the US and Eurozone GDPs contracted by 9.0 percent and 11.4 percent year-on-year respectively. The US GDP is expected to contract by 3.6 percent in 2020, then to rebound by 3.6 percent in 2021. Eurozone economies are expected to shrink by 8.5 percent in 2020, succeeded by a relatively weak 5.8 percent growth in 2021.

Unlike other major central banks, the ECB kept its rates unchanged as the virus spread, while supporting lending through additionally favorable TLTRO conditions, implementation of Pandemic Emergency Longer-Term Refinancing Operations (PELTROs) and short term tenders in USD denomination. Moreover, the ECB enacted Pandemic Emergency Purchase Program (PEPP), an envelope amounting to EUR 1.85 trillion, also expanded the APP by EUR 120 billion until end-2020. On the fiscal side, in addition to extensive stimuli offered at nation level, the EU also agreed on EUR 750 billion recovery package, to be financed via joint borrowing.

Emerging markets saw substantial outflows in the first half of 2020, as the pandemic caused uncertainties to spike and risk appetite to remain very low. In the wake of global fiscal and monetary easing, risk appetite gradually picked up, reversing outflows from these markets. In 2021, emerging markets are expected to recover swiftly, mainly on the back of the Chinese GDP, which is projected to grow 7.5 percent year-on-year.

Financial Analysis

BBVA'S PRIORITIES DURING THE COVID-19 CRISIS

As part of the BBVA Group we have maintained the priorities established at the outset of the COVID-19 crisis: protecting the health and safety of our employees, customers, and society as a whole; delivering a service deemed essential in the countries where we operate; and offering financial support to our customers.

GBI MAINTAINED ITS SOLID FINANCIAL PERFORMANCE IN 2020

In this unprecedented environment, we continued to post solid results. We are facing this crisis from a position of strength, thanks to the resilience of our revenues, our sound business model and our digital capabilities. Our solid capital and liquidity position supported us throughout 2020.

GBI continued to deliver a modest yet stable profit before tax, which increased by 2.6 percent versus last year. A strong cost control and efficiency led to a decrease in total operating expenses by 5.3 percent. Thanks to our selective approach and sound credit risk practices, the cost of risk has decreased to 28 bps compared to 32 bps of 2019 and NPL ratio has decreased to 1.02 percent from 2.78 percent in 2019. Finally, we have maintained our strong capitalization, where our CET1 capital ratio stayed at 23.84 percent.

ASSET GENERATION SLOWED DOWN IN 2020, WHEREAS THE ASSET QUALITY HAS CONTINUED TO IMPROVE

GBI has continued its selective approach to its credit policy in 2020, where the uncertainties in economic outlook created a challenging operating environment. As a result of this prudent approach, the size of total assets has shrunk to EUR 3.4 billion from the level of EUR 3.6 billion at the end of 2019. This decrease is attributed to the decline in loans to corporates by EUR 341 million, in line with the Bank's risk transitioning as per the risk policies in place, by continuous reduction to loans to customers residing in Turkey and decrease in loans to customers operating in economic sectors that have a higher risk profile. "Deposits from customers" has been reduced by EUR 287 million in order to optimize the asset and liability composition. "Loans to banks" has increased by EUR 329 million, mostly as a result of an increase in client-driven trade finance exposures. The increase in reverse repo transactions also played a role in the increase in bank exposures. "Marketable securities" held in FVOCI has slightly increased by EUR 29.1 million, because of the new purchases made in line with the guidelines of the Group ALM Investment Policy. "Deposits from banks" has increased by EUR 151 million, mostly as a result of the use of the USD borrowing facility from ECB and also due to the increase in market based funding from other financial institutions, in an effort to further diversify the funding base. GBI has fully replaced its TLTRO 2 funding with the TLTRO 3, but did not increase the total TLTRO funding. Following the approval of ECB, the Bank has paid back the subordinated loan, with an amount of EUR 50 million, at its call date, in an attempt to optimize its funding and capital instruments. As a result of all these actions, "cash and balances with central banks" has decreased by EUR 196 million and the excess liquidity position of the Bank has been optimized, without jeopardizing the strong liquidity position.

GBI's asset quality has continued to improve during 2020. Stage 3 loans substantially decreased to EUR 21.5 million (2019: EUR 69.1 million) in 2020. The Bank has managed to reduce its Stage 3 loans to 1.02 percent (2019: 2.78 percent) through effective use of

As part of the BBVA Group we have maintained the priorities established at the outset of the COVID-19 crisis: protecting the health and safety of our employees, customers, and society as a whole

workouts and asset disposals as well as write-offs. All loans that have been classified as Stage 3 in 2020, have been fully collected within the year without facing any credit losses. Consequently, this has led to a significant decrease in the ECL allowance for Stage 3 loans to EUR 8.4 million (2019: EUR 43.2 million). In spite of a 14 percent decrease in "loans to customers", Stage 1 and Stage 2 ECL allowance has increased by 50 percent to EUR 15.9 million (2019: EUR 10.6 million), which reflects the elevated level of credit risk due to economic uncertainties and a more cautious provisioning approach in the Bank's ECL process.

"Contingent liabilities" has increased by EUR 191 million to EUR 559 million (2019: EUR 367 million) as a result of a surge in letters of credit GBI issued or confirmed to facilitate international trade of commodities.

The profit for the year stands at EUR 6.8 million in 2020, which is an increase of 2.9 percent compared to 2019 (EUR 6.6 million). Total income amounted to EUR 59.7 million, which is 6.9 percent lower than in 2019 (EUR 64.1 million). This decrease in total income is mainly explained by the decline in net interest income due to the sharp reduction in loans to customers by 14 percent. Although the Bank has decreased the interest expense on deposits from customers and banks as a result of a reduction in the total level of funding as well as the cost of funding, Net Interest Income (NII) has decreased to EUR 46.9 million in 2020 (2019: EUR 55.7 million), mainly driven by the sharp decrease in interests earned on loans to customers. Consequently, the Net Interest Margin (NIM) has decreased to 1.33 percent (2019: 1.41 percent).

The net commission income has increased from EUR 8.1 million in 2019 to EUR 10.9 million in 2020, due to higher commissions earned on brokerage, advisory and custody services and from trade finance commissions related to increased transactional volume. Trading gains have also improved by EUR 1 million in 2020.

Total operating expenses amounted to EUR 44.1 (2019: EUR 46.5 million), which signifies a 5.3 percent improvement in comparison with 2019. This was primarily caused by the decrease in personnel expenses to EUR 26.8 million (2019: EUR 29.1 million) and the reduced expense base as a result of COVID-19 measures.

Change in allowances for expected credit losses led to a loss of EUR 6.2 million in 2020 (2019 EUR 8.4 million). As discussed, this is mainly an effect of the increases in the provisions on Stage 1 and Stage 2 assets, due to the careful calibration of collective ECL models to reflect the potential effects of the Global COVID-19 pandemic, and due to a cautious approach to the individually assessed loans.

Income tax expense is EUR 2.6 million for 2020 (2019: EUR 2.6 million) with an effective tax rate of 28 percent (2019: 28.3 percent) similar to last year.

The net commission income has increased from EUR 8.1 million in 2019 to EUR 10.9 million in 2020

Business Strategy & Developments

The crisis has proven that the strategic priorities of GBI set at the beginning of this year are of critical importance. Our digital capabilities played a critical role during the most difficult times of the pandemic, which allowed us to stay close to our customers, even when we were operating nearly 100 percent remotely. Despite such a challenging environment, we have continued to advance our transformation with new initiatives. Working with a high quality and engaged team, we have been able to tackle the challenges and also take advantage of all the opportunities that this new environment affords us. We would like to take this opportunity to praise the efforts of our those required to continue working at our offices to ensure essential services. We also send our message of sincere gratitude and to all our teams who have adjusted to the challenges posed by this scenario and adapted their operations to continue providing our customers the same high quality service. Banks have a very important role to play in supporting families and businesses during the recovery, and at GBI we will continue to work in this direction to achieve more sustainable and inclusive development.

WE PROVIDE SIMPLE YET CUSTOMIZED SOLUTIONS IN A COMPLEX REGULATORY AND MACROECONOMIC ENVIRONMENT

GBI is a mid-sized European bank. We primarily serve 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.

Our personal approach, reliability, stability and sound balance sheet, provide comfort and value to our stakeholders. We provide simple yet customized solutions in a complex regulatory and macroeconomic environment. Our digital capabilities and aspirations which are firmly supported by our parent, Garanti BBVA and by our ultimate parent BBVA, aim to enhance the value that we create for our clients and counterparties.

Working with a high quality and engaged team, we have been able to tackle the challenges

REPORT OF THE MANAGING BOARD

Business Lines

RETAIL BANKING

GBI has been positioned as an online savings bank both in the Netherlands and Germany for more than two decades. We serve over 68,000 clients in these markets. Approximately half of GBI's balance sheet is funded through Euro-denominated savings deposits by our retail clients.

We offer simple 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 us and bolsters client loyalty.

Our customer satisfaction survey and donation program in cooperation with Make-A-Wish Foundation continued in 2020. Further improvements to our digital channels were appreciated by our customers based on their feedback and the correlation with the satisfaction level in previous years' surveys. Overall customer satisfaction score was 7.8 over a ten-point scale. We observed that successful crisis management during the pandemic and our new digital capabilities increased the customer satisfaction in both countries.

Dutch SME clients were the first to use our new digital portal in the savings segment, and that was followed by German savings customers. With this new portal, we offered them all functionalities available in our back-end system with a two-factor authentication method in a contemporary design. One-click fund transfer, client data maintenance, opening/closing accounts, direct messaging, and widget structure for personalized experience are some of the functionalities offered to our clients with a state-of-the-art technical infrastructure.

A video identification service, which enabled our customers in Germany to open an account from anywhere using any capable device, had already been implemented in 2019.

Additionally, both our retail websites in the Netherlands and Germany, redesigned with a new look and feel, mobile functionality and contents reflecting GBI's key messages, were launched in Q4 2020.

Last but not least, both in the Netherlands and Germany, we were able to serve our customers as usual and deliver the same quality service during the pandemic despite the negative impact of COVID-19, thanks to our technological infrastructure and fast adaptation to remote working, without posing any risk to our employees. Our customers were able to reach us immediately and we took care of their requests without any disruption.

TRADE & COMMODITY FINANCE

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

Since GBI's inception in 1990, we have served corporations functioning as international merchants and supply chain managers, physically trading 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, the Middle-East, Africa, the 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 such a vast array of banking and trade finance products, we continuously 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 any challenges and complexities in the background.

Over 2020, the pervasive impact of COVID-19 initially led to market disruption that affected commodity supply chains and logistics. After the initial impact, trade and commodity markets have shown resilience and adapted to the new normal. Healthy demand from Asia, andChina in particular, is currently supporting the commodity markets. The year has seen a retrenchment as a result of the COVID-related developments on the banking side. Having kept a clean slate over last year, GBI is in a favorable position to take advantage of these developments; our aim is to selectively chase opportunities that fit our scale and risk appetite, while also taking advantage of 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, the rest of the 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 or used alongside documentary credits, collections, correspondent banking arrangements or hedging products, to best serve the 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 US dollars.

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

With the ongoing digitalization of our processes and products, GBI will continue to provide high quality service to our clients throughout 2021.

FINANCIAL INSTITUTIONS

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

The Financial Institutions and Investor Relations (FI&IR) department covers GBI's correspondent banking relationships with other financial institutions (FIs) around the globe. In addition, FI&IR has been active in facilitating the origination and distribution of trade-related assets in the secondary markets. The department also supports our Trade Finance and Corporate Banking teams in terms of establishing correspondent banking relations to facilitate their trade related transactional banking needs, such as documentary credits, collections and cross-border payments. The FI&IR department is also responsible for managing GBI's relations with the rating agencies and coordinating the external rating process.

GLOBAL MARKETS

Our Global Markets activity incorporates trading functions related to fixed income, rates and currencies.

The Global Markets team provides market access for GBI's Global Markets Sales activity, which in turn supports corporate and individual investor clientele and manages 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.

Our aim is to selectively chase opportunities that fit our scale and risk appetite

GLOBAL MARKETS SALES

Our Global Markets Sales (GMS) department provides financial intermediary services to high-net worth individuals and corporate clients. Our services are delivered to our clients in advisory and execution-only forms. We provide our clients access to global financial markets. Our advisory services are designed for clients who would like to receive guidance in their financial investments. We provide risk-based portfolio advice, and investment and risk management ideas to help our clients achieve capital preservation and steady portfolio growth. Our brokerage services are for the clients who seek market access through direct, fast and accurate order execution.
GBI aims to position itself as the home bank of core clients by providing a complete set of financial services through our GMS activity. Owing to GMS's enhanced returns, coherent advisory and transparency in relationships, GBI enjoys high customer loyalty.

Despite COVID-19, GMS managed to deliver solid results in terms of assets under management increase and profitability in 2020. In 2021, GMS aims to continue its strategy in a prudent and sustainable manner, focusing on providing value to our clients as well as our stakeholders.

ASSET, LIABILITY & CAPITAL MANAGEMENT

GBI focuses on prudent balance sheet management with the aim to sustain adequate risk-adjusted return on capital, a sound funding structure and strong level of solvency and liquidity. We have an Asset and Liability Management (ALM) function, which acts as the central point and applies a funds transfer pricing mechanism, isolating front offices from market risks. These risks are translated into an institutional level to be strategically navigated by the Assets and Liabilities Committee (ALCO). GBI oversees the efficient capital allocation and the management of liquidity, interest rate and exchange rate risks through its Finance function, which analyses and reports on these risks and proposes alternative strategies to ALCO.

GBI's overall approach to capital management is intended to maintain sufficient capital to cover the (economic) risks at all levels and to ensure compliance with regulations. GBI's Capital Management strategy is driven by our strategic aims and 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.

RISK MANAGEMENT

Risk management at GBI is directed and overseen by the independent Risk Management function. The function primarily serves to correctly identify, measure and propose management actions for risks to ALCO, Risk Management Committees and 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 our day-to-day business, GBI is exposed to multiple financial risks. These include liquidity and funding risks, interest rate risk, credit risk in our lending and banking transactions and market risk in our trading positions.

In addition to these financial risks, GBI is subject to non-financial risks in our daily operations. These pertain to IT and cybersecurity, operational processes, integrity risks, compliance to rules (particularly in relation to Know Your Customer, Anti Money Laundering, Sanctions and "Data Privacy"), regulations, laws as well as the ethical and social norms that generally apply to our people and activities.

The overall amount of risk that GBI is willing to take is established in the Risk Appetite Framework. We monitor a range of risk metrics to ensure 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 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 businesses with a clear and fair view of their risks and the way these risks are managed.

In 2020, we continued taking actions to increase risk management skills and awareness across the Bank and focused on further alignment of our business model with our strategy and risk appetite. As part of our continuous improvement process, we further improved our internal control system, ensuring compliance with applicable laws and regulations and observed 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.

Digital Transformation

COVID-19 dominated the world in 2020, tilting existing markets and market players, separating those with a strong digital footprint or strong logistic-related services from the more conventional stores. It was a year where every individual was forced to change existing and embedded patterns related to work, commuting and socializing. A year that we will never forget, but also a year that has indicated that digitalization is a must, to be able to adapt to ever-changing circumstances.

The digitalization program that we started in 2017, and all initiatives deployed since, contributed to a continuation of services provided to our customers without delay or outage in the beginning and throughout 2020. On top of that, we managed to improve our customer portals and renewed the corporate websites to cater for our customers demand for Do-It-Yourself (DiY) at any moment or place where our services add value to our customers in that specific moment. We are proud that these initiatives are supported by our best-in-class colleagues and partners who have not only managed to deal with COVID-19 but have continuously worked on our initiatives to enhance our customer experience.

It is a remarkable achievement that we have not only reached our digitalization objectives of 2020 as planned, but also increased our employee engagement thanks to working with the latest technologies to collaborate remotely and digitally. Furthermore, GBI started with an initiative called Robotics to further automate repetitive necessary activities to increase the speed of our services and lower the manual activities on data gathering.

GBI has set a goal in 2021 to optimize the lead time on all end-to-end processes using process mining technologies, to be able to monitor all value chains and optimize them with our continuous improvement initiatives and deliver our services to our customers even faster. GBI will also optimize our dialogue management capabilities in order to better serve our customers whenever they reach out to us for questions or services that require customization.

The digitalization program that we started in 2017, and all initiatives deployed since, contributed to a continuation of services provided to our customers without delay or outage in the beginning and throughout 2020

Outlook 2021

Our strategic priorities in 2021 include improving the revenue stream through our core business lines Trade Finance, Corporate Banking and Global Markets Sales while enhancing our efficiency by cost control and further digitalization of operational flows and customer services.

While the world still struggles to keep the virus in check, a gradual improvement through 2021 is expected following the introduction of a vaccine in the first half of 2021. In these circumstances, a heterogeneous and only partial V-shaped recovery is expected. On the economic policies front, no significant withdrawal of stimulus is expected at least until the recovery consolidates. As a result, volatility is expected to gradually recede over 2021.

Economic activity data in third quarter of 2020 pointed to an incomplete but strong recovery, even stronger than initially expected. But most recent data suggest the recovery has been losing steam due to the increased level of measures as a result of the second wave of COVID-19. Heterogeneity across countries and sectors exists and also the relative strength of demand prevails compared to supply. World economy is expected to contract by 6.9 percent in 2020 (-8.5 percent in Eurozone), which could still follow a recovery pattern to experience 4.4 percent GDP growth in 2021 (5.8 percent in Eurozone).

COVID-19 initially affected supply chains and logistics of commodities at early stages, creating a market disruption. The impact on both supply and demand enabled a relatively lower fluctuation on commodity prices when compared to the 2008 crisis. The World Trade Organization forecasts a 9.2 percent decline in the volume of world merchandise trade for 2020, followed by a 7.2 percent increase in 2021. So it is expected that that next year will likely see a rebound, albeit uneven within and across countries, and uncertainty will persist.

Our risk management approach will continue to sustain strong solvency, sufficient liquidity and low leverage to maintain our asset quality while targeting a cost-effective funding structure.

Our strategic priorities in 2021 are; enhancing our Trade Finance franchise with an emphasis on creating synergies with the Group, focusing on serving our European based clientele in Corporate Banking and moderately growing assets under management within our Global Markets Sales activities. We will continue with our stable funding strategy, which is aimed at preserving the retail franchise and diversifying our wholesale funding base.

Digitalization of operational flows and customer services and our ambition to work with the best and most engaged team will be the main pillars of our operating model.We believe these strategic priorities will result in ensuring a sustainable revenue stream and maintaining our high customer satisfaction level, while enabling a further reduction in controllable expenses and creating value for our stakeholders in a responsible manner.

Our strategic priorities in 2021 include improving the revenue stream through our core business lines Trade Finance, Corporate Banking and Global Markets Sales

Effective corporate governance in accordance with high international standards is fundamental to GBI

Corporate Governance

Financial Reporting Process

As GBI is a wholly-owned subsidiary of Turkiye Garanti Bankasi A.S. (Garanti BBVA), 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 broadly in line with those applied by Garanti BBVA, 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 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 the preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are made only in accordance with the authorizations of our management and directors; and

— Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, and any 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 achieve a gender balance in the Managing Board, with the aim that at least 30 percent of the members would be men and at least 30 percent of the members would be women. However, since GBI needs to balance several other relevant selection criteria when composing its Managing Board, the composition of the Managing Board did not match the above-mentioned gender balance in 2020. GBI will continue to strive for an adequate and balanced composition of the 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
Mr. Ö. Şişman	1977	Chief Financial Officer	2015
Mr. M. Witteveen	1960	Chief Operations Officer	2016
Mr. C. B. Mutlu	1968	Chief Risk Officer	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 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 (2020: 0 (zero) percent women). In the context of such assessment, GBI aims to have a gender balance in its Supervisory Board of at least 30 percent men and at least 30 percent women.

Information on Members of the Supervisory Board

The Supervisory Board currently consists of five 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 2020 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 Supervisory Board comprises the following members:

NAME	YEAR OF BIRTH	POSITION	MEMBER SINCE	END OF TERM
Mr. R. Baştuğ	1967	Chairman	2020	2024
Mr. A. Düren	1968	Vice Chairman	2017	2021
Mr. R. Van Der Linden	1943	Member	2012	2022
Mr. B. Meesters	1954	Member	2012	2021
Mr. J.h. De Roo	1956	Member	2020	2024

In 2020, the following changes were made to the composition of the Supervisory Board:

- Following the resignation of Mr. Erbil, and subsequent to the regulatory approval, the shareholder appointed Mr. E Baştuğ as a new member of the Supervisory Board on 11 February 2020 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.

- Following the Extraordinary Meeting of the Shareholders and the regulatory approvals, Mr. de Roo was appointed as a new member of the Supervisory Board for a term of four years and as the Chairman of the Risk Committee of the Supervisory Board, effective as of January 2020.

- On 23 June 2020, Messrs Van der Linden and Meesters were re-appointed for additional terms of two years and one year, respectively.

Future-Oriented Banking

As a successor of the Dutch Banking Code (Code Banken) the Dutch Banking Association (NVB) introduced a package called Future-Oriented Banking, which consists 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 De Nederlandsche Bank. The reporting by banks on their compliance with the new Code will be based on self-regulation.

The principles in the old Code have now been incorporated into the current legislation and regulation, and 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 as such with due regard for each other's duties and powers.

Amsterdam, 17 February 2021

The Managing Board
Mr. S.E. Zeyneloğlu (Chief Executive Officer)
Mr. M.Ö. Şişman
Mr. M.J. Witteveen
Mr. C.B. Mutlu

The Supervisory Board has voted to transfer the net profit of 2020 to the other reserves rather than paying a dividend

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 2020, which totals EUR 6.8 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 2020. In accordance with Article 29 of the Articles of Association, the Supervisory Board advises and proposes that the shareholder adopts the 2020 financial statements at the next Annual General Meeting of Shareholders to be held in 2021. 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 duties related to the financial year of 2020.

Proposed Dividend

The Supervisory Board has voted to adopt the Managing Board's proposal to transfer the net profit of 2020, which totals EUR 6.8 million, to the other reserves rather than paying a dividend.

Supervisory Board Meetings

The Supervisory Board met on five occasions during the reporting period, and a quorum of members of the Supervisory Board was present at all meetings. In the meetings, the current business developments and performance of GBI 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 the preservation of good relations with our stakeholders. The 2019 annual figures and all related reports were assessed in the presence of our external auditor during the Supervisory Board meeting held on 14 February 2020. The budget for 2021 was discussed and approved during the Supervisory Board meeting held on 10 December 2020. The external audit plan has been approved and the independence of the external auditor has been confirmed for 2020. Developments regarding the COVID-19 and its impact on GBI's risk management processes and financials have been an important discussion point during 2020. The Managing Board's presentation included GBI's switch to the remote working environment, the financial impact of macroeconomic forecasts with regards to the provisions of IFRS 9 and the outcomes of loan portfolio reviews. The CFO and CRO attended all meetings and presented financial and risk management issues. The COO presented the implementation of the IT strategy and the Supervisory Board discussed the steps required to realize our 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.

Finally, the Supervisory Board agreed with the Managing Board's proposal to appoint BDO Audit & Assurance B.V. as the external auditor starting from the year 2021 during the Supervisory Board meeting held on 17 February 2021 and decided to recommend to the Annual General Meeting of Shareholders to approve the appointment.

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. Düren (Chairman)
Mr. B. Meesters

In 2020, 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 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 2020, the Audit and Compliance Committee has paid and will continue to pay special attention to the follow-up of the DNB examinations, compliance with regulations on Customer Due Diligence and Anti-Money Laundering, ongoing training and strengthening of three lines of defence controls, including related processes and procedures, and 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 regarding GBI's ongoing commitment to meet regulatory recommendations. The Committee has discussed the external audit plan for 2020 and assessed the independence of the external auditor through the Group. The Committee discussed the report of the external auditor regarding the audit of the 2019 financial statements, including the management letter observations.

The Committee has closely followed up the developments regarding the tender for the appointment of a new external auditor for year 2021, since KPMG have to rotate after the audit of financial year 2020 is completed as per Art. 41.1 of the European Commission (EC) Regulation 537/2014. Following a thorough evaluation of the independence conditions that are applicable at BBVA Group level as per the said EC Regulation and assessment of the quality of the audit engagement proposal through the Audit and Compliance Committee of the Supervisory Board, the Managing Board has proposed to appoint BDO Audit & Assurance B.V. as the external auditor starting from the year 2021. After careful evaluation of the proposal and having a direct meeting with the BDO representatives during the Committee meeting held on 27 January 2021, the Committee agreed with the proposal and decided to positively advise the Supervisory Board on the appointment.

RISK COMMITTEE

Members:
Mr. H. de Roo (Chairman, as of January 2020),
Mr. A. Düren (Acting Chairman, June 2019 – January 2020)

The Risk Committee of the Supervisory Board met five times in 2020. The Risk Committee assists the Supervisory Board with its responsibilities related to the supervision of the Managing Board's activities 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 analyzes and assesses the control and management policies of the GBI's different risks and information and internal control systems, including the Risk Appetite Statement together with other risk appetite framework metrics of GBI, ICAAP and ILAAP. The Committee manages an agenda on all material risk areas requiring Supervisory Board approval concerning proposals and recommendations, as per an initiative led by the Managing Board or the Supervisory Board.

The Risk Committee monitors and periodically assesses the effectiveness of GBI's risk governance. In this capacity, the Risk Committee reviewed the Risk Appetite Statement and various Management Policies, such as the Credit Policies, Market Risk Policy, Liquidity Risk Policies, Interest Rate Risk Policy, Operational Risk Policies, 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. It also reviews and approves the Bank's Pillar III Disclosures before publication.

COVID-19 and its impact has been a regular discussion point. The Committee has received detailed information regarding the developments and provided feedback to the Managing Board regarding, among other issues, credit risk issues and business model.

REPORT OF THE SUPERVISORY BOARD

REMUNERATION COMMITTEE

Members:
Mr. R. van der Linden (Chairman),
Mr. R. Baştuğ (as of February 2020)

The Remuneration Committee of the Supervisory Board met five times in 2019. 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 Managing Board members, overseeing performance targets to be set by the Managing Board members 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 2020 and the total amount of variable remuneration to be distributed within GBI. Proposed remuneration packages including fixed and variable components, training budget, pension plans and promotions were reviewed and approved. Additionally, the Remuneration Policy was reviewed and proposed to the Supervisory Board for various updates.

GOVERNANCE

Effective corporate governance in accordance with high international standards is fundamental for us. The Supervisory Board will ensure responsible, value-driven management and control of GBI through strong corporate governance. This has five key elements:

- Good relations with all stakeholders
- Effective cooperation between the Managing Board and the Supervisory Board
- Sound remuneration policy for all staff
- Transparent reporting system
- Sound and ethical operations in accordance with GBI's mission, strategy and objectives.

The Charter Governing the Supervisory Board contains 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 also includes a Supervisory Board profile. Additionally, the individual 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.

In line with the requirements prescribed by the Dutch Banking Code, the three-yearly external self-assessment of the Supervisory Board and its overall functioning was carried out by an external firm in November 2020. The assessment was concluded to be clear and positive with some recommendations for further improvement.

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 prioritize 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 the Managing Board members have taken the Banker's Oath.

PERMANENT EDUCATION

GBI annually organizes 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. Due to the COVID-19 situation, no physical meeting was organized in 2020, but GBI has initiated the process of making the online training platform available for SB members to support their permanent education program.

RISK MANAGEMENT

As a financial institution, GBI is exposed to a variety of risks. To ensure measured risk taking, we have integrated risk management into our daily activities and strategic planning. The Risk Management Department assists 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 frequently addressed in Supervisory Board meetings and in the meetings of the Supervisory Board's Risk Committee. Our 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 GBI's risk profile and assesses at a strategic level whether the capital allocation and liquidity position of GBI and its operations are in line with our 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 at the Bank. The Committee includes several members of the Managing Board.

The Risk Management principles of the Dutch Banking Code are adequately met. Our risk policy is characterized by its comprehensive approach, it is transparent and has both a short-term and long-term focus, taking into account reputational and non-financial risks. Detailed disclosures on GBI'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 GOVERNANCE PROCESS

The governance around the new business and product development is explained in the Operational Risk Admission and Product Governance (ORA&PG) Policy, which is approved by the Supervisory Board. The ORA&PG Policy covers the entire process, starting from the initial proposal until the business or product is approved according to the assessment and approval processes.

New products that will go through the ORA&PG shall not be introduced to the market or distributed to various channels without prior careful examination of the risks for GBI as well as the client, and without the approval of the ORA&PG Committee and the final approval of the Management Team. ORA & PG Committee and the Management Team, which consists of the Managing Board members and Executive Directors, is the ultimate body to approve or disapprove the introduction of a new product. New business that will go through the ORA&PG process will be further escalated to the Supervisory Board for final approval.

INTERNAL AUDIT

GBI 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 and Compliance Committee of the Supervisory Board. The Chief Audit Executive is always present in meetings held by the Audit and Compliance Committee of the Supervisory Board. Furthermore, the external auditor sometimes takes part in the Audit and Compliance Committee meetings. A tri-partite meeting with DNB and the external auditor was held on 2 November 2020.

REMUNERATION

GBI has implemented a meticulous, restrained and long-term remuneration policy in line with our 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 established 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 GBI.

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. Fifty percent of the 2020 annual variable compensation will be paid in BBVA shares, and the remaining amount will be paid in cash. For 2020, 60 percent of the annual variable compensation, as shares or as cash, will be paid in 2021 and the remaining 40 percent will be payable, if applicable, in 2023. Amounts deferred from the 2020 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 2020, none of the Managing Board members received an annual remuneration of more than EUR 1 million. The annual amount of variable remuneration paid out to natural persons amounts to EUR 1.03 million in 2020, which includes the deferred payments of the previous performance years amounting to EUR 0.27 million. As of 2020, two 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 appreciate their strong commitment to the Bank under difficult circumstances in 2020.

Amsterdam, 17 February 2021

The Supervisory Board
Mr. R. Baştuğ (Chairman)
Mr. A. Düren (Vice Chairman)
Mr. P.R.H.M. van der Linden
Mr. B.J.M.A. Meesters
Mr. J.H. de Roo

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Financial Statements 2020

GARANTIBANK INTERNATIONAL N.V.

Content of Financial Statements

(Currency: Thousands of Euros)

Financial Statements

Statement of Financial Position

As at 31 December 2020

	Notes	**31 December 2020**	**31 December 2019**
Assets			
Cash and balances with central banks	*3*	524,911	721,128
Loans and advances to banks	*4*	654,241	325,733
Financial assets at fair value through profit or loss			
- Mandatorily at fair value through profit or loss	*6*	317	1,463
- Trading derivatives	*40*	2,551	1,910
- Non-trading derivatives	*40*	1,714	5,606
Financial assets at fair value through other comprehensive income	*7*	102,773	73,651
Loans and advances to customers	*5*	2,092,514	2,433,408
Property and equipment	*8*	31,905	32,343
Intangible assets	*9*	5,818	5,274
Current tax asset	*14*	7,917	8,557
Other assets	*10*	5,515	5,965
Total Assets		**3,430,176**	**3,615,038**
Liabilities			
Deposits from banks	*11*	344,614	194,917
Deposits from customers	*12*	2,444,457	2,731,363
Financial liabilities at fair value through profit or loss			
- Trading derivatives	*40*	1,531	1,687
- Non-trading derivatives	*40*	7,772	13,132
Subordinated liabilities	*13*	-	50,398
Deferred tax liability	*14*	3,429	2,690
Other liabilities	*15*	27,498	28,856
Total Liabilities		**2,829,301**	**3,023,043**
Equity			
Share capital	*16*	136,836	136,836
Retained earnings		454,326	447,523
Other reserves	*16*	9,713	7,636
Total Equity attributable to owners of the Bank		**600,875**	**591,995**
Total Liabilities and Equity		**3,430,176**	**3,615,038**
Commitments and Contingencies		**558,665**	**367,848**

(Currency: Thousands of Euros)

Statement of Comprehensive Income

For The Year Ended 31 December 2020

	Notes	2020	2019
Statement of Income:			
Interest income using effective interest method	*19*	76,313	132,269
Interest expense using effective interest method	*19*	(29,420)	(76,543)
Net interest income		**46,893**	**55,726**
Fee and commission income	*20*	13,295	10,526
Fee and commission expense	*20*	(2,353)	(2,436)
Net fee and commission income		**10,942**	**8,090**
Valuation results and net trading income	*21*	1,871	(222)
Investment income	*22*	-	362
Other income	*23*	-	185
Total income		**59,706**	**64,141**
Expected credit losses on financial instruments	*31*	(6,245)	(8,446)
Personnel expenses	*25*	(26,770)	(29,055)
Depreciation and amortisation	*8*	(3,116)	(3,566)
Other operating expenses	*24*	(14,188)	(13,922)
Total expenses		**(50,319)**	**(54,989)**
Profit before tax		**9,387**	**9,152**
Income tax expense	*14*	(2,584)	(2,540)
Profit for the year		**6,803**	**6,612**
Other Comprehensive Income			
Items that will not to be reclassified to profit or loss			
Property and equipment			
Revaluation	*8*	33	3,290
Tax effect (deferred)		(8)	(499)
Net gain on revaluation of property and equipment		**25**	**2,791**
Items that may subsequently be reclassified to profit or loss:			
Cash flow hedges			
Effective portion of changes in fair value	*40*	59	(2,518)
Reclassified to profit or loss	*40*	1,042	(647)
Tax effect (deferred)		(275)	791
Net gain on cash flow hedges		**826**	**(2,374)**

(Currency: Thousands of Euros)

	Notes	**2020**	**2019**
Debt instruments at fair value through other comprehensive income			
Valuation results	*7*	1,635	3,666
Reclassification to profit or loss	*7*	-	(460)
Tax effect (current)		(409)	(802)
Net gain on debt instruments at fair value through other comprehensive income		**1,226**	**2,404**
Total other comprehensive income for the year, net of tax attributable to the shareholder		**2,077**	**2,821**
Total comprehensive income for the year, net of tax attributable to the shareholder		**8,880**	**9,433**

(Currency: Thousands of Euros)

Statement of Changes in Equity

	Share Capital and Share Premium	Fair value reserve investments	Hedging Reserve	Fair value reserve property and equiptment	Retained Earnings	Total Equity
Balance as at 1 January 2020	**136,836**	**(1,135)**	**(1,893)**	**10,664**	**447,523**	**591,995**
Profit for the year					6,803	6,803
Other comprehensive income						
Net unrealised gains/(losses) on fair value assets portfolio		1,163				1,163
Net gains/(losses) on fair value assets and cash flow hedges transferred to profit or loss						
Foreign currency translation differences on fair value portfolio		(101)				(101)
Net fair value gains/(losses) from cash flow hedges			826			826
Expected credit losses on FVOCI portfolio		164				164
Revaluation surplus on building				25		25
Total other comprehensive income		**1,226**	**826**	**25**		**2,077**
Translation differences						
Other movements						
Balances as at 31 December 2020	**136,836**	**91**	**(1,067)**	**10,689**	**454,326**	**600,875**

(Currency: Thousands of Euros)

	Share Capital and Share Premium	Fair value reserve investments	Hedging Reserve	Fair value reserve property and equiptment	Retained Earnings	Total Equity
Balance as at 1 January 2019	**136,836**	**(3,539)**	**481**	**7,873**	**440,911**	**582,562**
Profit for the year					**6,612**	**6,612**
Other comprehensive income						
Net unrealised gains/(losses) on fair value assets portfolio		**2,503**				**2,503**
Net gains/(losses) on fair value assets and cash flow hedges transferred to profit or loss		**(345)**	**(485)**			**(830)**
Foreign currency translation differences on fair value portfolio		**105**				**105**
Net fair value gains/(losses) from cash flow hedges			**(1,889)**			**(1,889)**
Expected on FVOCI portfolio		**141**				**141**
Revaluation surplus on building				**2,791**		**2,791**
Total other comprehensive income		**2,404**	**(2,374)**	**2,791**		**2,821**
Translation differences						
Other movements						
Balances as at 31 December 2019	**136,836**	**(1,135)**	**(1,893)**	**10,664**	**447,523**	**591,995**

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 2020

	Notes	**1 January 2020 - 31 December 2020**	**1 January 2019 - 31 December 2019**
Cash flows from operating activities:			
Profit for the period		6,803	6,612
Adjustments for:			
Depreciation and amortisation	*8, 9*	3,116	3,566
Expected credit losses on financial instruments	*31*	6,245	8,446
Tax expense	*14*	2,584	2,540
		18,748	**20,262**
Changes in:			
Loans and advances to banks	*4*	(347,509)	(17,330)
Financial assets at fair value through profit or loss	*6, 40*	4,397	24,393
Loans and advances to customers	*5*	335,461	406,020
Other assets	*10*	455	872
Deposits from banks	*11*	101,528	(602,999)
Deposits from customers	*12*	(286,906)	(69,873)
Financial liabilities at fair value through profit or loss	*40*	(5,516)	(13,370)
Other liabilities, accrued expenses and provisions	*15*	(1,358)	8,933
		(180,700)	**(243,092)**
Income taxes paid		(2,390)	(1,387)
Net cash used in operating activities		**(180,498)**	**(244,476)**
Cash flows from investing activities:			
Proceeds in investment portfolio	*7*	(29,122)	120,990
Purchase of tangible and intangible assets	*8*	(2,710)	(2,515)
Net cash used in investing activities		**(31,832)**	**118,475**

(Currency: Thousands of Euros)

Statement of Cash flows (continued)

	Notes	**1 January 2020 - 31 December 2020**	**1 January 2019 - 31 December 2019**
Cash flows from financing activities:			
(Decrease)/increase in subordinated liabilities, net		(50,398)	-
Net cash from financing activities		**(50,398)**	-
Effect of exchange rate changes		2,592	(902)
Net increase in cash and cash equivalents		**(262,728)**	**(126,004)**
Cash and cash equivalents at the beginning of the period	*1*	752,911	878,915
Cash and cash equivalents at the end of the period	*1*	**490,183**	**752,911**
Additional information on operational cash flows from interest			
Interest paid		95,661	159,331
Interest received		(36,938)	(83,234)

Notes to the financial statements

Notes to the accounting policies

Reporting entity

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. (BBVA), 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.

Authorisation of the financial statements

On 17 February 2021, the Managing Board prepared the annual accounts of GBI as at and for the year ended 31 December 2020 and the Supervisory Board adopted a resolution, to propose that the Shareholder adopt the 2020 financial statements at the next Annual General Meeting of Shareholders to be held in 2021.

Basis of preparation

The GBI financial statements 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:

- Credit risk of financial instruments as disclosed in notes 29 to 32:

  Judgement is exercised in determining the extent of the expected credit loss (ECL) for financial assets assessed for impairment both individually and collectively. The ECL for financial assets is based on assumptions about risk of default and expected loss rates. GBI uses judgement in making these assumptions and selecting the inputs to the ECL calculation, based on the historical observations, 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 ECL over time.

  In 2020 the level of uncertainty in relation to credit risk has increased significantly as a result of the COVID-19 pandemic. The pandemic has affected and continues to adversely affect the world economy and the activity and economic conditions of the countries in which the Bank's customers operate, leading many of them into economic recession. The governments of those countries have adopted different measures that impact their economies and the financial performance of the Bank's customers.

Use of estimates and judgements (continued)

The key judgement areas are:

- The criteria for identifying a 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 assesses significant increase in credit risk using qualitative and quantitative assessments.

  The qualitative assessments require a considerable level of judgement from the credit officers that perform the assessment as well as from the members of the credit committee that review and approve the assessments.

  For the quantitative assessment the Bank compares the risk of default occurring at the reporting date with the risk of default occurring at the initial recognition of the financial asset. Internal credit rating models are used for determining the probability of default (PD) of each financial asset. Judgement is used to determine whether the stage allocation thresholds are suitable for statutory reporting purposes and to assess the need for management overlays to reflect the impact of COVID-19 on the financial performance of an obligor. Such judgements are reviewed and approved by related management committees of the Bank.

  The process of comparing a financial asset's PD with the PD banding thresholds determines its ECL stage. Assets in Stage 1 are allocated a 12 month ECL, and those in Stage 2 are allocated a lifetime ECL, and the difference is often significant. As such, the assumptions made in setting PD banding thresholds constitute a key source of estimation uncertainty. Analysis of the sensitivity associated with the assessment of significant increase in credit risk is presented in the Risk Management section of this report.

- Assumptions used to measure ECL, including the use of forward-looking and macro-economic information for individual and collective ECL 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, three or more scenarios are used. Each scenario is analysed based on the probability of occurrence and includes 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 about recoveries, including the recoveries from the collaterals (where applicable), 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. The update of macroeconomic forecasts to reflect the circumstances created by the COVID-19 pandemic is characterized by a high degree of uncertainty regarding its intensity, duration and speed of recovery. Hence management has chosen to apply haircuts in relation to the valuation of collateral. For the individual assessment, with granular (company-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) using ECL models: For the purposes of a collective evaluation of ECL's, 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 ECL's, 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. Given that modelling assumptions and calculation methodologies that prevail in normal times may prove impaired in the current context of extraordinary uncertainty, management assesses the need for overlays based on expert opinion. The outcome of the models reflects forward looking macro-economic information. The update of the forward looking information in the IFRS 9 models in order to reflect the circumstances created by the COVID-19 pandemic in the macroeconomic environment, is characterized by a high degree of uncertainty regarding its intensity, duration and speed of recovery.

  - Assessment of a default: in certain cases, judgement is exercised in GBI's evaluation of whether there is objective evidence of impairment (e.g. in relation to assessing 'financial difficulties' of a borrower).

- Fair value measurement of financial instruments:

  Even if quoted market prices and observable inputs are available, when markets are less liquid there may be a range of prices and inputs for the same asset from different sources. Selecting the most appropriate price or input requires judgement and could result in different estimates of fair value. Valuation techniques are subjective in nature and, depending on the liquidity of the market and the extent parameters are unobservable, the valuation uncertainty increases and hence significant judgement is involved in establishing fair values for certain 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.

Change in accounting policies

The following standards and amendents became effective in 2020:

- Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform (issued on 26 September 2019)
- Amendment to IFRS 16 Leases Covid 19- Related Rent Concessions (issued on 28 May 2020)
- Amendments to IFRS 3 Business Combinations (issued on 22 October 2018)
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)

The amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform are generally referred to as phase 1 of IASB's project on "IBOR Reform and its Effects on Financial Reporting" (IBOR reform phase 1) and have the following impact on GBI.

GBI has 5 hedge relationships in place that are potentially directly affected by the IBOR reform phase 1. One of the hedge relations that matures in January 2022 has a benchmark that is based on the 3-months LIBOR that will be fixed for the last time in 2021. Although the LIBOR benchmark will be discontinued, the LIBOR is still in place in 2021 when the last fixing is done and hence the IBOR reform has no impact on the accounting for the associated hedge relationship. The other 4 hedge relationships have a benchmark based on the 6-months EURIBOR. The latter will continue to be in place and is considered to be compliant with the Benchmark Regulation and hence the IBOR reform has no impact on the accounting for the associated hedge relationship until today. Going forward, GBI is actively monitoring the developments within the industry since important issues around IBOR still remain, such as the inclusion of fallback provisions in financial contracts should a benchmark in use (including future proof benchmarks such as EURIBOR) disappear. Market parties are struggling to adopt adequate fallback provisions and are waiting for standards from working groups, such as the Working Group on EU Risk-Free Rates, or international industry organisations. Any new standards and recommendations will be assessed for its implications on GBI's financial contracts and GBI will act accordingly if deemed necessary.

Since the hedge relationships are not affected, GBI does not apply exceptions and there is no need to alter the disclosures.

The other standards and amendments that became effective in 2020 did not result in changes to the Bank's accounting policies.

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 2021 and have been endorsed by the EU and have not been early adopted by GBI.

- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS19 (issued on 25 June 2020).

The amendments to IFRS 4 do not have an impact on the Bank's financial statements after 2020.

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 IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020);
- IFRS 17 Insurance Contracts (issued on 18 May 2017).

New and revised IFRSs in issue but not yet effective (continued)

- Amendments (issued on 18 May 2020) to:
    - IFRS 3 Business Combinations;
    - IAS 16 Property, Plant and Equipment;
    - IAS 37 Provisions, Contingent Liabilities and Contingent Assets;
    - Annual Improvements 2018-2020 (All issued 14 May 2020).
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 respectively)

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 will have a profound impact on the Bank's operations. Due to the interest rate reform certain benchmarks will be replaced while others are being reformed. In both cases contractual relations between GBI and counterparties that rely on such interest rate benchmarks are affected. Depending on the amendments to those contractual arrangements, certain changes need to be made to the IT systems to accommodate the new benchmarks, to calculate the amortised cost and measure hedge effectiveness.

The amendments include a number of reliefs and additional disclosures to be applied in relation to the interest rate reform to minimise the impact on the financial statements. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR). Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

Furthermore IBOR reform Phase 2 provides temporary reliefs that allow the Bank's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. For existing hedge relationships as per the end of 2020, the impact of IBOR is limited (see changes in accounting policies for further details). However, for new hedge relationships the Bank needs to amend its standardised hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. The Bank may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives. For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Bank reasonably expects the RFR to become separately identifiable within 24 months. For hedges of groups of items, the Bank is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application. The other amendments and standards are not expected to have a significant impact on the Bank's financial statements once they become effective.

Changes to prior year financial statements and disclosures

Certain figures reported in the 2019 annual report have been reclassified for consistency with the presentation applied within these financial statements and disclosures. These changes are presentational in nature and do not change the previously reported financial results for the year ended 31 December 2019 nor the aggregate assets and liabilities at that date.

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 applicable at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into EUR at the exchange rates applicable 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 at 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 translated at the date fair value is determined.

Property and equipment and related depreciation and amortisation

At initial recognition, property and equipment (PPE assets) are measured at cost. After initial recognition, the Bank applies the revaluation model for properties and the cost model for all other PPE 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 expected credit 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.

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.

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

Depreciation

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

PPE 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

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.

Significant accounting policies (continued)

Intangible assets

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.

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

Depreciation

The estimated useful lives is between 2 and 10 years and the depreciation rates are between 10% and 50% for intangible assets. Depreciation and amortisation method in use is the straight-line method and was not changed in the current period.

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.

Leases

At inception of a contract, the Bank (as lessee) assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

For all leases not being a car lease, the Bank has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component. The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset

Significant accounting policies (continued)

is periodically reduced by expected credit losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in ' tangible and intangible assets' and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

For contracts entered into before 1 January 2019, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

Assets held under other leases were classified as operating leases and were not recognised in the Bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Significant accounting policies (continued)

Financial instruments

Recognition and derecognition of Financial instruments

Recognition of financial assets

Financial assets are intitially recognised in the balance sheet at fair value when the Bank becomes a party to the contractual provisions of the instruments. Debt securities and derivatives are recognised using trade date accounting. Trade date is the date on which the Bank commits to purchase or sell the asset. Loans and advances and repurchase agreements are recognised using settlement date accounting.

Derecognition of financial assets

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. The difference between the carrying amount of a financial asset that has been extinguished and the consideration received is recognised in profit or loss.

Recognition of financial liabilities

Financial liabilities are initially recognised in the balance sheet at fair value when the Bank becomes a party to the contractual provisions of the instrument.

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.

Modifications

If the terms of a financial asset are renegotiated or otherwise modified (for example in forbearance measures), the Bank evaluates whether the cash flows of the modified asset are substantially different (in both qualitative and quantitative terms).

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, 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 Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first 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. Any costs or fees incurred and fees received as part of the modification adjust the

Significant accounting policies (continued)

gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Financial liabilities are derecognised when the liability has been settled, has expired or has been extinguished. An exchange of an existing financial liability for a new liability with the same lender on substantially different terms, qualitatively and quantitatively (a 10% difference in the present value of the cash flows) is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the former amortised cost and the consideration paid is recognised in the income statement. Any subsequent resale is treated as a new issuance.

Classification and measurement

The Bank classifies its financial assets in the following measurement categories:

- fair value (either through other comprehensive income, or through profit or loss), and
- amortised cost.

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset measured at amortised cost or fair value through other comprehensive income, 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.

<u>Debt instruments</u>

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.

In assessing whether the contractual cash flows are SPPI, GBI considers all contractual terms of the instrument.

Depending 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.

Significant accounting policies (continued)

Interest income from these financial assets is included in interest income using the effective interest rate method to the gross carrying amount of a financial asset (before any ECL allowance) except for credit impaired debt instruments, in which case the effective interest rate method is applied to the amortised cost. Expected credit losses are presented as a separate line item in the statement of profit or loss.

- *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 expected credit 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 to the gross carrying amount of a financial asset (before any ECL allowance) except for credit impaired debt instruments, in which case the amortised cost. Expected credit losses are presented as a separate line item in the statement of profit or loss.
- *Fair value through profit or loss (FVTPL):* Debt instruments that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument is recognised in profit or loss and presented on a net basis within investment income in the period in which it arises. Interest income from these financial assets is included in interest income using the effective interest rate method.

<u>Equity instruments</u>

The Bank measures all equity investments at fair value with changes recognised in investment income in the statement of profit or loss as applicable.

<u>Derivatives</u>

Derivative contracts are measured at fair value through profit or loss, except for derivatives that are designated in a cash flow hedge. For those, the effective portion of changes in the fair value is recognized in equity. All derivatives in a net receivable position (positive fair value) are reported as trading assets. All derivatives in a net payable position (negative fair value) are reported as trading liabilities.

<u>Financial liabilities</u>

Financial liabilities, not being derivatives, are classified and subsequently measured at amortised cost.

Expected credit losses of financial assets

ECL models are 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 ECL allowance, 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 risk models that are used within the scope of Foundation Internal Ratings Based (F-IRB) models used for the calculation of the regulatory capital requirement. Those credit rating models have been modified to meet the requirements of IFRS 9.

Significant accounting policies (continued)

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 is made associated with the probability of default (PD) events occurring during 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 during the lifetime; or
- Stage 3: Loans considered as credit impaired, require a provision that is based on lifetime ECL's.

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:

- Quantitative indicators: change in the lifetime probability of default (both absolute and relative);
- (Re)payment performance: loans with more than 30 days past due at the reporting date
- Forbearance measures taken and the status thereof;
- Qualitative assessment of the performance of the obligor.

The change in lifetime probability of default is one of triggers 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 point in time 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) used for regulatory purposes.

Assets can also return to Stage 1 if there is sufficient evidence that there has been a significant reduction in credit risk.

Exposures with forbearance measures can be either performing (Stage 2) or non-performing (Stage 3). The Bank uses specific criteria to move forborne exposures from non-performing to performing and to remove the forbearance statuses that are consistent with the corresponding EBA Guidelines on the management of non-performing and forborne exposures. An exposure is reported as forborne for a minimum of two years. An additional one year probation period is observed for forborne exposures that move from non-performing back to performing.

Credit impaired financial assets (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 includes arrears of over 90 days on any material credit obligation, indications that the borrower is experiencing significant financial difficulty, a breach of contract, bankruptcy or distressed restructuring.

Significant accounting policies (continued)

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. The asset will migrate back to stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly since initial recognition.

Definition of default

GBI 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 on default of an obligor and the related EBA Guidelines thereon (Regulation (EU) No 575/2013). This is also the definition used for internal risk management purposes.

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-neutral view combining consensus forecasts for economic variables (e.g. GDP growth). Applying market consensus in the baseline scenario ensures unbiased estimates of the ECL's.

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 reviewed on a quarterly basis.

Measurement of ECL

The Bank applies a collective assessment method to measure ECL for performing (Stage 1) and under-performing (Stage 2) assets, except for assets that are in Stage 2 due to qualitative factors. For those assets and all assets in Stage 3 an individual assessment method to calculate the ECL.

a) Collectively assessed assets (Stage 1 and 2)

For financial assets that are collectively assessed, GBI applies a model-based approach that calculates ECL in a formula that is expressed simplistically as PD x EAD x LGD, adjusted for 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. 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 consider, amongst others, customer financial information and qualitative survey factors. PD's calculated as the outcome of the rating models are then adjusted by the PD term structure models to estimate the point in time PD's for the respective time period, i.e. 12 months or lifetime.

Loss Given Default (LGD): If a loan default occurs, it represents the expected economic loss on the loan. It is expressed as a percentage. LGD calculations are performed using professional judgement, regulatory benchmarks used in capital requirement calculations and other external benchmarks due to the low number of internal 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.

Significant accounting policies (continued)

The ECL's are discounted using:

- the original effective interest rate for cash loans,
- a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to financial guarantee contracts or on loan commitments.

b) Individually assessed assets (Stage 2)

For individually significant financial assets that are in Stage 2 based on qualitative criteria, GBI estimates the ECL 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, three or more scenarios are used. Each scenario is analysed based on the probability of occurrence and including forward looking information.

The ECL is calculated as the probability weighted average of the shortfall (gross carrying amount minus discounted expected future cash flow using the original effective interest rate) per scenario. The scenarios are based on the Bank's judgement regarding the magnitude and timing of recoveries. 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 ECL's 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 ECL allowance for 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.

For Financial assets that are credit-impaired, the ECL calculation method is identical to the approach for individually assessed assets in Stage 2.

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 ECL allowance.

d) Non-integral financial guarantee contracts

The Bank 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. The factors that the Bank considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

Significant accounting policies (continued)

If the Bank determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Bank considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Bank 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 a right to compensation for credit losses. 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.

These assets are recognised in ‘other assets’. The Bank presents a gains or losses on a compensation right in profit or loss in the line item ‘expected credit losses on financial instruments’.

<u>Purchase or Originated Credit Impaired (POCI) assets</u>

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 statement. Favourable changes are recognised as an ECL gain, regardless whether the lifetime ECL at the reporting date is lower than the estimated lifetime ECL at origination.

<u>Write-off and debt forgiveness</u>

Loans and the related ECL are written off, either partially or in full, when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. When a loan is uncollectable, it is written off against the related ECL allowance. Subsequent recoveries of amounts previously written off are included in ‘expected credit losses on financial instruments’ in the statement of profit or loss.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank’s procedures for recovery of amounts due.

<u>Changes in ECL</u>

Changes in ECL are recored in the statement of comprehensive income in the line item expected credit losses on financial instruments.

<u>Presentation of ECL allowance</u>

ECL allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the ECL allowance is recognised in OCI, instead of deducting the carrying amount of the asset. The ECL allowances related to off-balance sheet items are recorded under provisions.

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.

Significant accounting policies (continued)

The IFRS 9 ECL requirements apply to issued financial guarantee contracts that are not measured at fair value through profit or loss under IFRS 9 (see section expected credit loss on financial assets 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.

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.

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:

<u>Cash flow hedge</u>

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.

Significant accounting policies (continued)

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.

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) 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. The proceeds from the sale of the investments are reported as “deposits from banks”, 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 assets and deferred tax liabilities 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 OCI 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.

Significant accounting policies (continued)

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 interest 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 loans that are 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 Bank'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 Bank 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.

Valuation results and net trading income

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

Investment income

Investment income includes gains and losses arising from sales of investments that are recorded at fair value through other comprehensive income.

Significant accounting policies (continued)

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 personell 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.

Significant accounting policies (continued)

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.

Notes to the Financial Statements (Currency: Thousands of Euros)

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 2020 and 2019, included in the accompanying statements of cash flows are as follows:

	31 December 2020	*31 December 2019*
Unrestricted balances with central banks	524,954	721,160
Loans and advances to banks	27,430	45,783
Deposits from banks	(62,201)	(14,032)
	490,183	**752,911**

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 and all their subsidiaries and key management personell (being the members of the Supervisory Board and Managing Board of GBI, TGB or BBVA) are referred to as related parties. In the course of conducting its banking business, the Bank engaged in various business transactions with its parent and other related parties. These transactions were carried out on commercial terms and at market rates. Transactions conducted with group companies are banking transactions including lending, borrowing funds, purchase and sale of financial assets, derivative transactions, trade finance transactions and rendering international payment, and other banking services.

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 2020	*31 December 2019*
Loans and advances to banks	42,800	15,842
Derivative financial instruments	504	1,077
Total assets	**43,304**	**16,919**
Deposits from banks	8,403	3,949
Derivative financial instruments	10	48
Subordinated liabilities	-	50,398
Total liabilities	**8,413**	**54,395**
Loan commitments, financial guarantees and other commitments	16,708	76,607
Notional amount of derivatives	3,094	99,251

	2020	*2019*
Interest and similar income	1,167	594
Interest and similar expense	(3,857)	(4,228)
Fee and commission income	394	192
Fee and commission expense	(1,562)	(1,756)
Net income/expense	**(3,858)**	**(5,198)**

(Currency: Thousands of Euros)

2. *Related party disclosures (continued)*

EUR 125 of ECL's have been recorded against balances outstanding during the period with the parent company (2019: 44) and none of the exposures are credit impaired.

Transactions with other related parties

The outstanding balances and income and expense are as follows:

	31 December 2020	***31 December 2019***
Loans and advances to banks	29	-
Derivative financial instruments	-	-
Loans and advances to customers	2,388	53,890
Total assets	**2,417**	**53,890**
Deposits from banks	-	-
Deposits from customers	4,740	487
Total liabilities	**4,740**	**487**
Notional amount of derivatives	-	-

	2020	***2019***
Interest and similar income	327	3,737
Interest and similar expense	(12)	(2,198)
Fee and commission income	85	41
Other operating expenses	(18)	-
Net income/expense	**382**	**1,580**

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 7 of ECL's have been recorded against balances outstanding at year-end 2020 with other related parties (2019: 178) 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 25.

(Currency: Thousands of Euros)

2. *Related party disclosures (continued)*

Key management personnel transactions

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

	31 December 2020	***31 December 2019***
Loans and advances to customers	4,794	4,244
Total assets	**4,794**	**4,244**
Deposits from customers	1,053	3,504
Total liabilities	**1,053**	**3,504**
Off Balance Sheet liabilities	20	-
Notional amount of derivatives	-	-

	2020	***2019***
Interest and similar income	79	43
Interest and similar expense	(2)	(97)
Fee and commission income	113	119
Fee and commission expense	-	-
Net income/expense	**190**	**65**

As at 31 December 2020, the balances with key management personnel are allocated to Stage 1 and have a negligible ECL allowance (2019: negligible). During 2020 the expected credit loss that is recognised in profit or loss in respect of these balances is negligible as well (2019: negligible).

3. *Cash and balances with central banks*

	31 December 2020	***31 December 2019***
Cash at branches	-	-
Balances with central banks	524,954	721,160
	524,954	**721,160**
ECL allowance	(43)	(32)
	524,911	**721,128**

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. Information about the ECL allowance of cash and balances with central banks, their credit quality and the company's exposure to credit risk can be found in the Risk Management section under Credit Risk.

The cash and balances with central banks are freely available since the average minimum reserve requirement was already met at 31 December 2020.

(Currency: Thousands of Euros)

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 2020	***31 December 2019***
Bank placements (cash margins, deposits)	27,437	45,783
Discounts to banks	472,118	241,148
Reverse sale-and-repurchase agreements	157,237	40,705
ECL allowance	(2,551)	(1,903)
Net loans and advances to banks	**654,241**	**325,733**

The Bank placements include EUR 18 thousand of on-demand deposits.

Expected credit loss and risk exposure

Information about the ECL allowance of loans and advances to banks, their credit quality and the company's exposure to credit risk can be found in the Risk Management section under Credit Risk.

Total loans and advances to banks includes non-cash loans amounting to EUR 76 (31 December 2019: EUR 10,146) for letter of credits that the Bank has provided (note 15).

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 anda re categorised as follows:

	31 December 2020	***31 December 2019***
Non-financial corporations	2,073,544	2,344,208
Non-bank financial corporations	32,198	120,719
Households	11,043	22,311
ECL allowance	(24,271)	(53,830)
	2,092,514	**2,433,408**
Non credit-impaired loans	2,095,260	2,418,120
Credit-impaired loans	21,525	69,118
ECL allowance	(24,271)	(53,830)
	2,092,514	**2,433,408**

Expected credit loss and risk exposure

Information about the ECL allowance of loans and advances to customers, their credit quality and the company's exposure to credit risk can be found in the Risk Management section under Credit Risk.

Total loans and advances to customers includes non-cash loans amounting to EUR 17,522 (31 December 2019: EUR 6,902) for letter of credits that the Bank has provided (note 15), for which the payment obligation is certain.

Notes to the Financial Statements (Currency: Thousands of Euros)

5. *Loans and advances to customers (continued)*

Write-offs

The Bank may write-off financial assets that might still be subject to enforcement activity. The outstanding contractual amounts of financial assets written-off during the year ended 31 December 2020 was EUR 30.3 thousand (2019: EUR 14.6 thousand). This includes amounts that are written off as a result of disposals as well as amounts that are owed in full by the Bank but which have been (partially) written-off due to no reasonable expectation of full recovery.

6. *Financial assets mandatorily at fair value through profit or loss*

Financial assets mandatorily measured at fair value through profit or loss encompasses a receivable in relation to the sale of shares in 2020. Due to the contractual characteristics of this sale transaction, the receivable did not meet the criteria to be recognised as at amortised cost and hence it is required to be classified as at fiar value through profit or loss.

The equity shares that are sold related to one equity participation that results from the partial transition of debt into equity in relation to a debt restructuring.

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

7. *Financial investments 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 2020	***31 December 2019***
Bonds issued by financial corporations	17,144	10,472
Bonds issued by non-financial corporations	22,338	20,991
Bonds issued by central governments	63,291	42,188
	102,773	**73,651**

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

Debt securities include securities pledged in relation tot ECB's targeted longer term refinancing operation, DNB borrowing as well as repurchase transactions. Further information is disclosed in note 11 on deposits from banks and note 42 on asset encumbrance.

(Currency: Thousands of Euros)

8. *Property and equipment*

Movement in tangible and intangible assets from 1 January to 31 December 2020 is as follows:

	01 January	Additions	Revaluation	Disposals and trans-fers	31 December
Cost					
Land and building	30,622	43	514	(507)	**30,672**
Right of use building	911	32	-	-	**943**
Furniture and equipment	3,701	132	-	(15)	**3,818**
Right of use equipment	114	151	-	-	**265**
	35,348	**358**	**514**	**(522)**	**35,698**
Less: Accumulated depreciation					
Land and building	-	(547)	-	507	**(40)**
Right of use building	(250)	(210)	-	-	**(460)**
Furniture and equipment	(2,666)	(495)	-	13	**(3,148)**
Right of use equipment	(89)	(56)	-	-	**(145)**
	(3,005)	**(1,308)**	**-**	**520**	**(3,793)**
	32,343	**(950)**	**514**	**(2)**	**31,905**

Movement in tangible and intangible assets from 1 January to 31 December 2019 is as follows:

	01 January	Additions	Revaluation	Disposals and trans-fers	31 December
Cost					
Land and building	27,702	20	3,290	(390)	**30,622**
Right of use building	955	39	-	(83)	**911**
Furniture and equipment	4,565	119	-	(983)	**3,701**
Right of use equipment	153	-		(39)	**114**
	33,375	**178**	**3,290**	**(1,770)**	**35,348**
Less: Accumulated depreciation					
Land and building	-	(543)	-	543	**-**
Right of use building		(270)	-	20	**(250)**
Furniture and equipment	(2,722)	(802)	-	858	**(2,666)**
Right of use equipment		(89)	-	-	**(89)**
	(2,722)	**(1,704)**	**-**	**1,421**	**(3,005)**
	30,653	**(1,526)**	**3,290**	**(349)**	**32,343**

(Currency: Thousands of Euros)

8. *Property and equipment (continued)*

Depreciation expense of tangible assets for the year ended 31 December 2020 amounted to EUR 3,116 (2019: EUR 3,566).

An independent valuator was involved to assess the valuation of the land and buildings. As per 30 November 2020 (the effective date of revaluation), the revaluation of land and buildings, net of deferred tax, amounting to EUR 385 was accounted under shareholders' equity (2019: EUR 2,791).

As of 31 December 2020, the net book value of property under cost model instead of revaluation model is EUR 15,699 (2019: EUR 15,699).

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

	2020	2019
Opening balance as at 1 January	**10,664**	**7,873**
Current year charge in OCI	25	2,791
Closing balance as at 31 December	**10,689**	**10,664**

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

9. *Intangible assets*

Movement in intangible assets from 1 January to 31 December 2020 is as follows:

	01 January	Additions	Revaluation	Disposals and transfers	31 December
Cost					
Software	10,206	2,352	-	-	**12,558**
	10,206	**2,352**	-	-	**12,558**
Less: Accumulated depreciation					
Software	***(4,932)***	(1,808)	-	-	**(6,740)**
	(4,932)	**(1,808)**	**-**	**-**	**(6,740)**
	5,274	**544**	-	-	**5,818**

Movement in intangible assets from 1 January to 31 December 2019 is as follows:

	01 January	Additions	Revaluation	Disposals and transfers	31 December
Cost					
Software	11,666	2,337	-	(3,797)	10,206
	11,666	**2,337**	**-**	**(3,797)**	**10,206**
Less: Accumulated depreciation					
Software	(6,870)	(1,859)	-	3,797	***(4,932)***
	(6,870)	**(1,859)**	**-**	**3,797**	***(4,932)***
	4,796	**478**	**-**	**-**	**5,274**

Notes to the Financial Statements (Currency: Thousands of Euros)

10. *Other assets*

	31 December 2020	*31 December 2019*
Prepaid expenses, insurance claims and similar items	1,189	1,700
Miscellaneous receivables	4,326	3,969
Other	-	296
	5,515	**5,965**

As at 31 December 2020 miscellaneous receivables consists of a receivable of EUR 3.9 thousand (31 December 2019: EUR 3.9 thousand) with regards to the Deposit Guarantee Scheme for the bankrupted DSB Bank. This receivable is recorded at its estimated fair value.

11. *Deposits from banks*

GBI's deposits from banks comprise the following element:

	31 December 2020	*31 December 2019*
On demand deposits	12,982	6,460
Term deposits	49,233	24,316
Obligations under repurchase agreements	9,726	-
Central Bank borrowing	207,303	128,429
Other deposits from banks	65,370	35,712
	344,614	**194,917**

Obligations under repurchase agreements

The Bank raises funds by selling financial instruments under agreements to repurchasing these instruments at the same price plus interest at a predetermined date. In note 42 further detail is provided in relation to the collateral provided.

Targeted longer term refinancing operations

In June 2020 the Bank raised funds by participating in the 4th tranch of ECB's third targeted longer term refinancing operations (TLTRO III) program that was announced on 22 July 2019. With the proceeds, the funding raised under the previous targeted longer term refinancing operations (TLTRO II) was repaid. The funds are accounted for as financial liabilities in accordance with IFRS 9, which is further elaborated on the section significant accounting policies.

The TLTRO III funding has a maturity of 3 years. The base rate for this funding was set at the average rate applied in the Eurosystem's main refinancing operations (currently 0%) while in 2020 ECB introduced a special interest rate period (24 June 2020 to 23 June 2022) where a 50 basis points discount on the base rate is applied in order to provide attractive funding conditions that will support banks' efforts to keep credit flowing to the real economy during the Covid pandamic. However, if the Bank reaches certain lending performance threshold over pre-defined reference periods, more favourable conditions as presented in the below table will be applied throughout the entire life of the operations.

(Currency: Thousands of Euros)

11. Deposits from banks (continued)

Reference period	Performance threshold	Interest rate
1 March 2020 to 31 March 2021[1]	0%	From 24 June 2020 to 23 June 2021 the rate will be 50 basis points below the average interest rate on the deposit facility (currently -0.5%) prevailing over the same period, and in any case not higher than -1%. From 24 June 2021 onwards the average interest rate on the deposit facility over the life of the respective operation will apply.
1 October 2020 to 31 December 2021[2]	0%	From 24 June 2021 to 23 June 2022 the rate will be 50 basis points below the average interest rate on the deposit facility (currently -0.5%) prevailing over the same period, and in any case not higher than -1%. From 24 June 2022 onwards the average interest rate on the deposit facility over the life of the respective operation will apply.
1 April 2019 to 31 March 2021	1.15%	If GBI did not reach the above performance thresholds , it is still entitled to favourable rates if the eligible net lending exceeds the benchmark net lending over the reference period. The rate applied to TLTRO III operations will be lower compared to the base rate, and can be as low as the average interest rate on the deposit facility prevailing over the life of the respective TLTRO III operation if the performance threshold is exceeded.

Due to the uncertainties in the loan growth, GBI might not be eligible for those more favourable conditions and has therefore taken into account an interest of minus 50 basispoints. The negative interest accrued in 2020 in relation to TLTRO III amounts to EUR 345 and is recognized as interest income.

In note 42 further detail is provided in relation to the collateral provided.

Other deposits from banks

Loans and advances from banks and other institutions are recorded at amortised cost and comprise bilateral loans with a carrying amount of EUR 63,570 (2019: EUR 35,712).

12. Deposits from customers

Deposits from customers comprise the following:

	31 December 2020		
	Demand	**Time**	**Total**
Households	1,252,849	661,736	1,914,585
Non-financial corporations	267,135	242,964	510,099
Non-bank financial corporations	3,296	16,477	19,773
	1,523,280	**921,177**	**2,444,457**

[1] In connection to the Covid pandemic, on 30 April 2020 ECB recalibrated the targeted lending operations to further support real economy and introduced a special reference period to measure the lending performance for the application of favourable interest rates.

[2] In connection to the Covid pandemic, on 10 December 2020 ECB prolonged the support via targeted lending operations for banks that lend to the real economy and introduced a second special reference period to measure the lending performance for the application of favourable interest rates.

(Currency: Thousands of Euros)

12. *Deposits from customers (continued)*

	31 December 2019		
	Demand	**Time**	**Total**
Households	1,207,699	1,019,861	2,227,560
Non-financial corporations	168,515	314,189	482,704
Non-bank financial corporations	16,850	4,249	21,099
	1,393,064	**1,338,299**	**2,731,363**

From the deposits from customers EUR 1,715 thousand (2019: EUR 1,932 thousand) is guaranteed under the Deposit Guarantee Scheme.

13. *Subordinated liabilities*

Subordinated liabilities concerned a subordinated loan received from GBI's shareholder Türkiye Garanti Bankası A.Ş. with a total amount of EUR 50 thousand (2019: EUR 50 thousand) that was repaid in 2020. The loan was granted in 2015 with an original maturity of 10 years, callable five years after the issuance and had a yearly interest rate of 4.55% (2019: 4.55%,). The subordinated loan was subordinate to the other current and future liabilities of GBI.

In 2020, the interest expense in respect of the subordinated loans amounts to EUR 2,002 thousand (2019: EUR 2,305 thousand).

14. *Taxation*

In the Netherlands, corporate income tax is levied at the rate of 16.5% (2019: 19%) 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. Under the Dutch taxation system, tax losses can be carried forward for six years to offset against future taxable income. Tax losses can be carried back to one prior year. The corporate income tax rate for the Germany branch is 30%.

Tax assets and liabilities are as follows:

	31 December 2020	***31 December 2019***
Current tax asset	7,917	8,557
Deferred tax asset	-	-
Tax assets	**7,917**	**8,557**
Current tax liability	-	-
Deferred tax liability	(3,429)	(2,690)
Tax liabilities	**(3,429)**	**(2,690)**
Net tax assets/(liabilities)	**4,488**	**5,867**

The tax income and expense are as follows:

	2020	***2019***
Current tax income/(expense)	(2,625)	(2,594)
Deferred tax income/(expense)	41	54
Tax income/(expense)	**(2,584)**	**(2,540)**

Notes to the Financial Statements (Currency: Thousands of Euros)

14. Taxation (continued)

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

	2020	*2019*
Opening balance as at 1 January	**8,557**	**10,640**
Current period taxation charge in the statement of profit or loss	(2,625)	(2,352)
Current period taxation charge in the statement of other comprehensive income	(409)	(802)
Movement from deferred to current tax	16	29
Advance taxed paid during the period	2,390	1,387
Corrections related to previous years	(12)	(345)
Closing balance as at 31 December	**7,917**	**8,557**

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 2020	*31 December 2019*
Valuation of hedges	356	631
Valuation of (in)tangible fixed assets	94	54
Total deferred tax assets	**450**	**685**
Revaluation of building	(3,725)	(3,236)
Other	(154)	(139)
Total deferred tax liabilities	**(3,879)**	**(3,375)**
Net deferred tax assets/(liabilities)	**(3,429)**	**(2,690)**

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

	2020	*2019*
Opening balance as at 1 January	**(2,690)**	**(3,006)**
Movement from deferred to current tax	(16)	(29)
Deferred tax benefit recognized in the statement of profit or loss	41	54
Deferred tax charge recognized in the statement of other comprehensive income	(764)	(499)
Deferred tax benefit recognized in the statement of other comprehensive income	-	791
Closing balance ast at 31 December	**(3,429)**	**(2,690)**

(Currency: Thousands of Euros)

14. Taxation (continued)

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:

	2020	***2019***
Profit before tax	9,388	9,152
Tax using the GBI's domestic tax rate	(2,347)	(2,288)
Effect of different tax rates in other countries	(28)	(22)
Disallowable expenses	(246)	(42)
Changes related to previous years taxation	(4)	(242)
Tax income/(expense)	**(2,625)**	**(2,594)**
Effective tax rate	28.0%	28.3%

15. Other liabilities

The principal components of other liabilities are as follows:

	31 December 2020	***31 December 2019***
Non-cash loans for letter of credits (*)	16,363	17,048
Unearned income	2,044	1,637
Short-term employee benefits	1,355	1,667
Withholding taxes	165	927
Vacation pay liability	100	184
Miscellaneous payables	6,787	6,742
ECL for non-cash loans (note 31)	684	651
	27,498	**28,856**

** The Bank gives non-cash loans for letter of credits it provides. As of 31 December 2020, non-cash loans provided to banks and customers are EUR 76 (note 4) and EUR 30,268 (note 5), respectively (31 December 2019: EUR 10,146 and EUR 14,580).*

Management recorded a provision in relation to other long term employee benefits (variable remuneration). Part thereof is to be paid within 12 months after the reporting date and the remainder is deferred and to be paid more than 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.

Notes to the Financial Statements (Currency: Thousands of Euros)

16. Equity

Share capital

As of 31 December 2020, the authorized nominal share capital of the Bank amounts to EUR 500 thousand and is subdivided into 500,000 shares with a nominal value of EUR 1 each, of which 136,836 shares have been issued and fully paid-in.

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

- Revaluation of building:

  In line with the applicable accounting policy, the Bank performs an annual revaluation ofthe office building that is reported under buildings in tangible assets (note 8). Under this policy, the 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:

	2020	*2019*
Opening balance as at 1 January	**10,664**	**7,873**
Gains/(losses) during the year	33	3,721
Deferred tax effect	(8)	(930)
Closing balance as at 31 December	**10,689**	**10,664**

Other comprehensive income/(loss) to are or may 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 2020, 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.

  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.

	2020	*2019*
Opening balance at 1 January	**(1,135)**	**(3,539)**
Gains/(losses) during the year	1,415	3,477
Change in ECL	219	188
Reclassified to profit or loss	-	(460)
Income tax effect	(409)	(801)
Closing balance as at 31 December	**90**	**(1,135)**

- 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).

Notes to the Financial Statements (Currency: Thousands of Euros)

16. *Equity (continued)*

	2020	*2019*
Opening balance as at 1 January	**(1,893)**	**481**
Effective portion of changes in fair value	59	(2,519)
Reclassified to profit or loss	1,042	(642)
Deferred tax effect	(275)	787
Closing balance as at 31 December	**(1,067)**	**(1,893)**

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 (only for 2019) and other Tier 2 capital elements.

Notes to the Financial Statements (Currency: Thousands of Euros)

16. Equity (continued)

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

	31 December, 2020	*31 December, 2019*
Total Equity	583,376	**574,713**
Prudential filters	**958**	**1,810**
Prudent valuation	958	1,810
Intangible asset[3]	(4,349)	(3,950)
Core Tier 1	**579,985**	**572,573**
Perpetual Tier 1 capital	**-**	**-**
Transitional adjustments to AT1 Capital	**-**	**-**
Additional Tier 1	**-**	**-**
Total Tier I capital	**579,985**	**572,573**
Tier II Capital	907	10,562
Subordinated capital	-	50,000
Total Tier II capital	**907**	**60,562**
Total own funds	**580,892**	**633,135**
CET 1 ratio	23.84%	23.89%
Total capital ratio (TCR)	23.88%	26.42%

The CET1 ratio and Total Capital Ratio (TCR) does not include the 2020 net result, in line with the reports submitted to the regulatory authorities. When including the audited full year net result of 2020 the CET1 ratio is 24.12 percent and the TCR is 24.16 percent.

GBI has preserved its prudent approach to capital and liquidity management in 2020. Common Equity Tier 1 (CET1) has slightly decreased to 23.84 percent from 23.89 percent in 2019, whereas the total capital ratio has decreased to 23.88 percent from 26.42 percent in 2019, due to repayment of subordinated capital. Despite the repayment, the ratio is comfortably above the minimum required regulatory level and provides a strong cushion for the Bank.

As part of the annual Supervisory Review and Evaluation Process (SREP), the regulatory authority sets individual capital guidance 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).

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.

The policies in respect of capital management and allocation are reviewed regularly by the Supervisory Board. Management uses regulatory capital ratios to monitor its capital base. Return on risk-adjusted capital is monitored to assess whether the allocation of the capital is in line with the risk appetite and the long term objectives of the Bank.

[3] Under CRD IV regulation, additional items listed below shall be deducted fully by 31 December 2019 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

17. *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.

(Currency: Thousands of Euros)

17. *Fair value information (continued)*

Financial assets and liabilities measured at fair value

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

31 December 2020	***Level 1***	***Level 2***	***Level 3***	***Total***
	Quoted prices (unadjusted) in active markets	*Valuation techniques - observable inputs*	*Valuation techniques - significant unobservable inputs*	
Financial assets measured at fair value				
Derivative financial assets				
Trading derivatives	-	2,551	-	2,551
Non-trading derivatives	-	1,714	-	1,714
Financial investments at fair value through profit or loss	-	317	-	317
Financial investments at fair value through other comprehensive income	101,684	1,089	-	102,773
Total	**101,684**	**5,671**	-	**107,355**
Financial liabilities measured at fair value				
Derivative financial assets				
Trading derivatives	-	7,065	-	7,065
Non-trading derivatives	-	2,238	-	2,238
Total	-	**9,303**	-	**9,303**

(Currency: Thousands of Euros)

17. *Fair value information (continued)*

31 December 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
	Quoted prices (unadjusted) in active markets	*Valuation techniques - observable inputs*	*Valuation techniques - significant unobservable inputs*	
Financial assets measured at fair value				
Derivative financial assets				
Trading derivatives	-	1,164	-	1,164
Non-trading derivatives	-	6,352	-	6,352
Financial investments at fair value through profit or loss	-	-	1,463	1,463
Financial investments at fair value through other comprehensive income	73,651	-	-	73,651
Total	**73,651**	**7,516**	**1,463**	**82,630**
Financial liabilities measured at fair value				
Derivative financial assets				
Trading derivatives	-	10,728	-	10,728
Non-trading derivatives	-	4,091	-	4,091
Total	**-**	**14,819**	**-**	**14,819**

The equity investment that was categorised as level 3 (see note 6) was sold in 2020 and it was agreed to pay the purchase price in instalments. The 2020 instalments have been paid and the final instalment is due for June 2021. The remaining instalment is classified as level 2 since the agreed purchase price is considered as an observable input. In 2020 no significant transfers occurred between Level 1 and Level 2 in 2020 and 2019. There were no significant changes in the valuation techniques during 2020 and 2019.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	31 December, 2020	***31 December, 2019***
Balance as at January 1st	**1,463**	**2,771**
Transfer in/(out of) level 3	(317)	-
Disposal	(565)	-
Gains/(losses) in the statement of profit or loss	(581)	(1,308)
Closing as at December 31st	-	**1,463**

<u>Financial assets and liabilities not measured at fair value</u>

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.

Notes to the Financial Statements (Currency: Thousands of Euros)

17. *Fair value information (continued)*

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:

31 December 2020	***Level 1***	***Level 2***	***Level 3***	***Total***
	Quoted prices (unadjusted) in active markets	*Valuation techniques - observable inputs*	*Valuation techniques - significant observable inputs*	
Assets for which fair values are disclosed but not recognised at fair value:				
Loans and advances to banks	-	-	661,116	661,116
Loans and advances to customers	-	-	2,139,478	2,139,478
Total	**-**	**-**	**2,800,495**	**2,800,495**
Liabilities for which fair values are disclosed but not recognised at fair value:				
Deposits from banks	-	-	346,903	346,903
Deposits from customers	-	-	2,162,731	2,162,731
Total	**-**	**-**	**2,509,634**	**2,509,634**

31 December 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
	Quoted prices (unadjusted) in active markets	*Valuation techniques - observable inputs*	*Valuation techniques - significant observable inputs*	
Assets for which fair values are disclosed but not recognised at fair value:				
Loans and advances to banks	-	-	326,876	326,876
Loans and advances to customers	-	-	2,479,014	2,479,014
Total	**-**	**-**	**2,805,890**	**2,805,890**
Liabilities for which fair values are disclosed but not recognised at fair value:				
Deposits from banks	-	-	196,825	196,825
Deposits from customers	-	-	2,739,907	2,739,907
Subordinated liabilities	-	-	64,113	64,113
Total	**-**	**-**	**3,000,846**	**3,000,846**

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

(Currency: Thousands of Euros)

18. *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 2020	***31 December 2019***
Letters of credit	362,580	209,237
Commitments for loan granting	170,920	145,784
Letters of guarantee	24,485	12,807
Other guarantees	680	20
	558,665	**367,848**

Most of the contingencies have a short term nature and any outflow is normaly 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 ivolve 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.

19. *Net interest income*

Interest income and expense from various products of the Bank and the transactions engaged are as follows:

	2020	***2019***
Interest loans to customers	66,118	118,827
Interest on securities	1,709	3,881
Interest on loans to banks	7,880	12,437
Negative interest on liabilities	606	668
Total interest income using effective interest method	**76,313**	**135,813**
Interest on deposits from banks	(126)	(14,421)
Interest on deposits from customers	(9,198)	(25,385)
Interest on subordinated liabilities	(2,002)	(2,305)
Negative interest on assets	(3,008)	(3,839)
Total interest expense using effective interest method	**(14,334)**	**(45,950)**
Other interest expense (swap funding costs)	(15,086)	(34,137)
Total interest expense	**(29,420)**	**(80,087)**
Net interest income	**46,893**	**55,726**

Notes to the Financial Statements (Currency: Thousands of Euros)

20. *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:

	2020	*2019*
Commissions on documentary credits and non-cash loans	6,984	5,671
Brokerage and advisory fees	2,309	1,045
Custody fees	1,035	865
Commissions on account maintenance	1,617	1,459
Commissions on funds transfers	1,340	1,390
Other fees and commissions	10	96
Total fee and commission income	**13,295**	**10,526**
Brokerage and custody fees	(382)	(314)
Commmissons and fees paid on foreign correspondents	(388)	(324)
Corporate banking fees	(1,391)	(1,698)
Other fees and commissions	(192)	(100)
Total fee and commission expense	**(2,353)**	**(2,436)**
Net fee and commission income	**10,942**	**8,090**

Contract balances

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

	31 December 2020	*31 December 2019*
Receivables included in miscellaneous receivables in note 10	-	296
Contract liabilities, which are included in other liabilities in note 15	1,728	1,562
	1,728	**1,858**

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 EUR 1,490 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2020.

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.

(Currency: Thousands of Euros)

20. Net fee and commission income (continued)

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
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.

21. Valuation results and 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 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:

	2020	*2019*
Derivatives trading results	773	(492)
Securities trading results	(583)	(1,124)
Change in fair value of derivatives relating to fair value hedges	(203)	1,390
Change in fair value of derivatives relating to cashflow hedges (ineffective portion)	14	(13)
Change in the fair value of hedged items	212	(1,125)
Foreign exchange transaction results	1,658	1,142
Valuation results and net trading income	**1,871**	**(222)**

22. Investment income

GBI has not disposed debt instruments measured at FVOCI (2019: a loss of EUR 362).

23. Other income

The other income includes gains or losses arising from the derecognition of financial assets measured at amortised cost where the purchase price deviates from the carrying value.

During the year ended 31 December 2020, the Bank sold certain assets at their carrying value.

(Currency: Thousands of Euros)

24. *Other operating expenses*

Operating expenses of the Bank is as follows:

	2020	***2019***
Saving deposits insurance fund	3,400	3,126
Electronic data processing	4,886	4,244
Audit & consultancy	2,061	2,237
Communication	1,377	1,561
Supervisory fees	1,219	1,259
Insurance	296	319
Utility	262	422
Advertising	120	235
Repair and maintenance	60	136
Stationary	51	67
Others	456	316
	14,188	**13,922**

Audit and consultancy 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:

	2020			2019		
	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	**338**	**12**	**350**	249	16	265
Other assurance services	**310**	**-**	**310**	248	-	248
Tax advisory services	**-**	**-**	**-**	-	-	-
Other non-audit services	**-**	**-**	**-**	-	-	-
	648	**12**	**660**	497	16	513

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.

(Currency: Thousands of Euros)

25. *Personnel expenses*

	2020	*2019*
Short-term benefits - salaries	19,625	20,858
Short-term benefits - social security and insurance	2,474	2,605
Short-term benefits - other	715	1,296
Other benefits	630	1,201
Post employment benefits (pension insurance premium)	2,726	2,498
Termination benefits	600	597
	26,770	**29,055**

26. *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 2020 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 1,924 in 2020 (2019: EUR 3,198). The total remuneration consists of:

	2020	*2019*
short-term benefits	1,776	2,429
post-employment benefits	148	172
other long-term employee benefits	-	-
termination benefits	-	597
	1,924	**3,198**

The remuneration of current and former independent members of the Supervisory Board amounted to EUR 174 in 2020 (2019: EUR 171). 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 personel including the managing board is disclosed and is extenstion of this note. See also Note 27 Share-based payments.

27. *Share-based payments*

Selected employees of GBI are marked as Identified Staff by the ultimate parent company (BBVA) under its remuneration policy. 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.
- 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.

Notes to the Financial Statements (Currency: Thousands of Euros)

27. Share-based payments (continued)

- 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 that will be settled in 2021.

For 2020 no variable remuneration was granted to the managing board, hence no amount (2019: nil) was recognised in the income statement for 2020 in relation to share based payments under personnel expenses. The liability from GBI related to the 2017 share-based payment was settled with the ultimate parent company in 2018.

28. Leases

The Bank leases certain properties in The Netherlands (meeting rooms and parking), Germany (Branch office) and Turkey (Representative Office) as well as cars and other office equipment.

Lease payments are renecogitiated upon renewel of the lease contracts. Some leases provide for additional rent payments that are based on changes in certain price indices.

Previously these leases were all classified as operating leases under IAS 17.

Information about leases for which the Bank is a lessee is presented below.

Right-of-use assets

Right-of-use assets are presented within tangible and intangible assets.

	Property	*Equipment*	*Total*
Opening balance as at 1 January 2020	**661**	**25**	**686**
Depreciation charge for the year	(210)	(56)	(266)
Additions to the right-of-use assets	32	151	183
Derecognition of right-of-use assets	-	-	-
Closing balance as at 31 December 2020	**483**	**120**	**603**

(Currency: Thousands of Euros)

28. *Leases (continued)*

	Property	*Equipment*	*Total*
Opening balance as at 1 January 2019	**955**	**153**	**1,108**
Depreciation charge for the year	(250)	(89)	(339)
Additions to the right-of-use assets	39	-	39
Derecognition of right-of-use assets	(83)	(39)	(122)
Closing balance as at 31 December 2019	**661**	**25**	**686**

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.

Given 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 concluded.

GBI has preserved its prudent approach to capital and liquidity management in 2020 Common Equity Tier 1 (CET1) has slightly decreased to 23.84 percent from 23.89 percent in 2019, whereas the total capital ratio has decreased to 23.88 percent from 26.42 percent in 2019. Both ratios are comfortably above the minimum required regulatory levels and provide a strong cushion for the Bank..

The Bank has continued to operate with a significant liquidity buffer, evidenced by a high LCR of 509.3 percent. The liquidity buffer is composed of placements to European Central Bank and investments in high quality liquid assets.

29. Overview on Governance Around Risk

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

The Supervisory Board (SB) bears the overall responsibility for approving the risk appetite of GBI and monitoring of the adherence thereto. The Risk Committee of the Supervisory Board (RCSB) advises and assists the Supervisory Board in monitoring the Bank's risk profile, risk appetite and effective risk management. The Audit and Compliance Committee of the Supervisory Board (ACSB) is the ultimate authority on independent audit functions, compliance-related risks, and advises the SB in monitoring the integrity of the financial statements and compliance with legal and regulatory requirements.

The Managing Board (MB) of GBI functions as a collegial body, as referred to in Section 2:129 of the Dutch Civil Code that reports to the SB. 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. CRO, as a member of the MB, is responsible for developing, implementing, and monitoring the effectiveness of risk policies and practices that strategically support the Bank's risk objectives.

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 Operational Risk Admission and Product Governance Committee is responsible for the assessment and introduction of new products and services.

The Credit Division is 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 is 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 of 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.

30. 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 metrics and metrics by type of risk 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 bank or otherwise fail to perform as agreed. The Bank is exposed to credit risk on various financial assets, including derivative instruments used for hedging and debt investments and and credit risk on off balance sheet instruments (loan commitments and guarantees issued). 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 the calculation of regulatory capital related to credit risk of Corporate, Institutional and Sovereign credit exposures since 2008 based on the permission obtained from DNB. GBI has dedicated internal rating models to assess the credit worthiness of counterparties, which are integrated in the credit decision making and monitoring processes. These 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 validate all rating models on an annual basis.

For the IFRS-based reporting, the Bank has adopted an ECL methodology that makes use of the credit rating models that also serve as a basis of regulatory requirement under Internal Rating Based (IRB) approach. However, the regulatory rating models produce Through the Cycle (TTC) probability of defaults (PD), therefore certain layers have been introduced to produce point in time estimates of PDs to be able to leverage these models in line with the IFRS 9 requirements.

31. Approach expected credit loss of financial assets

GBI recognizes an ECL allowance 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. In chapter Significant accounting policies, the approach for ECL allowance is further elaborated.

(Currency: Thousands of Euros)

The breakdown of individually and collectively assessed ECL's for loans, cash and non-cash loans is as follows:

Summary of financial instruments to which the IFRS9 ECL requirements apply

31 December 2020	*Stage 1*		*Stage 2*				*Stage 3*			
	Collective		Individual		Collective		Individual -			
	Carrying amount	ECL allowance	Carrying amount	ECL allowance	Carrying amount	ECL allowance	Carrying amount	ECL allowance	Total carrying amount	Total ECL allowance
Cash and balance with Central Banks	524,911	44							**524,911**	**44**
Loans and Advances to Banks	644,364	2,456			9,877	95			**654,241**	**2,551**
Loans and Advances to Customer	2,023,691	9,114	18,720	6,182	37,000	553	13,103	8,422	**2,092,514**	**24,271**
Interest-bearing securities (FVOCI)	102,773	219							**102,773**	**219**
Total On-balance sheet assets	**3,295,739**	**11,833**	**18,720**	**6,182**	**46,877**	**648**	**13,103**	**8,422**	**3,374,439**	**27,085**
Off-balance sheet assets	555,743	671			2,922	14			**558,665**	**685**
Total	**3,851,482**	**12,504**	**18,720**	**6,182**	**49,799**	**662**	**13,103**	**8,422**	**3,933,104**	**27,770**

31 December 2019	*Stage 1*		*Stage 2*				*Stage 3*			
	Collective		Individual		Collective		Individual -			
	Carrying amount	ECL allowance	Carrying amount	ECL allowance	Carrying amount	ECL allowance	Carrying amount	ECL allowance	Total carrying amount	Total ECL allowance
Cash and balance with Central Banks	721,128	32							**721,128**	**32**
Loans and Advances to Banks	220,295	897	0	0	105,438	1,006			**325,733**	**1,903**
Loans and Advances to Customer	2,309,976	8,763			97,500	1,881	25,932	43,186	**2,433,408**	**53,830**
Interest-bearing securities (FVOCI)	73,651	188							**73,651**	**188**
Total On-balance sheet assets	**3,325,050**	**9,880**	**0**	**0**	**202,938**	**2,887**	**25,932**	**43,186**	**3,553,920**	**55,953**
Off-balance sheet assets	360,627	563			7,221	88			**367,848**	**651**
Total	**3,685,677**	**10,442**	**0**	**0**	**210,159**	**2,975**	**25,932**	**43,186**	**3,921,768**	**56,604**

Loans and advances to Banks in Stage 2 has decreased to EUR 37.0 million (2019: EUR 105.4 million) due to the full repayment of the credit exposures. ECL allowance for Stage 3 loans has been reduced to EUR 8.4 million as a result of collections, disposals and write-off's during 2020. The table below summarizes the movement of ECL allowance, per stage and balance sheet line item. Finally, the table shows the changes in ECL calculation during 2020 together with the drivers of changes (e.g. write-offs or transfer to Stage 2 or Stage 3).

(Currency: Thousands of Euros)

Expected Credit Loss allowance movements

Financial Asset - 31 December 2020	12-month ECL Stage 1	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Cash and balance with Central Banks				
Balance at 1 January	**(32)**	**-**	**-**	**(32)**
Net remeasurement of ECL allowance	(12)	-	-	(12)
Balance at period end	**(44)**	**-**	**-**	**(44)**
Loans and advances to banks				
Balance at 1 January	**(897)**	**(1,006)**	**-**	**(1,903)**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	1	(1)	-	-
Net remeasurement of ECL allowance	(1,560)	912	-	(648)
Balance at period end	**(2,456)**	**(95)**	**-**	**(2,551)**
Loans and advances to customers				
Balance at 1 January	**(8,763)**	**(1,882)**	**(43,185)**	**(53,830)**
Transfer to Stage 1	(715)	715	-	-
Transfer to Stage 2	400	(400)	-	-
Transfer to Stage 3	22	61	(83)	-
Net remeasurement of ECL allowance	(425)	(5,241)	1,236	(4,430)
Financial assets that have been derecognised	-	-	3,066	3,066
Write-offs	-	-	30,268	30,268
Foreign exchange and other movements	367	12	276	655
Balance at period end	**(9,114)**	**(6,735)**	**(8,422)**	**(24,271)**
Financial assets at FVOCI				
Balance at 1 January	**(188)**			**(188)**
Net remeasurement of ECL allowance	(31)			(31)
Balance at period end	**(219)**			**(219)**
Off balance Assets				
Balance at 1 January	**(563)**	**(88)**	**-**	**(651)**
Transfer to Stage 1	(57)	57	-	-
Transfer to Stage 2	76	(76)	-	-
Net remeasurement of ECL allowance	(127)	93	-	(34)
Balance at period end	**(671)**	**(14)**	**-**	**(685)**

Sensitivity analysis

GBI's ECL allowance per 31 December 2020 is EUR 27.8 thousand (2019: EUR 56.6 thousand), out of which EUR 13.2 thousand (2019: EUR 13.4 thousand) is calculated by use of collective assessment. Said collective ECL allowance is sensitive to the forward-looking macroeconomic forecasts used as model inputs, the probability-weights applied to each of the scenarios, the loss given default rates (LGD) and the criteria for identifying a significant increase in credit risk. These elements require management judgement, and are subject to the Bank's internal processes and controls.

Macro-economic models and probability weigths

GBI has internal credit risk rating models in place for regulatory capital purposes where the PD's are assessed on a borrower level and refer to the likelihood that a borrower will default. These models consider quantitative and qualitative scoring elements, and the produced PD's are through the cycle (TTC). For IFRS9 purposes, the Bank has adopted an ECL methodology that makes use of the said credit rating models and converts the TTC PD's to lifetime Point in Time (PIT) PD's. IFRS 9 requires preparers to use multiple macro economic scenarios to produce probability-weighted lifetime ECL's. GBI has three different macroeconomic models that are used according to the relevant geography of the borrower; Turkey, Europe and Global. These are regression models with one or more independent variables that aim to provide the best fit to the dependent variable, which is the observed default rates. GBI has considered various variables during the model development process and observed that real GDP change is observed to be the most relevant factor that impacts GBI's credit forecast and actual credit losses.

Each macro model consists of three macro-economic scenarios, namely baseline, upside and downside scenarios, which are determined to reflect an unbiased and probability-weighted ECL amount.

These forward-looking macroeconomic scenarios are subjective and incorporate uncertainty by nature. GBI makes use of BBVA's internal GDP estimates, which are developed by the economic research team of BBVA, for its Baseline Scenario, which is considered a market-neutral view or market consensus for forecasts. Similarly, GBI makes use of BBVA economic research team estimates for the upside and downside scenarios. GBI considers that the baseline macroeconomic scenario presents the current economic cycle the most and therefore assigns the largest probability weight to this scenario, being 60%. Other two scenarios, Upside and Downside, are equally weighted with 20%.

The GDP estimates and the probability weights applied to each of the three scenarios require management judgement. GBI has internal processes and controls in place where the range of possibilities and expectations referring to said judgements, are assessed, discussed, approved and monitored under the four eyes principle concept (three lines of defence). The ECL could change as per the changes in GDP growth. For example, management assessed that in case of a decrease in GDP estimates by 25 basis points, the ECL allowance for collectively assessed loans would increase by EUR 221 (2019: EUR 267), whereas the increase of 25 basis points would result a decrease by EUR 242 (2019: EUR 253).

Loss given default

GBI's loan portfolio size is not sufficient to derive statistically significant data on historic losses and hence for most of the portfolio regulatory LGD benchmarks that are used for the regulatory capital requirement calculations, are employed to set the LGD.

Significant increase in credit risk

All assets that are subject to collective ECL assessment are allocated a 12 month ECL if it belongs in Stage 1, or a lifetime ECL in Stage 2. An asset belongs to Stage 2 if it is considered to have experienced a significant increase in credit risk since initial recognition. The staging process involves an assessment against both quantitative and qualitative criteria to determine the relative significance of credit risk deterioration. While qualitative criteria are based on, amongst others, forbearance indicators, the quantitative criterion is based on the assessment of the change in the probability of default (PD) of the borrower since initial recognition of the asset.

The Bank compares the current PD over the life of the transaction with the original adjusted PD, so that both values are comparable in terms of default probability for their residual life. While comparing these PDs, GBI tests whether both the absolute and relative difference in these two PDs are above certain thresholds. The thresholds used for considering a significant increase in risk might differ as per the asset classes (i.e. sovereign, financial institutions, corporates) in line with the differences in the observed default rates. The setting of thresholds requires management judgement, and is a key source of estimation uncertainty. The sensitivity of the thresholds is as follows:

Notes to the Financial Statements (Currency: Thousands of Euros)

Main segment	Analysis segment	Relative Threshold (%)	Absolute Threshold (%)	ECL impact with a 50 bps lower Threshold	ECL impact with a 50 bps higher Threshold
LDP	**LDP (Banks & Sovereigns)**	240	100	0	-
Wholesale	**Corporate**	150	100	(535)	104

It should be noted that the sensitivity is partially mitigated because 75% of the total assets as per year end comprise credit exposures with a maturity up to one year (2019: 74%).

32. 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 by the Credit Risk Department 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 in below tables.

(Currency: Thousands of Euros)

The geographical breakdown of financial assets based on domicile[4]

As at 31 December 2020	Cash and Central Banks		Banks		Loans and advances		Interest-bearing securities		Off-balance assets		Total	
	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL
— the Netherlands	**450.913**	**41**	**891**	**-**	**260.141**	**1.614**	**17.144**	**4**	**85.086**	**160**	**814.175**	**1.819**
Stage 1	*450,913*	*41*	*891*		*249,611*	*1,119*	*17,144*	*4*	*85,086*	*160*	*803,645*	*1,324*
Stage 2	-	-	-	-	*10,529*	*258*	-	-	-	-	*10,529*	*258*
Stage 3	-	-	-	-	*1*	*237*	-	-	-	-	*1*	*237*
— Turkey	**-**	**-**	**284,682**	**2,351**	**493,367**	**6,205**	**40,343**	**169**	**43,057**	**49**	**861,449**	**8,774**
Stage 1	-	-	*274,805*	*2,256*	*478,767*	*2,387*	*40,343*	*169*	*43,057*	*49*	*836,972*	*4,861*
Stage 2	-	-	*9,877*	*95*	*9,928*	*78*	-	-	-	-	*19,805*	*173*
Stage 3	-	-	-	-	*4,672*	*3,740*	-	-	-	-	*4,672*	*3,740*
— Great Britain	**-**	**-**	**69,230**	**15**	**112,907**	**1,134**	**10,572**	**21**	**31,062**	**60**	**223,771**	**1,230**
Stage 1	-	-	*69,230*	*15*	*106,707*	*509*	*10,572*	*21*	*31.062*	*60*	*217,571*	*605*
Stage 2	-	-	-	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	*6,200*	*625*	-	-	-	-	*6,200*	*625*
— Switzerland	**-**	**-**	**22,210**	**7**	**297,035**	**4,291**	**-**	**-**	**156,893**	**178**	**476,138**	**4,476**
Stage 1	-	-	*22,210*	*7*	*294,806*	*1,164*	-	-	*153,971*	*164*	*470,987*	*1,335*
Stage 2	-	-	-	-	-	-	-	-	*2,922*	*14*	*2,922*	*14*
Stage 3	-	-	-	-	*2,229*	*3,127*	-	-	-	-	*2,229*	*3,127*
— Germany	**73,998**	**3**	**95,078**	**10**	**171,635**	**907**	**-**	**-**	**8,093**	**5**	**348,804**	**925**
Stage 1	*73,998*	*3*	*95,078*	*10*	*159,710*	*669*	-	-	*8,093*	*5*	*336,879*	*687*
Stage 2	-	-	-	-	*11,925*	*116*	-	-	-	-	*11,925*	*116*
Stage 3	-	-	-	-	-	*122*	-	-	-	-	-	*122*
— USA	**-**	**-**	**13,518**	**4**	**123,135**	**839**	**-**	**-**	**48,803**	**72**	**185,456**	**915**
Stage 1	-	-	*13,518*	*4*	*123,135*	*839*	-	-	*48,803*	*72*	*185,456*	*915*
— France	**-**	**-**	**-**	**-**	***79,790***	**284**	**12,424**	**13**	**19,551**	**59**	**111,765**	**356**
Stage 1	-	-	-	-	79,790	284	*12,424*	**13**	*19,551*	*59*	*111,765*	*356*
— Rest of Europe	**-**	**-**	**30,296**	**30**	**364,331**	**8,391**	**22,290**	**12**	**23,592**	**39**	**440,509**	**8,472**
Stage 1	-	-	*30,296*	*30*	*342,289*	*1,578*	*22,290*	*12*	*23,592*	*39*	*418,467*	*1,659*
Stage 2		-	-	-	*22,042*	*6,242*	-	-	-	-	*22,042*	*6,242*
Stage 3	-	-	-	-	-	*571*	-	-	-	-	-	*571*
— Rest of the world	**-**	**-**	**138,336**	**134**	**190,172**	**606**	**-**	**-**	**142,528**	**63**	**471,036**	**803**
Stage 1	-	-	*138,336*	*134*	*188,876*	*565*	-	-	*142,528*	*63*	*469,740*	*762*
Stage 2	-	-	-	-	*1,296*	*41*	-	-	-	-	*1,296*	*41*
Stage 3	-	-	-	-	-	-	-	-	-	-	-	-
Total:	**524,911**	**44**	**654,241**	**2,551**	**2,092,514**	**24,271**	**102,773**	**219**	**558,665**	**685**	**3,933,104**	**27,770**

[4] This table does not include the EUR 317 receivable in relation to the sale of shares (see note 6 for details). The counterparty for this receivable resides in the United Kingdom.

(Currency: Thousands of Euros)

As at 31 December 2019	Cash and Central Banks		Banks		Loans and advances		Interest-bearing securities		Off-balance assets		Total	
	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL	Carrying amount	ECL
— the Netherlands	**636,558**	**28**	**1,582**	**1**	**250,645**	**2,365**	**10,472**	**2**	**56,814**	**211**	**956,071**	**2,607**
Stage 1	*636,558*	*28*	*1,582*	*1*	*243,597*	*822*	*10,472*	*2*	*56,814*	*211*	*949,023*	*1,064*
Stage 2	-	-	-	-	*7,046*	*213*	-	-	-	-	*7,046*	*213*
Stage 3	-	-	-	-	*2*	*1,330*	-	-	-	-	*2*	*1,330*
— Turkey	**-**	**-**	**192,200**	**1,801**	**738,122**	**7,607**	**42,188**	**170**	**23,247**	**26**	**995,757**	**9,604**
Stage 1	-	-	*86,762*	*794*	*661,827*	*3,005*	*42,188*	*170*	*23,247*	*26*	*814,024*	*3,995*
Stage 2	-	-	*105,438*	*1,007*	*65,189*	*672*	-	-	-	-	*170,627*	*1,679*
Stage 3	-	-	*0*	*0*	*11,106*	*3,930*	-	-	-	-	*11,106*	*3,930*
— Great Britain	**-**	**-**	**11,106**	**45**	**114,073**	**8,428**	**10,662**	**8**	**13,491**	**17**	**149,332**	**8,497**
Stage 1	-	-	*11,106*	*45*	*110,931*	*521*	*10,662*	*8*	*12,212*	*9*	*144,911*	*583*
Stage 2	-	-	-	-	*1,486*	*12*	-	-	*1,279*	*8*	*2,765*	*20*
Stage 3	-	-	-	-	*1,656*	*7,894*	-	-	*0*	*0*	*1,656*	*7,894*
— Switzerland	**-**	**-**	**1,931**	**1**	**373,190**	**3,693**	**-**	**-**	**88,784**	**148**	**463,905**	**3,842**
Stage 1	-	-	*1,931*	*1*	*368,847*	*1,055*	-	-	*82,841*	*68*	*453,619*	*1,124*
Stage 2	-	-	-	-	-	-	-	-	*5,943*	*80*	*5,943*	*80*
Stage 3	-	-	-	-	*4,343*	*2,638*	-	-	*0*	*0*	*4,343*	*2,638*
— Germany	**84,570**	**4**	**60,836**	**9**	**217,576**	**910**	**-**	**-**	**3,563**	**4**	**366,545**	**927**
Stage 1	*84,570*	*4*	*60,836*	*9*	*217,576*	*782*	-	-	*3,563*	*4*	*366,545*	*799*
Stage 3	-	-	-	-	-	*128*	-	-	-	-	-	*128*
— USA	**-**	**-**	**12,563**	**3**	**135,554**	**570**	**-**	**-**	**44,861**	**44**	**192,978**	**617**
Stage 1	-	-	*12,563*	*3*	*135,554*	*570*	-	-	*44,861*	*44*	*192,978*	*617*
— France	**-**	**-**	**-**	**-**	**89,681**	**398**	**10,329**	**8**	**8,713**	**29**	**108,723**	**435**
Stage 1	-	-	-	-	*89,681*	*398*	*10,329*	*8*	*8,713*	*29*	*108,723*	*435*
— Rest of Europe	**-**	**-**	**5,749**	**8**	**383,554**	**21,251**	**-**	**-**	**59,011**	**97**	**448,314**	**21,356**
Stage 1	-	-	*5,749*	*8*	*356,254*	*1,187*	-	-	*59,011*	*97*	*421,014*	*1,292*
Stage 2	-	-	-	-	*18,894*	*750*	-	-	-	-	*18,894*	*750*
Stage 3	-	-	-	-	*8,406*	*19,314*	-	-	-	-	*8,406*	*19,314*
— Rest of the world	**-**	**-**	**39,766**	**35**	**131,013**	**8,607**	**-**	**-**	**69,364**	**75**	**240,143**	**8,719**
Stage 1	-	-	*39,766*	*35*	*125,709*	*423*	-	-	*69,364*	*75*	*234,839*	*533*
Stage 2	-	-	-	-	*4,886*	*233*	-	-	-	-	*4,886*	*233*
Stage 3	-	-	-	-	*418*	*7,953*	-	-	-	-	*418*	*7,953*
Total:	**721,128**	**32**	**325,733**	**1,903**	**2,433,408**	**53,830**	**73,651**	**188**	**367,848**	**651**	**3,921,768**	**56,604**

(Currency: Thousands of Euros)

Concentration risk by industry

The Bank uses a common industry classification methodology based on the NACE system (European Statistical Classification of Economic Activities). This methodology has over 600 detailed industry descriptions, which are aggregated into 16 industry classes at the highest level.

31 December 2020	Carrying amount				ECL
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
Administrative and support service activities	40,419	-	916	41,335	574
Construction	20,633	3,877	-	24,510	102
Electricity, gas, steam and air conditioning supply	34,251	-	-	34,251	79
Human health services and social work activities	56,635	-	-	56,635	49
Information and communication	13,024	-	-	13,024	9
Manufacturing	557,490	554	2,229	560,273	5231
Mining and quarrying	14,807	-	-	14,807	91
Real estate activities	120,367	11,925	-	132,292	553
Transport and storage	111,370	10,117	1,352	122,839	1,776
Wholesale and retail trade	886,736	18,718	5,286	910,740	11,530
Financial and insurance activities	116,971	6,880	3,320	127,171	3,970
Private Individuals	25,445	-	-	25,445	201
Professional, scientific and technical activities	25,543	3,649	-	29,192	106
Total Loans and Advances to Customers	**2,023,691**	**55,720**	**13,103**	**2,092,514**	**24,271**

31 December 2019	Carrying amount				ECL
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
Administrative and support service activities	66,315	-	-	66,315	339
Construction	90,338	5,405	-	95,743	659
Electricity, gas, steam and air conditioning supply	64,418	-	-	64,418	203
Human health services and social work activities	62,823	-	-	62,823	53
Information and communication	44,345	-	-	44,345	70
Manufacturing	447,752	1,106	-	448,858	1,672
Mining and quarrying	1,427	2,852	360	4,639	7,450
Other services	1,542	7,681	-	9,223	106
Real estate activities	153,801	-	-	153,801	571
Transport and storage	202,596	28,175	10,771	241,542	29,507
Wholesale and retail trade	1,025,927	36,378	14,800	1,077,105	12,381
Financial and insurance activities	106,525	15,905	-	122,430	580
Private Individuals	22,117	-	-	22,117	196
Professional, scientific and technical activities	20,049	-	-	20,049	43
Total Loans and Advances to Customers	**2,309,975**	**97,502**	**25,931**	**2,433,408**	**53,830**

Notes to the Financial Statements (Currency: Thousands of Euros)

Below is an overview of the portfolios split in Investment Grade (rating BBB- to AAA) and Non-Investment Grade (below BBB-) as of 31 December 2020 and 31 December 2019. 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.

31 December 2020						
	FVTPL	***FVOCI***	***Amortised cost***			***Total***
On-balance assets			**Stage 1**	**Stage 2**	**Stage 3**	
Cash at Central Banks	**-**	**-**	**524,911**	**-**	**-**	**524,911**
Investment Grade	-	-	524,911	-	-	524,911
Loans and advances to banks	**-**	**-**	**644,364**	**9,877**	**-**	**654,241**
Investment Grade	-	-	353,297	-	-	353,297
Sub-Investment grade	-	-	291,067	9,877	-	300,944
Not Rated	-	-	0	-	-	0
Loans and advances to customers	**-**	**-**	**2,023,691**	**55,720**	**13,103**	**2,092,514**
Investment Grade	-	-	513,678	-	-	513,678
Sub-Investment grade	-	-	1,202,746	55,720	-	1,258,466
Specialized Lending (RW 50%-90%)	-	-	186,035	-	-	186,035
Specialized Lending (RW 115%-250%)	-	-	84,974	-	-	84,974
Not Rated	-	-	36,258	-	-	36,258
Credit Impaired	-	-	-	-	13,103	13,103
Investments	**-**	**102,773**	**-**	**-**	**-**	**102,773**
Investment Grade	-	62,430	-	-	-	62,430
Sub-Investment grade	-	40,343	-	-	-	40,343
Financial assets at fair value through profit or loss	**317**	**-**	**-**	**-**	**-**	**317**
Carrying amount on-balance assets	**317**	**102,773**	**3,192,966**	**65,597**	**13,103**	**3,374,756**
Off balance assets	**-**	-	**555,743**	**2,922**	**-**	**558,665**
Investment Grade	-	-	252,913	-	-	252,913
Sub-Investment grade	-	-	172,991	2,922	-	175,913
Specialized Lending (RW 50%-90%)	-	-	120,648	-	-	120,648
Specialized Lending (RW 115%-250%)	-	-	9,155	-	-	9,155
Not Rated	-	-	36	-	-	36
Carrying amount of total financial assets	**317**	**102,773**	**3,748,709**	**68,519**	**13,103**	**3,933,421**

(Currency: Thousands of Euros)

31 December 2019						
	FVTPL	*FVOCI*	*Amortised cost*			*Total*
On-balance assets			**Stage 1**	**Stage 2**	**Stage 3**	
Cash at Central Banks	**-**	**-**	**721,128**	**-**	**-**	**721,128**
Investment Grade	-	-	721,128	-	-	721,128
Loans and advances to banks	**-**	**-**	**220,295**	**105,438**	**-**	**325,733**
Investment Grade	-	-	120,179	-	-	120,179
Sub-Investment grade	-	-	92,495	105,438	-	197,933
Not Rated	-	-	7,621	-	-	7,621
Loans and advances to customers	**-**	**-**	**2,309,976**	**97,500**	**25,932**	**2,433,408**
Investment Grade	-	-	604,478	-	-	604,478
Sub-Investment grade	-	-	1,413,134	97,500	-	1,510,635
Specialized Lending (RW 50%-90%)	-	-	242,151	-	-	242,151
Specialized Lending (RW 115%-250%)	-	-	14,021	-	-	14,021
Not Rated	-	-	36,191	-	-	36,191
Credit Impaired	-	-	-	-	25,932	25,932
Investments	**1,463**	**73,651**	**-**	**-**	**-**	**75,114**
Investment Grade	-	31,463	-	-	-	31,463
Sub-Investment grade	-	42,188	-	-	-	42,188
Not Rated	1,463	-	-	-	-	1,463
Carrying amount on-balance assets	**1,463**	**73,651**	**3,251,399**	**202,938**	**25,932**	**3,555,383**
Off balance assets	**-**	-	**360,627**	**7,221**	**-**	**367,848**
Investment Grade	-	-	164,222	-	-	164,222
Sub-Investment grade	-	-	88,727	7,221	-	95,948
Specialized Lending (RW 50%-90%)	-	-	105,648	-	-	105,648
Specialized Lending (RW 115%-250%)	-	-	1,970	-	-	1,970
Not Rated	-	-	60	-	-	60
Carrying amount of total financial assets	**1,463**	**73,651**	**3,612,026**	**210,160**	**25,932**	**3,923,231**

33. Past-due analysis

Loans that are past due are monitored closely, with ECL allowances raised as appropriate and in line with the internal ECL policies. A financial asset is, among others, considered to be defaulted if 90 days have past since its repayment date (i.e. default starts on the 91st day).

The following table sets out information about the past due status of loans and advances to customers in Stages 1, 2 and 3.

(Currency: Thousands of Euros)

Portfolio Breakdown based on number of days past due

31 December 2020	Stage 1			Stage 2			Stage 3			
	Not past due	<=30 days past due	Total Stage 1	Not past due	<=30 days past due	Total Stage 2	Not past due	>= 90 days	Total Stage 3	Total
Cash and balances with Central Bank	524,911	-	524,911	-	-	-	-	-	-	**524,911**
Loans and Advances to Banks	644,364	-	644,364	9,877	-	9,877	-	-	-	**654,241**
Loans and Advances to Customer	2,023,691	-	2,023,691	55,720	-	55,720	3,320	9,783	13,103	**2,092,514**
Financial assets at FVOCI	102,773	-	102,773	-	-	-	-	-	-	**102,773**
Total carrying amount	**3,295,739**	**-**	**3,295,739**	**65,597**	**-**	**65,597**	**3,320**	**9,783**	**13,103**	**3,374,439**
Off-balance assets	*555,743*		*555,743*	*2,922*		*2,922*				***558,665***

31 December 2019	Stage 1			Stage 2			Stage 3			
	Not past due	<=30 days past due	Total Stage 1	Not past due	<=30 days past due	Total Stage 2	Not past due	>= 90 days	Total Stage 3	Total
Cash and balances with Central Bank	721,128	-	721,128	-	-	-	-	-	-	**721,128**
Loans and Advances to Banks	220,295	-	220,295	105,438	-	105,438	-	-	-	**325,733**
Loans and Advances to Customer	2,309,974	-	2,309,974	97,500	-	97,500	5,922	20,012	25,934	**2,433,408**
Financial assets at FVOCI	73,651	-	73,651	-	--	-	-	-	-	**73,651**
Total carrying amount	**3,325,048**	**-**	**3,325,048**	**202,938**	**-**	**202,938**	**5,922**	**20,012**	**25,934**	**3,553,920**
Off-balance assets	*360,627*		*360,627*	*7,221*		*7,221*				***367,848***

34. Modified loans

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions (e.g. due to the COVID 19 pandemic), customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy as detailed in the Significant Accounting Policies.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms;
- with the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities) to maximise collection opportunities and minimise the risk of default. Under the Bank's policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a significant increase in credit risk (i.e. Stage 2), there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. For financial assets that are modified, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal. As part of this process, the Bank regularly evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

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 ECL 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.

(Currency: Thousands of Euros)

In relation to the COVID 19 pandemic, various government and private sector debt moratoria where agreed upon. The Bank has not participated in such moratoria.

The following table provides information on financial assets that were modified while they had a ECL allowance measured at an amount equal to lifetime ECL (i.e. stage 2 and stage 3).

Financial Assets modified during the period

	31 December 2020	31 December 2019
Amortised costs of financial assets before modification	2,774	17,682
Net Modification Loss	-	-

No financial assets have been modified for which the ECL allowance has changed to a 12-month measurement during the period.

35. *Collateral held and other credit enhancements*

The bank holds collateral and other credit enhancements against certain of its credit exposures.

Loans and Advances to banks and customers

The general creditworthiness of a counterparty tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security. The Bank may establish collateral in the form of a first charge over real estate, pledged goods, receivables, investments, deposit, and/or any other liens and guarantees.

At 31 December 2020, the net carrying amount of credit-impaired loans and advances to corporate customers amounted to EUR 13.1 thousand (2019: EUR 25.9 thousand) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to EUR 13 thousand (2019: EUR 18 thousand). For each loan, and where appropriate, the value of disclosed collateral is capped at the carrying value of the loan that it is held against.

In addition to the collateral included in the tables above, the Bank holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

The Bank's reverse sale-and-repurchase transactions are covered by master agreements with netting terms similar to those of International Swaps and Derivatives Association (ISDA) master netting agreements.

Investments

At 31 December 2020, the maximum exposure to credit risk of the investments as at FVTPL or FVOCI is their carrying amount of EUR 103 thousand. The Bank has not mitigated the credit risk exposure on these investments.

Derivatives

The Bank mitigates the credit risk of derivatives by entering into master netting agreements and holding collateral in the form of cash. Derivative transactions are entered into under ISDA master netting agreements. In general, under these agreements, in certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement with the counterparty are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions with the counterparty. The Bank executes a credit support annex in conjunction with the ISDA agreement, which requires the Bank and its counterparties to post collateral to mitigate counterparty credit risk. Collateral is also posted daily in respect of derivatives transacted on exchanges and with CCPs.

(Currency: Thousands of Euros)

The following table sets out the principal types of collateral held against different types of financial assets. Quantification of the collateral arrangements relating to derivatives, reverse repurchase agreements and repurchase agreements is set out in the next section on offsetting financial assets and liabilities.

As at 31 December 2020	**Carrying amount**	**Cash Collaterals Received**	**Off Balance sheet financial instruments**[4]	**Other collateral**[5]
Assets				
Loans and advances to banks	**654,241**		33,306	
Financial assets at fair value through profit or loss				
- Mandatorily at fair value through profit or loss	**317**			
Financial assets at fair value through other comprehensive income	**102,773**			
Loans and advances to customers	**2,092,514**	46,929	19,789	527,386
Total	**2,849,845**	**46,929**	**53,095**	**527,386**

As at 31 December 2019	**Carrying amount**	**Cash Collaterals Received**	**Off Balance sheet financial instruments**[5]	**Other collateral**[6]
Assets				
Loans and advances to banks	**325,733**		42,058	
Financial assets at fair value through profit or loss				
- Mandatorily at fair value through profit or loss	**1,463**			
Financial assets at fair value through other comprehensive income	**73,651**			
Loans and advances to customers	**2,433,408**	53,945	88,355	632,263
Total	**2,834,255**	**53,945**	**130,413**	**632,263**

36. Offsetting financial assets and liabilities

The disclosures set out in the following tables include financial assets and financial liabilities that:

- are offset in the Bank's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The 'similar agreements' include derivative clearing agreements and global master repurchase agreements. 'Similar financial instruments' include derivatives, sale-and-repurchase agreements and reverse sale-and-repurchase agreements. Financial instruments such as loans and deposits (excluding lending related to reverse sale-and-repurchase agreements) are not disclosed in the following tables unless they are offset in the statement of financial position. The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events. In addition, the Bank and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously. The Bank receives and gives collateral in the form of deposits and marketable securities in respect of the following transactions:

[4] Off balance sheet financial instruments includes securities, guarantees and letters of credit.

[5] Other collateral consists of pledged stocks, receivables and commodities as well as mortgages on real estate and vessels.

Notes to the Financial Statements (Currency: Thousands of Euros)

- derivatives; and
- sale-and-repurchase, and reverse sale-and-repurchase, agreements.

This collateral is subject to standard industry terms including, when appropriate, an ISDA credit support annex. This means that securities received/given as collateral can be pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

				Related amounts not offset in the statement of financial position		
As at 31 December 2020	**Gross amounts of recognised financial assets**	**Gross amounts of recognised financial liabilities offset in the statement of financial position**	**Net amounts of financial assets presented in the statement of financial position**	**Financial instruments (including non-cash collateral)**	**Cash collateral received**	**Net amounts**
Types of financial assets						
Trading & Non-trading derivatives	4,265	-	4,265	-	1,786	2,479
Reverse sale-and repurchase agreements	157,237	-	157,237	154,499	-	2,738
Total	**161,502**	**-**	**161,502**	**154,499**	**1,786**	**5,217**

				Related amounts not offset in the statement of financial position		
As at 31 December 2020	**Gross amounts of recognised financial liabilities**	**Gross amounts of recognised financial assets offset in the statement of financial position**	**Net amounts of financial liabilities presented in the statement of financial position**	**Financial instruments (including non-cash collateral)**	**Cash collateral pledged**	**Net amounts**
Types of financial liabilities						
Trading & Non-trading derivatives	9,303	-	9,303	-	4,695	4,608
Sale-and repurchase and similar agreements	217,029	-	217,029	217,029	-	-
Total	**226,332**	**-**	**226,332**	**217,029**	**4,695**	**4,608**

(Currency: Thousands of Euros)

As at 31 December 2019	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amounts
				Financial instruments (including non-cash collateral)	Cash collateral received	
Types of financial assets						
Trading & Non-trading derivatives	7,516	-	7,516	-	2,774	4,742
Reverse sale-and repurchase agreements	40,705	-	40,705	39,475	-	1,230
Total	**48,221**	**-**	**48,221**	**39,475**	**2,774**	**5,972**

As at 31 December 2019	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amounts
				Financial instruments (including non-cash collateral)	Cash collateral pledged	
Types of financial liabilities						
Trading derivatives & Non-trading derivatives	14,819	-	14,819	-	12,233	2,586
Sale-and repurchase and similar agreements	128,429	-	128,429	128,429	-	-
Total	**143,248**	**-**	**143,248**	**128,439**	**12,233**	**2,586**

The gross amounts of financial assets and financial liabilities and their net amounts disclosed in the above tables have been measured in the statement of financial position on the following bases:

- Trading derivatives: fair value;
- Non-trading derivatives: fair value; and
- assets and liabilities resulting from sale-and-repurchase agreements, reverse sale-and repurchase agreements: amortised cost.

Reconciliation to the net amounts of financial assets and financial liabilities presented in the statement of financial position

The following tables reconcile the 'net amounts of financial assets and financial liabilities presented in the statement of financial position', as set out above, to the line items presented in the statement of financial position.

(Currency: Thousands of Euros)

As at 31 December 2020	Net amount	Line item in statement of financial position	Carrying amount in statement of financial position	Financial assets not in scope of off-setting disclosures	Note
Types of financial assets					
Trading derivatives	2,551	Trading derivatives	2,551	-	40
Non-trading derivatives	1,714	Non-trading derivatives	1,714	-	40
Reverse sale-and repurchase agreements	157,237	Loans and advances to banks	654,246	497,009	4
Types of financial liabilities					
Trading derivatives	1,531	Trading derivatives	1,531	-	40
Non-trading derivatives	7,772	Non-trading derivatives	7,772	-	40
Sale-and repurchase and similar agreements	217,029	Deposits from banks	344,614	127,585	11

As at 31 December 2019	Net amount	Line item in statement of financial position	Carrying amount in statement of financial position	Financial assets not in scope of off-setting disclosures	Note
Types of financial assets					
Trading derivatives	1,910	Trading derivatives	1,910	-	40
Non-trading derivatives	5,606	Non-trading derivatives	5,606	-	40
Reverse sale-and repurchase agreements	40,705	Loans and advances to banks	325,733	285,028	4
Types of financial liabilities					
Trading derivatives	1,687	Trading derivatives	1,687	-	40
Non-trading derivatives	13,132	Non-trading derivatives	13,132	-	40
Sale-and repurchase and similar agreements	128,429	Deposits from banks	194,917	66,488	11

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 rate and foreign currency risk, while optimising the return.

The main market risks to which GBI is exposed to are interest rate risk and foreign currency risk which would arise through positions in banking book or trading book. GBI uses derivatives to mitigate market risks for trading and banking books. 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, 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.

37. Governance

The Managing Board has the overall responsibility for market risks and implements policies for effective market risk management. The Managing Board delegates its responsibilities to Risk Management Committee (RMC) 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 arising from the trading book 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. 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. These scenarios are reviewed periodically and updated when necessary. The foreign currency risk and the interest rate risk arising from the banking book is managed by the Asset and Liability Department (ALM) based on the Structural FX Rate and Structural Interest Rate Risk policies set by the Managing Board and monitored by ALCO and RMD.

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

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

(Currency: Thousands of Euros)

Market risk – trading and non-trading portfolios

31 December 2020	Carrying amount	Trading portfolio	Non-trading portfolio
Assets			
Cash and balances with central banks	524,911	-	524,911
Loans and advances to banks	654,241	-	654,241
Financial assets at fair value through profit or loss			
- Mandatorily at fair value through profit or loss	317		317
- Trading derivatives	2,551	2,551	-
- Non-trading derivatives	1,714	-	1,714
Financial assets at fair value through other comprehensive income	102,773	-	102,773
Loans and advances to customers	2,092,514	-	2,092,514
Other assets	5,515	-	5,515
Liabilities			
Deposits from banks	344,614	-	344,614
Deposits from customers	2,444,457	-	2,444,457
Financial liabilities at fair value through profit or loss			
- Trading derivatives	1,531	1,531	-
- Non-trading derivatives	7,772	-	7,772
Subordinated liabilities	-	-	-
Other liabilities, accrued expenses and provisions	27,498	-	27,498

31 December 2019	Carrying amount	Trading portfolio	Non-trading portfolio
Assets			
Cash and balances with central banks	721,128	-	721,128
Loans and advances to banks	325,733	-	325,733
Financial assets at fair value through profit or loss			
- Mandatorily at fair value through profit or loss	1,463	-	1,463
- Trading derivatives	1,910	1,910	-
- Non-trading derivatives	5,606	-	5,606
Financial assets at fair value through other comprehensive income	73,651	-	73,651
Loans and advances to customers	2,433,408	-	2,433,408
Other assets	5,965		5,965
Liabilities			
Deposits from banks	194,917	-	194,917
Deposits from customers	2,731,363	-	2,731,363
Financial liabilities at fair value through profit or loss			
- Trading derivatives	1,687	1,687	-
- Non-trading derivatives	13,132	-	13,132
Subordinated liabilities	50,398	-	50,398
Other liabilities, accrued expenses and provisions	28,856	-	28,856

Note 16 Fair Value Hierarchy elaborates on used fair value data by GBI.

38. 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

(Currency: Thousands of Euros)

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 other 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 retail 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 2020, 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	77,174	2,208,427	802,579	342,390	826	3,431,396
Liabilities	176,019	618,379	1,386,742	304,071	17,321	2,502,532
Derivatives	-	51,973	18,897	(77,442)	-	(6,572)
Net interest position 31 December 2020	**(98,845)**	**1,642,021**	**(565,266)**	**(39,123)**	**(16,495)**	**922,292**
Net interest position 31 December 2019	(11,873)	1,728,368	(840,160)	(35,453)	(80,693)	760,189

The calculation of the Economic Value of Equity (EVE) analysis as at 31 December 2020 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 4,573 (31 December 2019: EUR 9,709 increase).

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.

(Currency: Thousands of Euros)

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. 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.

39. 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 rate compared to the functional currency (Euro). 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 (4,817) (2019: EUR (1,536)). The currency position is mitigated through derivative instruments. The notional amount of those derivatives is recorded as an off balance sheet position.

Table below shows GBI’s exposures for different currencies.

Concentration risk by currency exposure

31 December 2020	**USD**	**TRY**	**Other**	**Total**
Assets				
Cash and balances with central banks	-	-	-	-
Loans and advances to banks	343,945	4,767	1,711	350,423
Financial assets at fair value through profit or loss				
- Mandatorily at fair value through profit or loss	317	-	-	317
- Trading derivatives	-	-	-	-
- Non-trading derivatives	-	-	-	-
Financial assets at fair value through other comprehensive income	40,343	-	-	40,343
Loans and advances to customers	901,881	71,496	64,470	1,037,847
Property and equipment	-	-	-	-
Intangible assets	-	-	-	-
Current tax asset	-	-	-	-
Other assets	978	-	-	978
Total Assets	**1,287,464**	**76,263**	**66,181**	**1,429,908**
Liabilities				
Deposits from banks	183,559	-	5,353	188,912
Deposits from customers	521,907	6,605	30,453	558,965
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	-	-	-
- Non-trading derivatives	-	-	-	-
Subordinated liabilities	-	-	-	-
Deferred tax liability	-	-	-	-
Other liabilities, accrued expenses and provisions	16,688	24	-	16,712
Shareholder's equity				
Total Liabilities	**722,154**	**6,629**	**35,806**	**764,589**
Net On Balance Sheet Position	565,310	69,634	30,375	**665,319**
Off Balance Sheet Position	(569,185)	(70,869)	(30,082)	**(670,136)**
Net Position	**(3,875)**	**(1,235)**	**293**	**(4,817)**

(Currency: Thousands of Euros)

31 December 2019	**USD**	**TRY**	**Other**	**Total**
Assets				
Cash and balances with central banks	-	-	-	-
Loans and advances to banks	158,734	183	1,460	160,377
Financial assets at fair value through profit or loss				
- Mandatorily at fair value through profit or loss	1,463	-	-	1,463
- Trading derivatives	-	-	-	-
- Non-trading derivatives	-	-	-	-
Financial assets at fair value through other comprehensive income	42,188	-	-	42,188
Loans and advances to customers	931,746	137,264	114,136	1,183,146
Property and equipment	-	-	-	-
Intangible assets	-	-	-	-
Current tax asset	-	-	-	-
Other assets	216	27	-	243
Total Assets	**1,134,347**	**137,474**	**115,596**	**1,387,417**
Liabilities				
Deposits from banks	43,589	145	3,059	46,793
Deposits from customers	641,741	23,840	32,854	698,435
Financial liabilities at fair value through profit or loss				
- Trading derivatives	-	-	-	-
- Non-trading derivatives	-	-	-	-
Subordinated liabilities	-	-	-	-
Deferred tax liability	-	-	-	-
Other liabilities, accrued expenses and provisions	18,219	9	1	18,229
Shareholder's equity				
Total Liabilities	**703,549**	**23,994**	**35,914**	**763,457**
Net On Balance Sheet Position	**430,798**	**113,480**	**79,682**	**623,960**
Off Balance Sheet Position	**(431,929)**	**(114,077)**	**(79,490)**	**(625,496)**
Net Position	**(1,131)**	**(597)**	**192**	**(1,536)**

Sensitivity analysis FX positions

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

(Currency: Thousands of Euros)

40. *Derivatives and Hedge Accounting*

Derivatives

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

	31 December 2020		31 December 2019	
	Carrying value assets	Carrying value liabilities	Carrying value assets	Carrying value liabilities
Derivatives held for trading				
Foreign currency swaps	1,179	156	191	41
Foreign currency forwards	710	656	288	208
Foreign currency options (purchased)	601	-	1,424	-
Foreign currency options (sold)	-	601	-	1,424
Other derivatives	61	118	7	14
Subtotal	*2,551*	*1,531*	*1,910*	*1,687*
Derivatives held for risk management - economic hedge relationships				
Foreign currency swaps	1,154	704	4,441	2,404
Foreign currency fowards	88	0	-	-
Other derivatives	-	3	1	1
Subtotal	*1,242*	*707*	*4,442*	*2,405*
Derivatives held for risk management - fair value hedge accounting relationships				
Interest rate swaps	-	1,435	-	1,163
Subtotal	-	*1,435*	-	*1,163*
Derivatives held for risk management - cash flow hedge accounting relationships				
Interest rate swaps	-	2,650	-	2,289
Foreign currency swaps	472	2,887	1,164	7,275
Foreign currency forwards	-	93	-	-
Subtotal	*472*	*5,630*	*1,164*	*9,564*
Total	**4,265**	**9,303**	**7,516**	**14,819**

Derivatives held for trading

Derivatives held for trading relate to client-driven derivative 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 Valuation results and net trading income (see Note 21).

Derivatives held for risk management

GBI also uses derivatives for purposes other than trading, primarily for hedging, in conjunction with the management of interest rate and foreign exchange risk related to the 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 presented in Valuation results and net trading income (see Note 21).

(Currency: Thousands of Euros)

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.

Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

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.

The Bank establishes a hedge ratio by aligning the par amount of the fixed-rate bonds and the notional amount of the interest rate swap designated as a hedging instrument. At each reporting date (i.e. monthly) the effectiveness of the hedge relationship is assessed with a dollar off-set method 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 2020, GBI held interest rate swaps as hedging instruments in fair value hedges of interest risk with the following maturity profile:

	Maturity 2020			Maturity 2019		
Risk category	**Less than 1 year**	**1–5 years**	**More than 5 years**	**Less than 1 year**	**1–5 years**	**More than 5 years**
Interest rate risk						
Hedge of bonds in FVOCI						
Nominal amount	-	40,427	-	-	42,274	-
Average fixed interest rate	-	1.50%	-	-	1.52%	-

(Currency: Thousands of Euros)

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

	Nominal amount	Carrying amount		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
		Assets	Liabilities				
Interest rate risk							
2020							
Interest Rate Swaps – bonds in FVOCI	40,427		1,435	Financial liabilities at FVTPL – non trading derivatives	(1,364)	25	Valuation results and net trading income
2019							
Interest Rate Swaps – bonds in FVOCI	42,274		1,163	Financial assets / liabilities at FVTPL – non trading derivatives	(1,178)	2	Valuation results and net trading income

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

		Nominal amount	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedge item		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
			Assets	Liabilities	Assets	Liabilities			
2020	Bonds in FVOCI	40,427	41,530	-	1,392	-	Financial Assets at Fair Value Through Other Comprehensive income	1,392	-
2019	Bonds in FVOCI	42,274	42,658	-	1,180	-	Financial Assets at Fair Value Through Other Comprehensive income	1,180	-

Cash flow hedges of interest rate risk and foreign currency

GBI uses pay-fixed/receive-floating interest rate swaps to hedge the interest rate risks in respect of the benchmark interest rate (mainly Euribor or Libor) from the received floating-rate EURO deposits. The Bank hedges interest rate risk to the extent of benchmark interest rate exposure on its floating-rate EURO deposits to mitigate variability in its cash flows. The Bank also 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 in note 37. GBI’s exposure to market risk is disclosed in notes 38 and 39. 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.

(Currency: Thousands of Euros)

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 hedged item.

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

As at 31 December 2020, GBI held the following instruments to hedge exposures to changes in interest rates and foreign currency.

	Maturity 31 December 2020			**Maturity 31 December 2019**		
	Less than 1 year	1–5 years	More than 5 years	Less than 1 year	1–5 years	More than 5 years
Interest Rate Risk						
Interest rate swaps						
2020						
Nominal amount	-	35,000	-	-	-	35,000
Average fixed rate	-	1.17%	-	-	-	1.17%
Foreign Currency Risk						
Currency swaps (EUR:TRY)						
Nominal amount	66,915	-	-	86,953	5,011	-
Average EUR–TRY exchange rate	9.29	-	-	6.37	8.81	-
Currency swaps (EUR:USD)						
Nominal amount	-	-	-	69,355	-	-
Average EUR–USD exchange rate	-	-	-	1.12	-	-
Currency swaps (EUR against other currencies)						
Nominal amount	8,735	-	-	8,416	-	-

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

(Currency: Thousands of Euros)

	Nominal amount	Carrying amount: Assets	Carrying amount: Liabilities	Line item in the statement of financial position where the hedging instrument is included	Cumulative changes in fair value used for calculating hedge ineffective-ness	Change in the value of the hedging instrument recognised in OCI in the period	Hedge ineffective-ness 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
Interest rate risk										
2020										
Interest rate swaps	35,000	-	2,650	Financial liabilities at FVTPL Non-trading derivatives	(1,156)	(1,156)	13	Valuation results and net trading income	-	Valuation results and net trading income
2019										
Interest rate swaps	35,000	-	2,289	Financial liabilities at FVTPL Non-trading derivatives	(1,031)	(1,019)	(13)	Valuation results and net trading income	-	Valuation results and net trading income
Foreign currency risk										
2020										
(EUR:TRY)	66,915	173	2,888	Financial assets/liabilities at FVTPL Non-trading derivatives	(246)	210	-	Valuation results and net trading income	(976)	Valuation results and net trading income
(EUR:Other)	8,735	273	93		(13)	(13)	-		(73)	
2019										
(EUR:TRY)	91,965	306	6,907	Financial assets/liabilities at FVTPL Non-trading derivatives	(1,431)	(1,427)	-	Valuation results and net trading income	(660)	Valuation results and net trading income
(EUR:USD)	69,355	855	358		(73)	(73)	-		-	
(EUR:RON)	-	-	-		-	-	-		18	
(EUR:Other)	8,416	3	9		-	-	-		-	

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				
2020				
EUR deposits	Deposits from customers	(1,156)	-	-
Currency risk				
2020				
TRY Loans	Loans and advances to customers	246	-	-
Other loans	Loans and advances to customers	13	-	-
2019				
TRY Loans	Loans and advances to customers	1,431	-	-
USD Loans	Loans and advances to customers	73	-	-
Other loans	Loans and advances to customers	-	-	-

Reconciliation of components of equity

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items resulting from hedge accounting.

	Cash flow hedge reserve
Balance at 1 January 2020	**(1,893)**
Effective portion of changes in fair value:	
- Interest rate risk	(138)
- Currency risk	197
Net amount reclassified to statement of profit or loss:	
- Interest rate risk	-
- Currency risk	1,049
Related tax	(281)
Balance at 31 December 2020	**(1,066)**

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.

(Currency: Thousands of Euros)

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 to the Supervisory Board.

41. *Funding concentration*

GBI aims for a 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 non-retail deposits. Behavioral analyses of retail deposits held at the Bank show high stickiness 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 non-retail deposits 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.

42. *Asset encumbrance*

The following table sets out the total financial assets recognised in the statement of financial position that had been pledged as collateral for liabilities as at 31 December 2020 and 2019 as well as the availability of the Bank's financial assets to support future funding.

As at 31 December 2020	**Carrying amount of encumbered assets**		**Carrying amount of non-encumbered assets**		**Total**	
		Of which: ECB eligible		Of which: ECB eligible		Of which: ECB eligible
Loans and advances to banks	4,695	-	649,551	-	654,246	-
Loans and advances to customers	49,713	49,713	2,042,801	-	2,092,514	49,713
Financial assets at fair value through other comprehensive income	62,430	62,430	40,343	-	102,773	62,430
Total	**116,838**	**112,143**	**2,732,695**	**-**	**2,849,533**	**112,143**

As at 31 December 2019	**Carrying amount of encumbered assets**		**Carrying amount of non-encumbered assets**		**Total**	
		Of which: ECB eligible		Of which: ECB eligible		Of which: ECB eligible
Loans and advances to banks	12,223	-	313,510	-	323,733	-
Loans and advances to customers	82,164	82,164	2,351,244	-	2,433,408	82,164
Financial assets at fair value through other comprehensive income	22,216	22,216	51,435	9,247	73,651	31,463
Total	**116,603**	**104,380**	**2,716,189**	**9,247**	**2,830,792**	**113,627**

Notes to the Financial Statements (Currency: Thousands of Euros)

Financial assets are pledged as collateral as part of sales and repurchases, secured funding transactions and derivative transactions under terms that are usual and customary for such activities. In addition, as part of these transactions, the Bank has received collateral that it is also permitted to sell or repledge in the absence of default.

At 31 December 2020, the fair value of financial assets accepted as collateral that the Bank is permitted to sell or repledge in the absence of default was EUR 154.5 thousand (2019: EUR 39.5 thousand).

At 31 December 2020, the fair value of financial assets accepted as collateral that had been sold or repledged was EUR 154.5 thousand (2019: EUR 39.5 thousand). The Bank is obliged to return equivalent securities.

At 31 December 2020, for derivative liabilities that are classified as trading liabilities and derivatives liabilities held for risk management, the Bank had posted cash collateral with its counterparties for which it had recognised receivables of EUR 4.7 thousand (2019: EUR 12.2 thousand). These receivables are regarded as encumbered and included in loans and advances to banks.

The 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 2020***	***31 December 2019***
Deposits from banks	217,029	128,429
Derivatives	9,303	14,819
Total	**226,332**	**143,248**

43. *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.

44. *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.

The inflows/(outflows) disclosed in this 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.

Notes to the Financial Statements (Currency: Thousands of Euros)

Maturity analysis (contractual) assets and liabilities

31 December 2020	**On demand**	**< = 3 months**	**3 months - 1 year**	**1 - 5 years**	**> 5 years**	**Undistri-buted**	**Total**
Cash and balances with central banks	524,911	-	-	-	-	-	524,911
Loans and advances to banks	22,752	345,744	272,370	13,375	-	-	654,241
Financial assets at fair value through profit or loss							
- Mandatorily at fair value through profit or loss	-	-	317	-	-	-	317
- Trading derivatives	-	2,257	294	-	-	-	2,551
- Non-trading derivatives	-	1,658	56	-	-	-	1,714
Financial assets at fair value through other comprehensive income	-	-	22,948	79,825	-	-	102,773
Loans and advances to customers	44,974	961,184	329,085	708,442	35,726	13,103	2,092,514
Total Assets	**592,637**	**1,310,843**	**625,070**	**801,642**	**35,726**	**13,103**	**3,379,021**
Deposits from banks	12,982	126,881	58,754	145,997	-	-	344,614
Deposits from customers	1,523,281	441,612	300,443	161,107	18,014	-	2,444,457
Financial liabilities at fair value through profit or loss							
- Trading derivatives	-	1,261	270	-	-	-	1,531
- Non-trading derivatives	-	3,571	116	4,085	-	-	7,772
Subordinated liabilities	-	-	-	-	-	-	-
Total Liabilities	**1,536,263**	**573,325**	**359,583**	**311,189**	**18,014**	**-**	**2,798,374**

31 December 2019	**On demand**	**< = 3 months**	**3 months - 1 year**	**1 - 5 years**	**> 5 years**	**Undistri-buted**	**Total**
Cash and balances with central banks	721,128	-	-	-	-	-	721,128
Loans and advances to banks	45,726	94,541	176,400	9,066	-	-	325,733
Financial assets at fair value through profit or loss							
- Mandatorily at fair value through profit or loss	-	-	-	-	-	1,463	1,463
- Trading derivatives	-	211	262	1,437	-	-	1,910
- Non-trading derivatives	-	4,669	937	-	-	-	5,606
Financial assets at fair value through other comprehensive income	-	-	-	63,179	10,472	-	73,651
Loans and advances to customers	11,392	1,094,198	448,529	710,026	143,331	25,932	2,433,408
Total Assets	**778,246**	**1,230,120**	**620,224**	**782,341**	**150,505**	**1,463**	**3,562,899**
Deposits from banks	6,460	51,061	78,069	59,327	-	-	194,917
Deposits from customers	1,393,236	602,927	411,199	300,774	23,227	-	2,731,363
Financial liabilities at fair value through profit or loss							
- Trading derivatives	-	186	77	1,424	-	-	1,687
- Non-trading derivatives	-	5,023	3,834	1,985	2,289	-	13,132
Subordinated liabilities	-	-	-	-	50,398	-	50,398
Total Liabilities	**1,399,696**	**659,198**	**493,179**	**363,510**	**75,914**	**-**	**2,991,497**

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:

31 December 2020	Country	Location	Turnover	Average number of FTE	Result before Tax	Tax on result	Public subsidies received
Name							
GarantiBank International N.V., Head Office	The Netherlands	Amsterdam	50,143	223[6]	8,840	2,412	-
GarantiBank International Dusseldorf Branch	Germany	Dusseldorf	3,289	17	547	171	-
31 December 2019							
Name							
GarantiBank International N.V., Head Office	The Netherlands	Amsterdam	55,688	227[7]	8,713	2,403	-
GarantiBank International Dusseldorf Branch	Germany	Dusseldorf	3,656	17	438	137	-

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 1 January 2021 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, 17 February 2021

The Managing Board:
Mr S.E. Zeyneloğlu
Mr M.Ö. Şişman
Mr M. Witteveen
Mr C.B. Mutlu

The Supervisory Board:
Mr. R. Baştuğ (Chairman)
Mr A. Düren (Vice Chairman)
Mr P.R.H.M. van der Linden
Mr B.J.M.A. Meesters
Mr. J.H. de Roo

[6] Average number of FTE is excluding interns. Including interns, the average number of FTE would be 238.
[7] Average number of FTE is excluding interns. Including interns, the average number of FTE would be 239.

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:

45. 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.

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 2020 included in the annual report

Our opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of GarantiBank International N.V. as at 31 December 2020 and of its result and its cash flows for the year then ended, in accordance with 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 2020 of GarantiBank International N.V. ('the Company' or the 'Bank') based in Amsterdam.

The financial statements comprise:

1 the statement of financial position as at 31 December 2020;

2 the following statements for 2020: 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 '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.

KPMG Accountants N.V., a Dutch limited liability company registered with the trade register in the Netherlands under number 33263683, is a member firm of the global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.
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Audit approach

Summary

Materiality
— Materiality of EUR 3.5 million
— 0.6% of equity as at 31 December 2020
— We report misstatements in excess of EUR 180 thousand to the Supervisory Board

Key audit matters
— Estimation uncertainty with respect to the expected credit loss allowance 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 3.5 million (2019: EUR 3.5 million). The materiality is determined with reference to equity as at 31 December 2020 (0.6%). Given the low level of profitability we believe that equity is the most appropriate benchmark as it better reflects the size of the Bank's operations and the bank's solvency is a key metric for the regulators and shareholders. 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.

Our focus on the risk of fraud and non-compliance with laws and regulations

Our objectives

The objectives of our audit with respect to fraud and non-compliance with laws and regulations are:

With respect to fraud:

— to identify and assess the risks of material misstatement of the financial statements due to fraud;

— to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and

— to respond appropriately to fraud or suspected fraud identified during the audit.

With respect to non-compliance with laws and regulations:

- to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and
- to obtain a high (but not absolute) level of assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with the Managing Board, with oversight by the Supervisory Board.

Our risk assessment

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud and misappropriation of assets. We evaluated the fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to the Bank and we inquired the Managing Board and the Supervisory Board as to whether the entity is in compliance with such laws and regulations and inspected correspondence, if any, with relevant licensing and regulatory authorities.

Firstly, the Bank is subject to laws and regulations that directly affect the financial statements, including taxation and financial reporting (including related company legislation). We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items and therefore no additional audit response is necessary.

Secondly, the Bank is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognized or disclosures provided in the financial statements, or both, for instance – if and when such non-compliance occurs – through the imposition of fines or litigation. We identified the following areas as those most likely to have such an indirect effect given the Company is a Bank:

- Anti-money laundering laws and regulations;
- Trade sanctions laws and regulations.

In all of our audits, we addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud. We refer to the key audit matter 'Estimation uncertainty with respect to the expected credit loss allowance on loans and advances' for our approach related to an area of higher risk due to accounting estimates where management makes significant judgements.

We communicated our risk assessment and audit response to the Managing Board and the Supervisory Board.

Our response to the risks identified

We performed the following audit procedures (not limited) to respond to the assessed risks:

- We communicated the identified risks of fraud throughout our team and remained alert to any indications of fraud and/or non-compliance throughout the audit.
- We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks.
- We performed data analysis of high-risk journal entries and evaluated key estimates and judgements for bias by the company, including retrospective reviews of prior year's estimates. Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk. These procedures also included testing of transactions back to source information.
- Inspect regulatory, legal correspondence, and the Bank's complaints register and assessed the results of management's investigation of such matters.
- We considered the outcome of our other audit procedures and evaluated whether any findings or misstatements were indicative of fraud or non-compliance. If so, we re-evaluated our assessment of relevant risks and its resulting impact on our audit procedures.
- We considered the effect of actual, suspected or identified risk of non-compliance, if any, as part of our procedures on the related financial statement items.

Our audit is not primarily designed to detect fraud and non-compliance with laws and regulations; therefore, our audit procedures differ from a specific forensic fraud investigation. The more distant non-compliance with indirect laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

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. Compared to last year, there were no changes to the key audit matters.

Estimation uncertainty with respect to the expected credit loss allowance on loans and advances

Description

As disclosed in notes 4 and 5 of the financial statements, the Bank's portfolio of loans and advances to customers and banks amounts to EUR 2.7 billion, as at 31 December 2020. These loans and advances to customers and banks are measured at amortised cost, less an allowance for expected credit losses (EUR 26.8 million).

The Bank uses Expected Credit Loss ('ECL') models for the ECL calculation for the portfolio of loans and advances as a whole. Except for credit-impaired exposures and loans with a significant increase in credit risk and an exposure greater than EUR 10 million, for which the Bank determines the ECL allowance individually on an exposure by exposure basis. The ECL model is a forward-looking model that takes into consideration expected future developments with respect to the Probability of Default, Loss Given Default and Exposures at Default.

As several aspects of the accounting for loan losses require significant judgment of management we consider this a key audit matter. The COVID-19 pandemic has meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgement required by the Bank in determining the ECL allowances.

Key judgmental areas include the identification of a significant increase in credit risk, the determination of credit-impaired loans, the modelling of assumptions and parameters, including macro-economic variables, and the development of scenarios of expected future cash flows for the ECL of individually assessed loans.

Our response

Our audit approach comprises of testing of controls and substantive audit procedures. Among others, the procedures included testing of the design and implementation of the Bank's credit risk management and credit risk monitoring procedures, including the 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) evaluation approach, we assessed the collective expected credit loss allowance methodology. With the assistance of KPMG credit risk modelling specialists, we have evaluated the models and key assumptions. This included the macro-economic variables used and the adjustments made to the credit risk models to reflect the expected effects of COVID-19 on ECL. We have tested the accuracy and completeness of the data used by the Bank for determining the collective expected credit loss allowance. We applied a risk based approach in selecting loan exposures for detailed testing on which we evaluated and challenged management's judgement on the assumed credit quality of the exposure. Furthermore, we evaluated the overall provision process for identification of management bias and reconciled the ECL model outcomes to the general ledger.

For loans and advances where the Bank determines the expected credit loss allowance on an individual loan basis, we examined the entire population in detail. As part of our procedures, we challenged management's expected future cash flows scenarios, the probability applied to those scenarios, we inspected supporting documentation, such as the legal documentation and appraisal reports for collateral, we reconciled underlying loan data used in the expected credit loss allowance calculation and we verified its mathematical accuracy. We considered the impact of the COVID-19 on the economic conditions in our test approach and when we evaluated the results of our audit procedures.

We considered the adequacy and appropriateness of the disclosures related to ECL allowances within the financial statements.

Our observation

We consider management's key assumptions and estimates relating to the expected credit loss allowance on loans and advances within the acceptable range and we assessed the disclosure in the financial statements to be sufficient.

Reliability and continuity of information technology

Description

GarantiBank International N.V. is dependent on its Information Technology (IT) infrastructure for the reliability and continuity of its operations. The Bank continuously made investments to further improve the IT environment and IT systems as part of a bank-wide digital transformation program. Considering the importance of IT to the continuity of the Bank's operations and the increasing data granularity in financial reporting, we consider the reliability and continuity of IT a key audit matter.

Our response

We have tested the reliability and continuity of the IT infrastructure and systems relevant for our audit of the financial statements. We obtained an understanding of the Bank's IT environment and how the Bank has responded to the risk arising from the IT infrastructure and systems, including the reliability and continuity of the electronic data processing. We tested the relevant general IT controls and application controls, among others, controls over change management and user access management in the IT environment. To perform these procedures our team included specialised IT auditors.

Our observation

For the purpose of the audit of the financial statements, we consider the reliability and continuity of the relevant Information Technology of GarantiBank International N.V. were at a satisfactory level.

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.

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 less than the scope of those performed in our audit of the financial statements.

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 General Meeting of Shareholders 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.

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 management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, Managing Board is responsible for assessing the GarantiBank International N.V.'s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, Managing Board should prepare the financial statements using the going concern basis of accounting unless Managing Board either intends to liquidate the GarantiBank International N.V. or to cease operations, or has no realistic alternative but to do so. 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 the GarantiBank International N.V. 's financial reporting process.

Our responsibilities for the audit of the financial statements

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

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

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

A further description of our responsibilities for the audit of the financial statements 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.

Amstelveen, 17 February 2021

KPMG Accountants N.V.

J.A. van den Hengel RA