

# 2021

## Capital Adequacy & Risk Management Report

**GARANTIBANK INTERNATIONAL N.V.**



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## LIST OF ABBREVIATIONS

A&CCSB	Audit & Compliance Committee of the Supervisory Board	IAD	Internal Audit Department
ALCO	Asset & Liability Committee	ICAAP	Internal Capital Adequacy Assessment Process
AVA	Additional Valuation Adjustment	ICU	Internal Control Unit
BIA	Basic Indicator Approach	ILAAP	Internal Liquidity Adequacy Assessment Process
CC	Credit Committee	IRB	Internal Ratings Based
CCF	Credit Conversion Factor	IRRBB	Interest Rate Risk on the Banking Book
CCR	Counterparty Credit Risk	IRS	Interest Rate Swap
CD	Credits Division	ISD	Information Security Department
CDS	Credit Default Swap	ISDA	International Swaps and Derivatives Association
CET1	Common Equity Tier 1	ITP	Internal Transfer Pricing
CIS	Commonwealth of Independent States	LCD	Legal & Compliance Department
COBIT	Control Objectives for Information and Related Technology	LCR	Liquidity Coverage Ratio
CRD	Capital Requirements Directive	LGD	Loss Given Default
CRR	Capital Requirements Regulation	MB	Managing Board
CSA	Credit Support Annex	MO	Middle Office
DNB	De Nederlandsche Bank	NSFR	Net Stable Funding Ratio
EAD	Exposure at Default	PD	Probability of Default
EaR	Earnings at Risk	RCAP	Regulatory Capital
EBA	European Banking Authority	RCSB	Risk Committee of the Supervisory Board
ECAP	Economic Capital	RMD	Risk Management Department
EDTF	Enhanced Disclosure Task Force	ROE	Return on Equity
EVE	Economic Value of Equity	RWA	Risk Weighted Assets
F-IRB	Foundation Internal Ratings Based	SA	Standardised Approach
FIRM	Financial Institutions Risk Analysis Method	SB	Supervisory Board

FRA	Forward Rate Agreement	SFT	Securities lending or borrowing transactions
FSA	Financial Supervision Act	SMA	Standardised Measurement Approach
GMRA	Global Master Repurchase Agreement	SSC	Supervisory Slotting Criteria
IAC	Identity Access Control	VaR	Value at Risk

# 1. INTRODUCTION

Financial institutions have to fulfil several disclosure requirements as per Part Eight of the Capital Requirements Regulation (CRR). The aim is to make information available to the public in relation to the solvency, the liquidity and the risk profile of the institution as a whole, and to enhance the consistency and the comparability of the provided information among banks. This document contains the Pillar III disclosures of GarantiBank International N.V. (hereafter referred to as “GBI”) as of 31 December 2021 and should be read in conjunction with the [Annual Report of GBI](#). Further references to the annual report are not linked, but refer to the same link as provided here.

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

DISCLOSURE REQUIREMENTS PURSUANT TO PART EIGHT OF THE CRR		Reference
<b>TITLE II: TECHNICAL CRITERIA ON TRANSPARENCY AND DISCLOSURE</b>		
Article 435	Risk management objectives and policies	See sections 3 and 4
Article 436	Scope of application	See section 2
Article 437	Own funds	See section 5
Article 438	Capital requirements	See section 6
Article 439	Exposure to counterparty credit risk	See section 6.1.7
Article 440	Capital buffers	See section 9
Article 441	Indicators of global systemic importance	Not applicable
Article 442	Credit risk adjustments	See section 6.1.6
Article 443	Unencumbered assets	See Annex 3
Article 444	Use of ECAIs	See section 6
Article 445	Exposure to market risk	See sections 6.3 and 7.3
Article 446	Operational risk	See sections 6.4 and 7.5
Article 447	Exposures in equities not included in the trading book	See section 6
Article 448	Exposure to interest rate risk on positions not included in the trading book	See section 7.4
Article 449	Exposure to securitisation positions	Not applicable
Article 450	Remuneration policy	See section 10
Article 451	Leverage	See section 9
<b>TITLE III: QUALIFYING REQUIREMENTS FOR THE USE OF PARTICULAR INSTRUMENTS OR METHODOLOGIES</b>		
Article 452	Use of the IRB Approach to credit risk	See section 6
Article 453	Use of credit risk mitigation techniques	See section 6.1.8
Article 454	Use of the advanced measurement approach to operational risk	Not applicable
Article 455	Use of internal market risk models	Not applicable

## 2. SCOPE OF APPLICATION

The scope of application of the Pillar III requirements is confined to GBI and its branch. The information disclosed in this document is not subject to an external audit, but is verified and approved internally within GBI. Differences can be found between the figures presented in this report and the figures in the Annual Report of GBI. This is mainly due to the fact that the figures in this report, unless otherwise stated, refer to Exposure at Default (EAD), whereas the figures presented in the annual report are in line with GBI's accounting framework, which is based on IFRS. Furthermore, small differences could arise due to the rounding of the figures.

## 3. RISK GOVERNANCE AT GBI

The risk management culture at GBI has been established as a key element of the Bank's strategy, with an emphasis on risk awareness at all levels of the organization. GBI has established an adequate segregation of duties and responsibilities enabling overall control over its business operations. Risk management is structured under various levels within the organization. These levels are composed of committees at the Supervisory Board level, committees at the Bank level and in the form of separate risk and control departments. The committees, which form the backbone of the risk governance at GBI, are established as per the segregation of duties principle, and are supported by the related departments that have explicit risk management responsibilities as specified below.

The Supervisory Board bears the overall responsibility for approving the risk appetite of GBI. The Risk Committee of the Supervisory Board (RCSB) advises the Supervisory Board on the Bank's risk appetite and monitors that effective risk management is conducted accordingly. The Audit and Compliance Committee of the Supervisory Board (ACSB) assists the Supervisory Board to supervise the independent audit function, the compliance-related risks, and the statutory financial reporting process. The tasks and responsibilities of the Supervisory Board are further regulated by a Charter governing the Supervisory Board, which is disclosed on the [Bank's website](#).

The Managing Board (MB) of GBI functions as a collegial body, as referred to in Section 2:129 of the Dutch Civil Code. The MB is responsible for the management and general affairs of, and business connected with GBI. The MB develops strategies, policies, and procedures to establish effective risk management and to ensure that the Bank is in line with the approved risk appetite. The tasks and responsibilities of the Managing Board are further regulated by a Charter governing the Managing Board, which is disclosed on the [Bank's website](#).

The Risk Management Committee (RMC) is responsible for coordinating and monitoring risk management activities at the Bank level, reporting directly to the RCSB. Other committees at the Bank level manage specific key banking risks: the Credit Committee for credit risk; the Asset and Liability Committee (ALCO) for market, interest rate, and liquidity risks; and the Compliance Committee for compliance risks. The Operational Risk Admission and Product Governance Committee is responsible of ensuring the due assessment of material operational risk initiatives such as new businesses, products, outsourcing, process transformation, new systems and approving the proposed control environment.

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

The Risk Management Department (RMD) of GBI has an independent risk monitoring function, also independent of commercial activities. RMD is responsible for the quantification and monitoring of the material risks in terms of economic capital, regulatory capital and liquidity in order to limit the impact of potential events on the financial performance of the Bank. RMD develops and implements risk policies, procedures, methodologies and infrastructures that are consistent with the regulatory requirements and best market practices. Risks in relation to the limits established by the Bank are continuously measured

and comprehensively reported to the Committees. RMD also coordinates all efforts for compliance of the Bank's risk management policies and practices with the CRD, the CRR, the Basel principles and the Financial Supervision Act (FSA, Wet op het financieel toezicht / Wft).

The Internal Control-Non Financial Risk Department (IC-NFR) is involved in the monitoring and reporting of operational risks and establishing preventive control processes.

The Compliance Department is 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 the applicable laws and regulations, GBI policies and standards, and to follow the relevant Group entities' policies and principles. This department is responsible for AML-CTF Compliance, Corporate Compliance, Customer Compliance, and Securities Compliance, and conducts its activities in these 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 related to all risks through regular audits, and provides reports to the MB and the ACSB.

The Legal Department assists the senior management in defining and managing legal risk within the Bank.

## 4. RISK APPETITE FRAMEWORK

GBI's Risk Appetite Framework, in line with that of the Group, determines the risks and levels thereof 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 long/medium-term management framework to avoid actions that could threaten the future viability of the Bank.
- To establish a common terminology in the organization and to develop a compliance-driven risk culture.
- To ensure 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 is focused on promoting a multichannel and responsible universal banking model, based on values, committed to sustainable development and operational excellence and focused on customer's needs. To achieve these goals, the risk model of GBI is aimed at maintaining a moderate risk profile, facilitating its commitment with sustainability and obtaining a sound risk-adjusted profitability throughout the cycle, a sound financial position and a solid through-the-cycle risk-adjusted profitability, as the best way to face adverse situations without jeopardizing the strategic goals. Risk management at GBI is based on prudent management, an integral view of risks, that allows GBI to adapt to the disruption risk inherent to the banking business and includes the climate risk driver, portfolio diversification by asset class and client segment, anti-money laundering and combating the financing of terrorism and focusing on keeping a long term relationship with the client; thus contributing to sustainable and profitable growth and recurrent value creation.

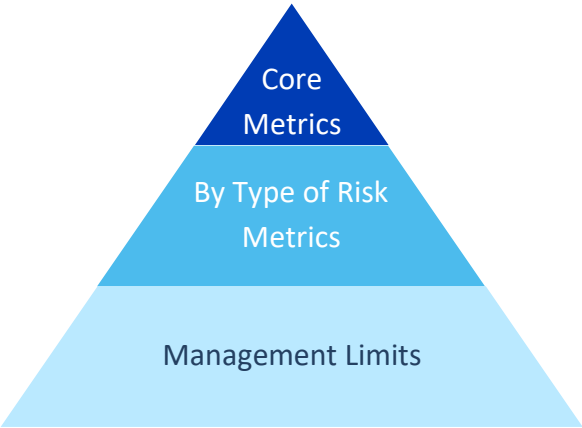
**Core Metrics:** They define, in quantitative terms, the target risk profile set out in the risk appetite statement in line with the strategy of the Bank. The core metrics used internally are expressed in terms of solvency (i.e. CET1 ratio), liquidity (i.e. LCR, loan to stable customer deposits ratio) 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 shareholders, while maintaining core competencies and a strategic position in key markets.
- GBI is strongly committed to acting with integrity and adhering 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 compliance with the core metrics.

**Management Limits:** The core and by type of risk metrics are supported by an additional layer through the introduction of specific risk types such as Liquidity and Funding, Structural Interest Rate Risk, Structural FX Risk, Market Risk, Operational Risk and Asset Allocation limits.



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 compliance with the Risk Appetite set by the Supervisory Board. The Bank's risk limits are continuously monitored through control functions.



## 5. OWN FUNDS

Throughout 2021, GBI's capital base consisted of two parts: Tier 1 and Tier 2 capital. Tier 1 capital is made up of Common Equity Tier 1 (CET1) as GBI does not have Additional Tier 1. The CET1 capital of GBI consists of fully paid-in capital and other reserves. GBI's Tier 1 is equal to its CET1 as there are no other hybrid capital products, which could qualify as additional Tier 1 capital.

There are various deductions from CET1 capital, based on the CRR. Intangible assets net of tax liabilities are deducted in full from CET1 capital (Article 36 of the CRR). An additional valuation adjustment (AVA) is made on fair valued assets and liabilities, affecting CET1 capital (Article 34 of the CRR). A deduction is made based on insufficient provision coverage of non-performing exposures (Article 47c of the CRR). Lastly, if expected losses of credit exposures exceeds the provisions, the shortfall<sup>1</sup> is deducted from CET1 capital. In GBI's case, there is no shortfall of provisions compared to credit exposures.

The Tier 2 capital of GBI consists of the excess of provisions over credit exposures, which is added back to Tier 2<sup>2</sup>. Additionally, any excess holdings of own funds instruments of other financial institutions above 10% of the Bank's own CET1 capital is deducted from the respective level of own funds. In GBI's case, there is no holdings of Tier 2 instruments, thus no deduction from Tier 2 is necessary.

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<sup>1</sup> As per the CRR (*Article 36.1.d*), the difference must be fully deducted from Common Equity Tier 1.

<sup>2</sup> Excess of provisions is added to Tier 2, as per Article 62 of the CRR.

Please find below an overview of GBI's own funds composition as of 31.12.2021.

**Table 5-1**

(EUR 1,000)	31.12.2021	31.12.2020	Change
<b>CET1</b>			
Paid-in and called-up capital	136,836	136,836	0
Retained earnings	0	0	0
Other reserves	454,182	446,540	7,643
IRB provision shortfall	0	0	0
Intangible Assets	-4,033	-4,349	315
Prudential filters	-1,562	958	-2,520
<b>TOTAL CET1</b>	<b>585,423</b>	<b>579,985</b>	<b>5,438</b>
<b>TOTAL Tier 1</b>	<b>585,423</b>	<b>579,985</b>	<b>5,438</b>
(EUR 1,000)	31.12.2021	31.12.2020	Change
<b>Tier 2</b>			
Subordinated debt	0	0	0
IRB provision excess	3,566	907	2,659
IRB provision shortfall	0	0	0
Other deductions <sup>3</sup>	0	0	0
<b>TOTAL Tier 2</b>	<b>3,566</b>	<b>907</b>	<b>2,659</b>
<b>TOTAL Own Funds</b>	<b>588,990</b>	<b>580,892</b>	<b>8,097</b>

GBI recorded a net profit of EUR 18.0 million in 2021. The Supervisory Board has voted to adopt the Managing Board's proposal to transfer this profit to other reserves, rather than paying a dividend. The 2021 profit will be added to own funds within 2022 following the approval of ECB<sup>4</sup>. If the profit would have been added, the total own funds would amount to EUR 607.0 million. The relationship between GBI's Own Funds and accounting capital is shown in the table below.

**Table 5-2**

(EUR 1,000)	31.12.2021	of which is eligible as CET1
Paid-in and called-up capital	136,836	136,836
Revaluation reserves	10,722	0
Other reserves	454,196	454,182
Profit current year	18,011	0
<b>Shareholders' equity (Accounting Capital)</b>	<b>619,765</b>	<b>591,018</b>
IRB provision shortfall		0
Intangible Assets		-4,033
Prudential filters		-1,562
<b>Total CET1 capital</b>		<b>585,423</b>
<b>Total Tier 1 capital</b>		<b>585,423</b>
<b>Total Tier 2 capital</b>		<b>3,566</b>
<b>Total Own Funds</b>		<b>588,990</b>

<sup>3</sup> Includes holdings of Tier 2 instruments of other credit and financial institutions over the threshold of 10% of the Bank's own CET1 capital.

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

## 6. REGULATORY CAPITAL REQUIREMENTS

Total of Tier 1 and Tier 2 capital should correspond to at least 8% of the Banks' risk weighted assets, of which Tier 1 capital must constitute at least 6%.

GBI applies the Foundation Internal Ratings Based (F-IRB) Approach for credit risk of Corporate, Institution and Sovereign portfolios since 1 January 2008 based on the permission obtained from DNB. Exposures related with Retail Banking, as well as counterparties in other asset classes, which cannot be rated by any of the internal rating models, are subject to permanent exemption from F-IRB and are treated under the Standardised Approach (SA). GBI has very limited exposures in which the ECAI rating are used. GBI uses the Standardised Measurement Approach (SMA) for market risk and the Basic Indicator Approach (BIA) for operational risk in the calculation of the minimum level of required capital. In the table below, an overview of the capital requirement and gross credit risk exposure on 31.12.2021 is presented.

**Table 6-1**

	31.12.2021		31.12.2020		Change	
	Gross Exposure	Capital Req.	Gross Exposure	Capital Req.	Gross Exposure	Capital Req.
<b>Credit Risk</b>	<b>4,533,858</b>	<b>203,963</b>	<b>3,970,577</b>	<b>183,604</b>	<b>563,281</b>	<b>20,359</b>
<b>F-IRB approach:</b>						
Central Gov. & Central Banks <sup>5</sup>	829,773	0	588,029	3,826	241,744	-3,826
Institutions <sup>6</sup>	773,099	48,101	860,965	41,457	-87,866	6,644
Corporates	2,273,850	125,558	2,042,252	113,918	231,598	11,640
Corporates (Specialised Lending)	572,461	24,559	403,768	19,630	168,693	4,929
Equity	0	0	0	0	0	0
<b>Total F-IRB approach</b>	<b>4,449,183</b>	<b>198,218</b>	<b>3,895,014</b>	<b>178,831</b>	<b>554,169</b>	<b>19,387</b>
<b>Standardised approach:</b>						
Institutions	6,485	197	802	32	5,683	165
Corporates	11,506	913	17,493	1,086	-5,987	-173
Retail	35,617	2,118	25,481	1,112	10,136	1,006
Equity	0	0	0	0	0	0
Other non-credit-obligation assets	31,068	2,517	31,787	2,543	-719	-26
<b>Total Standardised approach</b>	<b>84,675</b>	<b>5,745</b>	<b>75,563</b>	<b>4,773</b>	<b>9,112</b>	<b>972</b>
<b>Counterparty Credit Risk (CCR)</b>	<b>318,649</b>	<b>728</b>	<b>272,639</b>	<b>347</b>	<b>46,010</b>	<b>381</b>
<b>F-IRB approach:</b>						
Central Gov. & Central Banks <sup>7</sup>	298,328	0	248,204	0	50,124	0
Institutions	9,919	138	18,940	207	-9,021	-69
Corporates	1,278	68	39	3	1,239	65
Corporates (Specialised Lending)	0	0	0	0	0	0
<b>Total F-IRB approach</b>	<b>309,525</b>	<b>206</b>	<b>267,183</b>	<b>210</b>	<b>42,342</b>	<b>-4</b>
<b>Standardised approach:</b>						
Institutions	3,263	55	4,601	80	-1,338	-25
Corporates	654	52	572	46	82	6
Retail	5,207	415	283	11	4,924	404
<b>Total Standardised approach</b>	<b>9,124</b>	<b>522</b>	<b>5,456</b>	<b>137</b>	<b>3,668</b>	<b>385</b>

<sup>5</sup> As per Article 150 of the CRR, sovereign exposures of EUR 830 mio (2020: EUR 547 mio) are treated under SA and being exposures to EU member states, receive a 0%. However, these are classified under IRB in this table with the rest of the sovereign asset class.

<sup>6</sup> Throughout this document, "Institutions" consist of credit institutions as defined under Article 4(1) of the CRR, and includes both institutions established in the EU, and in third countries.

<sup>7</sup> As per Article 150 of the CRR, sovereign exposures of EUR 295 mio (2020: EUR 248 mio) which satisfy the 0% risk weight condition are classified under IRB in this table.

<b>Total Credit Risk &amp; CCR</b>	<b>4,852,507</b>	<b>204,691</b>	<b>4,243,216</b>	<b>183,951</b>	<b>609,291</b>	<b>20,740</b>
<b>Credit Valuation Adjustment</b>		<b>67</b>		<b>44</b>		<b>23</b>
<b>Total Market Risk (SMA)</b>		<b>1,301</b>		<b>480</b>		<b>822</b>
<b>Total Operational Risk (BIA)</b>		<b>9,826</b>		<b>10,148</b>		<b>-322</b>
<b>Total Capital Requirement</b>		<b>215,885</b>		<b>194,622</b>		<b>21,263</b>
<hr/>						
<b>Total RWA</b>		<b>2,698,562</b>		<b>2,432,782</b>		<b>265,780</b>
<b>CET1 Ratio</b>		<b>21.69%</b>		<b>23.84%</b>		<b>-2.15%</b>
<b>Total Capital Ratio</b>		<b>21.83%</b>		<b>23.88%</b>		<b>-2.05%</b>

The capital requirement under Pillar 1 is EUR 215.9 million. The largest part (94.8%) of the capital requirement relates to credit risk<sup>8</sup>. 96.9% of the credit risk weighted assets are treated under F-IRB approach.

GBI has preserved its prudent approach to capital and liquidity management in 2021. Common Equity Tier 1 (CET1) has decreased slightly to 21.69% compared to 23.84% last year, whereas the total capital ratio has decreased to 21.83% from 23.88%. Both ratios are comfortably above the minimum required regulatory levels.

<sup>8</sup> Including counterparty credit risk.

## 6.1. Credit Risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the institution or otherwise fail to perform as agreed. At GBI, credit risk arises mainly from trade and commodity finance, corporate lending and the holding of securities in the banking book. GBI is predominantly involved in low-default portfolios such as sovereigns, banks, large corporates and trade finance activities. Within the credit risk framework of GBI, the counterparties are classified as per their characteristics and as a result, specific processes are applied to cope with credit risks effectively. All business flows implying credit risk pass through the CD, from where they are subdivided into separate teams responsible for assessing and managing credit risks pertinent to corporate counterparties, financial institutions and sovereigns. The aggregation of business flows in the CD allows adequate evaluation of the global balance of risks and exposures.

Being an F-IRB Bank, GBI has dedicated internal rating models to evaluate the creditworthiness of counterparties. The rating models are integrated in the credit decision making and monitoring processes. Credit rating models serve as a basis for the calculation of regulatory capital and economic capital that GBI has to maintain to cover expected and unexpected losses from its lending activities. Ratings are also integral parts of pricing and risk based performance measurement processes. All rating models are validated by independent third party experts on an annual basis. IAD also reviews the use of the models and the data quality.

The Credit Committee of GBI is responsible for the control of all credit and concentration risks arising from the banking and the trading books in line with the Bank's risk appetite. The Wholesale Credit Risk Policy establishes the Bank's decision-making process in granting credit limits, setting rules and guidelines for exposures that give rise to credit risk. In view of the internal ratings and credit assessment analyses of the obligors, the Credit Committee assigns the credit exposure limit. All obligors have individual credit limits based on their creditworthiness. Groups of connected obligors are subject to regulatory 'group exposure' limits, as well as internal Group Concentration Policy, to manage the concentration risk of the Bank effectively. Furthermore, as per the Country Concentration Policy, limits are in place that cap the maximum exposure to specific countries, to ensure that related risks do not threaten the asset quality or solvency of the Bank. Finally, the Sector Limit Policy is designed to minimize contagion risks. The effectiveness of risk monitoring is supported by internal systems ensuring proper compliance with the principle of segregation of duties and authorization levels. Regular monitoring of GBI's exposure and compliance with the established credit limits ensures timely management of credit risk. The exposures to various customers, business lines and geographical locations are monitored on a daily basis by assigned relationship managers and credit officers, while compliance with the established limits is controlled by the CD that provides independent judgement.

The credit monitoring process is divided into two main parts; (i) monitoring of the customer; and (ii) monitoring of the credit facility itself. Monitoring of the customer is associated with the credit risk; whereas, monitoring of the credit facility (e.g., documentation) is related to credit risk mitigation and operational risk. Credit facility monitoring is a dynamic process and has performing, watch list, impaired, provisioned and write-off stages. All shifts within those categories, either in the direction of downgrading or upgrading, require the approval of related credit committee.

The internal information system of GBI offers great possibility in delivering information on a regular and ad-hoc basis and allows producing a variety of regular reports that comprise all exposures and concentrations by, among others, geographical location, sector and borrower.

### 6.1.1. Exposure amounts Before Credit Risk Mitigation

The total credit exposure, including on balance sheet exposure, off balance sheet liabilities and counterparty credit risk exposure, after provisions and before credit risk mitigation is as follows:

**Table 6.1.1**

(EUR 1,000)	Average Exposure	Total Exposure			
	2021	Q4-2021	Q3-2021	Q2-2021	Q1-2021
Central Gov. & Central Banks	909,481	1,128,101	627,955	840,119	1,041,750
Institutions	957,487	792,766	1,087,347	1,003,306	946,530
Corporate	2,650,893	2,859,749	2,581,081	2,642,881	2,519,862
Retail	32,918	40,824	37,259	27,341	26,250
Other non-credit-obligation assets	31,361	31,068	31,373	31,417	31,585
<b>Total</b>	<b>4,582,141</b>	<b>4,852,507</b>	<b>4,365,015</b>	<b>4,545,063</b>	<b>4,565,978</b>

### 6.1.2. Off-Balance Sheet Exposure Amounts

The off-balance sheet exposures are broken down to the transaction types shown in the table below. Exposure amounts are in gross, whereas for regulatory capital calculations, the exposure values of off-balance sheet items are determined by multiplying the notional amounts with a Credit Conversion Factor (CCF), based on a regulatory 'risk classification'.

**Table 6.1.2**

(EUR 1,000)		31.12.2021	31.12.2020	Difference
<b>Guarantees</b>		<b>39,021</b>	<b>25,145</b>	<b>13,876</b>
	100%	39,021	25,145	13,876
	75%	0	0	0
	20%	0	0	0
<b>Irrevocable letters of credit</b>		<b>285,676</b>	<b>362,580</b>	<b>-76,904</b>
	100%	0	0	0
	75%	0	0	0
	20%	285,676	362,580	-76,904
<b>Other commitments</b>		<b>0</b>	<b>154,682</b>	<b>-154,682</b>
	100%	0	-	0
	75%	0	154,682	-154,682
	20%	0	-	0
<b>Total</b>		<b>324,697</b>	<b>542,407</b>	<b>-217,710</b>

### 6.1.3. Geographical Breakdown of the Exposures

The following table gives an overview of the geographical breakdown<sup>9</sup> of gross exposure by material exposure classes based on customer residence.

**Table 6.1.3**

(EUR 1,000)	The Netherlands	Other Europe	Turkey	Rest of the World	Total
<b>31.12.2021</b>					
Central Gov. & Central Banks	900,053	228,048	0	0	1,128,101
Institutions	30,423	168,311	428,315	165,717	792,766
Corporates	488,370	1,441,558	434,865	494,956	2,859,749
Retail	141	22,755	17,860	68	40,824
Equity	0	0	0	0	0
Non-credit obligation assets	30,550	517	0	0	31,067
<b>Total</b>	<b>1,449,537</b>	<b>1,861,189</b>	<b>881,040</b>	<b>660,741</b>	<b>4,852,507</b>
Percentage of total	29.87%	38.36%	18.16%	13.61%	100.00%
<b>31.12.2020</b>					
Central Gov. & Central Banks	699,116	96,942	40,175	0	836,233
Institutions	18,030	245,673	327,685	293,921	885,309
Corporates	351,500	1,261,200	484,774	361,650	2,464,124

<sup>9</sup> The geographical breakdown of assets and off-balance sheet liabilities is also provided in the Risk Management section of GBI's Annual Report 2021.

Retail	264	16,175	9,187	137	25,763
Equity	0	0	0	0	0
Non-credit obligation assets	31,084	702	0	0	31,786
<b>Total</b>	<b>1,099,994</b>	<b>1,620,692</b>	<b>861,821</b>	<b>660,708</b>	<b>4,243,215</b>
Percentage of total	25.92%	38.19%	20.31%	15.58%	100.00%

#### 6.1.4. Effective Maturity Breakdown

GBI mainly enters into transactions with short maturities as a result of its business model. The vast majority of the exposures are with a residual maturity of less than one year. The effective maturity breakdown of gross exposure based on exposure classes is as follows:

**Table 6.1.4**

(EUR 1,000)	< 3 Months	< 6 Months	< 1 Year	< 2 Years	< 3 Years	<= 5 Years	Total
<b>31.12.2021</b>							
Central Gov. & Central Banks	728,446	10,025	55,026	0	298,328	36,275	1,128,100
Institutions	372,685	84,334	272,870	28,944	1,697	32,236	792,766
Corporates	1,536,721	191,904	270,963	385,119	186,187	288,855	2,859,749
Retail	37,435	251	2,207	77	855	0	40,825
Equity	0	0	0	0	0	0	0
Other non-credit obligation assets	0	0	0	0	0	31,068	31,068
<b>Total</b>	<b>2,675,287</b>	<b>286,514</b>	<b>601,066</b>	<b>414,140</b>	<b>487,067</b>	<b>388,434</b>	<b>4,852,507</b>
Percentage of total	55.13%	5.90%	12.39%	8.53%	10.04%	8.00%	100.00%
<b>31.12.2020</b>							
Central Gov. & Central Banks	524,910	0	22,943	0	288,379	0	836,232
Institutions	539,982	153,835	156,964	17,745	6,029	10,753	885,308
Corporates	1,126,231	164,368	352,865	341,083	334,759	144,819	2,464,125
Retail	25,008	12	21	129	594	0	25,764
Equity	0	0	0	0	0	0	0
Other non-credit obligation assets	0	0	0	0	0	31,787	31,787
<b>Total</b>	<b>2,216,131</b>	<b>318,215</b>	<b>532,793</b>	<b>358,957</b>	<b>629,761</b>	<b>187,359</b>	<b>4,243,216</b>
Percentage of total	52.23%	7.50%	12.56%	8.46%	14.84%	4.42%	100.00%

73.4% of the total credit exposures have effective maturity of lower than one year compared to 72.3% in 2020.

#### 6.1.5. Breakdown of the Exposures by Sector

The breakdown of gross exposure<sup>10</sup> by sector and exposure class is as follows:

(EUR 1,000)	31.12.2021	31.12.2020
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<sup>10</sup> Breakdown by sector for loans and advances is also provided in the Risk Management section of GBI's Annual Report 2021. However, the table above includes all exposures subject to credit risk calculation, thus also including cash, exposures to banks, interest-bearing securities, off-balance sheet exposures and counterparty credit risk.

	Total	Total	Total	% of Total
<b>Central Gov. &amp; Central Banks</b>	<b>1,128,101</b>	<b>23.25%</b>	<b>836,233</b>	<b>19.71%</b>
<b>Institutions</b>	<b>792,766</b>	<b>16.34%</b>	<b>884,704</b>	<b>20.85%</b>
<b>Corporates</b>	<b>2,859,749</b>	<b>58.93%</b>	<b>2,464,124</b>	<b>58.07%</b>
Oil & Gas	543,878	11.21%	497,358	11.72%
Basic materials	702,998	14.49%	454,211	10.70%
Transport & logistics	257,500	5.31%	287,207	6.77%
Construction	196,132	4.04%	264,833	6.24%
Agriculture	394,978	8.14%	262,844	6.19%
Chemicals	203,197	4.19%	166,492	3.92%
Financial services	30,420	0.63%	47,565	1.12%
Consumer products	89,353	1.84%	41,198	0.97%
Healthcare	37,577	0.77%	56,726	1.34%
Utilities	50,623	1.04%	37,520	0.88%
Telecom	42,272	0.87%	52,745	1.24%
Wholesale	78,418	1.62%	78,892	1.86%
Food, beverages and Tobacco	7,068	0.15%	35,003	0.82%
Leisure and Tourism	3,002	0.06%	6,880	0.16%
Services	18,182	0.37%	24,002	0.57%
Consultancy	5,510	0.11%	5,506	0.13%
Other	198,641	4.09%	145,142	3.42%
<b>Retail</b>	<b>40,824</b>	<b>0.84%</b>	<b>25,763</b>	<b>0.61%</b>
<b>Equity</b>	<b>0</b>	<b>0.00%</b>	<b>0</b>	<b>0.00%</b>
<b>Other non-credit obligation assets</b>	<b>31,068</b>	<b>0.64%</b>	<b>31,787</b>	<b>0.75%</b>
<b>Other</b>	<b>0</b>	<b>0.00%</b>	<b>604</b>	<b>0.01%</b>
<b>Total</b>	<b>4,852,507</b>	<b>100%</b>	<b>4,243,215</b>	<b>100%</b>



### 6.1.6. Past Due and Impaired Exposures, Provisions and Value Adjustments

A loan is recognized as impaired if there is an objective evidence of impairment. This evidence could be given by, but is not limited to, the events listed below:

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

For impaired loans, GBI attempts to ensure recovery by restructuring, obtaining additional collateral and/or proceeding with legal actions. Provisions are established by the Credit Committee, for the outstanding amount of the defaulted credit facility after deduction of expected recoveries and/or liquidation value of the collaterals. The impaired credit facility is further proposed for write-off after all possible means of recovery have been exhausted. Below table provides information on the impaired loans and provisions by exposure class:

**Table 6.1.6-1**

(EUR 1,000)	31.12.2021		31.12.2020	
	Impairment <sup>11</sup>	Provisions	Impairment <sup>11</sup>	Provisions
Corporates	23,748	9,061	21,403	8,299
Retail	-	-	122	122
<b>Total</b>	<b>23,748</b>	<b>9,061</b>	<b>21,525</b>	<b>8,421</b>
<b>Loan Loss Reserve Ratio</b>		<b>38.15%</b>		<b>39.12%</b>

The table below gives an overview of the impaired and past due exposures and the provisions set aside by the residence of the counterparty:

**Table 6.1.6-2**

(EUR 1,000)	Impaired Exposures <sup>11</sup>	More than 90 days past due	Provisions for Impairment
<b>31.12.2021</b>			
The Netherlands	4,487	0	1,485
Other Europe	12,820	12,819	4,150
Rest of the world	0	0	0
Turkey	6,441	152	3,426
<b>Total</b>	<b>23,748</b>		<b>9,061</b>
<b>31.12.2020</b>			
The Netherlands	238	238	237
Other Europe	12,875	12,875	4,445
Rest of the world	0	0	0
Turkey	8,412	1,794	3,740
<b>Total</b>	<b>21,525</b>	<b>21,525</b>	<b>8,422</b>

An exposure is past due if a debtor has failed to make a payment of principal and/or interest when contractually due. The actual value adjustments in the preceding periods for each exposure class are as follows:

<sup>11</sup> Impaired exposures after deduction of financial collaterals and including the noncash exposures to the impaired customers.

**Table 6.1.6-3**

(EUR 1,000)	31.12.2021	31.12.2020
Position as of 1 January	8,422	43,186
Transfers to Stage 3	78	83
Net remeasurement of loss allowance	634	-1,236
Write-offs	-402	-30,268
Financial assets that have been derecognised	0	-3,066
Foreign exchange and other movements	329	-277
<b>Position as of 31 December</b>	<b>9,061</b>	<b>8,422</b>

The financial analysis as included in the Managing Board report of the Bank's Annual Report 2021 provides further descriptions of the factors that impacted on the loss experience in 2021.

### 6.1.7. Counterparty Credit Risk

The exposure value of the counterparty credit risk is calculated according to Part Three, Title II, Chapter 6, section 3 of the CRR. Establishment of a credit limit for counterparty credit risk includes, but is not limited to, the products below:

- Spot and forward foreign exchange (FX) transactions
- Currency transactions including currency swaps
- Options
- Forward rate agreement (FRA)
- Interest rate swaps (IRS)
- Credit default swaps (CDS)
- Securities financing transactions (SFTs)

Wrong-way risk refers to the risk that exposure to the counterparty is positively correlated to the counterparty's probability of default. GBI does not have exposure to such specific wrong-way risk.

Derivatives transactions with professional market participants are subject to the Credit Support Annex (CSA) of the International Swaps and Derivatives Association (ISDA) derivatives agreements. Therefore, the Bank could be in a position to provide or require additional collateral as a result of fluctuations in the market value of derivatives. The amount of collateral provided under these agreements is disclosed under the Risk Management section (Offsetting of financial assets and financial liabilities) of GBI's Annual Report 2021, which also states that the Bank does not apply on- and off- balance sheet netting. In the last two years, the maximum monthly net change in the collateral, resulting from the fluctuations in the market value of (hedging) derivatives, amounted to EUR 28.1 million.

Some of the Bank's agreements contain 'Additional Termination Event' clauses based on potential downgrades. However, the Bank does not underwrite any credit derivatives, and uses only simple products related to FX and interest rate risk hedging. Moreover, all derivatives under CSAs are marked-to-market daily and collateral is posted to or received from the counterparty on a daily basis. As such, in the occurrence of an Additional Termination Event the Bank would not face an additional cash outflow. For derivatives transactions with clients the Bank is not obliged to provide collateral, but it is entitled to receive collateral from clients, hence there is no potential liquidity risk for the Bank. The repurchase transactions are subject to the Global Master Repurchase Agreement (GMRA).

The derivatives portfolio has increased in 2021 whereas the exposures arising from SFT's have decreased. In total, the counterparty credit risk has decreased from EUR 37.7 mio to EUR 24.0 mio. The credit exposures of the derivative transactions are calculated by using Standardized Approach (SA-CCR) and eligible collaterals are accounted for, where applicable.

Table 6.1.7-1 demonstrates the steps in the calculation of net derivatives credit exposure.

**Table 6.1.7-1**

(EUR 1,000)	Replacement Value	Potential Future Credit Exposure	Exposure Value <sup>12</sup>	Collateral Held	Net Exposure <sup>13</sup>
<b>31.12.2021</b>					
Securities financing transactions			298,328	294,609	3,719
Interest rate derivatives	0	208	208	0	208
FX derivatives and Options	8,244	11,869	20,113	13	20,099
Other derivatives					0
<b>Total</b>	<b>8,244</b>	<b>12,077</b>	<b>318,649</b>	<b>294,622</b>	<b>24,026</b>

(EUR 1,000)	Replacement Value	Potential Future Credit Exposure	Exposure Value	Collateral Held	Net Exposure
<b>31.12.2020</b>					
Securities financing transactions			259,157	234,728	24,429
Interest rate derivatives	447	-70	377	0	377
FX derivatives and Options	512	12,593	13,105	144	12,961
Other derivatives					0
<b>Total</b>	<b>959</b>	<b>12,523</b>	<b>272,639</b>	<b>234,872</b>	<b>37,767</b>

The distribution of derivatives notional amounts by residual maturity and information on the fair value of the derivatives are provided in the Risk Management section (Derivatives and Hedge Accounting), of GBI's Annual Report 2021.

### 6.1.8. Credit Risk Mitigation

Credit risk mitigants are financial collaterals and guarantees, which directly decrease the credit exposure or transfer the credit risk from obligor to guarantor. GBI applies diversified collateral requirements and a systematic approach to evaluation of collaterals submitted by customers, which depend on the transaction type and purpose, including but not limited to cash margins, physical commodities, receivables, cash flows, guarantees, accounts, financial instruments and immovable or movable assets. The value of collateral is usually monitored on a regular basis to ensure timely measures are taken, if necessary. Financial collaterals are valued on a daily and immovable/movable property on at least a yearly basis.

The use of collateral to reduce counterparty credit exposure is also embedded in the standard legal agreements used throughout the industry as explained in Section 6.1.7. For derivative transactions, the legal agreements include the ISDA derivatives agreements with CSA.

The range of collateral, which is to be used as eligible for credit risk mitigation, is based on the regulatory capital calculation method. GBI uses the Financial Collateral Comprehensive method in the calculation of credit risk mitigation factors. Financial collateral received mostly consists of cash, but also includes debt securities, and hence is not subject to significant concentration. The credit quality of unfunded credit protection providers is assessed as per the credit policy of the Bank.

<sup>12</sup> Exposure value refers to the sum of positive replacement cost and potential future credit exposure, however, for Repurchase transactions, it includes mark-to-market value of the securities provided as collateral (after application of regulatory volatility haircuts).

<sup>13</sup> Exposure after collateral mitigation.

The total exposure value that is covered by financial and other collaterals recognized as eligible credit risk mitigation<sup>14</sup> by the CRR is as follows:

**Table 6.1.8-1**

(EUR 1,000)	Financial Collateral	Guarantees	Other Collateral	Total
<b>31.12.2021</b>				
Central Gov. & Central Banks	294,609	0	0	294,609
Institutions	23,996	18,791	0	42,787
Corporates	90,812	58,212	0	149,024
Retail	9,160	0	0	9,160
<b>Total</b>	<b>418,577</b>	<b>77,003</b>	<b>0</b>	<b>495,580</b>
(EUR 1,000)	Financial Collateral	Guarantees	Other Collateral	Total
<b>31.12.2020</b>				
Central Gov. & Central Banks	225,000	0	0	225,000
Institutions	87,079	0	0	87,079
Corporates	32,803	15,544	0	48,347
Retail	13,812	0	0	13,812
<b>Total</b>	<b>358,694</b>	<b>82,115</b>	<b>0</b>	<b>374,238</b>

## 6.2. Scope of Acceptance for F-IRB Approach

GBI applies the F-IRB approach for the following exposure classes: Central Governments and Central Banks, Institutions and Corporates (including sub classes; Corporates, Non-Bank Financial Institutions, Specialized Lending exposure classes of Commodity Finance).

Retail exposures (including sub classes Retail and Private Banking) are subject to permanent exemption from F-IRB and are treated under SA.

For exposures treated under SA, the Bank uses, if available, external credit ratings of Moody's, S&P and Fitch, with the 'average' formula prescribed by Article 138 of the CRR.

### 6.2.1. General Description of the Models

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

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

All PD models used within GBI have similar and consistent methodologies, which are based on two steps. The first step contains financial and non-financial models that produce a combined score. The models use financial information along with qualitative information that is collected through standard

<sup>14</sup> Similar table in the Risk Management section (Collateral and Netting Agreements) of GBI's 1 presents all collateral received only for loans and advances, while the figures presented here contain only collateral used as credit risk mitigation in the capital requirement calculation, for all assets.

questionnaires. This score is further adjusted for a number of warning signals. The result is an individual rating, which is subject to an override framework in the second step. The override framework has three layers, which are; country layer, parental support and manual override.

The internal models are subject to a regular cycle of validation and review performed by external and internal parties.

### 6.2.2. Governance Framework Around F-IRB Models and Processes

Credit rating models at GBI are based on a model-life cycle framework consisting of the following steps:

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

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

Model approval starts after the completion of model development and model documentation. All the relevant materials regarding the model development are submitted to the RMC for approval. The models are approved based on the criteria that the model should reflect the risk perception of GBI, meet regulatory requirements, have a consistent methodology with the other models used by GBI, and perform adequately for that specific asset class. The proposed model may also be subject to approval by GBI's competent authority, if model changes are material<sup>15</sup>.

Model implementation starts once the model is approved by the RMC. IT related issues, data management, business line process re-design, training of the users of the models and notification to/approval from GBI's competent authority (if needed) are included in the generic roll-out plan of model implementation.

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

The correct use of models is audited by IAD within the scope of the regular audit activities. RMD is responsible for the on-going monitoring of the performance of the models. Model accuracy, stability, granularity, use of overrides and data quality are key performance indicators for model performance. As the Bank mainly works with low default portfolios, the accuracy of the models cannot be measured through predictive power against default experience. Hence, alternative methods are used to ensure that the models perform satisfactorily, such as comparing the model outcomes with internal or external benchmarks and using concordance measures to determine their similarity.

The model validation framework is managed by a validation team that is independent of the model development team. RMC has the ultimate decision making authority in the formation of the validation team or the selection of a third party to conduct the validation. The findings from the model validations

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<sup>15</sup> EBA has published Regulatory Technical Standards based on *Article 143.5* of the CRR, which are to be applied when determining materiality of changes in the IRB approach of an institution.

are presented in the validation reports. Model validation is conducted once a year and may be conducted more frequently based on the model performance.

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

### 6.2.3. Calculation of risk Weighted Assets for F-IRB Exposure Classes

RWA calculation for credit risk is performed based on a regulatory formula under the F-IRB approach where the Probability of Default (PD), Maturity (M), Exposure at Default (EAD) and Loss given Default (LGD) are the factors. Under the F-IRB approach, PDs are estimated by the institution while M, LGD and EAD are determined based on supervisory estimates provided in the CRR.

Below is an overview of the portfolios, applicable for F-IRB methodology, excluding specialized lending, as of 31 December 2021.

**Table 6.2.3-1**

(EUR 1,000)	Gross Exposure <sup>16</sup>	RWA	Average PD <sup>17</sup>	Average Risk Weight
<b>31.12.2021</b>				
Central Gov. & Central Banks	1,128,101	0	0.00%	0.00%
Investment Grade	1,128,101	0	0.00%	0.00%
Sub-investment Grade	0	0	0.00%	0.00%
Institutions	783,019	602,993	1.86%	90.66%
Investment Grade	353,611	84,013	0.15%	32.33%
Sub-investment Grade	429,408	518,980	2.96%	128.07%
Corporates	2,263,892	1,570,319	0.83%	72.32%
Investment Grade	634,393	279,756	0.30%	43.81%
Sub-investment Grade	1,629,499	1,290,563	1.05%	84.20%
<b>Total</b>	<b>4,175,012</b>	<b>2,173,312</b>	<b>0.83%</b>	<b>59%</b>
<b>31.12.2020</b>				
Central Gov. & Central Banks	836,233	47,828	0.14%	7.82%
Investment Grade	796,058	0	0.00%	0.00%
Sub-investment Grade	40,175	47,828	2.09%	118.55%
Institutions	879,905	520,797	1.58%	80.82%
Investment Grade	525,781	119,741	0.21%	36.42%
Sub-investment Grade	354,124	401,056	3.02%	127.05%
Corporates	2,032,461	1,424,011	0.97%	73.45%
Investment Grade	649,683	316,319	0.32%	50.48%
Sub-investment Grade	1,382,778	1,107,692	1.28%	84.41%
<b>Total</b>	<b>3,748,599</b>	<b>1,992,636</b>	<b>0.94%</b>	<b>62%</b>

<sup>16</sup> Gross exposure excluding impaired loans.

<sup>17</sup> Expected probability of default of the performing portfolio.

## 6.2.4. Specialized Lending

Credit institutions have to distinguish specialized lending exposures within the corporate exposure class. Specialized lending exposures possess the following characteristics:

- (a) The exposure is to an entity, which was created specifically to finance and/or operate physical assets;
- (b) The contractual arrangements give the lender a substantial degree of control over the assets and the income that they generate; and
- (c) The primary source of repayment of the obligation is the income generated by the assets being financed, rather than the independent capacity of a broader commercial enterprise.

The following table discloses the gross specialized lending exposures, assigned to the different risk categories as of 31 December 2021:

**Table 6.2.4-1**  
(EUR 1,000)

Risk Weight Category	Risk Weight	31.12.2021		31.12.2020	
		Gross Exposure <sup>18</sup>	RWA	Gross Exposure <sup>18</sup>	RWA
Strong	50% - 70%	84,771	36,105	72,013	24,339
Good	70% - 90%	436,541	218,872	234,598	113,861
Satisfactory	115%	47,698	52,008	94,011	107,173
Weak	250%	0	0	0	0
<b>Total</b>		<b>569,010</b>	<b>306,985</b>	<b>400,622</b>	<b>245,373</b>

## 6.3. Market Risk

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

GBI assumes limited market risk in trading activities by taking positions in debt securities, foreign exchange and commodities as well as in equivalent derivatives. The Bank has historically been conservative while running the trading book. Hence, the main strategy is to keep the end of day trading positions at low levels.

GBI uses the Standardised Measurement Approach in order to calculate the capital requirement arising from market risk (trading book) under Pillar I.

Firstly, the net FX position is calculated using the shorthand method prescribed in Article 352 of the CRR; the net short and net long positions in each currency are converted at spot rates into the reporting currency. They are then summed separately to form the total of the net short positions and the total of the net long positions, respectively. The higher of these two totals is the Bank's overall net foreign exchange position. Secondly, as per Article 327, the net position in debt and equity instruments is the absolute value of the excess of an institution's long (short) positions over its short (long) positions in the instrument. The position risk is the sum of general risk and specific risk resulting from net positions in traded instruments.

<sup>18</sup> Gross exposure excluding impaired loans.

The below table gives the breakdown of GBI's market risk capital requirement as of 31.12.2021:

**Table 6.3-1**

(EUR 1,000)	31.12.2021	31.12.2020
Traded Debt Instruments	13.0	11.4
Equities	0.0	0.0
Foreign Exchange Risk	1,288.1	468.1
<b>Total Capital Requirement</b>	<b>1,301.2</b>	<b>479.5</b>

## 6.4. Operational Risk

GBI uses the Basic Indicator Approach in order to determine the regulatory capital requirement, which arises from operational risk.

The capital requirement is equal to 15% of the relevant indicator in this methodology. The relevant indicator is the average over three years of the sum of annual net interest and net non-interest income. The average of the sum of net interest income and net non-interest income over the past three years amounts to EUR 65.5 million in 2021, which results in a capital requirement of EUR 9.8 million.

**Table 6.4-1**

(EUR 1,000)	31.12.2021	31.12.2020	31.12.2019	31.12.2018
Sum of Net Int. and Non-Int. Income	73,056	59,700	63,800	79,497
<b>Total Capital Requirement</b>	<b>9,826</b>	<b>10,150</b>	<b>11,500</b>	<b>12,615</b>



## 7. ICAAP FRAMEWORK

GBI has designed a comprehensive ICAAP framework by making use of qualitative and quantitative assessment methodologies to assess the adequacy of the Bank's capital to cover various risks. The methodologies used are believed to be the most appropriate ones in line with the risk profile of GBI and they reflect the underlying risks in a prudent manner.

ICAAP starts with the assessment of the capital allocated for Pillar I risks. The capital calculations under Pillar I are referred to as Regulatory Capital (RCAP). GBI has specific assessment methodologies for credit, market and operational risks, which are used to come up with an Economic Capital (ECAP) figure. RCAP and ECAP are compared for each risk type under Pillar I and the maximum of RCAP and ECAP is taken as the outcome of ICAAP.

The second step is to take into account the additional capital requirements arising from the risks that are not taken into account in Pillar I. GBI has a dedicated assessment methodology for each material Pillar II risk. The capital requirement for the concentration risk and interest rate risk in the Banking Book (IRRBB) are calculated through quantitative techniques, whereas the strategic risk and business risk are assessed within the scope of capital plan and business viability analysis.

The Bank categorizes the materiality of risks as per the groups shown below. The categorization is made based on an appropriate qualitative or quantitative assessment of the particular risk type.

**Table 7-1**

Materiality	Definition	Likely Action
<b>1. Material</b>	The probability of a risk event leading to a significant or high impact is material.	Established controls and risk assessments are performed on a regular basis. Mitigating actions shall be taken. Adequate level of capital shall be allocated for the risk type where necessary
<b>2. Immaterial</b>	The probability of a risk event leading to a significant impact is low.	Established controls and risk assessments are performed on a regular basis. Mitigating actions are taken, where necessary. No capital is allocated for the risk type.
<b>3. Not Applicable</b>	Risk is not applicable at all.	No action taken.

GBI is subject to the risk types presented below as a result of the activities pursued by the Bank.

**Table 7-2**

Risk Type	Covered in
<b>Credit Risk</b>	Pillar I and Pillar II
<b>Concentration Risk</b>	Pillar II
<b>Market Risk</b>	Pillar I and Pillar II
<b>Interest Rate Risk on the Banking Book</b>	Pillar II
<b>Operational Risk</b>	Pillar I and Pillar II
<b>Strategic Risk</b>	Pillar II
<b>Other Risks</b>	Pillar II
<b>Liquidity Risk</b>	ILAAP Framework

## 7.1. Credit Risk

GBI has a dedicated ECAP model for credit risk, which is used as a benchmark to assess the adequacy of regulatory capital allocated for credit risk under Pillar I. A 99.9% confidence level is used in the ECAP calculations.

## 7.2. Concentration Risk

Concentration risk is defined as the risk arising from the concentration of credit exposure in a group of obligors vulnerable to the same or similar/correlated factors; e.g., sector concentration, country concentration, group concentration.

GBI continuously follows the credit risk positions of all obligors via a comprehensive management information system. Concentrations to individual customers, groups, countries and sectors are subject to limits, as per the Limit Framework of GBI. These concentration levels are tracked frequently by the CD, and monitored and discussed regularly in the relevant committees.

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

RMD monitors the concentration risk, quantifies its impact on the regulatory and economic capital, and reports to RMC and SB. GBI has developed an integrated quantitative methodology for the assessment of concentration risk. The concentration risk model, which is another form of economic capital methodology, takes into account the main concentration elements in the portfolio, namely single name concentration, country concentration and sector concentration, in a more conservative manner. The outcomes of the concentration risk model are supplemented by various stress tests.

The Bank complies with the requirements of the [“Policy rule on the treatment of concentration risk in emerging countries”](#), which is a specific regulation on concentration risk that entered into force in The Netherlands as of July 2010.

## 7.3. Market Risk

GBI uses Value-at-Risk (VaR) analysis as a risk measure for market risk on the trading book, in order to assess the adequacy of the capital allocated under Pillar I and in the daily limit monitoring process. VaR quantifies the maximum loss that could occur due to changes in risk factors (e.g., interest rates, foreign exchange rates, equity prices, etc.) for a time interval of one day, with a confidence level of 99%. This amount is multiplied by square root of 10 and multiplication factor of three (as a result of the daily back tests) in order to calculate the required capital. Limits based on VaR are defined and monitored periodically.

ALCO bears the overall responsibility for the market risk and sets the limits at product or desk levels. Global Markets Department actively manages the market risk within the limits provided by ALCO. Middle Office (MO) and ICU, which are both established as independent control bodies, monitor and follow-up all trading transactions and positions on an on-going basis. Trading activities are followed-up as per the position, stop-loss, sensitivity and VaR limits set by ALCO. Single transaction and price tolerance limits have been established in order to minimize the operational risks involved in the trading processes. RMD

is responsible for the maintenance of internal models, monitoring of risk-based limits and performing stress tests and presenting the results to the related committees.

VaR is supplemented by stress tests and scenario analyses in order to determine the effects of potential extreme market developments on the value of market risk sensitive exposures. Stress tests have the advantage of out-of-model analyses of the trading book. Hypothetical or historical scenarios are chosen and applied to the Bank's position regularly. These scenarios are reviewed periodically and updated when necessary. Currently the stress tests include 'factor push' type of tests where shocks are applied to the key market factors, as well as stress tests where historical scenarios such as the 2001 crisis in Turkey and the 2008 Lehman collapse are applied to the Bank's current portfolio

GBI manages currency risk and interest rate risk in line with the policies and the risk appetite set by the Supervisory Board. GBI uses FX hedging derivatives such as currency swaps, currency forward contracts and cross currency interest rate swaps in convertible currencies to manage the currency risk inherent to the balance sheet, and uses duration gap and sensitivity analyses for the quantification of interest rate risk. The outcomes of these analyses are used in decision-making processes for hedging and pricing. GBI uses interest rate swaps to hedge interest rate risk in major currencies in her banking book by converting the short term/floating interest into fixed interest or converting fixed interest into short term/floating interest, depending on the composition of the balance sheet. To avoid accounting mismatches due to differences in valuation between derivatives used for hedging and hedged items, GBI applies hedge accounting in accordance with IAS 39 as allowed under the newly adopted standard IFRS 9. GBI tests the effectiveness of cashflow hedges based on the critical terms comparison method, where the critical terms of the hedging instrument are compared with the terms of the hedged item. For fair value hedges the effectiveness is measured by means of a regression analysis test on a cumulative basis. Further information may be found in the section on Significant Accounting Policies in GBI's Annual Report 2021.

## 7.4. Interest Rate Risk on the Banking Book (IRRBB)

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

IRRBB is measured and monitored at each meeting of ALCO by using Duration, Repricing Gap and Sensitivity analyses. Sensitivity analyses are based on both economic value and earnings perspectives. Interest sensitivity is measured by applying standard parallel yield curve shifts, historical simulation and user defined yield curve twist scenarios. All analyses are based on the interest rate repricing maturities. Behavioural analyses are used for the products that do not have contractual maturities; for GBI the only product that falls under this condition is demand deposits. To assess the interest rate related behaviour of these liabilities, GBI conducts a demand deposit modelling analysis to predict deposit outflow patterns over time, taking into account historical deposit trends and various factors such as deposit age and market rates.

The Repricing Gap analysis shows interest bearing assets and liabilities broken down by when they are next due for repricing. This analysis is used as a supplementary measure to duration in order to point out interest bearing inflows/outflows and their maturities. Maturity calendar is disclosed in the Risk Management section of GBI's Annual Report 2021.

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

Economic Value of Equity (EVE) is defined as the economic value of assets less the economic value of liabilities. The standard parallel shock to risk-free yield curves, as defined in "EBA guidelines on the management of interest rate risk arising from non-trading activities", leads to a potential decrease in EVE of EUR 1.1 million (0.12% of the total own funds), which is below the regulatory threshold of 20%.

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

**Table 7.4-1**

<b>Economic Value Sensitivity Analysis<sup>19</sup></b> (EUR 1,000)	<b>EUR</b>	<b>USD</b>	<b>TOTAL</b>
<b>31.12.2021</b>			
Shift Up Net <sup>20</sup>	7,366	-4,414	-727
Shift Down Net <sup>20</sup>	-2,029	4,117	22
Change in Economic Value			
<b>Own Funds</b>			<b>588,989</b>
<b>Change in Economic Value / Own Funds</b>			<b>0.12%</b>
<b>31.12.2020</b>			
Shift Up Net <sup>20</sup>	15,744	-4,994	2,880
Shift Down Net <sup>20</sup>	-2,512	2,900	-1,063
Change in Economic Value			-1,063
<b>Own Funds</b>			<b>580,893</b>
<b>Change in Economic Value / Own Funds</b>			<b>0.18%</b>

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

All interest rate sensitivity analyses are also used for evaluating hedging strategies, internal limit setting and portfolio monitoring purposes, enabling GBI to manage interest rate risk in a proactive manner.

## 7.5. Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes potential losses caused by a breakdown in information or transaction processing and settlement systems and procedures, human errors, non-compliance with internal policies or procedures, including the possibility of unauthorized transactions by employees.

The Bank has embedded the 3 Lines of Defence model in its day-to-day activities. The first line is the business lines as they have the hands-on experience in their field. Risk and control functions including the compliance function act as the second line and are responsible for developing compliance policies, overseeing, monitoring and challenging the first line's execution. The second line of defence is also responsible for facilitating, advising and supporting the first lines. Finally, the Internal Audit Department

<sup>19</sup> Static balance sheet, based on instant liquidation.

<sup>20</sup> 200 Bps shock.

(IAD) acts as the third line of defence. IAD provides management with objective assurance on the overall adequacy of the design and effectiveness of controls in the first line and the second line.

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

GBI establishes and continuously reviews policies and procedures to set the internal rules and uses a "Risk and Control Matrix" to identify the risks in daily processes and to assess the effectiveness of the control points that mitigate these risks. It is based on self-assessment of individual departments and aims to control the operational risks inherent in all key processes of the Bank. The risk levels and the process control points identified as such are then reported to RMC.

The Bank's internal control framework for process risks, consists of daily controls performed by all controlling functions and by ICU, to ensure that the activities of the Bank are in compliance with the internal policies and that corrections are done in a timely manner on a consolidated basis.

GBI follows the Financial Institutions Risk Analysis Method (FIRM) for its operational risk for ICAAP. FIRM questionnaires are also used via a scoring methodology. The answers to the questions are translated into scores in a similar manner to that explained in the FIRM manual. The score outcomes are reviewed in order to make the necessary decisions (if any) to take mitigating action.

IT risk assessments are performed regularly based on the international Control Objectives for Information and Related Technology (COBIT) and national FIRM standards. The implementation of an Information Security Management System in accordance with internationally recognized standards (ISO/IEC 27001&27002) is a key objective of the Bank. This involves the systematic examination of the Bank's information security risks; the identification of threats and vulnerabilities and assessment of associated risk exposures; the implementation of a comprehensive suite of security controls to reduce or mitigate identified information security risks; conducting information security awareness training for all employees; the establishment of information security and information technology policies to manage potential exposures and a robust management process to ensure controls continue to meet the Bank's information security needs; and lastly, centralizing, standardizing and automating identity management services to reduce risk, cost and improve operational efficiency.

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

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

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

## 7.6. Reputational and Strategic Risks

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

Strategic risk is the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. GBI assumes low strategic risk to achieve its business goals in changing market conditions. Strategic risk is taken into account in the capital planning process and business viability analysis in order to account for the possible increase in the capital requirement based on the strategies or the business models that are chosen by GBI.

## 7.7. Other Risks

Risks around the business model are assessed through the Business Viability Analysis. Business risk is also continuously monitored as part of the concentration risk, and also through the near-default scenarios used in the Recovery Plan.

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

Following the adoption of the Paris Agreement on climate change and the UN 2030 Agenda for Sustainable Development in 2015, governments are making strides to transition to low-carbon and more circular economies on a global scale. On the European front, the European Green Deal sets out the objective of making Europe the first climate-neutral continent by 2050. Transitioning to a low-carbon and more circular economy entails both risks and opportunities for the economy and financial institutions, while physical damage caused by climate change and environmental degradation can have a significant impact on the real economy and the financial system.

GBI closely monitors the developments in the said area in parallel to practices on a Group level. GBI assesses the impact of climate-related and environmental risks on its business environment. Sustainability have been underlined under one of the 6 strategic priorities of GBI. In line with the practices within BBVA Group The evaluation of so called “transition risks” are also part of GBI’s ICAAP and extensively reviewed on a yearly basis.

## 7.8. Capital Plan

Capital planning is an integral part of ICAAP. GBI’s capital planning is performed based on various scenarios; one baseline scenario, which is in line with the Bank’s current expectations and financial budget, and one or more stress scenarios. The stress scenarios apply more conservative assumptions in order to assess the future capital adequacy of GBI under stressed economic and financial conditions. Stress test outcomes are used to assess the adequacy of the own funds for potential future capital requirements for the next three years.

The capital plan aims to cover as many aspects as possible, including expected profit, portfolio mix, capital structure and asset quality, in order to reflect the impact of several risk factors on the profitability and the capital adequacy of GBI at the same time. Changes in regulations, timelines, transitions, etc. are taken into account within the scope of the capital planning process



## 8. ILAAP FRAMEWORK

### 8.1. Liquidity Risk Governance

The main objective of GBI's liquidity risk policy is to maintain sufficient liquidity in order to ensure safe operations and a sound financial condition under both normal and stressed market conditions and a stable long-term liquidity profile.

To meet this objective, GBI performs an Internal Liquidity Adequacy Assessment Process (ILAAP) on an annual basis where all qualitative and quantitative aspects of liquidity risk management at the Bank are reviewed against supervisory recommendations and market best practices. The Framework is reviewed by the RCSB, which bears the overall responsibility at the Board level for ensuring that effective risk management is conducted by the Bank.

The ILAAP Framework also lays out the Bank's general funding strategy, which is determined in line with the risk appetite. The strategy is reviewed in conjunction with the budget process as part of the funding plan, another component of the annual ILAAP. The Supervisory Board then monitors whether the Bank remains in line with the strategy and the plan.

At the bank level, ALCO monitors liquidity risk, implements the appropriate policies defined by the risk appetite and ILAAP Framework and, makes pricing decisions through the Internal Transfer Pricing (ITP) process.

### 8.2. Liquidity Risk Monitoring

RMD performs the liquidity risk assessment, develops the required methodologies and conducts regular stress tests to ensure the Bank operates with sufficient liquidity. Liquidity risk is monitored through gap analyses, supplemented by multiple stress tests designed based on different scenarios. These analyses apply shocks with different magnitudes on the liquidity position. Scenarios are set based on bank-specific and market-wide liquidity squeezes. Behavioural analyses of the Bank's liabilities are used to determine some of the stress factors in both of these scenarios.

Compliance with regulatory requirements related to liquidity risk is an integral part of liquidity risk management at GBI. As such, the Bank ensures that it is in line with all regulations in place in its jurisdiction, and compliance with future regulations is part of its ongoing strategy and planning. In this context, the Bank monitors and reports the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as per the Capital Requirement Regulation (CRR). Hence, GBI actively manages the level and composition of its High Quality Liquid Asset (HQLA) buffer, which is composed of various types of assets including cash held at central banks and creditworthy financial counterparties, as well as freely available central bank-eligible or investment grade-marketable securities.

In addition to liquidity risk limits, the Bank has established several metrics as 'Early Warning Indicators' (EWIs), which could potentially trigger an action by management. EWIs includes stress testing results, market indicators and several other metrics.

All EWIs and liquidity analyses are reported to ALCO on a regular basis. ALCO reviews and plans the necessary actions to manage the liquidity gaps, and bears overall responsibility for the liquidity risk strategy. ALCO has delegated day-to-day liquidity management to the ALM, which is responsible for managing the overall liquidity risk position of the Bank, and the intraday liquidity as per the principles of intraday liquidity management, established in the ILAAP Framework. The ALM manages all maturing cash flows along with expected changes in business related funding requirements. The Treasury Operations Department performs the role of collateral management and executes the settlements of all transactions.

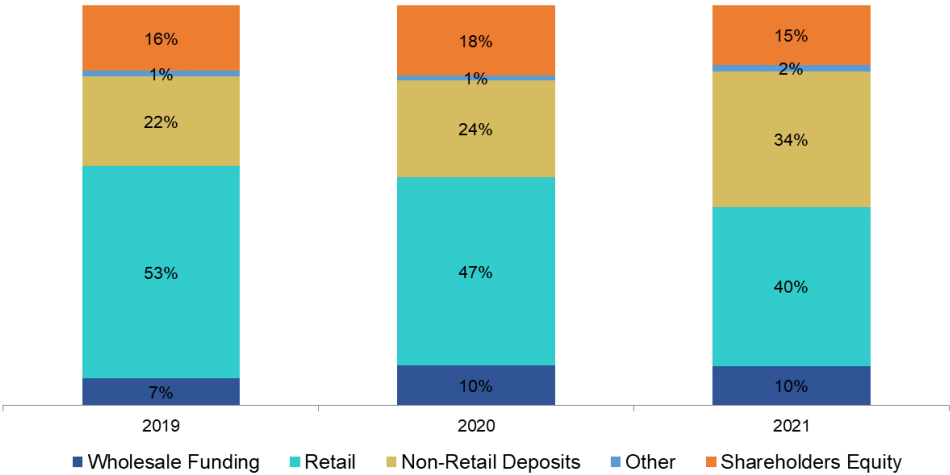


### 8.3. Funding Strategy

GBI's funding strategy is developed, applied and adapted as necessary using the management expertise as well as best market practices and regulatory requirements. The Bank aims for a well-diversified mix in terms of instrument types, fund providers, geographic markets and currencies. GBI obtains both unsecured and secured funding. The Bank's unsecured funding comes from a balanced mix of retail and wholesale sources.

Within wholesale funding, the Bank also balances the distribution between financial and non-financial counterparties. The non-financial counterparties, with which the Bank has established long lasting relationships through offering various financial services, constitute the major part of the wholesale funding. The remaining portion of wholesale funding is spread across interbank borrowing, transaction based borrowing, secured funding and GBI's syndicated loan. GBI's liabilities to banks include unsecured borrowing facilities from various counterparties. The breakdown of funding sources is provided below. Further information on asset encumbrance in funding can be found in Annex 3.

Figure 8.3-1



In terms of intragroup funding, GBI is not dependent on this funding source and conducts liquidity management independently of the parent company. Group related balances are disclosed in Note 2 of GBI's Annual Report 2021.

### 8.4. Liquidity Risk Profile

GBI's short-term lending strategy and stable funding provide natural mitigation for liquidity risk. The short-term lending strategy enables the quick accumulation of a liquidity buffer in stressed financial environments, and the equally efficient build-up of short term assets once the stress is past. The contractual maturity breakdown of assets and liabilities, disclosed in the Risk Management Section (Liquidity and Funding Risk) of GBI's Annual Report 2021, demonstrates that the Bank does not carry a large maturity mismatch. 74% of the loans/advances to corporate and banks, matures in less than one year.

The Bank maintains a high quality liquidity buffer as short term placements to central banks as well as investments in high quality debt securities eligible to be used in repurchase transactions with the Central Bank or in over-the counter repurchase transactions with other counterparties. The liquidity value of the debt securities is calculated using their market value and a conservative assumption of the volatility haircuts applicable in repurchase transactions. In case of a liquidity squeeze or in an emergency, GBI

has a detailed Liquidity Contingency Plan in order to enable the Bank to perform effective crisis management.

## 9. REGULATORY METRICS

The Capital Requirements Regulation and Directive (CRR/CRD IV) has been in place since January 1, 2014, and has phased in completely in 2020.

GBI was well positioned for the full phase-in implementation of the CRR, thanks to the key features of its business model: low leverage, a high quality capital base, and sound liquidity management. The impact of the changes in the definition of capital, as well as the minimum capital requirements, on GBI was limited since the Bank has a high common equity component and no hybrid capital products.

As a result of the Supervisory Review and Evaluation Process (SREP) carried out by the European Central Bank (ECB), GBI is required to maintain Pillar 2 requirement of 3.5% as from the 1<sup>st</sup> of March 2022.

This total capital requirement includes: i) the minimum common equity tier 1 capital (CET1) requirement under Pillar 1 (4.5%); ii) the additional tier 1 capital (AT1) requirement under Pillar 1 (1.5%); iii) the tier 2 capital requirement under Pillar 1 (2%); iv) the CET1 capital requirement under Pillar 2 (3.5%) which has decreased from 4% compared to previous SREP; v) the capital conservation buffer (2.5% of CET1); and vi) the countercyclical capital buffer (0.01% of CET1).

As of 31<sup>st</sup> of December 2021, GBI has a CET1 capital ratio of 21.69% and a total capital ratio of 21.83%. GBI's capital ratios are significantly above its applicable regulatory requirements.

Short-term and long-term liquidity standards, such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), respectively, were introduced by the CRR to protect the financial industry from potential liquidity shocks.

GBI's LCR and NSFR were at 517% and 159% as of 31 December 2021, well above the regulatory minimum levels. The Bank maintains a high liquidity buffer and, given its stable funding base, expects to continue meeting both liquidity requirements.

In addition to the changes in the minimum required solvency, a non-risk based measure, namely the Leverage Ratio, has been established to limit excessive leverages in the financial industry. GBI's leverage ratio, 13.8% as of 31 December 2021, is well above the regulatory minimum of 3%.

## 10. REMUNERATION

This section provides qualitative and quantitative information on the remuneration policies and practices followed by GBI.

### 10.1. Governance

GBI has implemented a meticulous, restrained and long-term remuneration policy in line with its strategy and risk appetite. The policy focuses on ensuring a sound and effective risk management through:

- establishing a stringent governance structure for setting goals
- observing both financial and non-financial criteria in performance assessment
- making fixed salaries the main remuneration component.

The policy reflects GBI's objectives for good corporate governance and meets the requirements as laid down in DNB's Guidelines on Controlled Remuneration Policy and the Dutch Banking Code, except for one item, which has been neutralized by applying the proportionality principle. GBI will not meet the bonus share part of the guidelines, because employees of GBI are not rewarded with shares of GBI, and the additional administration requirements are not comparable to the aggregate amount and level of variable remuneration distributed by the Bank.

The remuneration policy of GBI is prepared by the Human Resources Department, in close consultation with the Managing Board in line with the Group remuneration standards and regulatory guidelines. The Remuneration Policy is presented to the Remuneration Committee of the Supervisory Board. The Remuneration Committee prepares the decision making process for the Supervisory Board. The Supervisory Board approves the draft Remuneration Policy and advises the Shareholders to adopt the Policy in the Annual General Meeting of Shareholders.

### 10.2. Remuneration Committee

The roles and responsibilities of the Remuneration Committee are as follows:

- testing and monitoring periodically the general principles of the remuneration policy;
- execution of the remuneration policy;
- acting independently;
- being able to manage the incentives in relation to risk, capital and liquidity;
- consulting with the Managing Board and, where relevant, with Human Resources on all matters pertaining to the terms and conditions of employment of the Identified Staff and ensuring that the compensation of the Identified Staff and the policy on which it is based is fair, adequate and fully transparent.

The Remuneration Committee meets at least three times a year and consists of two members of the Supervisory Board one of which is an independent member. The Remuneration Committee makes a proposal for the remuneration of the individual members of the Managing Board and the Senior Management, for approval by the Supervisory Board. The Supervisory Board advises the Shareholders to adopt the proposed remuneration of the Managing Board in the Annual General Meeting of Shareholders.

The remuneration of the other members of the Identified Staff are reviewed once a year by the Managing Board in consultation with the Human Resources Department on the basis of the Bank's development and performance, the individual development and performance and changes in the consumer price index (cpi). The Managing Board shall advise the Remuneration Committee on the yearly review of the salaries of the other members of the Identified Staff. The remuneration of the non-

identified staff members is also reviewed once a year by the Senior Management in consultation with the Human Resources Department. The outcome thereof is presented for approval to the Managing Board.

### 10.3. Information on link between Pay and Performance

The Remuneration Policy is designed to ensure that cost effective packages that attract and retain the highest calibre employees and motivate them to perform to the highest standards are provided. The objective is to align individual rewards with the Bank's performance in a sustainable way and in relation to the budget, the parent bank's performance, the Bank's core values. Compliance with internal and external rules and regulations and individual performance both financial and non-financial with non-financial component accounting for at least 50% of the valuation, are also taken into account.

Depending on the assessment of the above-mentioned criteria, the Remuneration Committee may propose to distribute variable compensation to individual members of the Identified Staff. For the non-identified staff, Managing Board may decide within the set limits. If the Bank does not make any profit in the related calendar year, no variable compensation will be paid, regardless of the outcome of the assessment of the above-mentioned criteria.

The fixed remuneration is established taking into account the level of responsibility, the role and position of the individual employee and the local market conditions (collective labour agreement). In any performance year the variable remuneration shall not exceed 20% of the fixed component of the remuneration package.

### 10.4. Quantitative Information on Remuneration

Total breakdown of the remuneration (fixed salaries and severance payments) by business areas provided by GBI over performance year 2021 is provided in the table below.

**Table 10.4-1**

<b>Total remuneration over performance year 2021</b> (EUR 1,000)	<b>2021</b>	<b>2020</b>
Management Body	2,314	2,524
Commercial Units	6,359	6,033
Non Commercial Units	14,467	14,912
<b>Total</b>	<b>23,140</b>	<b>23,469</b>

The professional activities of staff, individually or collectively, can exert influence on a firm's risk profile. Accordingly, GBI analyses its job descriptions and responsibilities in relation to their possible impact on the Bank's risk profile. The Bank assesses the degree of seniority of individual members of staff, the size of the obligations into which a staff member may enter and as an overall criterion, the size of the bank is taken into account, as well as its internal organization and the nature, scope and complexity of the Bank's business.

On the basis of this assessment the Bank has 42 "Identified Staff"<sup>21</sup> who are designated based on qualitative and/or quantitative criteria. The total remuneration awarded to the 42 Identified Staff members are as shown below (excluding the variable remuneration for 2021) of which no member received a total remuneration of more than EUR 1 million.

<sup>21</sup> Excluding the 5 Members of the Supervisory Board

**Table 10.4-2**

<b>Remuneration for Identified Staff in 2021</b> (EUR 1,000)	<b>2021</b>	<b>2020</b>
Fixed salaries for the financial year	6,730	6,940
variable remuneration for the financial year (amount granted)	737	401
Number of beneficiaries that are granted variable remuneration for the financial year	46	43
Amount of outstanding deferred remuneration - vested part	338	301
Severance payments made in in the financial year (awarded in the financial year or earlier)	688	38
Number of beneficiaries that received severance payments in the financial year	4	1
Severance payments awarded (i.e. not paid) in the financial year	0	0
Number of beneficiaries awarded (i.e. not paid) a severance payments in the financial year	0	0
highest severance payment awarded in the financial year to a single person	223	38

It is the Bank's policy not to award any "sign-on" or "welcome" bonus payment. In the reporting year 2021, four severance payments have been made to Identified Staff members and no severance payments have been awarded but not yet paid.

An amount equal to 40% of the variable remuneration awarded over a performance year is been deferred by GBI and will become entitled to the deferred amount as it proportionally vests. It will become payable in three equal instalments during the period of upcoming three years. The first payment of the deferred variable remuneration allowance will be executed in the following performance year. Before the disbursement of the yearly deferred variable remuneration component, the Bank applies the ex-post risk adjustment malus arrangement and will still be able to adjust the deferred variable remuneration (by ways of reduction) on the basis of a re-evaluation of the employee's performance. Further, GBI has the right to reclaim the variable remuneration paid if it is established that the variable remuneration was based on incorrect (financial) data or objectives or when it concerns a breach of code of conduct, a fraudulent action or have led to considerable loss and/or damage to the reputation of GBI and / or group entity.

With regards to the regulatory framework concerning compensation, a specific settlement and payment system for variable compensation has been established for those employees of the Bank whose professional activities have a material impact on the BBVA risk profile. Identified Staff who fall under this definition have a different payment scheme compared to the remainder of the Bank's Identified Staff. For the Identified Staff within the scope of BBVA, 50% of the variable remuneration component consists of BBVA shares. The payment scheme flows as follows:

- Variable remuneration component is split into 50% cash and 50% shares settlement.
- 60% of 2021 annual variable compensation, as shares and as cash is paid and 40% is deferred for 3 years.

Further details on the remuneration are disclosed in note 25, 26 and 27 of GBI's Annual Report 2021.

## Annex 1- Own Funds Disclosure

EBA has published Implementing Technical Standards for disclosures on details of banks' own funds instruments, to allow comparisons across the industry. The column representing 'amount subject to pre-regulation treatment' in the original EBA template is 0 (zero) for all items for GBI, hence this column has been excluded from the table.

(EUR 1,000)	Amount at 31.12.2021
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	136,836
<i>of which: paid-in capital</i>	136,836
<i>of which: instrument type 2</i>	-
<i>of which: instrument type 3</i>	-
Retained earnings	454,310
Accumulated other comprehensive income (and other reserves)	-128
Funds for general banking risk	-
Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from CET1	-
Public sector capital injections grandfathered until 1 January 2018	-
Minority interests	-
<i>of which: independently reviewed interim profits net of any foreseeable charge or dividend</i>	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	591,018
CET1 capital: regulatory adjustments	-
Additional value adjustments (-)	-114
Intangible assets (net of related tax liability) (-)	-4,033
deferred tax assets that rely on future profitability excluding those arising from temporary differences	-
Fair value reserves related to gains or losses on cash flow hedges	-
Negative amounts resulting from the calculation of expected loss amounts	-
Any increase in equity that results from securitised assets (-)	-
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-
Defined-benefit pension fund assets (negative amount)	-
Direct and indirect holding by an institution of own CET1 instruments (-)	-

Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (-)	-
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Empty set in the EU	-
Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-
<i>of which: qualifying holdings outside the financial sector (-)</i>	-
<i>of which: securitisation positions (-)</i>	-
<i>of which: free deliveries (-)</i>	-
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related eligible tax liabilities)	-
Amount exceeding the 15% threshold	-
<i>Of which: direct and indirect holding by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities</i>	-
Empty set in the EU	-
<i>of which: deferred tax assets arising from temporary differences</i>	-
Losses for the current financial year (-)	-
Foreseeable tax charges relating to CET1 items (-)	-
Regulatory adjustments applied to CET1 in respect of amounts subject to pre-CRR treatment	-
Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	-
<i>Of which: .... Filter for unrealised losses</i>	-
<i>Of which: .... Filter for unrealised loss on exposures to central governments classified in the "available for sale" category in the EU endorsed IAS 39.</i>	-
<i>Of which: .... Filter for unrealised gains</i>	-
<i>Of which: .... Filter for unrealised gains on exposures to central governments classified in the "available for sale" category in the EU endorsed IAS 39.</i>	-
Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre CRR	-
<i>Of Which: ...</i>	-
Qualifying AT1 deductions that exceed the AT1 capital of the institution (-)	-
Insufficient coverage of non-performing exposures	-1,447
Total regulatory adjustments to CET1	-5,595

CET1 capital	585,423
Additional Tier 1 (AT1) capital: instruments	-
Capital instruments and the related share premium accounts	-
<i>of which: classified as equity</i>	-
<i>of which: classified as liabilities</i>	-
Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from AT1	-
Public sector capital injections grandfathered until 1 January 2018	-
Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	-
<i>of which: instruments issued by subsidiaries subject to phase out</i>	-
AT 1 capital before regulatory adjustments	-
AT1 capital: regulatory adjustments	-
Direct and indirect holding by an institution of own AT1 instruments (-)	-
Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (-)	-
Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Regulatory adjustments applied to AT1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Reg. (EU) No 575/2013	-
Residual amounts deducted from AT1 capital with regard to deduction from CET1 capital during the transitional period pursuant to art. 472 of Reg. (EU) No 575/2013	-
<i>Of which: intangibles</i>	-
<i>Of which: shortfall of provisions to expected losses</i>	-
Residual amounts deducted from AT1 capital with regard to deduction from T2 capital during the transitional period pursuant to art. 475 of Reg. (EU) No 575/2013	-
<i>Of which items to be detailed line by line, e.g., reciprocal cross holding in T2 instruments, direct holding of non-significant investments in the capital of other financial sector entities, etc.</i>	-
Amount to be deducted from or added to AT1 capital with regard to additional filters and deductions required pre CRR	-
<i>Of which: ... possible filter for unrealised losses</i>	-
<i>Of which: ... possible filter for unrealised gains</i>	-
<i>Of which: ...</i>	-
Qualifying T2 deductions that exceed the T2 capital of the institution (-)	-



Total regulatory adjustments to AT1 capital	-
AT1 capital	-
Tier 1 capital (T1= CET1 + AT1)	585,423
Tier 2 (T2) capital: instruments and provisions	-
Capital instruments and the related share premium accounts	-
Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from T2	-
Public sector capital injections grandfathered until 1 January 2018	-
Qualifying own funds instruments included in consolidated T2 capital issued by subsidiaries and held by third parties (excluding row 5 and 34)	-
<i>of which: instruments issued by subsidiaries subject to phase out</i>	-
Credit risk adjustments	-
T2 capital before regulatory adjustments	-
T2 capital: regulatory adjustments	-
Direct and indirect holding by an institution of own T2 instruments and subordinated loans (-)	-
Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (-)	-
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
<i>Of which new holdings not subject to transitional arrangements</i>	-
<i>Of which holdings existing before 1 January 2013 and subject to transitional arrangements</i>	-
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Reg. (EU) No 575/2013	-
Residual amounts deducted from T2 capital with regard to deduction from CET1 capital during the transitional period pursuant to art. 472 of Reg. (EU) No 575/2013	-
<i>Of which: shortfall of provisions to expected losses</i>	-
Residual amounts deducted from T2 capital with regard to deduction from AT1 capital during the transitional period pursuant to art. 475 of Reg. (EU) No 575/2013	-
<i>Of which items to be detailed line by line, e.g., reciprocal cross holding in T2 instruments, direct holding of non-significant investments in the capital of other financial sector entities, etc.</i>	-
Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre-CRR	-
<i>Of which: ... possible filter for unrealised losses</i>	-
<i>Of which: ... possible filter for unrealised gains</i>	-

<i>Of which: ...</i>	-
Total regulatory adjustments to T2 capital	3,567
Tier 2 capital	3,567
Total capital (TC = T1 + T2)	588,990
RWA in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Reg. (EU) No 575/2013	-
<i>Of which: ... items not deducted from CET1</i>	-
<i>Of which: ... items not deducted from AT1 items</i>	-
<i>Of which: ... items not deducted from T2 items</i>	-
Total risk weighted assets	2,698,562
<b>Capital ratios and buffers</b>	
CET1 (as a % of total risk exposure amount)	21.69%
T1 (as a % of total risk exposure amount)	21.69%
TC (as a % of total risk exposure amount)	21.83%
Institution specific buffer requirement	6.51%
<i>of which: capital conservation buffer requirement</i>	2.5%
<i>of which: countercyclical buffer requirement</i>	0.01%
<i>of which: systemic buffer requirement</i>	-
<i>of which: G-SII or O-SII buffer</i>	-
CET1 available to meet buffers (as a % of risk exposure amount)	18.33%
<b>Amounts below the thresholds for deduction</b>	
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-
Applicable caps on the inclusion of provisions in Tier 2	-
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach	-
Cap on inclusion of credit risk adjustments in T2 under standardised approach	-
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach	-

Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (1 Jan 2014 - 1 Jan 2022)	-
Current cap on CET1 instruments subject to phase out arrangements	-
Amount excluded from CET1 due to cap	-
Current cap on AT1 instruments subject to phase out arrangements	-
Amount excluded from AT1 due to cap	-
Current cap on T2 instruments subject to phase out arrangements	14,882
Amount excluded from T2 due to cap	-

## Annex 2 - Asset Encumbrance

EBA has published guidelines and a template for additional disclosures on asset encumbrance. Hence, GBI provides the information below on the extent of asset encumbrance at the Bank as of 31.12.2021.

<b>(EUR 1,000)</b>	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
<b>Total</b>	<b>313,423</b>		<b>3,816,441</b>	
<b>Debt securities</b>	250,198	250,198	0	
<b>Other assets</b>	63,225		3,816,441	

Asset encumbrance at GBI arises from collateral pledging for derivative transactions, repurchase transactions, and other sources of secured funding.

<b>(EUR 1,000)</b>	Matching liabilities	Encumbered Assets
Carrying amount	<b>339,040</b>	<b>313,423</b>

<b>(EUR 1,000)</b>	Fair value of encumbered collateral received	Fair value of collateral received available for encumbrance
Collateral received	<b>25,617</b>	

Further information on pledged assets is provided in the Risk Management Section (Asset encumbrance) of GBI's Annual Report 2021.



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