ICAAP Report

I. Introduction

The purpose of this report issued by GPB International S.A. (hereinafter “GPBL” or “Bank”) is to comply with the regulatory disclosure requirements of Commission de Surveillance du Secteur Financier (Circular 06/273 part XIX “Disclosures by Credit Insitutions”). As per provisions set out in Part XVII of Circulars CSSF 06/273 and CSSF 07/290, the Bank has to have in place the internal capital adequacy assessment process and the related annual disclosure.

The Basel III Framework is based on three Pillars:

1.1. Pillar I

Pillar I defines the regulatory minimum capital requirements by providing rules and regulations for the measurement of credit risk, market risk and operational risk. The capital requirements have to be covered by regulatory own funds.

1.2. Pillar II

Pillar II addresses the bank’s internal processes for assessing overall capital adequacy in relation to risks (Internal Capital Adequacy Assessment process – ICAAP). Pillar II also introduces the Supervisory review and Evaluation Process (SREP), where the supervisor assesses the Internal Capital adequacy Assessment Process.

1.3. Pillar III

Pillar III focuses on disclosure requirements, covering the key information required to assess the risk profile and capital adequacy of a credit institution. Pillar III aims to promote greater market discipline by enhancing transparency in information disclosure. It requires more information concerning risks, risk management practices to be available to the public.

This document provides the Pillar II / Pillar III disclosure requirements for the Bank on a standalone basis as a subsidiary governed by Luxembourg law. The disclosure provided in this report should be read in conjunction with the Bank’s Annual Report 2014. Annual Report 2014 as well as ICAAP report are available on the web-site of the Bank.

Through its normal course of business the Bank is exposed to a number of risks, the most significant are credit, liquidity, market, operational and reputation risks. Risks arising from the Bank’s activities are closely monitored by the Bank’s management with the primary objective of minimizing risk exposures, safeguarding the assets of clients and shareholders and retaining client’s trust.

The risks of the Bank are managed and controlled through various tools and reports. The risks are monitored by the Business Lines that represent the first line of defense. The Chief Risk Officer is responsible for the risk management and risk control set-up and execution and performs the independent controls – second line of defense. The internal audit function forms a third line of defense. Management of the Bank creates a sound control environment to promote compliance with internal rules and limits as well as relevant legal and regulatory requirements.

II. Capital Adequacy Requirements

2.1.Own funds

In accordance with its obligations under the European Directive on Capital Adequacy, the Bank is required to maintain sufficient own funds to cover the risks it is or could be exposed to while ensuring compliance with its commitments and continuity of its services. The own funds of GPBL are based on the recent figures and are composed of the Tier 1 capital only, which consists of Eligible Capital. GPBL does not hold any Tier 2 or Tier 3 Capital as of 31.12.2014. The 2013 figures are not filled due to the fact that the business activities of GPBL started only in early 2014 and the new COREP tables were applicable from 2014 onwards only.

Original own funds (Tier 1)	**31.12.2014 (EUR)**
Paid up capital	20’000’000
Reserves	(1’762’166)
Intangible Assets	(608’732)
Net Profit / Loss of the current year	(6’496’786)
Total own funds	11’132’316

2.2.Required Funds

Credit Risk (Standardized approach)	**31.12.2014 (EUR)**
Central Governments or Central Banks	-
Institutions	657’054
Corporates	491’271
Retail	8’167
Other items	-
Total capital required for credit risk	1’156’492
Market Risk (Standardized approach)	**31.12.2014 (EUR)**
Settlement risk	-
Foreign exchange	-
Total capital required for market risk	-
Operational risk (Basic indicator approach)	**254’282**

2.3.Memorandum items

	31.12.2014 (EUR)
Total own funds	11’132’316
Total required funds	1’410’774
Surplus (+) / Deficit (-) of own funds	9’721’542
Solvency Ratio	0’6313
Internal assessment of capital needs	

The Solvency Ratio of GPBL is above the regulatory required minimum of 8%.

III. Capital Adequacy Assessment

3.1.General Approach

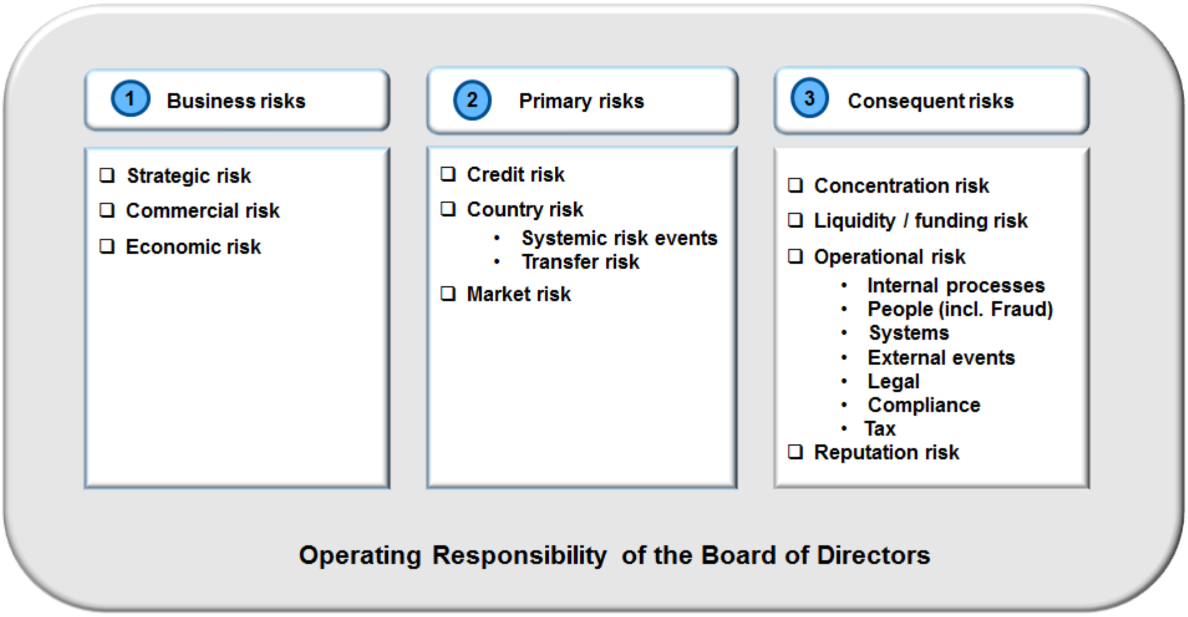
In accordance with Circular 07/301 of the Commission de Surveillance du Secteur Financier, the Bank has implemented an Internal Capital Adequacy Assessment process (the "ICAAP").

The Bank manages its capital and thus the allocation of capital to the business segments based on the requirement to maintain the target Pillar I Capital Requirements implemented by the Pillar II Capital Requirement for each type of risk identified during the ICAAP.

The primary activity of the Bank within the Gazprombank Group is an agent / counterparty role for the special products, transactions and services, being an integrated part of the Group's business cycle. Due to the fact, that the amount of transactions is small, it is unrealistic to claim diversification benefits. Consequently, the Bank derives the overall internal capital requirement by a simple aggregation of the requirements for each type of risk.

3.2.Risks structure:

As of 31.12.2014 the Bank has identified the following categories of risks:



Annually the format assessment of these risks is performed by General Directorate and is approved by Board of Directors. In 2014 the annually assessment was performed as following:

Risk	Sub risk	2014 Risk Assessment	Trend	Key factors
Strategic risk	Systemic risk	High	Increasing	Impact of sanctions on the Russian companies

Commercial risk	High risk appetite	Low	Stable	No risky transactions are planed
Economic risk	Reduction of income	High	Increasing	Follow up of strategic risk → Low volume of business
Credit risk	Default risk: customers	Medium	Increasing	Impact of systemic Russian risk on counterparties
	Default risk: banks	Low	Stable	No/Minimum of unsecured market placements
Country risk	Systemic & transfer risk	Medium	Increasing	Systemic risk on the Russian Federation
Market risk	Trading activities	Low	Stable	No Trading Portfolio
	Investment activities	Low	Stable	No Investment Portfolio
Concentration risk	n/a	High	Stable	High concentration on Russian market / Individual transactions
Liquidity risk	Cash adequacy	Low	Stable	Cash is adequate for the costs coverage
	Funding	High	Stable	Limited funding
Operational risk	Process risk	Medium	Down	1st operational year → establishing processes
	IT risk	Medium	Down	1st operational year → establishing IT-Landscape
	External events (nature)	Low	Stable	Risk acceptable. No significant information.
	People (Personnel) risk	Medium	Stable	Small organization → Missing deputies
	Compliance risk	Medium	Increasing	High share of the clients category risk 2 and 3; Impact of sanctions on Russian companies
	Legal risk	Medium	Increasing	No open legal cases but impact of sanctions on the Russian companies
	Tax risk	Low	Stable	No open issues with tax authorities.
Reputation risk	n/a	Medium	Increasing	Impact of international political crisis related to Russia

3.3. Business risks: strategic risk, commercial risk & economic risk

Strategic risk is a potential loss from the wrong interpretations of the business strategy and adverse business decisions

Commercial risk arises when the bank intentionally takes high risks and the risk appetite of the bank overruns its risk capacity.

Economic risk is a potential reduction of the bank's income that does not cover bank's expenses and debt service.

Strategic and economic risks are assessed as high due to the influence of international sanctions that were imposed on Russian Companies and Individuals in 2014. The possibility of additional sanctions prevents the Gazprombank Group and its key clients from placing funds in EU as well as from organizing the financing structures through the GPBL. It leads to the delay in the implementation of the initial business model of the Bank as well as to the significantly smaller business volumes as it was initially considered. Consequently the Bank had no high commercial risks in 2014.

There are no special capital provisions for business risks in the capital adequacy planning. The capital increase of 10 Million EUR was approved during the last BoD Meeting in December 2014.The further capital injections will be required in case there will not sufficient income to cover the costs of the Bank.

3.4.Primary risks: credit risk incl. country risk

3.4.1. Subject

Credit risk is defined as the exposure to the potential event that a borrower or counterparty will fail to meet its obligations in accordance with the agreed items.

Country risk is the risk of loss resulting from country-specific event and includes systemic & transfer sub-risks:

- Systemic risk - country-specific political or macroeconomic developments
- Transfer risk - whereby country authorities prevent or restrict the payment of an obligation.

The Board of Directors possesses the authority to set up the principles on which decisions are made and to fix rules relating to the granting, extension or restructuring of a credit by the Bank (general credit policy, country limits etc.) The General Directorate is responsible for the application of these principles. To minimize the credit risk, the limits for credit exposure are defined taking into account the expertise of local as well as Group risk management and are approved within the authority framework of Gazprombank Group.

The counterparty limits framework contains three types of internal limits as of 31.12.2014:

- Country limits

Country	Internal limit (Mio. EUR)	Comments
European Union	Unlimited	European Union is considered to be a domestic market for GPB International S.A. It means no country risk for EU is assumed. Engagements in this country could be done w/o restrictions but for the countries with the PoD > 10% and/or with the S&P Rating below B-.
Switzerland	550	The exposure to Switzerland is restricted to the sum of the counterparty risks towards GPBS.
Russian Federation	600	Russia is considered to be the main market for the Bank due to its business model. The exposure to Russia is restricted to the sum of the counterparty risks towards Russian Bank & Companies

		taken by the GPB International S.A
United States of America	5	The country limit for USA equals to the settlement limit for the nostro account in DB Bankers Trust.

- Limits for Banks-Counterparties

In order to manage the credit risk in relation with the treasury activities and in line with the regulatory requirements, the limits for authorized counterparties have been fixed. The limits are established for several top European and Luxembourgian banks as well as for Bank GPB.

- Limits for Customers

The GPBL credit activity covers the commercial loans only. No lending to investment funds, related entities or private clients occurred in 2014. As of 31.12.2014 there were 3 short term loan exposures in portfolio:

Type of credit exposure	Exposure	Maturity	Collateral	Country risk	Industry
Fixed advance	2.5 Mio. EUR	27.01.2015	Blanco	Russia	Oil Industry
Fixed advance	2.5 Mio. EUR	26.01.2015	Blanco	Russia	Metallurgy
Fixed advance	2.5 Mio. EUR	27.02.2015	Fixed assets	Belgium	Metallurgy

The control measures implemented by the Bank, in order to monitor and limit credit risk, focus on analysis of the financial standing and reputation of the borrowers, the existence and sufficiency of collateral pledged as security for loan facilities, and periodic reviews of the creditworthiness of borrowers.

Based on the methods, how credit risk is managed at GPBL, for the time being it has been decided not to develop any specific internal methodology for the allocation of capital to credit risk. Thus, the Bank has conservatively decided to use the result of the Standardized Approach for its quantification of the credit risk. The standardized risk approach increases the risk sensitivity of the capital framework by recognizing that different counterparties within the same loan category present different risks to the lending institution. Thus, instead of placing all commercial loans in the 100% risk weighting basket, the standardized approach takes into account the credit rating of the borrower and additional risk mitigating collaterals.

3.4.2. Loan allowances (provisions)

The establishment of loan allowances requires objective evidence of impairment and a reliable estimation about the future cash flows of the financial asset(s) concerned, In addition a formal decision needs to be taken by the respective Business owner and the Risk Control department and approved by the competence owner. During 2014 no loan allowances have been established.

3.5. Primary risks: market risk

Market risk is the risk of loss arising from adverse changes in market conditions, including interest rates, foreign exchange rates and market prices of investments. Market risk includes a.o. FX-risk and Interest rate risk. The Bank has limited exposure to market risk assured through minimum possible internal FX-limit and no open internal interest rate limits. The Bank's strategy in 2014 has foreseen neither proprietary trading book nor own investment portfolio. The main task of the trading desk was to handle execution of client orders in accordance with the Bank's Order & Best Execution policy.

- FX-risk

FX-open position limit equals to 150 TEUR which is a minimum trading slot. The FX open position of the Bank is controlled daily by Risk Control Function. All overdrafts if any must be justified. In 2014 this limit was daily adhered to.

- Interest rate stress scenario of +/ -200 bp

The CSSF proposes in its circ. 08/338 to have a scenario of a shift of the interest yield curve of 200 bp. Due to the fact, that the market risk is very low, because GPBL is not engaged in trading activities for its own account and because the Bank has no significant positions in derivatives, the Bank considers the proposed scenario by CSSF as adequate for the Bank. The stress test is performed on all interest rate risk positions. A regulatory market risk reporting is sent to CSSF on a semi-annual basis. The effects on the capital are not significant: 18.8 TEUR in cash of the increase of interest yield curve (+200 bp.) and 156 EUR in case of decrease of interest rate curve (-200 bp.)

The Bank has chosen the standardized approach to calculate own funds requirements for market risk. According to this method, there was no capital requirement to cover market risk as of 31.12.2014.

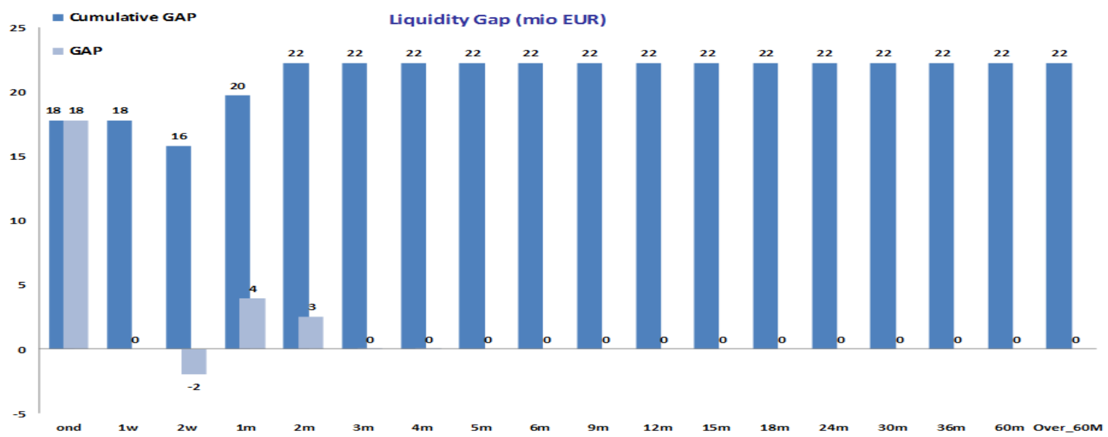
3.6. Secondary risks: concentration risk

The bank is highly dependent on parent company and on Russia generally, in particular – on Russia capital and on the Russian clients. Due to the international sanctions that were introduced towards Russian companies in 2014, there are limited possibilities to get external funding and to enhance the client base. It leads to the significant Russian concentration on the assets side as well as on the liabilities side.

No special capital provisions are made for concentration risk.

3.7.Secondary risks: liquidity & funding risk

Liquidity & funding risk represents bank's inability to meet its payment obligations when due or to borrow funds in the market at an acceptable price to fund actual or proposed commitments. Liquidity position as of 31.12.2014 was as following:



The liquidity position of the Bank is controlled daily by Risk Control Function. No special capital provisions are made for liquidity & funding risk.

3.8. Secondary risks: operational risk

Operational risk is the potential loss resulting from inadequate or failed internal processes, people or systems, or from external causes, whether deliberate, accidental or natural. It includes risks related to legal, compliance and tax matters.

Mitigation of risk is performed through the set-up of an operational risk framework in order to ensure that all risks are properly managed and controlled. All identified risks are tracked and monitored in the Risk Inventory and reported via the Key Risk Indicators framework. Mitigation of operational risks is also achieved through:

- Segregation of duties and elimination of conflicts of interests
- Adapting appropriate operations and administrative systems to the Bank's activities
- Maintaining an adequate internal control environment
- Maintaining an effective Compliance Function
- Maintaining an effective Risk Management & Risk Control Function

Operational risk is measured using the Basic Indicator Approach (BIA). The calculation is based on the arithmetic average of the last three year's sum of revenues, multiplied by 15%. The calculation of the simple arithmetic average shall be based on the positive amounts. If, for any given reason, the sum of revenues is equal to zero or negative, this figure shall not be taken into account in the calculation of the average for the determination of the Basic indicator. The calculation performed by GPBL is based on financial figures from the financial regulatory reporting based on local regulatory reporting standards (FINREP) - see the figures in Chapter 2.2.

The separate reporting of compliance function as well as risk management function also form a part of operational risk management.

3.9. Secondary risk: reputation risk

The reputation risk of the bank in 2014 was highly impacted by the geopolitical developments and in the first line – by international sanctions that were imposed on Russia: Russian companies, Parent Bank and GPBL itself. No quantification /no provision of/for the reputation risk were performed. However, in light of external developments 2014 it was no longer possible to implement the initial business model. Accordingly the changes in the short till mid-term strategy of the Bank will follow the macroeconomic development.

3.10. Miscellaneous

The CSSF Circular 07 / 301 considers the necessity of special provisions for the wealth management activities. It is currently out of scope for GPBL because the Bank does not provide services related to wealth management and has no wealth management clients.

The CFFS Circular 07 / 301 require the special provisions in relation to stress testing. Due to the limited business activities and no external funding, there is no additional stress testing in place besides the required interest risk stress testing, which is described in the chapter 3.5.

IV. Roles & Responsibilities regarding the Internal Capital Adequacy Assessment Process

Capital Adequacy Assessment Process is closely linked to the strategy of the bank for the further development and is based on the budgeting process of the Bank. The ICAAP is integrated in the Bank's decision and management process and reflects all the risks to which the Bank is or could be exposed.

The ICAAP is subject to a periodic review in order to ensure that:

- The coverage of risks remains comprehensive and adapted to the scale, diversity & complexity of Bank's activities.
- And that the amount and the distribution of internal capital are appropriate in relation to the business activities and risks incurred.

The ICAAP is adequately documented in the bank's internal policy "Own Funds and Liqudity Policy". Following responsibilities are identified:

4.1.Board of Directors

The Board of Directors is responsible for:

- Setting the risk strategy, the risk capacity and the risk appetite
- Approval of internal risk limits
- Approving on an annual basis the risk and capital management processes of the Bank

4.2.General Directorate

The General Directorate is responsible for:

- Implementing the GBPL management strategy , by setting a management structure, internal controls, organizations and systems
- Overseeing and managing the risk profile and capital management of GPBL
- Approving standards, concepts and methodologies for controlling risks and managing capital within the principles approved by the Board of Directors
- Approving the Risk Guidelines (Risk Charter) and the Own Funds & Liquidity policy
- Communicating the Risk Guidelines & Own Funds & Liquidity Policy within the Bank
- Periodically reviewing the Adequacy and implementation of the Risk Policy and Capital Policy as well as underlying processes & controls
- Reporting to the Board of Directors on the adequacy of the risk and capital management framework

4.3.Risk management & Risk Control

Risk Management & Risk control, which is a function independent from business lines, is responsible for:

- The development, implementation and monitoring of Bank's risk control principles, frameworks, limits and processes
- The coordination and compilation of the key risk reports
- Acting as a single point of entry for any new initiatives (new products / new business lines)
- Compilation and reviewing of the ICAAP documentation
- The review of the risk appetite and the assessment of stress scenarios together with respective departments
- Ensuring that a formal update of the reviewed ICAAP with the subsequent ICAAP report occurs on an annual basis at the beginning of each calendar year prior to the first Board of Directors Meeting. The formal update shall be performed in Risk Management & Risk Control Department, shall be supported by the Accounting Department and by the Compliance department; the subsequent approval shall be provided by General directorate before being submitted to the Board of Directors.
- Management of the Bank also ensures that the Risk Management & Risk Control function remains proportionate to the scale diversity and complexity of the activities of the Bank and the organization and has in its disposal the tools and resources in order to perform its duties in an effective and efficient manner.

4.4. Compliance

The Compliance Function is in charge with the management and mitigation of the compliance risks, and provides support to the Risk Function in the global risk assessment of the institution.

Compliance function reviews the ICAAP Report before it being presented to the General Directorate and to the Board of Directors and ensures that the ICAAP Process is operated effectively.

4.5.Business Lines

The heads of business departments are responsible for the identification, management & monitoring of the arising risks in their dedicated business areas. Even if the function could not always be properly segregated, it shall be clearly specialized and assigned.

4.6.Accounting department

Accounting is responsible for the monitoring of minimum capital requirements and capital adequacy ratio. Accounting regularly assesses the necessary level of capital, monitors that the regulatory minimum level are fulfilled at all time and regularly reports the capital situation to other departments and to General Directorate.