BANK GPB INTERNATIONAL S.A.

MEMBER OF GAZPROMBANK GROUP

Pillar 3 Disclosure Report 2020

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1. Introduction

The Pillar 3 Disclosure report prepared by Bank GPB International S.A. (**"Bank"**, **"GPBL"**) provides detailed disclosures about the approaches the Bank takes to managing risk and assessing capital adequacy. The report is prepared in accordance with Part Eight of Regulation (EU) No 575/2013 (**"CRR"**) on disclosures by institutions. Additional relevant information may be found in the Bank's Financial Statements for the year ended 31 December 2020, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union as well as in the Bank's Annual report both published on the Bank's website.

The report has the following structure:

Chapter 2 provides a summary of the Banks's risk governance and management. It includes the main features of the Banks's operational plan, risk management organization, risk appetite framework, and risk management operational guidelines. It also describes the Internal Capital and Liquidity Adequacy Assessment Process.

Chapter 3 contains the core information of the report: the Banks's capital adequacy and risk-weighted assets (RWA) break-down.

The subsequent chapters cover respectively credit, market, operational and interest rate risk on positions not included in the trading book.

Chapter 8 summarizes information about the amount of unencumbered assets of the Bank.

Chapter 9 and 10 provide information on the measurement of liquidity risk and leverage at the Bank, respectively.

Use of particular instruments and methodologies, namely credit risk mitigation techniques, is described in Chapter 11.

Chapter 12 is dedicated to the Bank's disclosures of the impacts stemming from the current market circumstances which arose after the reporting date.

Finally, Chapter 13 summarises the prevailing disclosure requirements as the basis for the preparation of this Pillar 3 Disclosure Report.

2. General Risk Management Framework

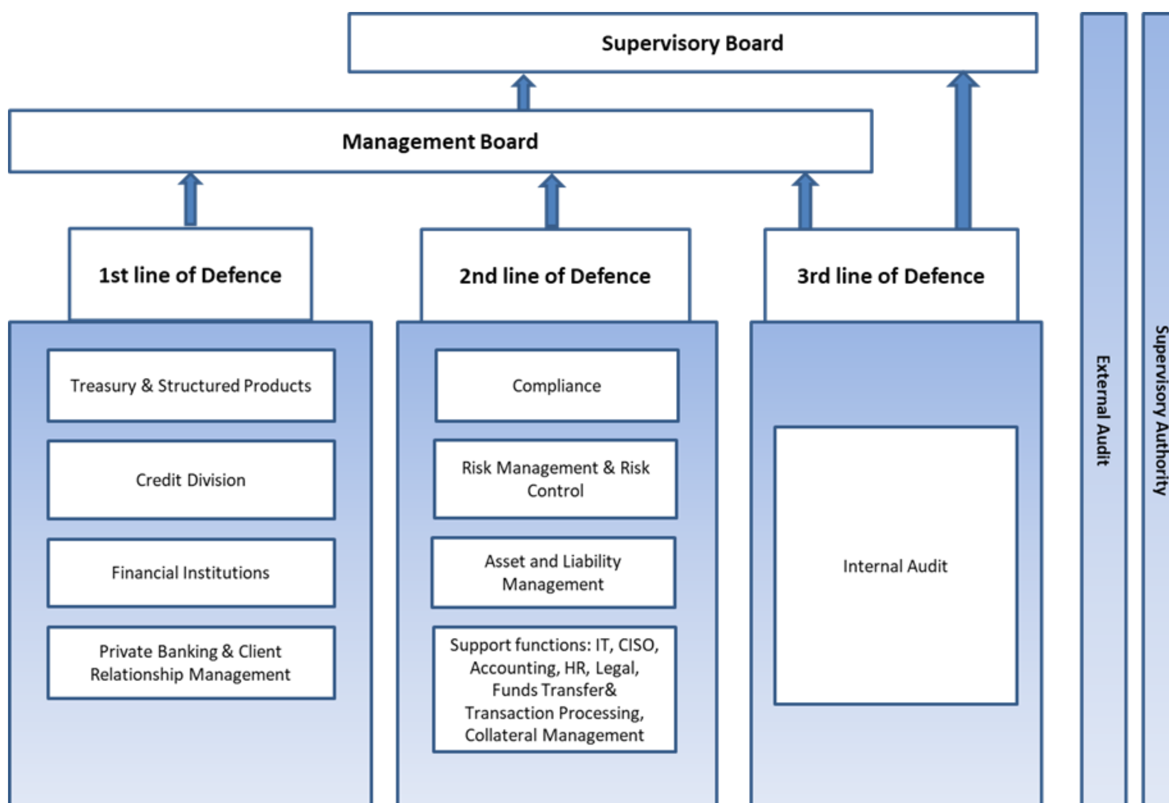
2.1. Risk management objectives and policies

The Bank operates under a two-tier structure comprising the Supervisory Board and the Management Board.

The function of the Supervisory Board is to ensure it maintains a complete overview and gives general strategic advice to the executive management vested in the Management Board. Specialised audit and risk as well as renumeration and human resources committees were created at the Supervisory Board level to ensure closer supervision of relevant areas.

Taking into account the requirements of the Circular 12/552 on Central administration issued by the Commission de Surveillance du Secteur Financier (**"CSSF"**), internal governance and risk management as amended by Circulars 13/563 and 14/597, the Bank implemented an internal control framework based on a three-line-of-defence model, permitting four levels of control in order to implement appropriate governance across various departments and divisions. The three lines of defence model distinguish among three groups (or lines) involved in effective risk management:

- functions that take or acquire risks under a predefined policy and limits and carry out operational controls to monitor compliance with policies, procedures and limitations imposed on them (referred to herein as risk owners or first line of defence);
- support functions, including the financial and accounting function, the IT function, and above all the compliance and risk control functions, that contribute to the independent risk control and support the operational units in accordance with the policies and procedures applicable to them;
- the internal audit function that provides independent, objective and critical assessment of the first two lines and the internal governance system as a whole.



Operational controls of the risk owners (including day-to-day controls by the operating staff, ongoing critical controls carried out by the staff in charge of the administrative processing of transactions, and controls carried out by the members of the Management Board on the activities or functions which fall under their direct responsibility) build the first line of defence. The risk control and compliance functions established by the Management Board are the second line with the internal audit - through its independent review – as the third line of defence. The three lines of defence are complementary, each line of defence assuming its control responsibilities regardless of the other lines. In the three-line concept the Supervisory Board is the primary stakeholder which is responsible to ensure that the risk management model is reflected in the Bank's processes and which delegates the implementation of the governance and Risk Management Framework to the Management Board.

In doing so, the following elements of the model have to be implemented in the Bank:

- internal control system has to be structured in accordance with the three-line of defence model;
- each line of defence has to be supported by clear and appropriate policies and definitions of their roles and responsibilities;
- there shall be proper coordination and communication among the separate lines of defence to foster efficiency and effectiveness and to minimize duplication of efforts;
- lines of defence should not be combined or coordinated in a manner that compromises their effectiveness and the application of the segregation of duties principle.

As a distinguished part of its Pillar II risk management framework, the Bank established an Internal Capital Adequacy Assessment Process (**"ICAAP"**) and the Internal Liquidity Adequacy Assessment Process (**"ILAAP"**), which are jointly referred to as ICLAAP. ICAAP and ILAAP are performed by the Bank jointly in order to combine both the capital and liquidity perspective in the assessment of the current and potential risks the Bank is exposed to. The ICLAAP includes the following components: a risk appetite statement, a risk identification process, economic capital allocation, internal limit system, internal risk reporting, funding strategy, strategy regarding liquidity buffer and collateral management, short-term and intraday liquidity management, stress testing and liquidity contingency funding planning.

The ICLAAP is adequately documented in the Bank's internal policies namely "Own Funds and Liquidity Policy", "ICAAP Policy" and "Liquidity Management Policy". The ICLAAP is a system allowing the Bank to assess and maintain, on an ongoing basis, the amounts, types and distribution of internal capital that it considers adequate to cover the nature and level of risks to which it is or might be exposed as well as to ensure that the Bank maintains adequate levels of liquidity buffers and adequate funding in relation to these risks. The Bank's ICLAAP is designed in accordance with the requirements set out in the CSSF Circular Letters 07/301, 08/338, 09/403, 11/506, 12/538, 13/574 and 14/583 as well as Circular 09/403. The following general principles apply to the Bank's ICLAAP:

- The ICLAAP is essentially an internal process adapted to the Bank's organisation and its specific operational needs;
- The ICLAAP is integrated to the Bank's decision and management processes;
- The ICLAAP fully reflects all the risks (including liquidity risk) to which the Bank is or could be exposed;
- The ICLAAP ensures that the Bank maintains, on an ongoing basis, an amount/type/distribution of internal capital appropriate in relation to risks incurred;
- The ICLAAP ensures that the Bank maintains, on an ongoing basis, adequate levels of liquidity buffers and adequate funding;
- The ICAAP strategy (general principles and objectives regarding risk taking and internal capital management), methodology, internal processes as well as results and related decisions are duly documented;
- The Risk Management and Risk Control Department (the "**Risk Management**") assesses and monitors the state of risks to which the Bank is exposed. The Risk Management includes this aspect in its annual summary report to be provided to the CSSF. It assists the Management Board in the ICLAAP process by providing to the latter its own conclusions and recommendations on the risk assessment pursuant to the ICLAAP.

The ICLAAP is subject to a periodic review at least once a year to be performed by the internal audit ("**Internal Audit**").

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 ICLAAP 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 ICLAAP is subject to a periodic review in order to ensure that:

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

At least once a year, as well as following any significant change in the risk profile or business plan, the Management Board prepares a report (the "**ICLAAP Report**") on:

- The adequacy of the ICLAAP to the Bank's needs and organisation;
- The Bank's current and expected future risk profile and the adequacy of the risk management policy established by the Management Board;
- The impact of the internal capital management on prudential own funds adequacy;
- The funding position and the adequacy of liquidity buffers and funding.

The ICLAAP Report is prepared by the Management Board in cooperation with the Risk Management. The Risk Management prepares in particular the risk descriptions and analyses contained in the ICLAAP Report and, where applicable, it makes necessary recommendations. If the Risk Management does not share the aforementioned descriptions and analyses of the ICLAAP Report, it shall explicitly mention it in its annual summary report in which it includes its own assessments.

The Audit and Risk Committee of the Supervisory Board (the **"ARCO"**) acknowledges the ICLAAP Report.

An integral part of the Bank's ICLAAP is the risk identification and assessment process. The business activities of the Bank are inevitably linked to the acceptance of risks. The business policy of the Bank is conservative in its orientation. Consequently, the Bank main principle is to manage risks in a responsible way. The formulated risk strategy is thus aligned with the business strategy, and reviewed at least once a year. The risk strategy consists of risk policy principles, the organisation of risk management, the overall risk profile of the Bank and the risks sub-strategies regarding the main Bank-specific risk types as specified below.

As of 31 December 2020, the Bank has identified the following categories of risks:

To evaluate the risk strategy of the Bank, Risk Management is presenting to the Management Board on an annual basis its Risk Assessment which takes into account all risks the Bank is exposed or might be exposed to. The annual risk assessment considers the current risk positioning of the Bank, in comparison with the previous year and has also a forward-looking element.

Risk Appetite

The Risk Appetite expressed as the amount and type of risk the Bank is willing to take in order to meet the strategic objectives. As a pre-requisite to the establishment of the Risk Appetite Statement, the Bank identifies and assessed the significance of the risk it faces.

A risk is considered material whenever it is assessed that it could materially affect the achievement of the Bank's business objectives, negatively impact the Bank's reputation, create liquidity constraints, impact capital and /or revenues or lead to regulatory compliance issues.

Another key element of the Risk Appetite Framework is the risk bearing capacity and the strategic business plan of the Bank. The financial and regulatory ratios applied to the annual business plan are constantly reported and approved by the Supervisory Board.

The medium-term business plan defines in detail the forecasted business volumes, the transformation of the business volumes into risk-weighted assets and the required capital in relation to the eligible capital of the Bank. The resulting capital ratios are constantly monitored and stress testing is performed to demonstrate that the total eligible capital is sufficient to cover the capital requirements even under stress circumstances.

The Bank is also projecting in detail its funding base and the structure of the required funding to comply with the LCR and NSFR ratios. Additional planning activities are performed for the expected derivative volumes which are required for Asset-Liability Management.

In addition, the Bank is forecasting in detail its income and expenses and is using a funding cost structure to determine the net interest margin as a key component of the profit and loss calculated pre-provisions. The Bank has developed an internal rating system which acts as the basis for loan loss provision estimation. Loan loss provisions are calculated in line with the requirements of IFRS 9, on individual basis and using relevant PD and LGD estimated which represent the Bank's best estimate of the expected credit losses of its portfolio as at the reporting date.

As a further instrument to enhance and control the Risk Appetite Framework, the Bank has developed a set of key risk indicators and key performance indicators. The key risks and performance indicators are meant to provide an early warning system for the Bank and are monitored a monthly basis including the development of the indicators over time. The indicators are measured against internal benchmarks and trigger events. The trigger events are reviewed annually and adjusted accordingly by Risk Management, which is also responsible for the issuance of the report. The key risks and performance report is presented to the Management Board and discussed during ARCO meetings.

Management believes that the risk management system in place and the risk profile associated with the business strategy of the Bank are adequate.

The Bank's risk appetite has been established across a broad range of risk metrics in the areas of Capital Adequacy, Liquidity Risk, Credit Risk, Market Risk, Operational Risk, Regulatory Requirements and own credit rating established by External Credit Agencies.

Key risk appetite metrics and their values as at 31 December 2020 are as follows:

	Risk appetite	Value
Capital Adequacy Ratio	≥13.5%	24.23%
Liquidity Coverage Ratio	≥100%	160%
Net Stable Funding Ratio	≥100%	186%

The following responsibilities are identified:

Supervisory Board

The Supervisory Board, through activities delegated to the ARCO, is responsible for:

- Together with the Management Board setting the risk strategy, the risk capacity and the risk appetite;
- Together with the Management Board approval of internal risk appetite statement limits.

The ARCO meets on quarterly basis and has met 4 times in 2020. During each meetings the following matters are discussed: internal control, financial situation of the Bank, audit, risk management and compliance.

Management Board

The Management Board is responsible for:

- Managing the Bank and implementing the Bank's strategy, by setting a management structure, internal controls, organizations and systems;
- Overseeing and managing the risk profile and capital management of the Bank;
- Approving on an annual basis the risk, capital and liquidity management processes of the Bank. Approving standards, concepts and methodologies for controlling risks and managing capital within the principles and guidelines approved by the Supervisory Board;
- Approving the Risk Management Policy and the ICAAP Policy;
- Approving the Liquidity Management Policy;
- Communicating the Risk Management Policy, the ICAAP Policy and the Liquidity Management Policy within the Bank;
- Periodically reviewing the adequacy and implementation of the Risk Management Policy and Own Funds and Liquidity Management Policy as well as underlying processes and controls;
- Reporting to the Supervisory Board on the adequacy of the risk, liquidity and capital management framework;
- Management of the Bank also ensures that the Risk Management 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.

Risk Management and Risk Control

Risk Management and 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 indicator reports;
- Compilation and reviewing of the ICLAAP documentation (comprising ICAAP and ILAAP components);
- The monitoring and reporting of the Bank's risk appetite;
- Ensuring that a formal update of the ICLAAP and related ICLAAP report occurs on an annual basis at the beginning of each calendar year prior to the first Supervisory Board Meeting. The report is drafted by Risk Management, supported by the Accounting, ALM and MIS Departments where applicable. The report is ultimately issued and owned by the Management Board and is provided to ARCO for acknowledgment.

Compliance

The Compliance Function is in charge of the control, management and mitigation of compliance risks.

The Chief Information Security Officer ("CISO")

- Managing and overseeing ICT and security risks;
- Monitoring and controlling adherence to the ICT and security risk management framework with a clear segregation from ICT operations processes;
- Rolling out and implementing the Information Security Management System (ISMS);
- Oversight of information security incidents and investigations;
- Reviewing effectiveness of the 1st line of defence control structure, action plans, risk assessments, waivers and exceptions.

Business Lines

The heads of business departments are responsible for the identification, management and monitoring of the risks arising in their dedicated business areas. Business lines act as the first line of defence in the risk management activities of the Bank.

Accounting, Finance and Reporting Department

Accounting, Finance and Reporting (**"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 levels are fulfilled at all time and regularly reports the capital situation to other departments and the Management Board.

Asset and Liability Management Department

Asset and Liability Management Department (**"ALM"**) is responsible for the monitoring of Liquidity Coverage Ratio, Net Stable Funding Ratio and the liquidity buffers of the Bank. ALM regularly assesses the necessary level of liquidity, monitors that the regulatory minimum levels are fulfilled at all time and regularly reports the liquidity situation to other departments and the Asset and Liability Management Committee (**"ALCO"**).

Periodical reporting

The Management Board has implemented periodical monitoring and reporting structures in order to assure the compliance of the Bank with the above defined responsibilities, policies and directives:

Daily and intraday monitoring:

- Daily Credit Limits (regulatory);
- Daily Credit Limits (non-regulatory);
- Daily Securities Limit;
- Daily Derivative report, including FX Limit;
- Daily Interest Rate Risk;
- Daily HTM portfolio report;
- Daily P&L;

- Daily capital adequacy estimate;
- Daily Cash Position;
- Daily Liquidity report and LCR control;
- Daily Portfolio limits/utilization report;
- Daily Margin calls calculation;
- Daily FX-Position calculation;
- Daily Economic Risk and Collateral by Countries;
- Daily ALM report (contractual gap, static gap, dynamic gap, stress gap, LCR and NSFR values as of previous end of business day, amounts of short-term funds);
- Detailed LCR report with overview of bond portfolio by ISIN;
- Intraday LCR calculation;
- Intraday nostro positions report.

Weekly monitoring:

- Monitoring of Credit Linked Deposits (**"CLD"**);
- Liquidity gap by type of products with daily cash-flows over the next 30 days;
- Updated FTP table;
- Financial Risks overview.

Monthly monitoring:

- Country Risk Reporting (discontinued in September 2020);
- Corporate Risk Report (discontinued in September 2020);
- Dashboard Report (discontinued in September 2020);
- Monthly Key Risk Indicators report (discontinued in September 2020);
- Group OpRisk report;
- Monthly Reporting to the Supervisory Board - Risk, Capital and Liquidity Management Report (issued from August 2020, which includes information included previously in the discontinued reports);
- Regulatory Additional Liquidity Monitoring Metrics reporting;
- Regulatory Additional Liquidity Monitoring Metrics ("ALMM") reporting;
- Update of the Operating Liquidity Plan, planned new assets and funding.

Quarterly Reports:

- Report on Audit Findings & Recommendations;
- Group OpRisk report;
- Update of the stable profile of short-term liquidity;
- Liquidity report for Audit and Risk Committee.

Semi Annual Reports:

- Interest Rate Risk Report (regulatory).

Annually monitoring:

- Annual Risk Assessment;
- Summary Report on Risk Control Function;
- Annual ICAAP and ILAAP Reports, jointly expressed as ICLAAP;
- Short Form and Long Form Report;
- Recovery Plan.

2.2. Governance

The composition of the Supervisory Board and Management Board can be found on the Bank's website.

Selection criteria

The policy on "Appointment of Specific Functions and assessment of suitability of members of Management Body and Key Functions Holders" regulates the appointment of specific function holders and the assessment of the suitability of members of the Management Body and Key Function Holders. It defines the fundamental principles of the Bank for the appointment and succession of Key Function Holders. It also requires the yearly evaluation of all relevant persons, in order to ensure that the Bank is staffed with knowledgeable and experienced personnel.

The Bank recognises the benefits of having a diverse extended Board and sees increasing diversity at extended Board level as an important element in maintaining a competitive advantage. A diverse extended Board includes and makes good use of differences in the skills, in particular those skills identified as relevant to the business of the Bank, including financial services (incorporating finance, risk management, business experience, economics, corporate finance, human resources, customer relations, credit and IT skills), regional and industry experience, background, nationality, gender, age and other qualities of directors and authorised managers. These differences are considered in determining the optimum composition of the extended Board and when possible should be balanced appropriately. All extended Board appointments are made on merit, in the context of the skills and experience the extended Board as a whole requires to be effective.

The Supervisory Board reviews and assesses the extended Board composition and recommends the appointment of new directors and authorised managers. The Supervisory Board also oversees the conduct of the annual review of the extended Board effectiveness.

The Supervisory Board discusses and agrees annually all measurable objectives for achieving diversity on the extended Board. At any given time, the Supervisory Board may seek to improve one or more aspects of its diversity and measure progress accordingly. The Bank is committed to having a diverse extended Board, to achieving the targets set in this regard and to ensuring an open and fair recruitment process.

2.3. Use of stress tests

In February 2008, the CSSF issued the Circular 08/338 requiring that banks stress their non-trading book activities to interest-rate risk. Stress tests are used to analyse the impact of catastrophic events on the capital of the Bank over a time horizon of one year. The objective of this assessment is to ensure that the Bank's risk mitigation controls, capital and the capital contingency plan can withstand the consequences of a high-impact low-likelihood event.

The Bank has established its stress testing framework separately in relation to liquidity and general capital management in respectively the "Liquidity Stress-Testing Framework" and the "Policy Implementing a Stress Testing Program".

The stress testing framework has been established taking into consideration the relatively low size and complexity of the Bank's activities and the relatively stable risk profile.

Within the ICLAAP process and in line with the Bank's stress testing programme, dedicated stress tests have been performed with regards to capital adequacy in relation to the risk categories the Bank regards as the most relevant based on its current and envisaged business model.

The CSSF proposes in its Circular 08/338 to have a scenario of a shift of the interest yield curve of 200 bps. Due to the fact, that the market risk is very low, because the Bank 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 at the end of 2020 on the capital are as follows: -5,527 TEUR in case of the increase of interest yield curve (+200 bps) and 5,930 TEUR in case of decrease of interest rate curve (-200 bps).

The Bank pursues a conservative approach by performing a Pillar 1 Plus methodology i.e. by adding additional capital requirements for certain risks and stress scenarios to the Pillar I required capital.

The liquidity stress testing is performed on a daily basis for the purpose of determination of the required liquidity buffer and for ongoing monitoring of the liquidity risk.

2.4. Remuneration policy

Based on the internal assessment preceding the elaboration and adoption of the Remuneration Policy, given the size of GPBL, its internal organisation, the nature and the scope of its activities, the low level of risk profile and risk appetite of the Bank, GPBL intends to rely on a proportional application of the applicable regulatory requirements at the level of the institution.

Based on the proportionality principle and in light of the regulatory guidance provided, GPBL was thus in 2020 not required to set up a remuneration committee and the Remuneration Policy

will not further provide for requirements as regards the pay-out process of variable remuneration of Material Risk Takers in relation to variable remuneration in non-cash instruments, retention and deferral nor as regards *ex post* incorporation of risk for variable remuneration.

The Remuneration Committee has been established at the end of 2019 consisting of three Members of the Supervisory Board.

Remuneration of the staff and the management

Remuneration of Staff shall be in line with the conservative business strategy and the long-term interests and the underlying values of wealth preservation and sustainable growth.

GPBL's overall remuneration structure therefore emphasises paying fixed remuneration to a staff member in relation to his or her professional activity for GPBL (reflecting professional experience and organisational responsibility) and determined on an annual basis. In addition, GPBL may grant on a purely discretionary basis, an amount of Variable Remuneration to be paid at the end of the year to each member of Staff taking into account a performance assessment as set out below.

Fixed Remuneration shall be the major part of total annual remuneration and sufficient not to create any kind of dependency of staff on variable remuneration. Variable remuneration shall in principle not represent more than 100% of the fixed remuneration for all Staff, except for the conditions described in the variable remuneration summary below.

Variable remuneration must not limit GPBL's ability to sustainably maintain or recover an appropriate capital base.

Prospective remuneration plans shall not include guaranteed variable remunerations. Guaranteed variable remuneration shall be exceptional, may only be allowed in connection with the hiring of staff, where the institution has a sound and strong capital base and shall be limited to a maximum period of one year.

Furthermore, there shall be no contractual severance entitlements which do not reflect actual performance achieved by the relevant staff over time or which does reward misconduct.

Fixed remuneration

The base salary is a fixed amount of cash paid through monthly payments for each of the twelve months of the relevant calendar year or for the corresponding number of months if employment of the relevant member of staff started or ceased during the relevant calendar year.

The base salary reflects each individual staff member's particular set of skills, function, organisational responsibility and relevant professional experience.

The base salary is reviewed annually comparing it with internal and external benchmarks so as to ensure that it is in line with the market and industry standards and practices.

Specific adjustments may be made to the base salary during a business year in case of a change of function, promotion or the granting of additional responsibilities.

The individual base salary paid will be in line with the requirements of the classification as per the official convention (Convention Collective Bancaire) for the staff covered by such convention. For the staff not covered by such convention, the base salary was determined in 2019 by the Management Board or the Supervisory Board, depending on the case.

Variable Remuneration

The total amount of variable remuneration is based on a combination of the assessment of the performance of the individual based on financial and non-financial criteria, the performance of the business unit concerned and of the overall financial performance of the Bank.

When assessing the performance of the individual, the financial (quantitative) and non-financial (qualitative) criteria are taken into consideration. Such criteria are weighted according to the importance of the key performance indicator related to a business objective (in %). Dedicated templates have been established to be used for business departments (quantitative and qualitative criteria) and support departments (qualitative criteria).

The assessment of the performance of the individual is set in a one financial year framework.

The performance management process of the Bank is based on multi-year framework and on the continuous follow-up of the evolution of the individual performance of the employee in a long-term perspective. In this way, the Bank does not intend to change the approach of the assessment of the individual performance on annual basis. The performance of each employee is assessed on an annual basis and that these annual assessments are reviewed as part of as multi-year long-term performance evaluation process.

The performance management process is based on the set up of business objectives directly linked to the business strategy of the Bank. The business objectives are set up in a way to be specific, measurable, achievable, realistic, time-based (SMART).

The business objectives and related Key Performance Indicators (“KPIs”) of the business units are approved by the Management Board based on annual business plan approved by the Supervisory Board.

The business objectives and related KPIs of the individuals are set up and approved in cooperation with a direct supervisor.

The annual assessment is conducted by a direct supervisor based on the fulfilment of the KPIs set under business objectives on the individual basis.

The results of the assessment are recorded in a specific system and signed electronically by both, the employee and his/her direct supervisor.

These forms are taken into consideration during the process of individual allocation of variable remuneration.

Remuneration of the material risk takers

Based on the internal assessment, GPBL has concluded that 38 persons should be considered as Material Risk Takers for the purposes of the Remuneration Policy, namely:

- Supervisory Board Members: 6
- Management Board Members: 4
- Heads of internal control functions (Head of Risk Management and Risk Control, Head of Compliance, Head of Internal Audit; Head of Collateral Mgt.): 4
- Heads of material business units (Head of Operations/CIO, Head of Accounting & Regulatory Reporting, Head of Private Banking, Head of FI/Trade Finance, Head of Credit Division, Head of Client Relations & Account Opening/Corporate Coverage): 6*
- Heads a critical or important functions (Head of Legal, Acting Head of MIS Reporting & Budgeting and Controlling, Acting Head of Asset Liabilities Mgt., Head of HR, Head of IT): 6
- Employees involved in large credit proposals or products (Senior Relationship Manager at Client Relations & Account Opening/Corporate Coverage (2), Senior Fixed Income Sales, Fixed Income Sales, Senior Credit Risk Mgr./Head of Credit Risk, Market & Enterprise Risk Control Manager): 6*
- Employees with authority to take, approve or veto a decision on certain trading book transactions (Senior Trader at Treasury & Structured Products Dpt. (3), Trader at Treasury & Structured Products Dpt., Senior Treasury Sales Manager (1), Senior Manager Treasury & Structured Products Dpt. (1)): 6*

(*) persons involved in the provision of services to clients

Remuneration of the above identified Material Risk Takers does not differ from the Remuneration of the other Staff members.

According to the Article 9 (3) (c), Article 23 (1) and 24 (10) of MiFID II, the following principles apply to the staff involved in the provision of services to clients:

- The Management Board and the Supervisory Board are designated for the definition and overseeing of the remuneration policy/principles for persons involved in the provision of services to clients.
- The Management Board and the Supervisory Board are designated as responsible for taking appropriate steps to identify and to prevent or manage conflict of interests, including conflicts arising from the firm’s remuneration structures.

The remuneration, sales targets or other incentives do not lead staff to recommend instruments to clients when other instruments would better meet their clients’ needs.

Directorships held by members of the Management Body

In the framework of CRD IV and article 38-2 of the Law of 5 April 1993 on the Financial Sector, as amended, with regards to the limitation on the number of mandates held by members of the Management Body, the summary of the assessment as at 31 December 2020 is as follows:

Management Board:

- Mr. Dmitry Derkatch, Chairman of the Management Board at Bank GPB International S.A. held two directorship positions within one group.
- Mr. Sergey Nekrasov, Deputy Chairman of the Management Board at Bank GPB International S.A held one directorship position.
- Mr. Pavel Bolshakov, Member of the Management Board at Bank GPB International S.A held two directorship positions within one group.
- Mr. Sergey Belousov, Member of the Management Board at Bank GPB International S.A held one directorship position.

Supervisory Board:

- Mr. Alexey A. Matveev, Chairman of the Supervisory Board at Bank GPB International S.A. held 7 directorship positions within a single group.
- Mr. Alexander I. Sobol, Vice-Chairman of the Supervisory Board at Bank GPB International S.A. held 17 directorship positions within 4 groups.
- Mr. Alexey P. Belous, Member of the Supervisory Board at Bank GPB International S.A. held 10 directorship positions within a single group.
- Mr. Franciscus Kuijlaars, Member of the Supervisory Board at Bank GPB International S.A. held 3 directorship positions within 3 groups.
- Mr. Chlodwig Reuter, Member of the Supervisory Board at Bank GPB International S.A. held 3 directorship positions within 3 groups.
- Mr. Thomas Kiefer, Member of the Supervisory Board at Bank GPB International S.A. held one directorship position.

Transparency - Disclosure

GPBL shall make available to the Shareholder, the staff as well as to the public some qualitative and quantitative information regarding the general design of remuneration of GPBL's staff (such as, for example, decision making process, total amount of remuneration, split of fixed and variable remuneration, criteria to assess performance, involvement of external consultants to review the Remuneration Policy) together with the annual accounts.

The Remuneration Policy shall also be accessible to all staff members of the Bank, so that they can know in advance the criteria that will be used to determine their remuneration.

GPBL shall further explain on its website how it complies with the Luxembourg rules applicable to it relating to remuneration policy and practices.

Table below includes information on the remuneration of Senior Management and Management of the Bank for the year ended 31 December 2020:

	Senior Management and Management
Members (average headcount)	28 employees
Total fixed remuneration	EUR 5 738 thousand
of which: fixed in cash	EUR 5 738 thousand
Total variable remuneration	EUR 1 450 thousand
Article 450 h(iii) CRR – total amount of outstanding deferred variable remuneration awarded in previous periods and not in year 2019	NA
Number of beneficiaries of guaranteed variable remuneration (new sign-on payments)	NA
Total amount of guaranteed variable remuneration (new sign-on payments)	NA
Number of beneficiaries of severance payments	1
Total amount of severance payments paid in year 2020	EUR 177 thousand
Article 450 h(vi) – Highest severance payment to a single person	EUR 177 thousand

The amounts of remuneration for the financial year and the number of beneficiaries are also disclosed in Note 30 b of the Financial Statements of the Bank.

No individuals have been remunerated EUR 1 million or more for the financial year ended 31 December 2020.

The Supervisory Board met four times in 2020. The remuneration has been discussed when required.

2.5. Scope of application

The Bank holds participating interest only in a non-operating entity and is not obliged to establish consolidated accounts.

3. Regulatory Capital

3.1. 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 as 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 capital as per 31 December 2020. Sole shareholder of the Bank is Bank GPB (JSC).

The Bank's general management of own funds and liquidity is governed by the "Own Funds and Liquidity Policy" document.

The following table shows the composition of own funds as per year-end 2020 in comparison to year-end 2019:

MEUR	31.12.2020	31.12.2019
Paid up capital	231.7	231.7
Reserves	26.6	5.9
Intangible assets	(1.4)	(2.3)
Other	(0.7)	(0.2)
Net profit / loss of the current year*	12.6	20.7
Total own funds	**268.8**	**255.8**

* - The current year profit was not included in total own funds in the Bank's Financial Statements since it has not yet been approved by the Bank.

Own funds of the Bank are primarily composed of Paid up capital.

Capital instrument main features are as follows:

Capital instrument main features		
1	Issuer	Bank GPB International S.A.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Not listed
3	Governing law(s) of the instrument	Laws of the Grand Duchy of Luxembourg
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo / (sub-)consolidated / solo&(sub) consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date).	EUR 231.7 million
9	Nominal amount of instrument	EUR 231,690,000
9a	Issue price	100 per cent of the Aggregate Nominal Amount
9b	Redemption price	Redemption at par
10	Accounting classification	Shareholders' equity
11	Original date of issuance	10 July 2013
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, fully or partially	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Unsecured senior debt, including eligible deposits
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

3.2. Capital requirements

The total Pillar I risk exposure amount in relation to the Bank's own funds as per 31 December 2020, the Bank has a CET1 ratio of 24.23% which is well above the regulatory minimum of 8.0%.

The Bank applies the Standardised Approach for the calculation of the credit risk capital requirements. With regards to counterparty credit risk related to derivative transactions, the Bank uses mark-to-market method. Operational risk is measured using the Basic Indicator Approach (BIA) as described in Chapter 6.

The below table contains own fund disclosures as required by the Commission Implementing Regulation No 1423/2013 of 20 December 2013:

TEUR		Amounts	Regulation (EU) No. 575/2013 article reference
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	231,690	26 (1), 27, 28, 29, EBA list 26 (3)
2	Retained earnings	21,407	26 (1) c)
4	Other reserves	5,152	
6	Common Equity Tier 1 capital before regulatory adjustments	258,248	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudent valuation adjustments	-452	
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	-1,374	36 (1) (b), 37, 472 (4)
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)
20b	of which: qualifying holdings outside the financial sector (negative amount)	-204	36 (1) (k) (i), 89 to 91
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	36 (1) (b), 37
28	**Total regulatory adjustments to Common Equity Tier 1**	-2,030	
29	**Common Equity Tier 1 capital (CET1)**	256,218	
44	**Additional Tier 1 capital (AT1)**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	256,218	
58	**Tier 2 capital (T2)**	-	
59	**Total regulatory capital (TC = T1 + T2)**	256,218	
60	**Total risk exposure amount**	1,057,656	
	Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	24.23	92 (2) (a)
62	**Tier 1 (as a percentage of risk-weighted assets)**	24.23	92 (2) (b)
63	**Total capital (as a percentage of risk-weighted assets)**	24.23	92 (2) (c)
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**	2.54	CRD 128, 129, 130, 131, 133
65	Of which: capital conservation buffer requirement	2.50	
66	Of which: bank-specific countercyclical buffer requirement	0.04	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk-weighted assets)**	16.23	CRD 128

Total risk exposure amounts and Pillar I capital requirements by risk category:

	31 December 2020		31 December 2019	
MEUR	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement
Credit risk	954.3	76.3	952.9	76.3
Market risk	-	-	-	-
Operational risk	102.7	8.2	81.5	6.5
Credit valuation adjustment	0.7	0.1	0.2	0.0
Total Pillar I	**1,057.7**	**84.6**	**1,034.6**	**82.8**

Combining Pillar I and Pillar II capital planning, the Bank's total internal capital requirements as per 31 December 2019 are as follows:

MEUR	31 December 2020
Pillar I capital requirement	**84.6**
Pillar II additional capital requirement	**50.7**
- of which Credit Risk	4.9
- of which Concentration Risk	38.6
- of which Interest Rate Risk	5.5
- of which Other	1.7
Total internal capital requirement	**135.3**

Relating this to the Bank's available own funds, the following picture emerges with regards to the Pillar I and Pillar II capital adequacy:

MEUR	Pillar I	Pillar II
Available capital	**256,218**	**263,576**
Required capital	**84,612**	**135,283**
Adequacy Ratio	**303%**	**195%**
Excess capital	**171,606**	**128,293**

Hence the Bank is sufficiently capitalised to cope with the material sources of risk it faces, both in a business as usual as well as in a severe stress situation.

3.3. Capital buffers

In accordance with Article 440 of the CRR, the Bank discloses its compliance with the requirement for a countercyclical buffer as referred to in Title VII, Chapter 4 of EU 2013/36.

Geographical distribution of credit exposures relevant for countercyclical capital buffer:

Breakdown by country in EUR thousand	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total		
United Arab Emirates	24.5	-	-	-	-	-	0.0	-	-	0.0	0.0%	
Armenia	73.3	-	-	-	-	-	0.0	-	-	0.0	0.0%	
Austria	62.1	-	-	-	-	-	2.7	-	-	2.7	3.3%	
Azerbaijan	26.1	-	-	-	-	-	2.1	-	-	2.1	2.7%	
Belgium	13.7	-	-	-	-	-	0.2	-	-	0.2	0.3%	
Bulgaria	9.2	-	-	-	-	-	0.7	-	-	0.7	1.0%	0.5%
Switzerland	227.6	-	-	-	-	-	8.1	-	-	8.1	10.7%	
Cyprus	331.7	-	-	-	-	-	14.9	-	-	14.9	19.5%	
Germany	50.8	-	-	-	-	-	3.4	-	-	3.4	4.5%	
Guernsey	5.4	-	-	-	-	-	0.4	-	-	0.4	0.6%	
Spain	14.6	-	-	-	-	-	1.1	-	-	1.1	1.4%	
Estonia	22.2	-	-	-	-	-	0.7	-	-	0.7	0.9%	
France	20.8	-	-	-	-	-	0.6	-	-	0.6	0.9%	
Hong Kong	3.7	-	-	-	-	-	0.2	-	-	0.2	0.2%	1.0%
Ireland	129.4	-	-	-	-	-	6.2	-	-	6.2	8.2%	
Italy	49.1	-	-	-	-	-	1.7	-	-	1.7	2.2%	
Jersey	40.7	-	-	-	-	-	0.0	-	-	0.0	0.0%	
Lithuania	18.0	-	-	-	-	-	1.4	-	-	1.4	1.9%	
Luxembourg	1,278.4	-	-	-	-	-	11.9	-	-	11.9	15.6%	0.25%
Malta	24.4	-	-	-	-	-	0.0	-	-	0.0	0.0%	
Netherlands	67.7	-	-	-	-	-	3.9	-	-	3.9	5.1%	
Poland	40.4	-	-	-	-	-	0.0	-	-	0.0	0.0%	
Russian Federation	118.2	-	-	-	-	-	9.2	-	-	9.2	12.1%	
Slovenia	6.3	-	-	-	-	-	0.4	-	-	0.4	0.5%	
Sweden	2.3	-	-	-	-	-	0.2	-	-	0.2	0.2%	
United Kingdom	108.1	-	-	-	-	-	5.1	-	-	5.1	6.7%	
United States	31.3	-	-	-	-	-	0.6	-	-	0.6	0.8%	
Uzbekistan	8.2	-	-	-	-	-	0.6	-	-	0.6	0.9%	
TOTAL	**2,808.3**	**-**	**-**	**-**	**-**	**-**	**76.3**	**-**	**-**	**76.3**	**100%**	

The below table summarized the amount of institution-specific countercyclical capital buffer:

MEUR	31.12.2020
Total Risk Exposure Amount	1,057.7
Institution specific countercyclical buffer rate	0.04%
Institution specific countercyclical buffer requirement	0.4

4. Credit risk

Credit risk arises from all transactions that create actual, contingent or potential claims against counterparties. The credit risk is the most important risk for the Bank and is divided into the three categories of default risk, country risk and settlement risk. The default risk is the risk that counterparties may fail to meet their contractual payment obligations, whereas country risk defines the risk that a loss may arise for the following reasons in any country: deterioration of economic situation, nationalisation and expropriation of assets, foreign exchange controls as well as transfer risk. The settlement risk is the risk that the settlement or clearing of transactions in form of exchange of cash, securities or other assets may fail.

The main source of counterparty risk for the Bank is the lending business. The authorisation of loans is governed by detailed guidelines and directives stating the condition, including comprehensive credit analyses, for any financing to be granted. These directives and guidelines also cover the monitoring of outstanding loans. The Bank is using an internal rating system and classifies all loan counterparties into twenty-two categories. For third party banks and to assess the issuer risk, the Bank considers in its assessment the ratings issued by international recognised independent rating agencies. The Management Board receives a regular overview of the ratings of all counterparties. To limit credit risks in respect of loans, the Bank has defined lending norms in its business regulations. The granting of loans is covered by authorisation regulations. These cover the credit items which are allocated to four credit categories and also govern and limit loan amounts.

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

Wrong-way risk

Wrong-way risk is defined as the risk that occurs when "future exposure to a counterparty is positively correlated with the credit quality of that counterparty".

The Bank uses FX Swaps to manage the FX position. A potential correlation between the underlying of the derivatives and counterparties is considered to be low.

4.1. Exposure to credit and counterparty risk

Loans and deposits to credit institutions

Loans and deposits to credit institutions are analysed by rating risk concentration as follows:

	31.12.2020 EUR'000	31.12.2019 EUR'000
Loans to banks		
- rated AA- to AA+	83,037	10,849
- rated A- to A+	42,051	9,129
- rated BBB- to BBB+	26,091	98
- rated from BB- to BB+	68,893	107,127
- rated from B- to B+	96	11,148
Total loans to banks	**220,168**	**138,351**
Impairment allowance	(73)	(85)
Net loans to banks	**220,095**	**138,266**

Loans and advances to customers

Loans and advances to customers are analysed as follows:

	31.12.2020 EUR'000	31.12.2019 EUR'000
Loans to corporate customers		
Direct loans	565.921	495,309
Loans participated by the Bank	28,705	55,206
Mortgage loans	20,808	22,995
Total loans to corporate customers	**615,434**	**573,510**
Loans to private customers		
Loans to private customers	124	150
Total loans to retail customers	**124**	**150**
Total loans to customers	**615,558**	**573,660**
Impairment allowance	(24,506)	(11,816)
Net loans to customers	**591,052**	**561,844**

Bonds invested in Hold-to-Collect

Hold-to-Collect investments are analysed by rating risk concentration as follows:

	31.12.2020 EUR'000	**31.12.2019** EUR'000
Bonds		
rated from BBB- to BBB+	108,885	159,589
rated from BB- to BB+	134,782	55,852
rated from B- to B+	8,170	23,900
Total bonds	**251.837**	**239,341**
Impairment allowance	(681)	(756)
Total net bonds	**251,156**	**238,585**

The credit exposure of the Bank towards customers was EUR 591.1 million (2019: 561.8 million), of which EUR 312.4 million with a lifetime over one year to five years and EUR 26.7 million with remaining maturity over five years.

The loans and advances to credit institutions amounted to EUR 220.1 million (2019: 138.3 million) all with a lifetime of less than three month. The Bank applies a rating-based approach for calculating the risk weighting of its exposure towards its banking counterparties. The bank also applies strict quality criteria for accepting banks as counterparty risk.

For all accepted banking counterparties, the Bank has a limit system in place which takes individual exposures for different form of counterparty risk into account as well as an overall limit on a counterparty or a counterparty group. The limit system is reviewed at least once a year and approved by the Management Board.

As at the end of 2020 the Bank kept bonds for EUR 434.2 million (2019: 472.2 million). The Bank acquired a significant portion of these securities as underlying in conjunction with performance linked deposits (EUR 214.1 million). The credit risk, as well as the market risks, related to these underlying securities, was entirely transferred to holders of corresponding deposits. The Bank applies equally strict rules when dealing with the risk of default or decline of creditworthiness of issuers of securities bought by the Bank for its own portfolio.

The gross positive fair value of contracts, collateral amount and net risk exposure are disclosed in the Financial Statements. The Bank had no netting benefit, netted current credit exposure and net derivative credit exposure as at the reporting date. The distribution of exposures by counterparty type, broken down by exposure classes, is also disclosed in the Financial Statements.

The Bank uses the Mark-to-Market method for measuring exposure value.

The total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation and the residual maturity breakdown of all the exposures, broken down by exposure classes are disclosed in the Financial Statements.

Required funds for credit risk:

MEUR	Risk-weighted exposure amount 31.12.2020	31.12.2019
Central Governments or Central Banks	26.0	-
Institutions	51.9	6.4
Corporates	865.5	906.5
Retail	0.1	0.2
Other items	10.8	39.8
Total credit risk	**954.3**	**952.9**
Credit Value Adjustment	**0.7**	**0.2**

The Bank has established a Credit Committee as a separate and independent body of the Bank. The Credit Committee consists of five members. The Credit Committee acts as an advisory body to the Management Board on the matters related to the approval of the credit limits and some transactions.

The following functions form the competence of the Credit Committee:

- The Credit Committee reviews all credit applications submitted to the Bank in order to consider, analyse and give advice on such credit applications to the Management Board. On a quarterly basis, the Credit Committee reviews, analyses and provides the Management Board with the general recommendations, regarding the credit limits, risks and exposures;
- The Credit Committee reviews the strategies to develop and achieve the credit and lending goals of the Bank, and make appropriate recommendations to the Management Board in this respect;
- The Credit Committee follows up and monitors each credit application as from the granting approval for a loan until its full repayment and provides respective credit performance reports to the Management Board;
- The Credit Committee reviews the credit performance of the Bank; based on the reports prepared, the Credit Committee evaluates in a written report the Bank's credit performance in accordance with the Bank's credit and lending goals; the report on the Bank's credit performance, as prepared by the Credit Committee, should be submitted to the Management Board for review and consideration.

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.

The Bank considers only risk mitigations as defined under CRR. For the counterparty risk related to banks, GPBL takes external ratings into account. The Bank is also using netting agreements to mitigate credit risks. GPBL has legally enforceable netting agreements for on balance sheet exposures (loans and deposits) and off-balance sheet exposures (derivatives) for which the Bank may calculate capital requirements on the basis of net credit exposures, subject to specific regulatory conditions. The Bank monitors encumbered assets, which consist of assets pledged as collateral against an existing liability and other assets which are otherwise explicitly restricted such that they cannot be used to secure funding.

The estimation of impairment allowance i.e. expected credit losses is performed for all exposures in order to meet the requirements of being an unbiased and probability-based estimate and to consider the likelihood of the counterparty defaulting even if it would be low. Recognition of expected credit losses in the financial information of the Bank is further governed by materiality principles.

Every exposure subject to impairment requirements has a model-based ECL calculated over the relevant period of exposure. For exposures which would be subject to significant increase in credit risk or exposures which would be credit-impaired, a formal decision needs to be taken by the respective business owner and the Risk Control department and approved by the Management Board. As at the end of 2019 the Bank reflected specific loan allowances for borrowers in default (stage 3) in the amount of EUR 18.4 million in line with respective IFRS 9 requirements.

The Bank has defined and described in its directives the notion of forbearance. The granting of a forbearance measure could constitute an impairment trigger, meaning that the loan would be assessed for impairment.

Exposures classified as Stage 3 under IFRS 9 are concluded to be credit-impaired and meet the Bank's internal definition of default that considers the EBA Guidelines on the application of the definition of default (EBA-GL-2016-07).

Under IFRS 9 and based on the Bank's Definition of Default Policy, the Bank considers a financial asset to be in default (non-performing) when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Loans are non-performing (past due) if at least one of the following payments has not been fully executed or re-negotiated more than 90 days after due date:

- Interest payments;
- Commission payments;
- Amortizations (partial principle repayments or full principal repayment).

If the payments for interest, commissions and/or administration are overdue, the face value of the loan is also to be considered as non-performing. Loans to the borrowers in liquidation are always considered non-performing. Loans with special conditions based on the (lack of) creditworthiness (e.g. material reductions in interest rates with interest being below the banks refinancing cost) are also considered non-performing.

Non-performing loans are to be considered on an individual basis. Individual loan loss provision should be created for the supposed unrecovered part of the loan as well as for the outstanding interests.

The existing individual loan provisions are reassessed at each reporting date, based on the review of the impaired loans status. The recovery amount of the loan and the corresponding loan loss provision are to be adjusted in connection with possible collateral at the liquidation value and with consideration to the credit standing of the debtor. Should any circumstances indicate that the recovery amount of the loan changes significantly, the provision should be reassessed immediately.

If no uncertainty remains about the timing and amount of the outstanding loan recoverability, the provision shall be:

- Released in case of the repayment;
- Written off in case of the certainty that no repayment will occur.

The approaches and methods of credit risk adjustments are also described in the Annual Accounts.

The Bank did not hold foreclosed assets obtained from non-performing exposures as at 31 December 2020.

The following disclosures have been prepared in accordance with the EBA Guidance on disclosure of non-performing and forborne exposures (EBA/GL/2018/10) where empty lines and columns have been disregarded in order to provide clear and concise disclosure information:

Credit Quality of Forborne Exposures as at 31 December 2020:

TEUR		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures	
				Of which defaulted	Of which impaired			
1	Loans and advances	20,039	7,393	7,393	7,393	2,011	3,081	-
6	Non-financial corporations	20,039	7,393	7,393	7,393	2,011	3,081	-
10	**Total**	**20,039**	**7,393**	**7,393**	**7,393**	**2,011**	**3,081**	**-**

Credit quality of exposures by past due days as at 31 December 2020:

TEUR		Gross carrying amount/nominal amount						
		Performing exposures		Non-performing exposures				
			Not past due or past due ≤ 30 days		Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Of which defaulted
1	**Loans and advances**	**609,133**	**609,133**	**26,462**	**7,393**	**353**	**18,717**	**26,462**
4	Credit institutions	20,097	20,097	-	-	-	-	-
5	Other financial corporations	180,371	180,371	-	-	-	-	-
6	Non-financial corporations	408,541	408,541	26,462	7,393	353	18,717	26,462
7	*Of which SME*	*36,349*	*36,349*	-	-	-	-	-
8	Households	124	124	-	-	-	-	-
9	**Debt securities**	**251,837**	**251,837**	**-**	**-**	**-**	**-**	**-**
12	Credit institutions	27,464	27,464	-	-	-	-	-
13	Other financial corporations	129,961	129,961	-	-	-	-	-
14	Non-financial corporations	94,412	94,412	-	-	-	-	-
15	**Off-balance-sheet exposures**	**578,769**		-				-
19	Other financial corporations	10,000		-				-
20	Non-financial corporations	568,731		-				-
21	Households	38		-				-
22	**Total**	**1,215,366**	**636,597**	**26,462**	**7,393**	**353**	**18,717**	**26,462**

The Bank's NPL Ratio amounted to 4.34% as at the 31 December 2020.

The tables below analyse the level of primary financial instruments of the Bank with respect to their remaining maturities. Financial instruments excluded from the trading portfolio are disclosed at the carrying amount.

The distribution of the exposures by industry or counterparty type is provided in the Financial Statements.

Performing and non-performing exposures and related provisions:

		Gross carrying amount/nominal amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment			On performing exposures	On non-performing exposures
TEUR			Of which stage 1	Of which stage 2		Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 3			
1	**Loans and advances**	**609,133**	**571,736**	**37,397**	**26,462**	**26,462**	**6,166**	**2,252**	**3,915**	**18,413**	**18,413**	**-**	**157,822**	**-**
4	*Credit institutions*	*20,097*	*20,097*	-	-	-	*73*	*73*	-	-	-	-	*104,038*	-
5	*Other financial corporations*	*180,371*	*180,371*	-	-	-	*483*	*483*	-	-	-	-	-	-
6	*Non-financial corporations*	*408,541*	*371,144*	*37,397*	*26,462*	*26,462*	*5,611*	*1,696*	*3,915*	*18,413*	*18,413*	-	*53,784*	-
7	*Of which SME*	*36,349*	*36,349*				*485*	*485*						
8	*Households*	*124*	*124*	-	-	-	*0*	*0*	-	-	-	-	-	-
9	**Debt securities**	**251,837**	**251,837**	**-**	**-**	**-**	**681**	**681**	**-**	**-**	**-**	**-**	**-**	**-**
12	*Credit institutions*	*27,464*	*27,464*	-	-	-	*82*	*82*	-	-	-	-	-	-
13	*Other financial corporations*	*129,961*	*129,961*	-	-	-	*325*	*325*	-	-	-	-	-	-
14	*Non-financial corporations*	*94,412*	*94,412*	-	-	-	*273*	*273*	-	-	-	-	-	-
15	**Off-balance-sheet exposures**	**578,769**	**578,769**	**-**	**-**	**-**	**613**	**613**	**-**	**-**	**-**		**-**	**-**
19	*Other financial corporations*	*10,000*	*10,000*	-	-	-	*33*	*33*	-	-	-		-	-
20	*Non-financial corporations*	*568,731*	*568,731*	-	-	-	*580*	*580*	-	-	-		-	-
21	*Households*	*38*	*38*	-	-	-	*0*	*0*	-	-	-		-	-
22	***Total***	**1,439,739**	**1,402,342**	**37,397**	**26,462**	**26,462**	**7,460**	**3,545**	**3,915**	**18,413**	**18,413**	**-**	**157,822**	**-**

The tables below analyse the level of primary financial instruments of the Bank with respect to their remaining maturities. Financial instruments excluded from the trading portfolio are disclosed at the carrying amount.

The distribution of the exposures by industry or counterparty type is provided in the Financial Statements.

The general term structure of financial assets and liabilities as per 31 December 2020 is as follows:

TEUR	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	more than 5 years	no maturity	Total
Cash and deposits with central banks	910,310	-	-	-	-	910,310
Loans to banks	220,095	-	-	-	-	220,095
Loans to customers	221,358	30,575	312,400	26,719	-	591,052
Investment securities measured at amortised cost	9,343	16,683	225,130	-	-	251,156
Financial instruments at fair value through profit or loss	10,022	11,486	145,287	52,133	-	218,928
Total financial assets	**1,371,128**	**58,744**	**682,817**	**78,852**	**-**	**2,191,541**
Deposits and balances from banks	637,260	-	16,334	-	-	653,594
Current accounts and deposits from customers	719,561	222,614	91,813	-	-	1,033,988
Financial instruments at fair value through profit or loss	15,378	11,558	152,811	53,372	-	233,119
Other financial liabilities	4,423	-	-	-	-	4,423
Total financial liabilities	**1,376,622**	**234,172**	**260,958**	**53,372**	**-**	**1,925,124**
Total	**(5,494)**	**(175,428)**	**421,859**	**25,480**	**-**	**266,417**

The general term structure of financial assets and liabilities as per 31 December 2019 is as follows:

TEUR	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	more than 5 years	no maturity	Total
Cash and deposits with central banks	461,908	-	-	-	-	461,908
Loans to banks	138,266	-	-	-	-	138,266
Loans to customers	148,301	139,138	274,405	-	-	561,844
Investment securities measured at amortised cost	14,951	23,584	200,050	-	-	238,585
Financial instruments at fair value through profit or loss	4,239	35,642	194,856	-	-	134,737
Total financial assets	**767,665**	**198,364**	**669,311**	**-**	**-**	**1,635,340**
Deposits and balances from banks	248,245	105,380	43,626	-	-	397,251
Current accounts and deposits from customers	687,047	43,014	-	-	-	730,061
Financial instruments at fair value through profit or loss	4,741	39,589	200,516	-	-	244,846
Other financial liabilities	1,541	-	-	-	-	1,541
Total financial liabilities	**941,574**	**187,983**	**244,142**	**-**	**-**	**1,373,699**
Total	**(173,909)**	**10,381**	**425,169**	**-**	**-**	**261,641**

Country Risk limits and their utilisation by residence of the obligor as at 31 December 2020 were as follows:

Country	Total Limit	Total Utilisation	thereof open committed lines / Guarantees	thereof with risk mitigation
Austria	150	33.84		
Azerbaijan	50	26.03		
Belgium	200	30.17		
Bulgaria	20	9.35		
Cyprus	443	231.99	22.67	1.71
Estonia	20	8.33		
France	200	20.84		
Guernsey	350	6.43		
Germany	500	43.51		
Hong Kong	50	3.52		
Ireland	300	125.83		48.29
Italy	70	33.28		
Lithuania	50	19.20	1.16	
Luxembourg [1]	Free	1,176.4	0.65	116.96
Netherlands	200	40.38		4.03
Russian Federation	585	113.84		8.96
Slovenia	50	3.75		
Spain	50	14.90	2.65	
Sweden	50	2.40		
Switzerland	400	112.80	10.0	
United Kingdom	200	106.93		17.19
United States of America	240	30.23		
Uzbekistan	235	8.15		
TOTAL		**2,202.1**	**37.16**	**197.14**

The values in the table above related to the notional amounts of exposure and they do not include accrued interest, premium\discount and impairment and therefore differ from the carrying amounts of assets presented in the financial statements of the Bank.

Country Risk Framework:

Credit Quality Step	Fitch assessments	Moody assessments	S&P assessments	Risk taking capacity
1	AAA to AA-	Aaa to Aa3	AAA to AA-	30 times regulatory capital
2	A+ to A-	A1 to A3	A+ to A-	20 times regulatory capital
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	10 times regulatory capital
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	5 times regulatory capital
5	B+ to B-	B1 to B3	B+ to B-	½ of regulatory capital
6	CCC+ and below	Caa1 and below	CCC+ and below	Subject to individual approval

Management of counterparty Credit risk in Derivative and Repo/Reverse Repo transactions

In case of derivatives, counterparty credit risk is linked to over-the-counter transactions such as FX forwards and FX swaps. All derivative transactions are monitored within the derivative and VaR limits established for each counterparty.

The Bank reduces its counterparty credit risk related to derivative transactions by means of entering into ISDA agreements with CSA. The CSA establishes the rules governing the calculation and exchange of collateral (variation margin) for the transactions entered with a specific counterparty.

All Repo and Reverse Repo transactions are entered by the Bank under GMRA. Daily monitoring of margin calls is performed.

Impact of downgrade of the Bank's credit rating on amount of collateral provided.

The Bank does not have in place CSAs to master agreements which would introduce rating-dependent triggers, where additional collateral would have to be pledged if the Bank is downgraded. There are however a few ISDA master agreements that introduce an additional termination event upon downgrade of the Bank's credit rating.

No rating downgrade events of default are set out in Bank's GMRA agreements.

Even in situation of a three-notch downgrade by the external rating agencies, the additional termination event would not be triggered and therefore the impact of a rating downgrade on collateral posted is considered as immaterial.

4.2. Use of ECAIs

The Bank employs ratings of the following three international rating agencies: Standard & Poor's, Moody, Fitch. The Bank applies ratings for credit institutions, central banks and corporates for internal credit and risk management purposes.

The following table shows the credit quality steps for the exposure value and the fully adjusted exposure value after CRM:

	31-Dec-20		
MEUR	Credit Quality Step	Exposure Value	Fully adjusted Exposure Value after CRM
Central Governments or Central Banks	1	910.3	-
	4	10.6	26.0
Total Central Government/Banks		**920.9**	**26.0**
Institutions	2-3	234.7	51.5
	4	0.4	0.4
Total institutions		**235.1**	**51.9**
Corporates	Other	1,555.6	857.4
Others	Other	96.7	18.9
Total		**2,808.3**	**954.2**

5. Market risk

The Bank has limited interest rate risk exposure which is expected to gradually increase as part of growing balance sheet. Limits for interest rate risk are established by the Bank at conservative levels.

Similarly, the currency risk limits are established at a conservative level as the Bank does not have appetite for more than insignificant open currency exposures.

In 2019, the Bank continued its activities as a non-trading unit. All risks related to the Asset-Liability Management activities, such as interest, foreign exchange and liquidity risks, are managed by the ALM in accordance with the mandate entrusted by the ALCO. The ALCO meets regularly to discuss the current business outlook, risks and balance sheet situation as well as the effects of the business on the risk profile and liquidity and capital situation.

Market risk measurement is executed primarily within the interest rate risk management activities by consideration of parallel shift of interest rates. As there are no trading book activities planned and no increase in strict FX limitation policy the Bank considers the market risk levels to be low in line with the established risk appetite.

The Bank did not enter into proprietary trading activities. The securities acquired in 2020 were used either as investments held to collect contractual cash flows or as underlying assets linked to client deposits. The credit risks as well as the market risks related to these securities were fully transferred to the clients placing the corresponding deposits. The main task of the trading desk was to handle execution of client orders in accordance with the Bank's Order & Best Execution Policy.

The Bank performs derivative transactions with its clients which are however accompanied by offsetting positions taken with financial counterparties effectively eliminating market risk exposure from these transactions. The Bank maintained a small foreign exchange derivative book for own use primarily as means of cross-currency liquidity management or hedging of specific transactions expressed in foreign currencies.

6. 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.

The Bank has an Operational Risk Policy in place, which sets up the principles of the operational risk management in the Bank.

Operational risk is managed and controlled on the basis of a local and Group-wide consistent framework which systematically identifies operational risk sources and concentrations in order to define risk mitigation measures. The management of operational risk is the responsibility of all Bank executives, management and staff at all level and across business and support functions.

To comply with applicable rules on outsourcing and the risk related to the outsourcing of clearly defined services the Bank has an Outsourcing Policy in place.

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 for a particular year 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 Bank is based on financial figures from the financial regulatory reporting (FINREP).

Capital requirement for operational risk:

TEUR	31.12.2020	31.12.2019
Operational Risk (basic indicator approach)	**8,216**	**6,519**

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. The Bank maintains a loss database, collecting detailed information and remediation plans about all operational risk events which occur, regardless of whether they cause actual losses, potential losses or no losses at all.

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 Function.

The separate reporting of Compliance Function as well as Risk Management Function also form a part of operational risk management.

Current status and outlook:

The Bank is located in a stable environment. The Grand Duchy of Luxembourg as a member of the EU and EURO is in the middle of Europe. With a prime rating of AAA from all rating agencies the country is the home of a number of important European Agencies. Luxembourg is since the 1960s and 1970s a major financial centre in Europe. Its success is largely based on the country's political and social stability. The financial industry in Luxembourg together with CSSF, its supervisory authority, has an excellent reputation in Europe and the rest of the world.

The Bank is under consolidated supervision which means that requirements of both local and group supervisory authorities are valid as long as they do not contradict each other. In the latter case, the Luxembourg requirements prevail.

The Bank is continuously increasing its activities across its major business lines as outlined in the business strategy. This leads to an ever-increasing operational risk in all departments as well as in the processing, booking, accounting and disclosure afterwards.

Concerning operational risk, the following topics have to be considered:

- The growing number of settlement transactions and financing of commodities and the increasing number of roles as lead arranger for Russian Eurobonds are increasing the legal and operational risk of the Bank;
- The adopted business strategy increases business requirements which have to be met by the IT infrastructure which is subject to continuous enhancement and development;
- The internal processes and controls of the Bank are well designed and implemented. The efficiency of the processes requires continuous improvement in line with the increasing transaction volume.

At the current stage, the organization of the Bank does not always allow a proper and solid assignment of some deputy functions. In line with the business expansion plans, this point is mitigated through hiring of additional qualified personnel and the modifications to the organizational structure.

In order to mitigate the risk of external events, the Business Continuity Concept has been implemented and successfully tested.

The audits that are performed by the internal and external audit functions as well as the necessity to comply with the Group requirements form an additional stimulus for the Bank to have an adequate operational risk framework in place.

To cope with the regulatory requirements in conjunction with the business strategy an incident reporting framework is in place, indicating inter alia the number, the related loss amounts and the types of incidents. This tool aims to control, measure and manage the risks resulting from the operational side of the business.

For operational risk management and mitigation purposes it is foreseen for 2021 to:

- Continue operational risk self-assessments with subsequent update of Key Risk Indicators, tracking of action points established in the process of review of operational risk events;
- Monitor adherence to the Outsourcing Policy, provide periodic updates on the implementation status to the Management Board;
- Track progress of regular review and update of the existing policies by the teams.

The "Key Risk Indicator Report" is published monthly by Risk Management. Here the predefined and approved key risk indicators concerning operational risk of the Bank (internal) and operational risk group (internal & group) are shown for the last three months.

Key factors impacting legal, compliance, and tax risk:

The tax matters are thoroughly managed by Finance and Compliance teams, from the own tax perspective and the AML angle respectively. New trades are reviewed from the tax and regulatory perspective and the tax requirements are defined. The overall oversight of tax risk is with the Legal and Tax Department. Legal claims are limited to one non-performing loan where the Bank pursues recovery in courts.

The continuing adherence to the AML/Sanctions regulations and proper management of Medium- and High-Risk clients remains high in the agenda. Increased scrutiny is applied in regards to compliance with the AML/Sanctions regulation in monitoring of transactions in Corporate Banking and Correspondent Banking activities and the residual risks.

The Bank safeguards its activities and maintains a sustainable risk-based approach in relation to performance and business profile with an aim to ensure adherence to the approved Risk Appetite.

7. Exposure to interest rate risk on positions not included in the trading book

The Bank keeps FX swap portfolio from time to time to match the currency structure of asset and liability sides of the balance sheet. This may result in increase of the overall exposure to both interest and liquidity risks. The Bank monitors and targets its balance sheet structure in a way optimizing its interest rate exposure as well as incorporate respective stress tests to assess respective impact on its financial result and capital base. Potential liquidity outflows resulting from exchange of variation margin on such FX swap transactions have been properly addressed in relevant limits applied to liquidity profile of the Bank under stress conditions.

In order to meet the expected complexity of asset and liability structure as well as ensure compliance with applicable regulatory requirements the Bank further develops its system of ALM.

In the calculation of the Interest Rate Risk position, the Bank measures the interest rate gap as per the contractual maturity dates. The loan portfolio is taken into account into interest rate risk up to re-pricing date. The Bank does not take into account loan prepayments, which means that all loans are considered to mature as per the contractual date. On-call liquidity is considered to mature overnight. The Interest Rate Gap is measured at the beginning of each day for the end of previous business day.

8. Unencumbered assets

An asset should be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn (for instance, to be pledged for funding purposes). Assets pledged that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, should be considered encumbered.

EBA Guidelines on disclosure of encumbered and unencumbered assets (EBA/GL/2014/03) provide transparent and harmonised information requirements on asset encumbrance across Member States and enable market participants to compare the institutions in a clear and consistent manner. Regulatory Technical Standards issued by EBA on disclosure of encumbered and unencumbered assets under Article 443 of the CRR provide further guidance on the extent of information to be disclosed. The information in the below tables comprises the disclosure requirements related to Article 443 of the CRR:

The table below shows disclosures of the unencumbered and encumbered assets:

Template A - Encumbered and unencumbered assets

TEUR		Carrying amount of encumbered assets 010	Fair value of encumbered assets 040	Carrying amount of unencumbered assets 060	Fair value of unencumbered assets 090
010	**Assets of the reporting institution**	**149,779**		**1,880,090**	
040	Debt securities	123,138	123,138	377,481	377,481
070	*of which: issued by general governments*	-	-	10,648	10,648
080	*of which: issued by financial corporations*	24,974	24,688	319,200	319,200
090	*of which: issued by non-financial corporations*	90,781	90,781	40,549	40,549
120	Other assets	26,175		1,506,599	

Template B-Collateral received

TEUR		Fair value of encumbered collateral received or own debt securities issued	Unencumbered **Fair value of collateral received or own debt securities issued available for encumbrance**
		010	040
130	**Collateral received by the reporting institution**	**125,165**	-
160	Debt securities	123,138	-
200	*of which: issued by financial corporations*	24,974	-
210	*of which: issued by non-financial corporations*	90,781	-
230	Other collateral received	1,679	-
240	**Own debt securities issued other than own covered bonds or asset-backed securities**	-	-
241	**Own covered bonds and asset-backed securities issued and not yet pledged**		-
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**125,165**	

Template C-Sources of encumbrance

TEUR		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	122,865	100,094

The figures shown in the tables above correspond to the 2020 median or quarterly values. The totals in the tables are the median of total values and as a result they are not equal to the sum of the medians of sub-components following the respective EBA Guidelines (EBA/GL/2014/03).

9. Liquidity risk

Liquidity risk appetite of the Bank is defined at Supervisory Board level and is developed in line with the Group liquidity requirements. It takes into account the Bank's business strategy and assumes the level of liquidity risk that the Bank is willing to take, with a view to ensure survival over a defined period of stress on a standalone basis.

The Bank develops and maintains sound frameworks, systems and processes to support the management of liquidity according to the liquidity risk appetite. All processes are specified with clearly delineated roles and responsibilities to ensure smooth implementation.

The Bank measures liquidity risk based on analysis of its liquidity profile under potential stress-scenarios. It regularly conducts liquidity stress test to understand the likely impact of potential developments in the Bank's business, and external market conditions on its liquidity profile, to assess whether current exposures still remain within the liquidity risk appetite. The outcomes of such analysis serve as an input to liquidity contingency planning.

The Bank defines the following types of stress test scenarios:

- ALM-defined stress tests agreed with Risk Management and approved by ALCO;
- Ad hoc stress tests at the discretion of ALM team, which includes sensitivity analyses and testing of potential new scenarios.

The stress scenarios are approved and reviewed at least annually or more frequently when a situation requires so. Based on the outcomes of liquidity stress tests the Bank creates and maintains a liquidity buffer to ensure that it can sustain stress events on a predetermined survival period and keeps applicable prudential liquidity ratios on acceptable level.

The liquidity buffer is formed from highly liquid assets that are clearly segregated from all other assets and securities in terms of MIS accounting systems as well as liquidity representation and is split into three layers. The Bank regularly analyses assets kept in the liquidity buffer in terms of their potential refinancing under stress conditions as well as estimates amount of required liquidity buffer with available eligible assets. Respective corrective measures are made, when necessary.

In order to manage its exposure to liquidity risk the Bank sets up a set of liquidity risk limits as well as EWIs ensuring compliance with applicable liquidity prudential limits. To ensure compliance with the LCR the Bank has implemented:

- A "Daily ALM Report" containing inter alia a dynamic view of the LCR;
- A "Treasury Scenario Daily LCR Impact Calculator" to be able to calculate the influence of relevant transactions on the LCR.
-

The Bank develops and reviews a liquidity contingency plan in order to define a set of measures and instruments that shall be applied to ensure its solvency under stress conditions. For this

purpose, the Bank elaborates a system of EWIs, thresholds linking it to the overall level of liquidity emergency for the Bank and a set of standard actions to consider.
The main liquidity measure i.e. LCR as at 31 December 2020 is as follows:

TEUR	31.12.2019	31.12.2019	31.12.2018
Liquidity Buffer	986,757	525,671	1,652,753
Total Net Cash Outflows	616,506	227,710	749,760
Liquidity Coverage Ratio (%)	160.06%	230.85%	220.44%

10. Leverage

The leverage ratio has been implemented by the Basel Committee to complement the existing risk-based capital requirements and to act as a simple, transparent and non-risk-based measure designed to limit the excessive growth of the balance sheet relative to available capital.

The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as a percentage and minimum threshold established at 3% for all institutions:

$$\text{Leverage Ratio} = \frac{\text{Capital Measure}}{\text{Exposure Measure}}$$

Following the CRR "risk of excessive leverage" means the risk resulting from an institution's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

The Bank has incorporated monitoring of the leverage ratio into its capital and financial planning and the related stress testing strategic key performance indicator in the section "Sound risk management and prudential supervision". This allows the Bank to assure, that the pursued business strategy and commercial expansion is achievable within the regulatory prescribed minimum leverage ratio levels.

The Bank actively manages its liquidity and leverage positions within activities executed by the Treasury and Structured Products Department as well as the Asset and Liability Management Department.

Leverage levels of the Bank are monitored and reported to the Management and the Assets and Liabilities Committee periodically.

The following disclosure has been prepared in relation to the requirements laid down in the Commission Implementing Regulation 2016/200:

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

MEUR		Applicable Amounts
1	Total assets as per published financial statements	2,199.4
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	4.8
5	Adjustments for securities financing transactions "SFTs"	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	148.3
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(1.8)
8	**Total leverage ratio exposure**	**2,350.9**

Table LRCom: Leverage ratio common disclosure

MEUR		CRR leverage ratio exposures
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,070.8
2	(Asset amounts deducted in determining Tier 1 capital)	(1.8)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**2,068.0**
	Derivative exposures	
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	4.8
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	4.8
EU-5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**9.6**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	124.0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**124.0**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	148.3
18	(Adjustments for conversion to credit equivalent amounts)	-
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**148.3**
	Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)	
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
	Capital and total exposures	
20	Tier 1 capital	256.4
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**2,350.9**
	Leverage ratio	
22	**Leverage ratio**	**10.9%**
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

MEUR		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	2,199.4
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	2,199.4
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	920.9
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
EU-7	Institutions	285.5
EU-8	Secured by mortgages of immovable properties	20.8
EU-9	Retail exposures	0.1
EU-10	Corporate	951.4
EU-11	Exposures in default	8.0
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	12.6

11. Qualifying Requirements for the use of particular instruments or methodologies

Use of credit risk mitigation techniques

The Bank considers only cash pledged under Luxembourg Law and guarantees provided as eligible credit risk mitigating assets. The Bank is also using netting agreements to mitigate credit risks. GPBL has legally enforceable netting agreements for on balance sheet exposures (loans and deposits) and off-balance sheet exposures (derivatives) for which the Bank may calculate capital requirements on the basis of net credit exposures, subject to specific regulatory conditions.

The Bank monitors encumbered assets, which consist of assets pledged as collateral against an existing liability and other assets which are otherwise explicitly restricted such that they cannot be used to secure funding. From a regulatory point of view, the Bank mainly accepts the pledging of financial assets (particularly client deposits) as collateral as well as personal guarantees and first demand guarantees. The Bank has no credit derivative exposures.

As at 31 December 2020 the Bank used the following credit risk mitigation techniques:

- Time deposits of clients, which are linked to the performance of an underlying asset acquired by the Bank for such purposes ("credit-linked deposit" or "CLD"). The credit risks, as well as the market risks related to these securities were entirely transferred to the holder of the corresponding deposits.
- Other eligible guarantees received.

The summary of CRM exposure per Credit Quality Step as at 31 December 2020 is presented in the table below (in EUR million):

Credit Quality Step	Credit Quality Step - Rating Translation	CRM exposure
1-3	AAA to BBB-	0
4	BB+ to BB-	10.6
5-6	B+ to below B-	0
No Credit Quality Step	Not applicable	322.7
Total		**333.3**

12. Response to COVID-19 crisis

On 11 March 2020, World Health Organisation declared the outbreak of COVID-19 as pandemic. COVID-19 is a significant challenge for humanity and for the economy globally, and at the date of these financial statements its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices.

In order to ensure continuity of the Bank's operations the Management has undertaken all necessary steps envisaged by developed BCP strategy addressing relevant aspects of existing challenging operating environment. The Bank closely monitors all the developments and follows respective recommendations of the CSSF as well as local and EU authorities.

It is the responsibility of the Management Board to make estimates particularly about recoverability of loans to customers and investment securities measured at amortised cost and the appropriateness of the related disclosures and of the going concern basis of preparation of the financial statements and in consequence also of the information included in this report.

The Bank has not been affected by any moratoria on loan repayments related to its lending portfolio and therefore no specific disclosures have been made with this regard.

13. Appendix - List of Disclosure Requirements - Part Eight of CRR

CRR Article	**Disclosed Medium: Primary location Pillar 3 report**
Title II	**Technical Criteria on Transparency and Disclosure**
Article 435	Risk management objectives and policies
Article 436	Scope of application
Article 437	Own funds
Article 438	Capital requirements
Article 439	Exposure to counterparty credit risk
Article 440	Capital buffers
Article 441	Indicators of global systemic importance
Article 442	Credit risk adjustments
Article 443	Unencumbered assets
Article 444	Use of ECAIs
Article 445	Exposure to market risk
Article 446	Operational risk
Article 447	Exposures in equities not included in the trading book
Article 448	Exposure to interest rate risk on positions not included in the trading book
Article 449	Exposure to securitisation positions
Article 450	Remuneration policy
Article 451	Leverage
Title III	**Qualifying requirements for the use of particular instruments or methodologies**
Article 452	Use of the IRB Approach to credit risk
Article 453	Use of credit risk mitigation techniques
Article 454	Use of the Advanced Measurement Approaches to operational risk
Article 455	Use of Internal Market Risk Models