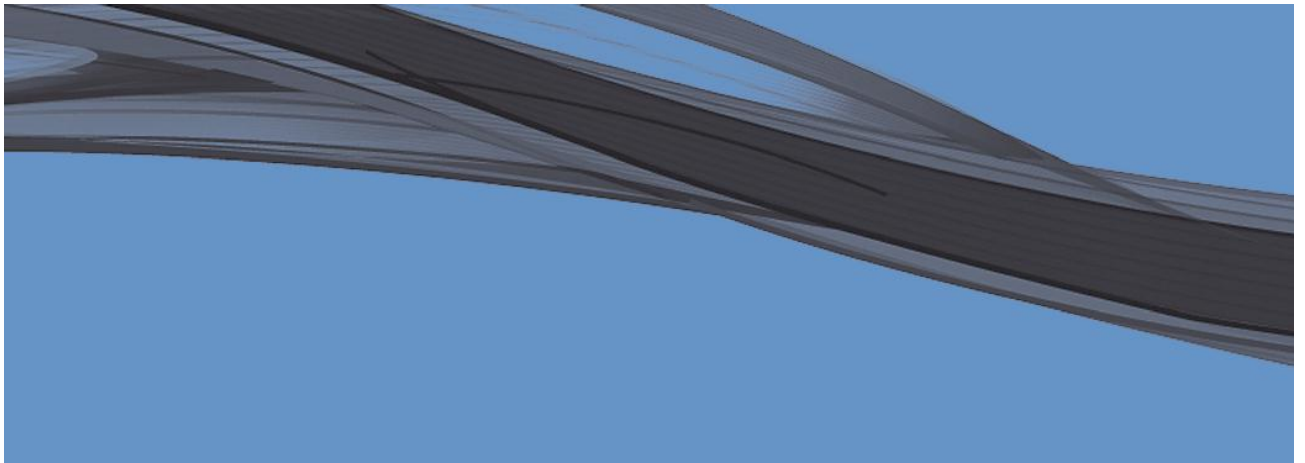




# Capital and Risk Management Pillar 3 Disclosures 2013



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# Introduction

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According to the Basel committee the purpose of Pillar 3 – market discipline is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Anadolubank Nederland N.V.'s Capital Adequacy and Risk Management (Pillar 3) Report encloses information that enables an assessment of the risk profile and capital adequacy of Anadolubank Nederland N.V. This publication fulfils the requirements of the Basel II framework, as agreed in the Capital Requirements Directive III (CRD III). The CRD is legally required by Dutch law under the Financial Supervision Act (Wet op Het Financieel Toezicht (Wft)). This document contains the Pillar 3 disclosures of Anadolubank Nederland N.V (hereafter referred to as Anadolubank or the “Bank”) as at 31 December 2013 and should be read in conjunction with the annual report of the Bank.

The CRD III is based on the Basel II framework, which contains three pillars:

## Capital adequacy regulations

The current capital adequacy regulations (Basel II) came into force on 1 January 2007. The Basel II regulations are built on three pillars:

- Pillar 1: Minimum requirements for capital adequacy
- Pillar 2: Assessment of overall capital adequacy (ICAAP), liquidity adequacy (ILAAP) and supervisory review and evaluation (SREP)
- Pillar 3: Requirements for disclosure of financial information

**Pillar 1** covers the regulatory minimum requirements for capital. The overall basis of calculation is the sum of capital needs for credit risk, market risk and operational risk. Pillar 1 allows banks to apply alternative methods of calculation. Some of these methods require prior approval from the De Nederlandsche Bank/Dutch Central Bank (DNB). Anadolubank applies the following methods for measuring minimum capital requirement under Basel II.

### Credit risk

- The Bank uses the standardized approach to calculate the capital requirements for credit risk. This approach entails using standard risk weights from 0% to 150%, on the Bank's assets depending on the creditworthiness of the borrower, the collateral and the type of the exposure.

### Market risk

- The Bank uses the standardized approach to calculate the capital requirements for market risk. This approach entails using a standard risk weights ranging from 0% to 100% for specific risk from traded debt instruments. The general risk is calculated in accordance with the maturity based approach. The capital requirements for currency imbalance is calculated based on the total net long position or the total net short position, whichever is the higher.

### Operational risk

- The Bank uses the basic indicator approach to calculate capital requirements for operational risk. This approach entails using 15% of a three-year average of the sum of net interest income and net non interest income.

**Pillar 2** defines the requirements for the Banks' own processes for assessing risk and capital adequacy situation through Internal Capital Adequacy Assessment Process (ICAAP). Pillar 2 also provides guidelines for the supervisory review and evaluation. Since 2012, DNB also analyses the Internal Liquidity Adequacy Assessment Process (ILAAP).

**Pillar 3** defines the requirements for the disclosure of financial information. The purpose of the requirements for disclosure of financial information is to ensure that market participants can evaluate the institutions' risk levels in different areas, their management and control of risks as well as the institution's level of capitalization.

### **Verification**

Whilst the Pillar 3 Disclosures 2013 are not required to be externally audited, the document has been verified internally in accordance with the Bank's its financial reporting and governance processes. Controls comparable to those for the Annual Report and Accounts 2013 have been applied to confirm with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the legal requirements for the annual accounts of Banks contained in Part 9, Book 2 of the Netherlands Civil Code. The Pillar 3 disclosures are prepared for the Bank on solo basis. The Annual Report 2013 contains more detailed information on the accounting policies used by the Bank.

### **Frequency**

The Bank started to publish comprehensive Pillar 3 disclosures annually on the Bank's website ([www.anadolubank.nl](http://www.anadolubank.nl)) since June 2014 based on 31 December 2013 figures, consecutively with the release of the Annual Report and Accounts 2013. The Bank's annual reports and management statements include relevant summarized regulatory capital information complementing the financial and risk information presented there.

### **Functional and presentation of currency**

The financial statements are presented in Euros, which is the Bank's functional and presentation currency and all values are rounded to the nearest thousand Euro unless otherwise is stated.

# Key developments in 2013

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The Bank needs to keep sufficient capital to cover all risks taken over a foreseeable future. The Bank strives to be efficient in its use of capital through active management of the balance sheet with respect to different asset, liability and risk categories. Bank's goal is to enhance returns to shareholders while maintaining a prudent risk and return relationship.

This chapter describes the main findings in relation to areas of improvement in the field of administrative organization and internal control identified by internal reviews of the business units, audits conducted by the internal audit department and/ or the external auditor and audits by the regulator. The Management Board dedicated particular attention to these items of improvement in 2013.

## **Developments in the Bank**

### **Governance structure**

In 2013, the Bank's corporate governance and compliance structure has been significantly enhanced, as explained in the Supervisory Board and the Management Board section of the Bank's "Annual Report 2013" (page 12).

Anadolubank Nederland N.V. dedicated extremely in the further improvement of its internal controls in 2013, including documentation of the entire governance framework. Detailed governance documents were also prepared for particular elements, which have strengthened the structure of the organization. Management of the governance framework is the responsibility of the Management Board.

### **Risk management**

The risk management structure was reorganized in 2013. The Management Board paid close attention in 2013 to improve the risk management organization and increase risk transparency. Working with external advisors, Zanders and E&Y, the Bank developed a new structure which clearly defines risk management responsibilities, reporting and escalation lines in the new organization. In this framework, the Bank was in constructive dialogue with DNB in relation to the supervision areas such as ILAAP, ICAAP, Recovery Plan and DNB's thematic examinations including prudential reporting, information technology security, internal audit and compliance. Bank had positive response in these examinations, while some areas of improvement recommended by DNB have been carry out accordingly.

### **Risk appetite**

The 'Risk Assessment of Anadolubank Nederland N.V.' is prepared according to 'Principles for An Effective Risk Appetite Framework, Financial Stability Board's (FSB's)'. The Bank further developed its risk dashboard in 2013. Early warning and other indicators have been formulated to improve the timely monitoring of potential breaches of the established risk appetite. This enables the organization to make the necessary adjustments when needed. The risk categories of the Bank uses for management have also been redefined.

## **Business Continuity Management**

The Bank has developed a comprehensive bank-wide business continuity plan, which covers the continuity of all key aspects of Bank's operations. The plan outlines the processes, procedures and people necessary to recover and continue critical business processes in the event of a service interruption or major disaster. These plans are all tested on a yearly basis.

## **Recovery Plan**

Like all medium-sized financial institutions in the Netherlands, the Bank also carried out a financial recovery plan which describes recovery options represent a well-diversified set of options in a financial or other crisis. The Bank's Recovery Plan framework is embedded in its business-as-usual operations, and is built on existing governance, frameworks, processes and plans. In this way one can regard it as a continuum of the ICAAP and ILAAP plans that include measures and strategic considerations to ensure the Bank's readiness to tackle crises on its own strength. Supervisory Board reviewed and approved the Bank's Recovery Plan that was developed and improved by the MB in close consultation with DNB throughout 2013 and 2014. DNB has opinion that Anadolubank Nederland N.V. has adequately addressed DNB's remarks and the Bank's Recovery Plan is meeting the requirements of DNB.

## **Information Technology**

Since the business activities of the Bank depend on IT through payment system (self and agency) or administration systems, a significant proportion of the operational risk concerns IT risk. IT risks can therefore indirectly pose a threat to bank's financial position and result. To reduce this risk, a large number of control measures have been implemented in the following areas: organization and policy, security management, incident and problem management, testing, change and configuration management and continuity. The banking system coded by the IT teams of the parent bank is being developed continuously according to changing needs and scales. Still there are many projects which are in testing process yet to be taken to production environment.

## **Compliance function**

During the last year, the Bank continuously has internal and external projects running to ensure that it can continue to comply with changing legislation and regulation. The Bank devoted much attention to this area in 2013. Many of the changes to the internal organization have now been realized. Legislation and regulation in the financial sector continued to be subject to rapid change and increasing complexity in 2013. Compliance, Risk and Internal Audit departments have been strengthened accordingly. There has also been significant investment in systems in order to ensure the ethical business operations and controlled conduct of our business.

# Risk governance at Anadolubank Nederland N.V.

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All significant risks within the institution arise from operations of the Bank. To achieve sound governance, risk management principles are designed, the risk appetite statement, ICAAP and other risk related documents are approved by the Supervisory Board.

## **Risk and capital management**

To ensure effective and appropriate process for risk management, internal control and capital management, the Bank applies a framework of 10 principles:

### **Strategic targets**

Risk and capital management is based on strategic targets which are included in the Bank's business plan and yearly budget.

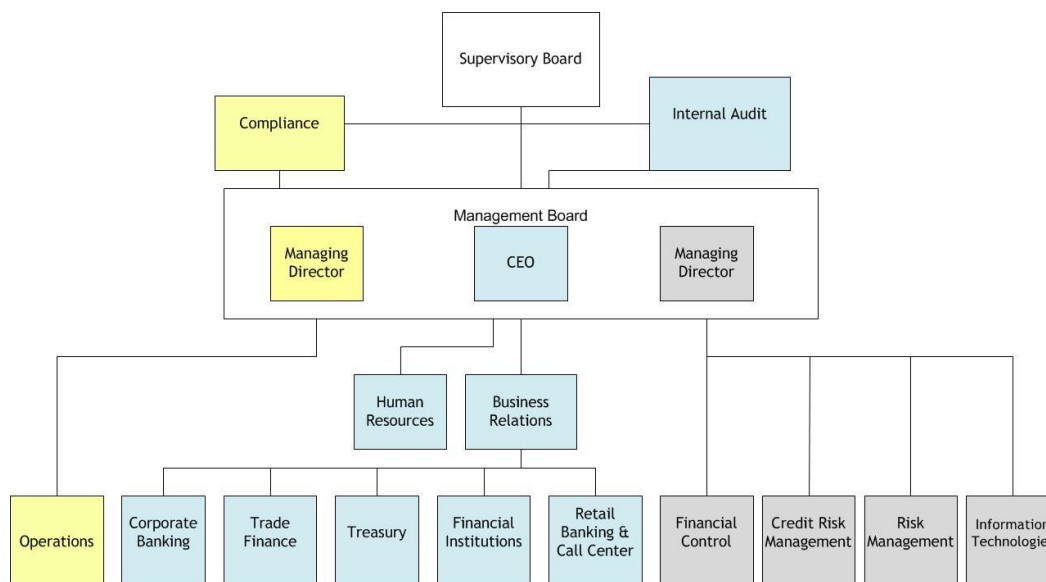
### **Organizational culture**

In the process of risk and capital management, organizational culture is the foundation upon which the other elements are based. The organizational culture includes, management style and people in the organization with their individual characteristics, such as integrity, ethical values and attitudes. A clear set of values and ethical guidelines that should be well known throughout the organization, shall be in place.

### **Organization**

The Bank has two tier management systems, the Management Board (MB) that is responsible for the day-to-day running of the Bank and the Supervisory Board (SB) is responsible for the supervision of the Bank. The Bank Supervisory and Management Boards have set policy-level standards in accordance with the regulations of the Dutch Central Bank and the guidelines published by the Basel Committee and the European Banking Authority.

The table below shows the organization chart.



**The responsibility for the Bank's risk management is distributed as follows:**

The risk management in the Bank is based on the three lines of defense principles for segregation of duties. With business units assuming the first line of defense function, the Risk Management Department and the Credit Risk Management Department, along with the Compliance Department form the second line of defense. Those departments support the business units in their decision-making, but have also appropriate independence and countervailing power to avoid risk concentrations. The Internal Audit Department, as the third line of defense, oversees and assesses the functioning and effectiveness of the first two lines.

Within Anadolubank, several committees (including Boards) have a role in managing and maintaining ICAAP, ILAAP and Recovery Plan. This concerns the Supervisory Board, the Management Board and the Asset & Liability Committee (ALCO).

In general, management of ICAAP is done by the Management Board, whereas the Supervisory Board ratifies and reviews their proposals and decisions.

**Risk identification**

Risk identification is part of strategy and budget process. The risks are identified and analyzed with respect to possible adverse events. Credit, market, operational, concentration, country, interest rate, organizational and IT risks shall be measured in terms of the need for capital requirement. These measurements will be based on generally accepted and adequate methods.

**Risk analysis and stress tests**

The risk analysis will form the basis for how the Bank understands and manages risks. All major risk categories will be assigned with a risk profile as part of the Bank's ICAAP and ILAAP. Stress test is an important tool for analyzing impact of negative events on the Bank's financial performance, balance sheet, capital and liquidity adequacy. Both the single factor stress tests and scenario analyses are used to expose the Bank in a series of negative macroeconomic events during a three year period.



## **Risk strategies**

Risk strategies are the Management Board's instrument to determine the risk profile (ICAAP and ILAAP) and its return targets. Risk strategies shall ensure that the Bank manages risks in line with approved risk profile. Risk strategies are based on the Bank's strategic target and are revised at least annually. The Bank sets risk strategies through high-level strategy, credit strategy and financial and liquidity strategy. The Management Board defines the Bank's risk profile by establishing risk-based frameworks and targets for the individual areas.

## **Risk and capital management**

Sound risk management is an important instrument to achieve the Bank's goals, and the aim of risk management in the Bank is to be an integrated part of its planning, strategy and decision-making processes. The Bank shall have a capital management process that ensures:

- An effective capital acquisition and optimal capital usage in relation to the Bank's strategic target and business strategies;
- A satisfactory capital adequacy based on chosen risk profile;
- Utilizing growth opportunities in the Bank's defined market.

## **Reporting, monitoring and surveillance**

All managers and employees are responsible for the ongoing management of risk in their own areas. The Risk Management Department performs independent assessment of the overall risk exposure and trends through periodic reports to the SB and MB through ICAAP and ILAAP.

## **Contingency plans**

Contingency plans (Business Continuity Plan (BCP), Contingency Funding Plan (CFP) and Recovery Plan (RP)) have been prepared addressing the Bank's operational, capital and liquidity situation under unforeseen events/crises.

- Business Continuity Plan tests organized annually for unforeseen events/disaster scenarios. The plan outlines the processes, procedures and people necessary to recover and continue critical business processes in the event of a service interruption or major disaster.
- The Contingency Funding Plan, which is activated in case of a liquidity crisis.
- The Bank developed a robust Recovery Plan that has been set-up to comply with the requirements set by both the Dutch Central Bank and the Financial Stability Board. The Bank prepared a comprehensive recovery planning process to enhance the bank's readiness and decisiveness to tackle financial crises on its own strength.

## **Compliance**

There are established processes to ensure compliance with current laws and regulations, industry standards and internal guidelines.

# Credit risk

Credit risk arises principally from loans and advances to customers and from investments in debt securities, but also from commitments, guarantees and documentary credits, counterparty credit risk in derivatives contracts, and aforementioned settlement risk.

The Bank's asset portfolio is managed in accordance with the Bank's Credit Risk Policy, which applies qualitative and quantitative guidelines, with particular emphasis on avoiding unnecessary concentrations or aggregations of risk.

The Bank's credit risk exposure consists of an on-balance sheet exposure and an off-balance sheet exposure. The on-balance sheet exposure is the book value of assets whereas the off-balance sheet exposure represents the amount that the Bank has committed to customers i.e. guarantees.

At the end of 2013, the Bank's total credit risk exposure was Euro 534 million (2012: 465 million). Loans to customers increased by 52% between 2012 and 2013 and represent the largest part of the Bank's total credit exposure or 36%. The expansion in the corporate loan book, which benefits from significantly higher spreads, compared to the credit institutions. Based on the Bank's business plan, the share of credit institutions in total loans decreased from 44% to 29% by the end of 2013. Government bonds or corporate bonds represent 19% of the total credit risk exposure.

Breakdown of credit exposure	2012	2013	Change %	Share in	Share in
				Total	Total
	2012	2013		2012	2013
Cash and balances with Central Bank	47,588	66,362	39%	10%	12%
Loans to credit institutions	202,401	154,569	-24%	44%	29%
Loans to customers	127,501	194,395	52%	27%	36%
Bonds and debt instruments	76,108	99,439	31%	16%	19%
Derivatives	1,710	3,708	117%	0%	1%
<b>Credit risk exposure on-balance sheet</b>	<b>455,308</b>	<b>518,473</b>	<b>14%</b>	<b>98%</b>	<b>97%</b>
Off-balance sheet items:				0%	0%
Loan commitments	9,374	15,743	68%	2%	3%
<b>Credit risk exposure off-balance sheet</b>	<b>9,374</b>	<b>15,743</b>	<b>68%</b>	<b>2%</b>	<b>3%</b>
<b>Total credit risk exposure</b>	<b>464,682</b>	<b>534,216</b>	<b>15%</b>	<b>100%</b>	<b>100%</b>

## Management and policy

The Bank's credit risk management is based on active monitoring by the Management Board, the CEO, the Credit Risk Department, the Credit Committee, and the business units. The Bank manages credit risk according to its risk appetite statement and Credit Risk Policy approved by the Supervisory Board as well as detailed lending rules prepared by the Management Board. The risk appetite statement and Credit Risk Policy include limits on large exposures to individual borrowers or groups of borrowers, concentration of risk and exposures to certain sectors. The Management Board ensures that the Credit Risk Policy is reflected in the Bank's internal framework of regulation and guidelines. The Bank's executives are responsible for the Bank's business units to execute the Credit Risk Policy appropriately as the Management Board is responsible for the oversight of the process as a whole.

The key parameters of the credit risk are reported on a regular basis. Trends and performance versus specified benchmarks for credit risk are regularly reported to the Management Board and

related departments. Credit limits are prudent, and the Bank uses standard mitigation and credit control technologies.

Business units are responsible for day-to-day management of existing credit exposures, and for periodic review of the client and related risks, within the framework developed and maintained by the Credit Risk Department. Audit Department carries out separate risk asset reviews of business units, to provide an independent opinion on the quality of the credit exposures, and adherence to credit policies and procedures. These measures, collectively, constitute the main lines of defence against unnecessary risk for the Bank.

Credit Risk Department is responsible for developing, enhancing and communicating an effective and consistent credit risk management framework across the Bank to ensure appropriate credit risk policies are in place to identify, measure, control and monitor such risks. Credit exposures are supervised more actively by Credit Risk Department. Credit reviews are conducted at least once a year with updated information on customer's financial position, market position, industry and economic condition and account conduct. Corrective actions are taken when the accounts show signs of credit deterioration. Furthermore the Commercial and Credit Risk departments work together for the quarterly review of the entire customer portfolio.

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic structures that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other macroeconomic factors. In order to avoid excessive concentrations of risk, bank policies and procedures include specific guidelines to focus on country, sector and counterparty limits and the importance of maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

### **Risk mitigation, collateral and other credit enhancements**

The Bank takes a holistic approach when granting credit facilities and does so primarily based on the repayment capacity of the borrower, rather than place primary dependency on credit risk mitigation. As a fundamental credit principle, the Bank generally does not grant facilities only on the basis of collateral provided. Credit facilities are granted based on the credit standing of the borrower, source of repayment and debt service ability.

Nevertheless, collateral is taken whenever it is assumed to mitigate the credit risk. The Bank's Credit Risk Policy is to encourage the use of credit risk mitigation, justified by commercial prudence and good practice as well as capital efficiency. The value of collateral taken is also monitored periodically. The frequency of valuation depends on the type, liquidity and volatility of the collateral value. The main types of collateral taken by the Bank include cash and guarantees from banks and other eligible counterparties, marketable securities, real estate, equipment, inventory and receivables. The amount and type of collateral depends on the counterparty credit risk assessment.

Management monitors the market value of collateral and where required, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained on an ongoing basis.

Collateral analysis is disclosed under section financial risk management of the Bank's "Annual Report 2013" (page 36).

## Large exposure

A large exposure is defined as an exposure to a group of related parties which exceeds 10% of the Bank's capital base. The Bank sets prudent exposure limits on large exposure risk related transaction in accordance with the Bank's overall strategy and policy, capital adequacy and provisions for potential risks, risk rating of each group, acceptable level of risk, and business opportunities in each counterparty or group of associated counterparties. No single large exposure or sum of large exposures shall exceed the Bank's internal limits, both of which are lower than the legal limits.

The Bank evaluates the customers' relationship both with respect to control and economic dependencies. Credit Risk Management monitors related party associations both prior to the granting of the loan and during the lifetime of the loan. Connections are stored in the Bank's system. Customers' exposures are updated daily and available at any time through the Bank's core banking system.

## Credit risk exposure by sector

The Bank's loan book is diversified with regard to financial institutions and industry sectors. Of loans to customers, 49% are loans to financial institutions. Credit exposure towards financial intermediation (such as factoring, leasing, etc.) represents 15% of the total credit risk exposure. Chemical and basic materials sectors activities is the largest industry sector comprising 25% of loans to customers or 11% of the Bank's total credit risk exposure. The Bank uses an internal industry classification which is based on the on the NACE standard.

	Loans and advances to customers		Loans and advances to banks		Interest bearing securities	
<b>Concentration by sector</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>
Corporate:						
Basic materials	31,582	21,826	-	-	-	645
Consumer products non-food	13	-	-	-	-	-
Building materials	-	19,116	-	-	-	-
Insurance& pension Funds	-	167	-	-	-	-
Private individuals	-	373	-	-	-	-
Technology	-	2,913	-	-	-	632
Financial intermediation	39,621	58,891	-	-	16,998	6,772
Construction& Infrastructure	-	3,645	-	-	-	-
Automotive	13,243	17,933	-	-	-	-
Transport&logistics	2,480	14,143	-	-	-	1,070
Food, beverages&tobacco	2,397	-	-	-	-	-
Capital goods	97	-	-	-	-	-
Chemicals	23,756	27,281	-	-	-	-
Oil&gas	6,433	12,983	-	-	6,456	6,986
Telecom	7,013	16,275	-	-	-	-
Others	13,847	354	-	-	-	-
Government	-	-	-	5	13,840	20,391
Bank	-	-	202,401	154,564	38,814	62,943
Provisions	(12,981)	(1,504)	-	-	-	-
<b>Carrying amount</b>	<b>127,501</b>	<b>194,395</b>	<b>202,401</b>	<b>154,569</b>	<b>76,108</b>	<b>99,439</b>

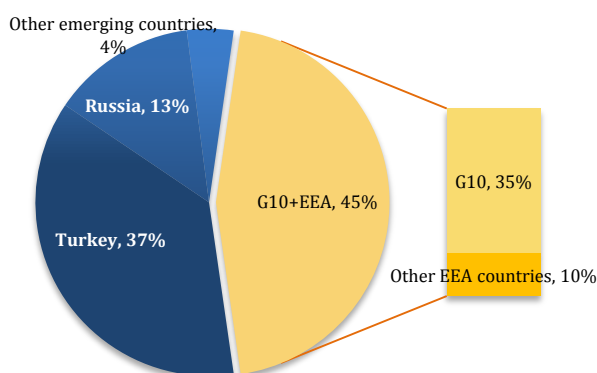
Breakdown of by sector for assets is also provided in section financial risk management of the Bank's "Annual Report 2013" (page 36).

### Credit risk exposure by country

Country risk is defined as an aggregate bank's exposure to a country. The exposures headed under country risk include all cross-border exposures to any counterparty in the relevant country as well as all sovereign exposures of the relevant country. Country risk applies to credit risk and forms an integral part of the Credit Risk Policy. The Bank adopted the "Policy Rule on Country Concentration" that is "the value of total non-risk-weighted assets and off-balance sheet items in respect of borrowers from the same state, if greater than 5% of total non-risk weighted assets and off-balance sheet items".

On the top of that, the Bank closely monitors its country exposures, total loans granted to the counterparties established in a specific country, for an effective monitoring of the collective debtor risk in a specific country.

Geographic distribution of credit risk exposure is given in below chart as of 2013. Exposure to G10 and EEA countries amounted to Euro 240 million or 45% of the total exposure.



The geographical breakdown of assets is disclosed in section financial risk management of the Bank's "Annual Report 2013" (page 37).

### Portfolio credit quality

The Bank places great emphasis on monitoring and reporting the quality of its loan portfolio. To this end, it follows the development of credit rating, defaults, loan impairments and the progress of the recovery of distressed loans.

The Bank acknowledges the potential benefits of using rating models. Rating models provide the means to make risk profiles transparent, ensure a consistent assessment of counterparties and contribute to a uniform credit approval process. This contributes to an adequate risk management function of the Bank as well as an efficient credit process. Although the Basel II Standardised Approach does not require rating models, the Bank intends to adhere to relevant Basel II IRB regulation/guidelines regarding Vendor Rating Models.

All corporate clients will be rated according to the Anadolubank Rating Scale (ABR). The rating scale applies to all corporate counterparties of the Bank. Banks are subject to both external and internal ratings. In mitigating concentration risks in the credit portfolio, the guidelines for maximum exposures per client (including split-up per rating class and tenor) are being applied. In addition to this, MIS reports trigger alerts in case of certain concentration risks.

Below table shows the rating status of the portfolio, for each type of external rating.

<b>Credit quality analysis</b>	<b>Loans and advances to customers</b>		<b>Loans and advances to banks</b>		<b>Interest bearing securities</b>	
	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>
Rated BBB- to AA	4,910	8,582	90,153	120,701	60,284	73,048
Rated B- to BB+	-	2,913	106,058	28,974	9,299	23,270
CCC	-	-	-	-	6,525	-
Unrated	135,572	184,404	6,190	4,893	-	3,120
Provisions	(12,981)	(1,504)	-	-	-	-
<b>Carrying amount</b>	<b>127,501</b>	<b>194,395</b>	<b>202,401</b>	<b>154,569</b>	<b>76,108</b>	<b>99,439</b>

### Defaults and write-downs of loans

The Bank's accounts are prepared in accordance with IFRS regulations. This means that all items in the profit and loss statement and balance sheet, including recognition of receivables and provisioning and losses on loans and credits, follow these principals. If there is objective evidence of impairment (indication of a fall in value) for an individual loan or group of loans, a provision (write-down) will be calculated for the fall in value that is equal to the difference between capitalized value and the net present value of estimated future cash flows, discounted by the financial asset's original effective interest.

Objective evidence that a loan has been impaired (fallen in value) includes significant problems for the debtor, non-payment or other significant breach of contract, and if it is considered likely that a debtor will enter debt negotiations or if other concrete events indicating possible impairment have occurred. If a borrower does not meet the contractual obligation of payment of installment or overdraws a credit beyond the limits granted then the loan will be considered to be in a state of default.

A final write-off is recognized when it is evident that the loan will not be repaid and in such instances any corresponding provision (write-down) taken will be reversed. In the unlikely event of a payment on previously written-off loan, these are recognized as a recovery on a previously written-off loan.

The table below shows the impairment and write-down as of 31 December 2013 and 31 December 2012:

<b>Loan impairment charges and allowances</b>	<b>2012</b>	<b>2013</b>
Balance at 1 January	-	12,981
New impairment allowances	12,981	1,504
Reversal of impaired loans	-	-
Amounts written off (-)	-	-
Currency translation differences	-	(571)
<b>Balance at 31 December</b>	<b>12,981</b>	<b>13,914</b>

# Counterparty credit risk

Counterparty risk entails a risk of financial loss for both parties to a transaction. This is because the market value of a transaction changes over time with changes in underlying market factors. The market values can thus fluctuate between positive and negative amounts. It arises mainly from the derivative contracts and securities financing.

The Bank's policy is to manage tightly any and all counterparty risks while entering into the transactions necessary to maintain a sound operating environment.

Derivative financial instruments consisting of foreign currency forward contracts and currency swaps are initially recognized at cost, with subsequent measurement to their fair value at each balance sheet date. Fair values are obtained or determined from quoted market prices in active markets. All derivatives are separately evaluated and carried as assets when each transaction's fair value is positive and as liabilities when each transaction's fair value is negative. Derivative contracts are included in derivative financial instruments lines of assets and liabilities and changes in the fair value are included in the income statement, under net trading income. No hedge accounting has been applied.

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. The Bank uses derivative financial instruments to manage its exposure to foreign currency risk. Counterparty credit risk is measured by considering the sum of replacement cost and potential future exposures of the derivative contracts. The notional amounts of long positions in currency forwards and currency swaps are:

## 31 December 2013

	Notional Amounts	Up to 1 months	Up to 3 months	Up to 1 year	Over 1 year	Fair value assets	Fair value liabilities
Forward purchase contract	-	-	-	-	-	-	-
Forward sale contract	-	-	-	-	-	-	-
Currency swap purchase	281,407	210,857	10,200	51,693	8,657	3,708	-
Currency swap sale	277,982	208,993	9,907	50,505	8,577	-	28
<b>Total</b>	<b>559,389</b>	<b>419,850</b>	<b>20,107</b>	<b>102,198</b>	<b>17,234</b>	<b>3,708</b>	<b>28</b>

## 31 December 2012

	Notional Amounts	Up to 1 months	Up to 3 months	Up to 1 year	Over 1 year	Fair value assets	Fair value liabilities
Forward purchase contract	12,245	745	11,500	-	-	390	-
Forward sale contract	11,855	743	11,112	-	-	-	-
Currency swap purchase	186,118	80,917	64,290	40,911	-	1,320	-
Currency swap sale	186,043	80,806	63,665	41,572	-	-	424
<b>Total</b>	<b>396,261</b>	<b>163,211</b>	<b>150,567</b>	<b>82,483</b>	<b>-</b>	<b>1,710</b>	<b>424</b>

## **Mitigation and control**

In respect of its derivative transactions, to make the security completely effective, contracts entered into with counterparties make use of ISMA (International Securities Markets Association), GMRA (Global Master Repurchase Agreement) and ISDA (International Swaps and Derivatives Association) agreements, as well as the ISDA Credit Support Annex (ISDA-CSA) where ISDA-developed contract documents are being used. For such derivatives, the Bank may provide or require cash or high grade government securities as collateral that it is permitted by documentation.

## **Wrong-Way Risk**

Wrong-Way Risk (“WWR”) arises when counterparty’s probability of default has a strongly positive correlated relationship with the underlying risk exposure in a transaction.

The Bank does not use credit derivatives to cover the part of the credit risk that relates to counterparties. Therefore the Bank does not carry out any transactions in the area. The Bank has an appropriate credit policy framework in place to ensure that WWR is managed in a consistent way, within risk appetite tolerances.



# Market risk

Market risk is the risk of loss from changes in market prices and rates (including interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices), the correlations between them, and their levels of volatility. Market risk stems from all the positions included in banks' trading book as well as from commodity and foreign exchange risk positions in the whole balance sheet.

The Bank applies Standardized Approach to capture the market risk capital requirement in its trading book under Pillar I risk calculation. Market risk incorporates a range of risks, from which the exchange rate risk and price risk due to the bond position in the trading book are the most important ones.

The following table shows the breakdown of capital requirement for market risk at the end of 2013 and 2012 respectively.

	31/12/2012		31/12/2013	
	Risk weighted assets	Pillar 1 capital requirement	Risk weighted assets	Pillar 1 capital requirement
<b>Market Risk (Standardised Method)</b>	<b>191</b>	<b>15</b>	<b>3,229</b>	<b>258</b>
Equity, trading book	-	-	-	-
Traded debt ins. trading book	-	-	1,649	132
Foreign exchange	191	15	1,580	126

## Foreign currency risk

Currency risk arises when an entity's equity is under threat as a result of exchange rate fluctuations. Naturally, the Bank does business in multiple currencies would be exposed to currency risks unless these risks are properly hedged. Any sizeable transaction that would be causing currency risk is immediately hedged with a banking counterpart, or smaller transactions are gathered until they form a sizeable amount for hedging. The foreign currency risk is hedged generally by using derivatives to reduce currency exposures to acceptable levels. After taking into account foreign currency derivatives, the Bank has no material net exposure to foreign exchange rate fluctuations.

The Bank takes on exposure to effect of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The capital requirement for foreign currency risk of the Bank under Pillar 1 is reached after calculating the net short or long position in each foreign currency (excluding the base currency, Euro), it is converted at spot rates into the reporting currency. In line with the 'shorthand' method of Basel II, all currencies are treated equally and the net open position is measured by aggregating the sum of the net short positions or the sum of net long positions, whichever is the greater. This overall net open foreign currency position will be subject to a capital requirement of 8% thereof. The Bank's exposure to foreign currency exchange rate risk at 31 December 2013, on the basis of the Bank's assets and liabilities at carrying amounts, categorized by currency, is disclosed under section in section financial risk management of the Bank's "Annual Report 2013" (pages 40-41).

## Interest Rate Risk

The Bank measures the minimum capital requirement for interest rate by applying 'specific risk' and 'general market risk'. Only, fixed-rate and floating-rate debt securities in the trading book are included in the calculation, since currently the Bank does not engage in interest rate derivatives or any other off-balance sheet instruments that might be reacted to changes in the interest rates.

At the end of 2013, the Pillar I capital requirement resulted from the 'specific risk' is amounted Euro 89 thousands. The 'general market risk' calculation, the 'maturity method' is applied. At the end of the year, Euro 43 thousand is allocated for 'general market risk'. Thus, Euro 132 thousand capital is allocated for the traded debt securities in the trading book

## Derivatives

The Bank only uses derivatives to hedge various imbalances on its own balance sheet in order to reduce risk such as currency risk.

The Bank's derivative position is shown in the below.

<b>Derivatives</b>			In order to minimize the risk arising from counterparties, the Bank selects well known market participants for derivatives transactions. Counterparties with above investment grade rating composed 45% of the derivatives.
<b>External Credit Rating</b>	<b>31/12/2013</b>		
Above A-	104,797	37%	
BBB+ to BBB-	16,894	6%	
Below BBB-	25,000	9%	
Unrated	134,717	48%	
<b>Total</b>	<b>281,407</b>	<b>100%</b>	

The composition of the maturity profile of the derivatives is also displayed to give a clear view of the portfolio. According to this, transactions with lower credit rating counterparties have a short term maturity profile.

## Interest rate risk on banking book

Interest Rate Risk in the Banking Book (IRRBB) is the risk a bank faces due to interest rate repricing mismatches (ie fixed-rate versus floating-rate assets or liabilities) and maturity mismatches between its assets and liabilities, as well as the non-repricing elements of its balance-sheet including equity. The repricing mismatch between the two sides of the balance-sheet makes the Bank vulnerable to changes in interest rates, a risk against which the Bank therefore needs to hold capital.

Since IRRBB is not separately identified by Pillar 1 regulatory capital under Basel III, the Bank captures this under Pillar 2 in the ICAAP.

Anadolubank calculates the capital requirement by using measures listed below and reports these on a monthly basis. These measures strongly relate to the 8035 report that is sent to DNB every month. As can be observed, the interest typical gap profile is an important ingredient for the calculations.

## Earnings at Risk

Earnings at Risk (EaR) intend to quantify the volatility of the expected future earnings, depending on future (movements of) interest rates and new products entered into over the predefined horizon of this measure (one year). Obviously, these future interest rates, and new product, are not known in advance and consequently future earnings are uncertain as well.

However, by applying several interest rate scenarios, the volatility of these earnings can be investigated over a particular future period. The Earnings at Risk is the level of earnings that correspond to a pre-defined scenario compared to the 'best estimate' on earnings, i.e. the expected value of earnings.

The stress scenarios were based on dynamic simulation approach which takes future course of interest rates and expected changes in the Bank's business activities into account. Moreover, the behavior of the non-maturing balance sheet items, such as sight deposits was analyzed for this assessment.

Overall, the Bank aims to use matched currency funding and usually converts fixed rate instruments to floating rate to better manage the duration in the asset book. The following tables indicate the Bank's interest rate sensitivities in the Banking book from the income perspective at the end of 2013.

<b>Sensitivity of equity to interest rate movements</b>	<b>200 bp parallel increase</b>	<b>200 bp parallel decrease</b>
At 31 December 2013	(1,438)	236
At 31 December 2012	(768)	3,445

End of 2013 results indicate that, in case of a sudden parallel increase of 200 bps in the interest rate, the net interest income will decrease Euro1.4 million. Sudden parallel decrease of 200 bps in the interest rates results Euro 236 thousand increase in the net interest income.

## IRRBB strategy, governance, policy and processes

The MB retains ultimate responsibility for the effective management of IRRBB. The ALCO proactively manages IRRBB and the Treasury Department provides strategic insight and motivation in managing IRRBB to ALCO through appropriate risk reporting and analytics and by providing strategic input based on the Committee's interest rate views, impairment sensitivity and defined risk appetite.

Appropriate limits have been set to measure this risk for both earnings and own funds, within which this risk must be managed. Compliance with these limits is measured and reported to the ALCO and the MB on a monthly basis.

# Liquidity risk

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Liquidity risk is commonly defined as the ability of an institution to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses.

In order to ensure effective liquidity risk management, Liquidity Risk Policy has been designed. The Policy describes the manner in which the Bank identifies, evaluates, measures, monitors, manages and reports its liquidity. The Policy clearly outlines the structure, responsibilities and controls for managing liquidity risk and overseeing the liquidity positions of the Bank. The Bank's Liquidity Risk Policy includes the Contingency Funding Plan, along with the communication strategy. The contingency planning policy provides a framework for detecting an upcoming liquidity event with predefined early warnings and actions for preventing temporary or longer term liquidity disruptions.

## **Management**

The objective of the Liquidity Risk Policy is to ensure that sufficient liquid assets and funding capacity are available to meet financial obligations and sustain withdrawals of confidence sensitive deposits in a timely manner and at a reasonable cost, even in times of stress.

The Policy aims to ensure that the Bank does maintain an adequate level of unencumbered, high-quality liquid assets that can be converted into cash, even in times of stress. The Bank has also implemented stringent stress tests that have a realistic basis in the Bank's operating environment to further measure the Bank's ability to withstand different and adverse scenarios of stressed operating environments.

The Bank's liquidity risk is managed centrally by Treasury Department and is monitored by Risk Management Department. This allows management to monitor and manage liquidity risk throughout the Bank. The Risk Management Department monitors the Bank's liquidity risk, while the Bank's Internal Audit function assesses whether the liquidity management process is designed properly and operating effectively.

The Bank monitors intraday liquidity risk, short-term 30 day liquidity risk, liquidity risk for one year horizon and risk arising from mismatches of longer term assets and liabilities. The Bank's liquidity management process includes: projecting expected cash flows in a maturity profile rather than relying merely on contractual maturities; monitoring balance sheet liquidity; monitoring and managing the maturity profile of liabilities and off-balance sheet commitments; monitoring the concentration of liquidity risk in order to avoid undue reliance on large financing counterparties projecting cash flows arising from future business; and, maintaining liquidity and contingency plans which outline measures to take in the event of difficulties arising from liquidity crisis. The contractual maturity breakdown of assets and liabilities are disclosed under section in section financial risk management of the Bank's "Annual Report 2013" (page 37), proves that the Bank does not carry a large maturity mismatch. % 62 of loans/advances to corporate and banks, matures in one year.

The Liquidity Risk Policy is built on international standards on liquidity risk measurements developed by the Basel Committee on Banking Supervision (e.g. the Liquidity Coverage ratio (LCR) and the Net Stable Funding Ratio (NSFR)) and it also applies measurements that best suit the operating environment of the Bank.

## **Measurement**

Key indicators are used to measure and monitor liquidity risk: DNB monthly liquidity test and Basel III liquidity ratios.

The Basel III liquidity ratios -Liquidity Coverage Ratio is well above the minimum regulatory requirement (as of end 2013, 332%). NSFR will be implemented in 2018, the Bank is already in line with the minimum regulatory requirement. At the end of 2013, NSFR was 115%.

## **Stress test / sensitivity analysis**

Various stress tests have been constructed to measure how different scenarios affect the liquidity position and liquidity risk of the Bank. The stress tests are conducted monthly and measure the Bank's ability to withstand deposit withdrawals under various levels of adverse conditions. These stress tests are set up to measure the Bank's ability to operate in its current economic environment.

The stress test scenarios defined are in line with the requirements in the Internal Liquidity Adequacy Assessment Process (ILAAP), but is also be applicable for internal purposes. For that reason, 'business as usual', 'bank specific' and 'market wide stress scenarios' are designed to serve this purpose.

## **Control and monitoring**

The Bank's ALCO sets limits for liquidity risk tolerance through the Liquidity Risk Policy by determining an acceptable level of liquidity position under normal and stressed business conditions. Furthermore, the Management Board is responsible for determining the Bank's overall risk appetite, including liquidity risk. ALCO is also responsible for deciding on strategies, policies and practices on liquidity risk in accordance with the risk tolerance while taking into account key business units, products, legal structures and regulatory requirements

The Management Board reviews the Bank's Risk Appetite every year with regards to liquidity risk and, furthermore, the Board also discusses the Bank's balance sheet with respect to liquidity position in their monthly meetings. Risk-related matters are also discussed in detail by the Supervisory Board of the Bank, including the comprehensive Liquidity Risk Report published by Risk Management Department.

The Bank's Treasury Department is responsible for day-to-day liquidity management within the Bank and that entails closely monitoring current trends and potential market developments that may present significant and complex challenges for the Bank's liquidity strategy. The stock of high quality liquid assets is under the control of Treasury Department which must manage the assets in accordance with the Bank's Liquidity Risk Policy. The Risk Management Department regularly evaluates the Bank's liquidity position, monitors internal and external events and factors that may affect the liquidity position and also ensures compliance with the Bank's liquidity management policy.

Furthermore, the Bank has carried out an internal liquidity adequacy assessment process (ILAAP) based on DNB's ILAAP Policy Rule and submitted the required documentation to DNB for purposes of Supervisory Review and Evaluation Process (SREP). The internal process, governance and consultative dialogue with the regulatory supervisory body required to meet the ILAAP rules are similar to the ICAAP.

The Bank defines the liquidity risk appetite by setting limits for applied liquidity risk measures. The most crucial factor is the survival horizon, which defines the risk appetite by setting a minimum

survival of 3 months under the combination of bank-specific and market-wide stress scenarios with limited mitigation actions.

The Bank manages its liquidity buffer so as to ensure compliance with regulatory requirements and internal limits determined by stress tests. Besides, to ensure funding in situations where bank is in urgent need of cash and the normal funding sources do not suffice, the Bank holds a liquidity buffer that consists of ECB eligible debt securities and highly liquid assets.

The ILAAP Supervision Manual is the main reference for the Bank's liquidity risk management. It gives an all-encompassing qualitative and quantitative guidance for liquidity risks management as well for the implementation of the liquidity regulation with the Basel III accord.

### **Early warning indicators and escalation procedures**

There are clear escalation procedures that are applied if there is a danger that the lower limit of any early warning indicators is breached. Escalation is applied using what is known as a traffic-lights model. This is a system of warning signals that lead to an increased level of alert with respect to the liquidity situation. When none of the escalation criteria have been activated, this is known as green (safe). This can be escalated to yellow (warning) and finally red (trigger).

### **Contingency Funding Plan**

The Bank has in place a Contingency Funding Plan which is set to provide a framework for detecting an upcoming liquidity event with predefined early warning indicators and actions for preventing temporary or longer term liquidity disruptions.

The Liquidity Contingency Plan stipulates the actions which shall be taken to monitor if the occurrence of a liquidity event or a confidence crisis is likely or imminent. It also includes a detailed action plan and procedures for managing of liquidity events.

Further details of the Bank's liquidity risk may be found in the Bank's "Annual report 2013" note 27, pages 37, 38, 39.

# Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk such as those occur from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks emerge from all of the Bank’s operations.

The Bank uses the basic indicator approach of the Capital Requirements Directive (CRD) to calculate risk weighted assets for operational risk. The calculation based on a single indicator: income. Risk weighted assets are calculated as percentage of income (average of last three years) at a rate 15%. Operational events resulting in credit losses are part of the credit risk calculation. In fiscal 2013, the Bank has not had any material or potentially material operational risk loss events. Operational risk losses continue to be within the acceptable level.

**Measurement, mitigation and processes**

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of compliance to overall the Bank’s standards for the management of operational risk.

During the last year, the Bank continuously has internal and external projects running to ensure that it can continue to comply with changing legislation and regulation. The Bank devoted much attention to this area in 2013. Many of the changes to the internal organization have now been realised. Legislation and regulation in the financial sector continued to be subject to rapid change and increasing complexity in 2013. Compliance, Risk and Internal Audit departments have been strengthened accordingly. There has also been significant investment in systems in order to ensure the ethical business operations and controlled conduct of our business. This led to significantly higher operating expenses in 2013.

- Devote sufficient resource;
- Adequate procedures;
- Senior management involvement;
- Monitoring on a regular basis;
- Independent control function.

Organization	2012	2013	Change
Risk Management	1	2	1
Credit Risk Management	2	3	1
Internal Audit	0	2	2
Compliance	1	2	1
IT	1	2	1
<b>Total</b>	<b>5</b>	<b>11</b>	<b>6</b>

Each department of the Bank is individually accountable for its results as well as for the risks associated with its operations. A balance must be struck between risk and return, and this must of course comply with the relevant risk limits.

The architecture of the Bank’s information systems is based on two mirrored data centres, primary and secondary, located in two different locations linked with high speed fiber line. This setup allows the Bank to run its core systems with access to mission critical data even though one data centre (for instance the primary data centre) becomes unusable. In the event of a failure, core systems will be switched from one site (the failed one) to the other. There is a Business Continuity Plan in place

for all operations considered to be mission critical to the Bank. These plans are all tested on a yearly basis.

The Bank collects operational loss event database, which is managed and maintained by the Risk Management Department to capture key information on operational losses. This data is analyzed, and then reported to Management Board to provide insight into operational risk exposures, appetites and trends. During last 5 years, the number and magnitude of loss events is very minor thus management believes there is no need to determine capital requirement of expected losses taking into account internal loss statistics.

However, by using basic indicator approach, the Bank calculates regulatory capital requirement for operational risk. According to this calculation, capital requirement for operational risk is Euro 1.5 million as of end 2013.

<b>Operational Risk</b>	<b>31/12/2012</b>	<b>31/12/2013</b>
Operational Risk Exposure	19,192	18,956
Capital Requirement	1,535	1,516



# Capital management

The strong capital ratio of the Bank has enabled us to cope with unexpected significant defaults from the end of 2011 for sovereign and corporate. The Bank had a capital ratio at the end of 2013 of 19.4%. In light of continued uncertainty in the financial environment, the Bank chooses to maintain its financial strength. DNB stringent requirements on required capital ratio and liquidity, and the even higher demands made by the Bank's Supervisory Board and Management Board in this respect, have proven to be an important part of the Bank's strategy. As long as uncertainties remain in the Eurozone and emerging countries, it is useful for the Bank to maintain strong capital ratios.

The capital planning is subject to two overall considerations:

- i. Optimization of the Bank's risk and maximization of earnings;
- ii. Taking advantage of the situation in the market to increase the Banking activities with an acceptable risk.

## Capital structure

The Bank's capital base is composed of core Tier 1 capital as shown in below table. Tier 1 capital comprises of paid-in capital, reserves, the profits retained in prior years and the result for the current year. Intangible assets, deferred tax assets and the unrealized loss on investments carried as available for sale (AFS) are deducted from Tier 1 capital.

<b>Capital requirements</b>	<b>31/12/12</b>	<b>31/12/13</b>
<i>thousands of Euros</i>		
<b>Total risk weighted assets</b>	<b>314,592</b>	<b>375,527</b>
Credit risk	295,209	353,342
Market risk	191	3,229
Operational risk	19,192	18,956
<b>Tier 1 capital</b>	<b>56,027</b>	<b>72,857</b>
Paid-in capital	55,000	70,000
Retained earnings	5,769	1,142
Revaluation reserves	-	(239)
Net profit	(4,627)	2,749
Regulatory adjustments	(115)	(795)
<b>Tier 2 capital</b>	<b>-</b>	<b>-</b>
<b>Total capital</b>	<b>56,027</b>	<b>72,857</b>
Tier 1 ratio %	17.81%	19.40%
Solvency ratio %	17.81%	19.40%

## Calculation of capital requirements under Pillar I and Pillar II

The table below presents an overview of the capital requirements and the risk-weighted exposure amounts at 31 December 2013 and 31 December 2012 for the different risk types. According to the Basel II rules on capital requirements, the capital base of a financial undertaking is required to correspond to a minimum of 8% of the sum of risk-weighted assets (RWA) of credit risk, market risk, and operational risk as calculated under Pillar 1. Additional capital requirements and other factors are determined under Pillar 2.

The largest part of the capital requirement relates to credit risk (94%). Market risk accounts for 1% of the capital requirements and operational risk comprises 5% of the capital requirements as of 31 December 2013.

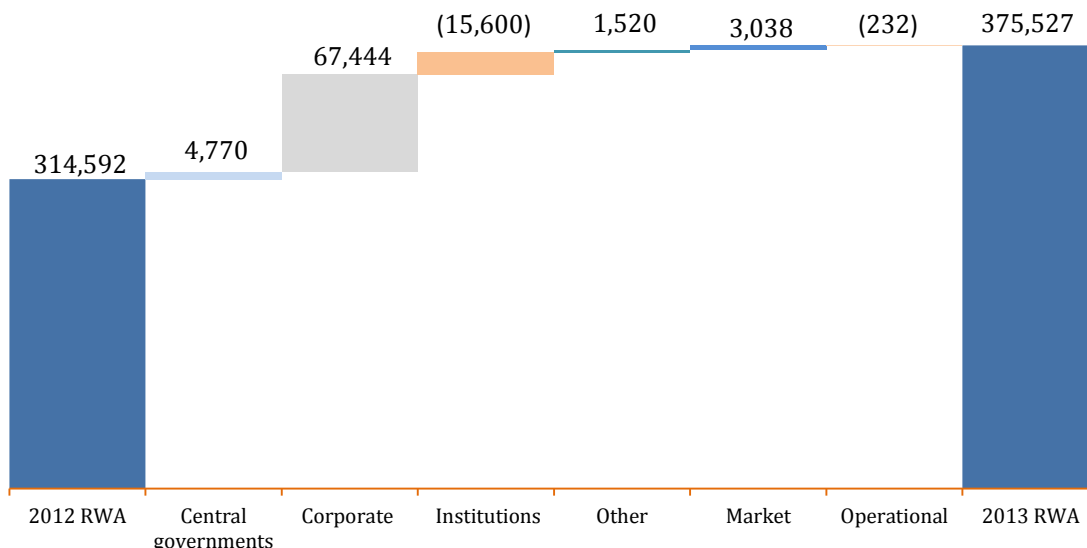
Risk-weighted assets amounted to Euro 375,527 thousand at the end of 2013 compared to Euro 314,592 thousands at the end of 2012.

Below table represents bank's exposure, RWA and minimum capital requirements under Pillar 1 for the end of 2013 and 2012 are broken down by different risk types, and exposure classes.

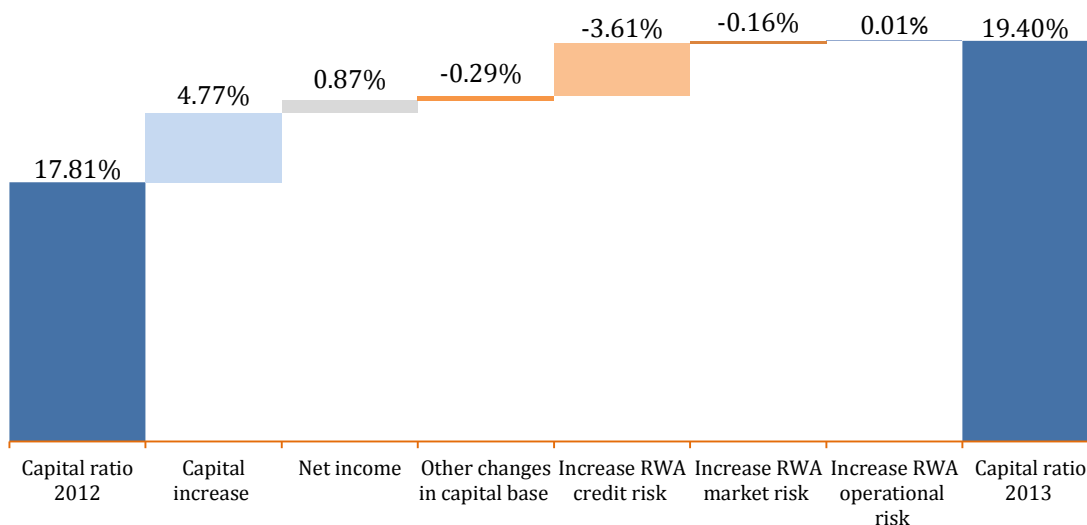
	31/12/12				31/12/13			
	Exposure on and off-balance sheet	Risk-weighted assets	Average risk weights (%)	Pillar 1 capital requirement	Exposure on and off-balance sheet	Risk-weighted assets	Average risk weights (%)	Pillar 1 capital requirement
<b>Credit risk (Standardised approach)</b>	<b>476,554</b>	<b>295,209</b>	<b>62%</b>	<b>23,617</b>	<b>529,229</b>	<b>353,342</b>	<b>67%</b>	<b>28,267</b>
Central governments	43,641	5,180	12%	414	74,883	9,950	13%	796
Corporate	161,348	140,397	87%	11,232	212,253	207,841	98%	16,627
Institutions	262,901	141,005	54%	11,280	231,854	125,405	54%	10,032
Retail	21	15	71%	1	374	280	75%	22
Other	8,643	8,612	100%	689	9,866	9,866	100%	789
<b>Market risk (Standardised approach)</b>		<b>191</b>		<b>15</b>		<b>3,229</b>		<b>258</b>
Equity, trading book		-		-		-		-
Traded debt inst. trading book		-		-		1,649		132
Foreign exchange		191		15		1,580		126
<b>Operational risk (Basic approach)</b>		<b>19,192</b>		<b>1,535</b>		<b>18,956</b>		<b>1,516</b>
<b>Total</b>		<b>314,592</b>		<b>25,167</b>		<b>375,527</b>		<b>30,042</b>

The main factors behind the change in RWA and the increase of the capital adequacy ratio in 2013 are shown in below tables respectively.

**RWA flow statements:**



**Change in Capital Ratio in 2013:**



**Internal Capital Adequacy Assessment Process**

The ICAAP is the Bank’s internal assessment of its capital needs. The ICAAP is carried out in accordance with the CRD’s Pillar 2 requirement with the aim to ensure that the Bank has in place sufficient risk management processes and systems to identify, measure and manage the Bank’s total risk exposure. The ICAAP is aimed at identifying and measuring the Bank’s risk across all risk types and at ensuring that the Bank has sufficient capital for its risk profile.

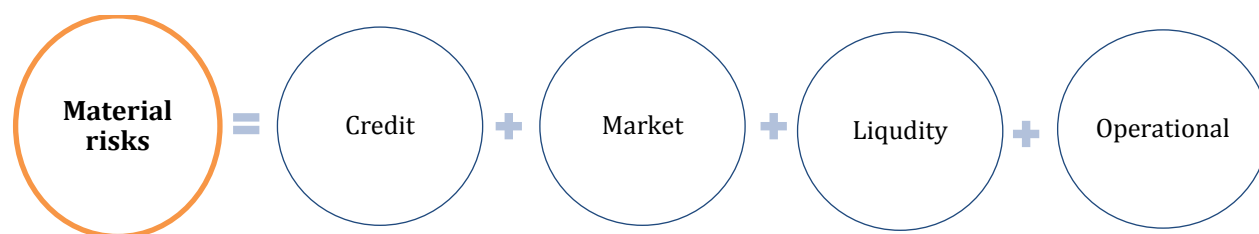
The Bank’s ICAAP report is prepared by the Management Board and approved by the Supervisory Board, then submitted to the DNB annually or more frequently if there is a material change in strategy or risk profile of the Bank. The DNB reviews the Bank’s ICAAP report and sets capital requirements following its SREP.

In addition to the above the Bank uses the ICAAP to:

- Raise risk-awareness to all the Bank's activities and to ensure that the Supervisory Board and Management Board understand the Bank's risk profile;
- Perform a process to adequately identify and measure the Bank's risk factors;
- Carry out a process to monitor whether the Bank's capital is adequate and used in relation to its risk profile;
- Review the soundness of the Bank's risk management systems and controls that are used to assess, quantify and monitor the Bank's risks.

The ICAAP is embedded into the Bank's risk management framework. Management Board and senior management participate in the process of identifying and evaluating their high risk areas, in cooperation with Risk Management Department. The result from the identification phase serves as the basis for the risk identification within the Bank's ICAAP, ILAAP and Recovery Plan.

The Bank is exposed to the following material risks which arise from financial instruments:



The Bank's ICAAP methodology involves assessing key risks which are not believed to be adequately addressed by Pillar 1. For each such risk, a capital add-on is applied on top of the regulatory capital requirements, which are 8% of RWA.

Below table illustrates overview of the main risks and vulnerabilities in Anadolubank Nederland N.V.

Risk area	Risk type	Level of risk	Forward Trend	Regulatory reference, benchmark and method for risk evaluation	Capital requirement calculation approach	
					Pillar I	Pillar II
Credit Risk	Default and rating migration	●	→	Standardized Approach (SA), periodical credit portfolio risk assessment	✓	No add-on
	Concentration:					
	Single name	●	↓	The Herfindahl-Hirschman Index		✓
	Sector	●	↓	The Herfindahl-Hirschman Index		✓
Country risk		●	→	Policy Rule		✓
Market risk	IRRBB	●	→	Gap analysis, Earnings-at-Risk		✓ plus additional tests
	Trading risk	●	→	Standardized Approach and Limits	✓	✓ plus additional tests
	FX risk	●	→	Standardized Approach and Limits	✓	No add-on
Liquidity Risk		●	→	Qualitative measures - Addressed in Internal Liquidity Adequacy Assessment Process (ILAAP)		No add-on
Deposits and Exposures Ratio		●	→	Qualitative and Quantitative Measures – Policy Rule on Maximising the Deposits and Exposures Ratio		No add-on
Operational Risk	Operation risk	●	→	Basic Indicator Approach	✓	✓
	Organizational & IT risk	●	↓			
Other Risks	Reputation risk	●	→	Qualitative Measures		No add-on
	Strategic risk	●	→	Qualitative measures		No add-on
	Settlement risk	●	→			
	Pension risk	●	→			
Level	●	●	●	The level of risk summarises, in a judgmental fashion, the probability of the materialisation of the risk factors and the likely impact on bank. The assessment takes into consideration the evolution of market and prudential indicators and banks' own assessments views.		
	High	Medium	Low			
Trend	↑	→	↓			
	Increasing	Stable	Decreasing			

Where risks may not be easily quantified due to the lack of generally accepted risk measurement techniques, expert judgment is used to determine the size and materiality of risk. The Bank's ICAAP would then focus on the qualitative controls in managing such material non-quantifiable risks.

These qualitative measures contain the following:

- Adequate governance process;
- Sufficient systems, procedures and internal controls;
- Effective risk mitigation strategies; and
- Regular monitoring and reporting.

# Remuneration

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Remuneration is aligned with business strategy, balanced between short term and long term achievements, differentiated and relative to the realization of performance objectives and the results of the Bank-managed in an integrated, total compensation manner. In case variable remuneration for employees is in place, these payments are not profit-related.

## Remuneration policy

This chapter describes the Remuneration Policy of Anadolubank Nederland N.V. The Bank Remuneration Policy was last evaluated and adjusted in March 2014.

### Scope

The Remuneration Policy concerns Anadolubank Nederland N.V. and the policy reflects the business plan, strategy and objectives of the Bank. The remuneration policy corresponds to sound and effective risk management and it will not encourage the taking of risks that are not acceptable to the Bank. Anadolubank Nederland N.V. remuneration policy relates to the fixed and (possible) variable remuneration of identified staff both financially and non- financially.

### Governance

The **Supervisory Board** is the ultimate responsible for the implementation and evaluation of the remuneration policy.

Risk Management, Audit and Compliance are involved in the annual risk analysis of the remuneration policy.

**Risk Management** duties: Annual testing to establish that the remuneration policy meets the basic principles with regard to risk management and establishing every year whether, and if so what extent, the realized financial and non-financial performance criteria for staff need to be adjusted for all kinds of current and coming risks. Also Risk Management must determine if, in case of variable payments, the total amount is in line with the established solvency and liquidity requirements of the Bank as published in the ICAAP and ILAAP reports.

**Compliance** duties are to conduct an annual check to establish that the remuneration policy complies with the relevant legislation and regulation and the applicable recommendations.

**Internal Audit** will perform an annual audit on the adherence to the remuneration policy. Any deviations identified are to be reported to the Chairman of the Supervisory Board.

### Content

The Banking Code includes the set of principles on corporate governance, remuneration, risk management and audit issues that apply to all Dutch banks possessing a banking license granted under the Financial Supervision Act (Wft). The Bank complies with the remuneration principle of this Code. Please refer to the website for an overview of all Banking Code requirements and our implementation. Since inception there has been no variable remuneration or remuneration depending on the Bank's results. The Management Board is paid a fixed remuneration; until now, Anadolubank Nederland N.V. did not compensate members of the Management Board with, bonus shares, options or loans.

The Bank aims at remunerating the members of the Management Board in conformity with the median level of the fixed income in the market. Currently, the income of the members of the Management Board is below the median level of the fixed income in the market. The amounts are not disclosed individually since the Bank meets the criteria of article 383b of Book 2 of the Netherlands Civil Code.

The remuneration and fees of the members of Board of Supervisory Directors and the Management Board for the year ended 31 December 2013 are as follows:

<b>Key management personnel compensation</b>	<b>2012</b>	<b>2013</b>
Supervisory Board	21	44
Management Board	396	787

# New regulatory standards

## New Capital Requirements Regulation (CRR) and Directive (CRD IV)

The European Council adopted new capital requirements regulations on 20 June 2013. CRD IV/CRR introduces new European rules for banks and investment firms with respect to prudential requirements and also includes implementation of the Basel III agreement in European legislation and regulation. In the Netherlands, the directive is included in the Wft and secondary regulation.

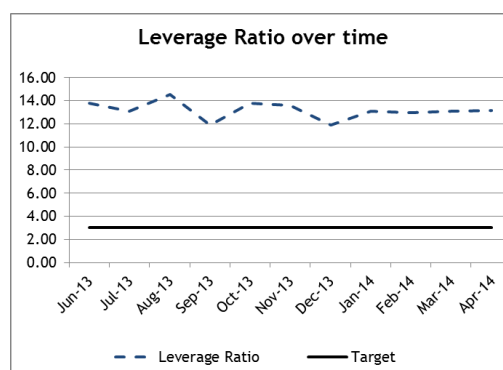
The introduction of CRR/CRD IV is the most radical measures developed in direct response to the 2008 financial crisis. The new regulation is primarily designed to increase the capital buffers of banks, and to improve the quality of these buffers. Moreover, new requirements are introduced to safeguard the liquidity position of banks.

The Bank does not anticipate any challenges in meeting requirements of the CRD IV. The Bank has a strong capital base that consists solely of Core Tier 1 capital. The Bank's Tier 1 ratio and/or capital adequacy ratio at year end 2013 was 19.4%. Furthermore the Bank does not expect that the implementation will lead to a large increase in risk weighted assets resulting in a lower capital adequacy ratio. The Bank is applying the standardized approach and carries an average risk weight of 67% of its total assets. However, the Bank also performs additional RWA equivalent calculations under Basel III rules to support for use within our forward looking risk and capital planning processes.

CRR and CRD IV also include a requirement for credit institutions to calculate, report and monitor their leverage ratios, defined as tier 1 capital as a percentage of total exposure. The management closely monitors not only minimum capital requirement but also the progress of the leverage ratio. The minimum requirement of 3% has been set, although the discussions on the minimum regulatory requirement continue among regulatory authorities. Below figures indicates that, Anadolubank's leverage ratio is 11.89%, while maintaining a strong capital base at the end of 2013.

<b>Leverage ratio</b>	<b>31/12/2012</b>	<b>31/12/2013</b>
<i>Thousands of EUR</i>		
Tier 1 capital	56,027	72,857
Total exposure	483,267	612,672
Leverage ratio	12%	12%
CET1 capital	18%	19%
CET1 leverage ratio	12%	12%

Note: According to bank's current calculation based on the new regulations



CRD IV will also include the measure to bring Basel III liquidity regime into force, including the Liquid Coverage Ratio (LCR) in 2015 and the Net Stable Funding Ratio (NSFR) in 2018. Please refer to Liquidity risk section.

The bank has also implemented systems and methods to regularly monitor its compliance with the CRD IV and CRR, as for the Basel III capital and liquidity requirements.



## Policy Rule on Maximising the Deposits and Exposures Ratio under the Act on Financial Supervision

The purpose of this Policy Rule is to ensure that funds covered by the Dutch Deposit Guarantee Scheme (DGS) are not invested excessively in non-Member States. It introduces an upper limit to the extent to which banks licensed in the Netherlands may under the protection of the DGS serve as intermediaries for deposits raised in the Netherlands and other EU Member States to be invested outside the Member States in often much riskier markets. The ratio between the acceptance by a bank of guaranteed deposits and the outstanding loans in non-Member States must remain within a prudent and acceptable range.

The Bank manages its portfolio especially for individual countries by determining the credit risk appetite and limit for each country on the basis of total exposure, country risk and outlook. Both limits and utilization at the obligor and the portfolio levels are monitored and reviewed periodically. Various actions have been taken to reduce the current ratio in line with the policy rule. The Bank does not anticipate any challenges in meeting DNB requirement.

The Bank will continue to make significant efforts to prepare for the massive regulatory changes that will be implemented in the financial services industry in the coming years.