Anadolubank Nederland

Capital and Risk Management Pillar III Disclosures

2017

Contents

Introduction 1

Risk Governance at Anadolubank Nederland N.V. 4

Credit risk 8

Counterparty credit risk for derivatives 13

Market risk 14

Liquidity risk 17

Operational risk 20

Capital management 22

Remuneration policy 25

Annex 1: Own Funds Disclosure 28

Annex 2: Asset Encumbrance 32

Introduction

Anadolubank Nederland N.V.'s Capital and Risk Management Pillar III Disclosures contains 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 III framework, as stipulated in the Capital Requirements Regulation and Directive IV (CRR/CRDIV).

This document contains the Pillar III disclosures of Anadolubank Nederland N.V (hereafter referred to as Anadolubank or the "Bank") as at 31 December 2017 and should be read in conjunction with the Annual Report of the Bank 2017.

The table below is provided as a reference to the requirements in the related articles of Part Eight of the CRR from the information provided in this report and Anadolubank's Annual Report.

DISCLOSURE REQUIREMENTS PURSUANT TO PART EIGHT OF THE CRR

TITLE II: TECHNICAL CRITERIA ON TRANSPARENCY AND DISCLOSURE		Reference
Article 435	Risk management objectives and policies	See sections 3 and 4
Article 436	Scope of application	See section 2
Article 437	Own funds	See section 5
Article 438	Capital requirements	See section 6
Article 439	Exposure to counterparty credit risk	See section 6.1.7
Article 440	Capital buffers	See section 9
Article 441	Indicators of global systemic importance	Not applicable
Article 442	Credit risk adjustments	See section 6.1.6
Article 443	Unencumbered assets	See Annex 3
Article 444	Use of ECAIs	See section 6
Article 445	Exposure to market risk	See sections 6.3 and 7.3
Article 446	Operational risk	See sections 6.4 and 7.5
Article 447	Exposures in equities not included in the trading book	See section 6
Article 448	Exposure to interest rate risk on positions not included in the trading book	See section 7.4
Article 449	Exposure to securitisation positions	Not applicable
Article 450	Remuneration policy	See section 10
Article 451	Leverage	See section 9

TITLE III: QUALIFYING REQUIREMENTS FOR THE USE OF PARTICULAR INSTRUMENTS OR METHODOLOGIES		Reference
Article 452	Use of the IRB Approach to credit risk	See section 6
Article 453	Use of credit risk mitigation techniques	See section 6.1.8
Article 454	Use of the advanced measurement approached to operational risk	Not applicable
Article 455	Use of internal market risk models	Not applicable

The CRR/CRD IV contains three pillars:

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

Pillar I 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 I allows banks to apply alternative methods of calculation. Some of these methods require prior approval from De Nederlandsche Bank/the Dutch Central Bank (DNB). Anadolubank applies the following methods for measuring minimum capital requirement under The CRR/CRD IV.

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 II defines the requirements for the Banks' own processes for assessing risk and capital adequacy through an Internal Capital Adequacy Assessment Process (ICAAP). Pillar II also provides guidelines for the supervisory review and evaluation. Since 2011, DNB also analyses the Internal Liquidity Adequacy Assessment Process (ILAAP).

Pillar III 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

The Bank's Pillar III Disclosures 2017 are not subject to external audit, and the document has been verified internally in accordance with the Bank's financial reporting and governance processes. Controls comparable to those for the Annual Report and Accounts 2017 have been applied in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the legal requirements for the annual accounts of Banks contained in Part 9, Book 2 of the Netherlands Civil Code. The Pillar III disclosures are prepared for the Bank on solo basis. The Annual Report 2017 contains more detailed information on the accounting policies used by the Bank.

Frequency

The pillar III disclosures are published annually on the Banks' website (www.anadolubank.nl).

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 Euros unless otherwise stated.

Risk Governance at Anadolubank Nederland N.V.

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 an effective and appropriate process for risk management, internal control and capital management, the Bank applies a framework of 10 components:

1. Strategic targets

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

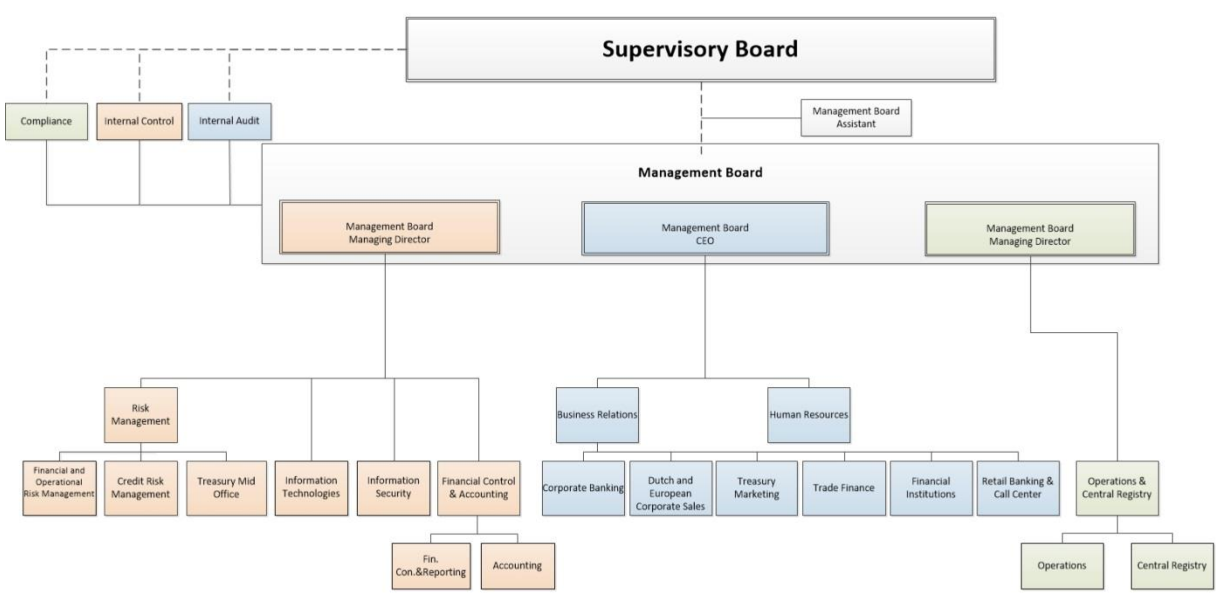
2. Organizational culture

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.

3. Organization

The Bank has a two tier management system, 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, Financial and Operational Risk Management, Credit Risk Management, Information Securities, Financial Control, Internal Control 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 parties play 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.

4. Risk identification

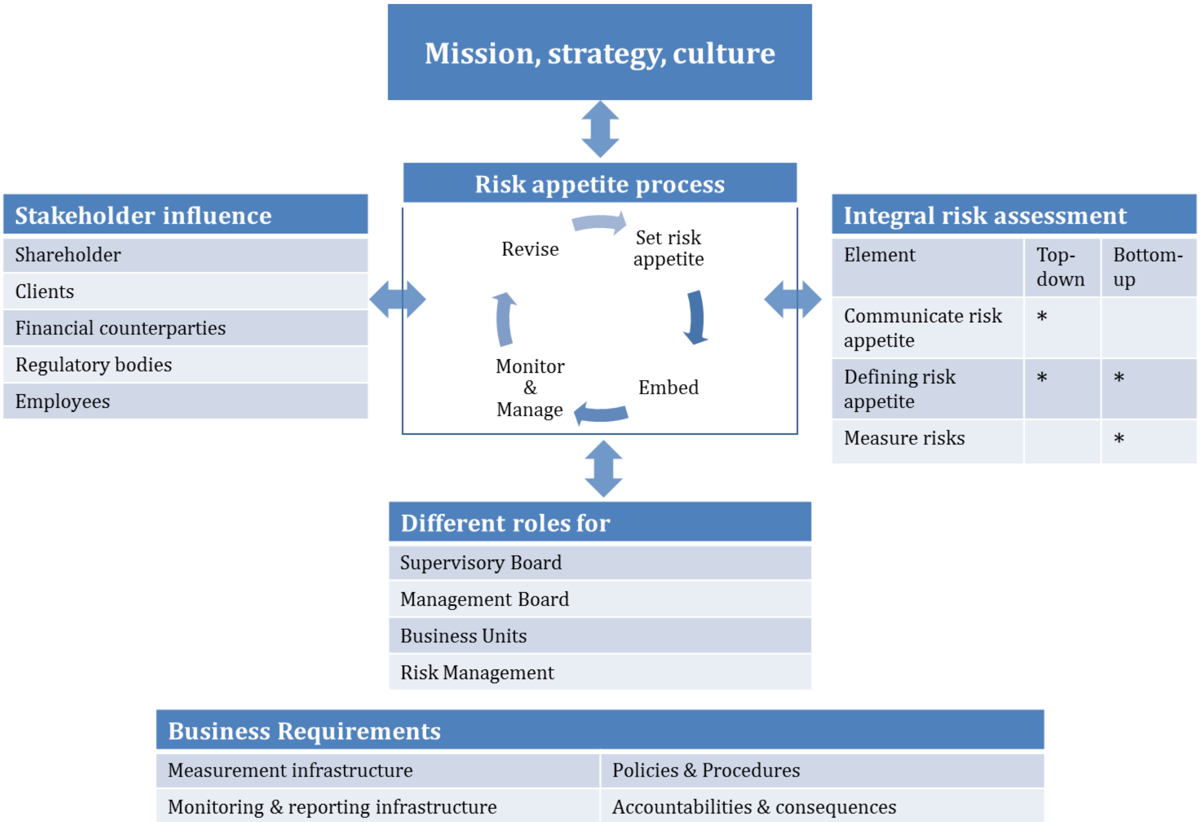
Risk identification is part of the strategy and budget process. The risks are identified and analyzed with respect to possible adverse events. Credit, market, operational, concentration, country, interest rate, liquidity, organizational, compliance and IT risks shall be measured in terms of the need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

5. 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. The stress test is an important tool for analyzing the impact of negative events on the Bank's financial performance, balance sheet, capital and liquidity adequacy. Both the stress tests and scenario analyses are used to assess the Bank in a series of negative macroeconomic events during a three year period.

6. Risk appetite and risk strategies

The risk appetite framework sets the boundaries within which Anadolubank is comfortable to operate. It is set and reviewed in an annual process reflected in the below picture:



Anadolubank's vision is 'to be recognized for our quality, reliability and excellence and to become the bank of choice for customers.' The objective of the Business Plan is expressed in the following four components:

- ***Earnings:*** Delivering sustainable profitability based on long-term relationship with our customers that create value for both parties.

- ***Capital:*** Preserving a strong/consistent/stable capital by enforcing effective capital management.

- ***Liquidity:*** Ensuring a strong liquidity position to fulfill financial requirements/obligations.

- ***Reputation:*** Establishing a long-term relationship with customers by providing high quality and tailor made services and products based on the values; fairness, honesty and sincerity.

7. 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.

8. 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 an independent assessment of the overall risk exposure and trends through periodic reports to the SB and MB through ICAAP and ILAAP.

9. Contingency plans

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

10. 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, documentary credits, and counterparty credit risk in derivatives contracts.

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 on-balance sheet exposure and 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.

At the end of 2017, the Bank's total credit risk exposure was EUR 637 million (2016: EUR 569 million). Loans to customers which have the largest share in the Bank's total credit exposure slightly increased in 2017 compared to 2016. Government bonds and corporate bonds' share in total credit exposure decreased to 17% from 22% in 2017.

Breakdown of credit exposure	Dec 2016	Dec 2017	Share in total risk 2016	Share in total risk 2017
Cash and balances with Central Bank	113,106	106,910	20%	17%
Loans to credit institutions	74,075	106,988	13%	17%
Loans to customers	236,339	289,793	42%	45%
Bonds and debt instruments	124,779	107,981	22%	17%
Derivatives	2,859	5,985	1%	1%
Credit risk exposure on-balance sheet	**551,158**	**617,657**	**97%**	**97%**
Off-balance sheet items:				
Loan commitments	18,188	19,600	3%	3%
Credit risk exposure off-balance sheet	**18,188**	**19,600**	**3%**	**3%**
Total credit risk exposure	**569,346**	**637,257**	**100%**	**100%**

Management and policy

The Bank's credit risk management is based on active monitoring by the Management Board, the Credit Risk Management, the Credit Committees, 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 credit risk parameters 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. The 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 three lines of defense against unnecessary risk for the Bank.

The Credit Risk Management 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 the Credit Risk Department. Credit reviews are conducted at least once a year with updated information on the 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.

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, 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 that are based on credit analysis and assessment of individual files, where the primary basis is set as the repayment capacity of the borrower. 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 and volatility of the collateral value. The main types of collateral taken by the Bank include guarantees from banks and other eligible counterparties, mortgage on real estates and marine vessels, pledge of inventory and assignment of receivables. The amount and type of collateral depends on the counterparty credit risk assessment.

Credit Risk 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 the section financial risk management of the Bank's Annual Report 2017.

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 transactions 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.

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. Customers' exposures are updated daily and are available at any time through the Bank's core banking system.

Credit risk exposure by sector

The Bank's loan book is diversified regarding financial institutions and industry sectors. The largest exposures are to the banking sector. The largest corporate sectors are financial intermediation, transport&logistics and chemicals. 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		Total	
Concentration by sector	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**
Corporate:	236,339	289,793	-	-	25,000	7,428	261,339	297,221
Basic materials	7,857	17,496	-	-	-	-	7,857	17,496
Consumer products non-food	11,596	17,438	-	-	-	-	11,596	17,438
Building materials	-	-	-	-	-	-	-	-
Private individuals	81	96	-	-	-	-	81	96
Technology	-	-	-	-	-	170	-	170
Financial intermediation	39,230	67,893	-	-	8,615	2,153	47,845	70,046
Construction& Infrastructure	11,376	12,851	-	-	-	-	11,376	12,851
Automotive	6,257	7,482	-	-	-	-	6,257	7,482
Transport&Logistics	58,688	56,886	-	-	-	-	58,688	56,886
Food, Beverages&Tobacco	4,294	18,597	-	-	-	-	4,294	18,597
Agriculture &Fishing	11,279	11,737	-	-	-	-	11,279	11,737
Chemicals	38,633	40,047	-	-	-	-	38,633	40,047
Oil&Gas	8,359	9,134	-	-	11,424	5,105	19,783	14,239
Telecom	15,987	8,226	-	-	-	-	15,987	8,226
Others	2,641	2,881	-	-	4,961	-	7,602	2,881
Utilities	7,524	5,592	-	-	-	-	7,524	5,592
Healthcare (Inc. Social Work)	2,130	3,003	-	-	-	-	2,130	3,003
Real Estate	10,407	10,434	-	-	-	-	10,407	10,434
Government	-	-	-	-	-	-	-	-
Bank	-	-	-	-	21,407	33,933	21,407	33,933
Provisions	-	-	74,075	106,988	78,372	66,620	152,447	173,608
Carrying amount	**236,339**	**289,793**	**74,075**	**106,988**	**124,779**	**107,981**	**435,193**	**504,762**

Breakdown by sector for assets is also provided in section financial risk management of the Bank's Annual Report 2017.

Credit risk exposure by country

Country risk is defined as the bank's aggregate 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. The Bank adopted the "Policy Rule on Country Concentration" that prescribes a pillar II calculation for credit risk. Accordingly a separate country risk policy has been approved by June 2018.

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

The geographical breakdown of assets is also disclosed in section financial risk management of the Bank's Annual Report 2017.

31 December 2017				
Geographical concentration	**Eu Countries**	**Turkey**	**Other countries**	**Total Exposure**
Cash and cash equivalents	102,133	481	4,296	106,910
Loans and advances to custome	147,341	83,573	58,879	289,793
Loans and advances to banks	30,511	76,477	-	106,988
Interest bearing securities	61,972	33,629	12,380	107,981
Derivative financial assets	5,105	880	-	5,985
Total balance Sheet	**347,062**	**195,040**	**75,555**	**617,657**
Commitments	19,533	66	-	19,600
Total credit risk exposure	**366,595**	**195,106**	**75,555**	**637,257**

31 December 2016				
Geographical concentration	**Eu Countries**	**Turkey**	**Other countries**	**Total Exposure**
Cash and cash equivalents	89,543	5,207	18,356	113,106
Loans and advances to custome	96,625	56,105	83,609	236,339
Loans and advances to banks	27,819	38,589	7,668	74,075
Interest bearing securities	51,735	53,579	19,465	124,779
Derivative financial assets	2,834	25	-	2,859
Total balance Sheet	**268,556**	**153,505**	**129,098**	**551,158**
Commitments	15,195	2,315	678	18,188
Total credit risk exposure	**283,751**	**155,820**	**129,776**	**569,346**

Portfolio credit quality

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

The Bank makes use of vendor rating models provided by Fitch, Bureau van Dijk and Zanders in order to assign external and internal ratings to its customers. All internal ratings are mapped to external rating scales.

Below table shows the rating status of the portfolio by type of external ratings.

	Loans and advances to customers		**Loans and advances to banks**		**Interest bearing securities**		**Cash and cash equivalents**	
Credit quality analysis	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**
Rated BBB- to AAA	118,870	142,623	23,053	26,522	78,895	72,222	98,395	101,400
Rated B- to BB+	112,669	147,074	35,371	80,462	45,354	32,104	795	5,486
CCC	-	-	-	-	-	-	-	-
Unrated	4,800	96	15,651	3	530	2,153	13,916	24
Carrying amount	**236,339**	**289,793**	**74,075**	**106,988**	**124,779**	**106,479**	**113,106**	**106,910**

Defaults and write-downs of loans

The Bank's accounts are prepared in accordance with IFRS. 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 principles.

Considering the IFRS-9 methodology which is already in practice beginning from January 2018, Anadolubank has decided on only one policy that covers its entire portfolio. As such, the distinction between stage 1 and 2 thereto is identified by a 'significant' increase in credit risk since origination for each specific exposure. Impairment allowances are then charged according to the aforementioned policy.

Credit impaired assets will be classified as stage 3. The stage 3 procedure does not change significantly from the current practice. 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 event of a payment on a previously written-off loan, these are recognized as a recovery on a previously written-off loan.

The following table shows the impairment and write-down as of 31 December 2016 and 31 December 2017:

Loan impairment charges and allowances	2016	2017
Balance at 1 January	23,158	102
New impairment allowances	-	-
Reversal of impaired loans	-	-
Amounts written off(-)	- 23,904	- 102
Effect of foreign currency movements	848	-
Balance at 31 December	**102**	**-**

Counterparty credit risk for derivatives

Counterparty credit risk for derivatives 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 all counterparty credit risks for derivatives while entering into the transactions necessary to maintain a sound operating environment.

Derivative financial instruments consisting of foreign currency forward contracts, currency swaps and interest rate 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. 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 and interest rate risk. Counterparty credit risk for derivatives is measured by considering the potential future exposures of the derivative contracts. The notional amounts of long positions in currency forwards and currency swaps are:

	31 December 2017						
	Notional Amounts	Up to 1 month	Up to 3 months	Up to 1 year	Over to 1 year	Fair value assets	Fair value liabilities
Currency swap purchase	317,568	73,808	57,077	66,956	119,727	5,985	-
Currency swap sale	315,817	74,113	57,103	66,461	118,140	-	2,038
Total	**633,385**	**147,921**	**114,180**	**133,417**	**237,867**	**5,985**	**2,038**

	31 December 2016						
	Notional Amounts	Up to 1 month	Up to 3 months	Up to 1 year	Over to 1 year	Fair value assets	Fair value liabilities
Currency swap purchase	224529	60,172	13,181	52,025	99,151	2,859	-
Currency swap sale	234,088	60,624	13,050	57,769	102,645	-	11,172
Total	**458,617**	**120,796**	**26,231**	**109,794**	**201,796**	**2,859**	**11,172**

Mitigation and control

To mitigate counterparty credit risk for derivatives, 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 with Credit Support Annex (CSA). For such derivatives, the Bank may provide or require cash as collateral.

In order to minimize the risk arising from counterparties, the Bank selects well known market participants for derivatives transactions. Counterparties with above investment grade ratings composed over 93% of the derivatives.

Market risk

Market risk is the risk of loss from movements in market factors, i.e. prices and rates (including interest rates, credit spreads, equity prices, and foreign exchange rates), their implied volatilities, and the correlations between them. Market risk stems from all positions included in banks' trading books and foreign exchange risk positions in the whole balance sheet.

The Bank applies the 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, equity risk and interest rate risk due to financial instruments 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 2016 and 2017 respectively.

	31/12/2016		31/12/2017	
	Risk weighted assets	**Pillar I capital requirement**	**Risk weighted assets**	**Pillar I capital requirement**
Market Risk (Standardised Method)	**3,597**	**288**	**1,760**	**141**
Equity, trading book	-	-	-	-
Traded debt ins. trading book	1,355	108	-	-
Foreign exchange	2,242	179	1,760	141

Foreign currency risk

Currency risk arises when an entity's equity and profit are under threat as a result of exchange rate fluctuations. Naturally, the Bank does business in multiple currencies and 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 counterparty, 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 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 I 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 2017, on the basis of the Bank's assets and liabilities at carrying amounts, categorized by currency, is disclosed in the risk management section of the Bank's Annual Report 2017.

Interest Rate Risk

The Bank measures the minimum capital requirement for interest rate risk in the trading book by applying ‘specific risk’ and ‘general market risk’.

Interest rate risk on banking book

Interest Rate Risk in the Banking Book (IRRBB) is the risk a bank faces due to interest rate re-pricing mismatches (i.e. fixed-rate versus floating-rate assets or liabilities), interest maturity mismatches and different interest rate bases 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 I regulatory capital under Basel III, the Bank captures this under Pillar II in the ICAAP.

Anadolubank calculates the capital requirement by using measures listed below and reports these on quarterly basis. These measures strongly relate to the 8035 report that is sent to DNB every quarter. 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 products, 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 a 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 2017.

Earnings at Risk

Sensitivity of earnings to interest rate movement	31/12/2016	31/12/2017
200bps parallel shift up (gradual 1 year)	724	1,476
200bps parallel shift down (gradual 1 year)	577	384

Economic Value of Equity

Next to the EaR measure the Economic Value of Equity (EVE) is also used. Under this measure, the fair value is calculated of the entire balance sheet against current rates, compared to a valuation in scenarios with a 200 basis point parallel shift, up and down. The result for EVE is shown below.

Economic Value of Equity

Sensitivity of equity to interest rate movement	31/12/2016	31/12/2017
200bps parallel shift up	(5,776)	(3,170)
200bps parallel shift down	7,519	4,562

IRRBB strategy, governance, policy and processes

The Management Board 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. The Risk Management provides appropriate risk reporting and analytics.

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 Management Board on a monthly basis.

Liquidity risk

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.

Anadolubank Nederland N.V. is responsible for the sound management of liquidity risk by establishing a good liquidity risk management framework that ensures sufficient liquidity, including a cushion of unencumbered, high quality liquid assets, to withstand a range of stress events, including those involving the loss of both unsecured and secured funding sources. The bank needs to keep sufficient liquidity buffer to cover all risks taken over a foreseeable future. The bank strives to be efficient in its use of liquidity through active daily management of the balance sheet items with respect to different asset, liability and risk categories. The bank's goal is to enhance returns to shareholders while maintaining a prudent risk-return relationship with an adequate level of liquidity.

The Liquidity Risk Policy ensures effective liquidity risk management. 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. The contingency planning 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 is managed centrally by the Treasury Department and related risks are monitored by the 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 is operating effectively.

The Bank monitors short-term (30 days) liquidity risk, liquidity risk with a one year horizon and risk arising from mismatches of longer term assets and liabilities. The Bank's liquidity management process also includes: projecting expected cash flows in a behavioral maturity profile, monitoring balance sheet liquidity, FX 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 a liquidity crisis. The contractual maturity breakdown of assets and liabilities are disclosed in the section financial risk management of the Bank's Annual Report 2017, shows that the Bank does not carry a large maturity mismatch.

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 and metrics are used to measure and monitor liquidity risk.

- Liquidity Coverage Ratio
- Net Stable Funding Ratio
- Net outflow of retail savings on demand (% of total deposits);
- Additional Liquidity Monitoring Metrics

All above mentioned ratios are monitored on a daily basis. The Liquidity Coverage Ratio was well above the minimum regulatory requirement (as of end 2017, 498%), where the NSFR was 133%, which is already above the minimum regulatory requirement set by DNB. Apart from the liquidity ratios, as being part of the regulatory requirements, the bank has established Additional Liquidity Monitoring Metrics that helps the Risk Management Department to have an overview of the liquidity profile of the Bank when assessing related liquidity risk in addition to the liquidity coverage and stable funding requirements.

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 periodically 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). The Bank has designed 'business as usual', 'bank specific' and 'market wide stress scenarios'.

Control and monitoring

The Management Board reviews the Bank's Risk Appetite every year with regard 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. ALCO is 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 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 as part of the 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 manages its liquidity buffer to ensure compliance with regulatory requirements and internal limits. Besides, to ensure funding in situations where the Bank is in urgent need of cash and the normal funding sources do not suffice, the Bank holds a liquidity buffer that consists of High Quality Liquid Assets (HQLA).

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 risk management and for the implementation of the liquidity regulation with the Basel III accord.

Early warning indicators and escalation procedures

There are escalation procedures that are applied if there is a danger that the lower limit of any early warning indicator is breached, using a 'traffic-lights' model. This is a system of warning signals that lead to an increased level of alertness 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 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 Contingency Funding 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 an action plan and procedures for managing liquidity events.

Residual contractual maturities of financial assets and liabilities

The tables below show the undiscounted cash flows of the Bank's financial assets and liabilities on the basis of their earliest possible contractual maturity, comparing 31 December 2017 figures with those of 31 December 2016. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or an increasing balance. The liquidity position and the liquidity maturity calendar are monitored as part of the Bank's Risk Management. Liquidity tests and stress test scenarios are made under ILAAP and the Recovery Plan.

The liquidity test and the stress test scenario show that the liquidity is sufficiently above the requirements.

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 occurring from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks emerge from all of the Bank's operations.

The roles and responsibilities of the Supervisory Board and Management Board and also the business units, operational risk management governance, operational risk principles, operational risk typology, operational risk management process methodology, and operational risk reporting are clearly articulated in the Bank's Operational Risk Management Policy.

A Risk Control Self-Assessment (RCSA) is carried out to further examine the bank's risks and related controls. The key objective is to identify risks and take actions to reduce it to an acceptable level. The RCSA is done with the cooperation of each department based on their departmental processes. The Risk Management Department involves to ensure the consistency of the assessment.

In the fiscal year 2017, the Bank has not had any material or potentially material operational risk loss event. Operational risk losses continue to be within an acceptable range.

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 the Bank's overall standards for the management of operational risk in the following areas:

- Risk culture, human resource management practices, organizational changes and employee turnover;
- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance where this is effective; and;
- An independent internal audit department responsible for verifying that significant risks are identified and assessed and for testing controls to ensure that overall risk is at an acceptable level.

During the last 4 years, 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 since 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 2017. The departments Compliance, Risk Management, Internal Control, Treasury Mid-Office and Internal Audit have been strengthened accordingly. There has also been significant investment in systems in order to ensure the business operations and controlled conduct of our business.

- Devote sufficient resource;
- Operational risk culture;
- Segregation of duties;
- Four-eyes principle;
- Employee training;
- New product process;
- Adequate procedures;
- Senior management involvement;
- Monitoring on a regular basis;
- Independent control functions.

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 comply with the relevant risk limits.

The Bank collects and records operational loss events in a 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 the Management Board to provide insight into operational risk exposures, appetites and trends. The Bank uses the basic indicator approach of the Capital Requirements Directive (CRD) to calculate Risk Weighted Assets for operational risk. The calculation is based on a single indicator: gross income. Risk Weighted Assets are calculated as 15% of the average of previous three years gross income. The following table shows the regulatory capital requirement for operational risk, by using the basic indicator approach, which is EUR 1.7 million over the performance year 2017.

Operational Risk	31/12/2016	31/12/2017
Operational Risk Exposures	20,247	20,655
Capital Requirement	1,620	1,652

Capital management

The Bank had a capital ratio at the end of 2017 of 18.7%. 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 the 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 Common Equity Tier 1 (CET1) capital as shown in below table. This capital comprises of paid-in capital, reserves, the profits retained in prior years and the result for the current year (1),. Intangible assets, deferred tax assets and the unrealized loss on investments carried as available for sale (AFS) are deducted from CET1 capital.

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

Calculation of capital requirements under Pillar I and Pillar II

The table presents an overview of the capital requirements and the risk-weighted exposure amounts at 31 December 2017 and 31 December 2016 for the different risk types. The risk-weighted assets (RWA) are calculated by using the external ratings provided by the eligible credit assessment institutions (ECAIs), namely Moody's, S&P and Fitch. According to regulatory rules on capital requirements, the capital base of a financial undertaking is required to correspond to a minimum of 8% of the sum of RWA of credit risk, market risk, and operational risk as calculated under Pillar I. Additional capital requirements and other factors are determined under Pillar II.

Below table represents the capital requirements and own funds.

Capital requirements	Dec 2016	Dec 2017
thousands of Euros		
Total risk weighted assets	**414,252**	**471,665**
Credit risk	390,408	449,250
Market risk	3,597	1,760
Operational risk	20,247	20,655
Tier 1 capital	**82,562**	**88,272**
Paid-in capital	70,000	70,000
Retained earnings	10,327	14,412
Revaluation reserves	(1,788)	(490)
Net profit	4,085	4,381
Regulatory adjustments	(62)	(31)
Tier 2 capital	**-**	
Total capital	**82,562**	**88,272**
Tier 1 ratio %	19.9%	18.7%
Solvency ratio %	19.9%	18.7%

The largest part of the capital requirement relates to credit risk (95%). Market risk accounts for less than 1% of the capital requirements and operational risk comprises 4% of the capital requirements as of 31 December 2017.

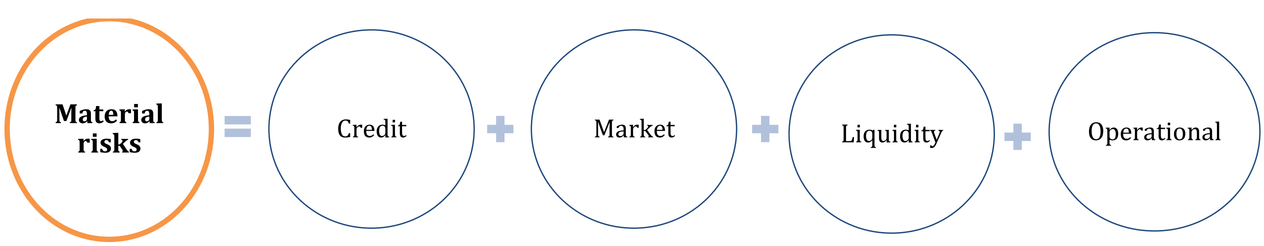
Leverage Ratio

In addition to the changes in the minimum required solvency, a non-risk based measure, namely the Leverage Ratio, has been established to limit excessive leverages in the financial industry. Anadolubank does not carry large amounts of assets with (very) low risk weights. As a result, Anadolubank has a very healthy, high leverage ratio. For capital management purposes the leverage ratio is not a restrictive factor and as a consequence less relevant. The Bank's level of 13.71% is well above the Basel III proposal of 3%.

Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP is the Bank's internal assessment of its capital needs. The ICAAP is carried out in accordance with the CRD's Pillar II 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 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 I. For each such risk, a capital add-on is applied on top of the regulatory capital requirements, which are 8% of RWA. The ICAAP is aimed at identifying and measuring the Bank's risk across all risk types, which are mentioned in the following table and at ensuring that the Bank has sufficient capital for its risk profile.

Risk Type	**Covered in**
Credit Risk	Pillar I and Pillar II
Concentration Risk	Pillar II
Market Risk	Pillar I and Pillar II
Interest Rate Risk on the Banking Book	Pillar II
Operational Risk	Pillar I
Liquidity Risk	ILAAP Framework

The Bank's ICAAP report is prepared by the Management Board and approved by the Supervisory Board, and then submitted to the DNB annually or more frequently if there is a material change in strategy or risk profile of the Bank. 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;
- 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 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. The 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.

Remuneration policy

Remuneration is aligned with the 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.

The Bank's remuneration strategy, total reward framework, policies and practices all reflect the sound risk management that is fundamental to the way we operate.

The remuneration revolves around following four key principles: Remuneration is

- Aligned with the business strategy of the Bank;
- Appropriately balanced between short term and long term;
- Differentiated and relative to the realization of performance objectives and the results of the Bank;
- Externally competitive and internally fair.

The Bank's Remuneration Policy was last evaluated and adjusted in line with the Dutch Corporate Governance Code, the Dutch Banking Code, and the EBA Guidelines on Sound Remuneration Policies, including additional DNB guidance on the implementation of the DNB Principles and the Committee of European Banking Supervisors Guidelines on Remuneration Policies and Practices and CRR/CRD IV in 2017.

The "Remuneration Policy" and the "Remuneration Report" describe further details.

Governance

Different bodies and functions have an important role in the determination, implementation and control of the Policy. Considering the size of the Bank, a separate Remuneration Committee is not established and relevant issues will be addressed by the Supervisory Board.

- The Management Board is responsible for the implementation of the Policy, except in relation to its own Remuneration policy. The Management Board will present a remuneration proposal annually to the Supervisory Board. The remuneration of the senior officers in the risk management, audit and compliance functions is directly overseen by the Supervisory Board.

- The Supervisory Board approves the general principles of the Policy and oversees its implementation by the Management Board. The Supervisory Board shall also be responsible for the implementation and evaluation of the Policy, adopted for the members of the Management Board.

- Internal Audit, Risk Management, and Compliance (Control Functions) are involved in the annual risk analysis of the remuneration policy, are independent from the business units they oversee and have appropriate authority to advise the Management Board and the Supervisory Board. These Control Functions act in joint cooperation with respect to the set-up, execution, evaluation and required amendments to the remuneration policy. Adequate processes are implemented for this within Anadolubank Nederland N.V., including an escalation procedure towards the Supervisory Board.

Description of the Structure of Remuneration

The remuneration consists of a combination of fixed compensation (base salary, holiday allowance and 13th month) and variable remuneration.

The granting of guaranteed variable remuneration does not occur within Anadolubank Nederland N.V. It could be granted if corporate goals are met. If Anadolubank Nederland N.V. decides - at its sole discretion - to award variable remuneration, then the variable remuneration amount shall never exceed 20% of the fixed remuneration component per annum.

The amount of remuneration is based on non-financial performance criteria of the employee, his part of the business and the (financial) performance of the Bank as a whole.

Proportionality

The Bank will apply its sound remuneration policy in a manner and to a degree that is appropriate to its size, its internal organization and the nature and scope of its activities, while safeguarding that it takes into account all types of current and future risks and will remain to be in line with its strategy, risk profile and risk appetite. Any variable remuneration will only be paid if it is sustainable according to the financial situation of the Bank and its regulatory capital.

With respect to the application of a number of elements of the Regulation on Sound Remuneration Policy (Regeling beheerst beloningsbeleid WTF 2017, Rbb 2017), the bank invokes the proportionality principle for 2017. This means that the bank does not apply certain elements in view of its low risk profile and the modest level of variable remuneration. This relates first and foremost to the payment of at least 50% of the variable remuneration in shares or other instruments. In addition, the bank does not fully apply the rule that stipulates that the deferred component of the variable remuneration should amount to at least 40%. The variable remuneration has no deferred component at all. The reasons are that the bank has a limited number of 'identified staff' members, no listed shares and that developing a program or plan for payment in comparable instruments would involve disproportionately high costs and administrative expenses.

Calculation of Total Variable Remuneration

To prevent the aggressive and excessive risk taking of individuals and for the protection of long term benefits of the Bank, total variable remuneration is calculated as being a product of the sustainable income of the Bank. The sustainable income is the operating income of the Bank. To further strengthen the position of the Bank, impairments which are one-shot by nature are deducted from the operating income during the calculation of total variable remuneration.

For the 2017 variable remuneration, the Bank awarded the relevant staff members, by payment in once and in cash. The total amount of variable compensation available for 2017 is 4.1% of the total annual fixed remuneration.

Upfront/Deferred Payments

Required deferred component of the payment is neutralized for the 2017 variable remuneration, based on the internal risk assessment which shows that:

- The deferred part of the payment of an individual is not high enough to encourage the individual to prioritize his short term benefits over the long term benefits of the Bank,
- Risks arising from the upfront payment are adequately managed by using a calculation of variable remuneration which is based on the sustainable income of the Bank.
- Upon rewarding the variable remuneration, the Bank will reserve its right in writing towards the individual, to claim back the paid variable remuneration in the event that certain situations occur after the variable remuneration has been vested and paid (Claw back).

Cash/Non-Cash Payments

Payments are made only in cash, based on the internal risk assessment which consists of;

- Bank remains unlisted and non-cash payments are not possible or convenient.
- Risks arising from the cash payment are adequately managed; using a calculation of variable remuneration which is based on the sustainable income of the Bank and safeguarding the Bank's right to claim back paid remuneration under certain circumstances.

The Bank’s Annual Report 2017 contains a detailed overview of the quantitative information on Remuneration.

The Anadolubank N.V.’s remuneration policy is a key factor in implementing its corporate strategy and is compatible with the legal and policy frameworks for institutions established in the Netherlands. The Policy concerns Anadolubank Nederland N.V. and it reflects and supports the business plan, strategy, objectives, values and long-term interests of the Bank and stakeholders. It facilitates the achievement of the strategic, collective and individual targets. The Policy corresponds to sound and effective risk management and it will not encourage the taking of risks that are not acceptable to the Bank. It takes into account the interests of the customers, staff members, shareholders, other stakeholders and Anadolubank Nederland N.V. The remuneration policy is applicable for all employees of the Bank.

Annex 1: Own Funds Disclosure

Own Funds Disclosure	
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	70,000
of which: paid-in capital	70,000
of which: instrument type 2	-
of which: instrument type 3	-
Retained earnings	14,414
Accumulated other comprehensive income (and other reserves)	- 490
Funds for general banking risk	-
Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from CET1	-
Public sector capital injections grandfathered until 1 January 2018	-
Minority interests	-
of which: independently reviewed interim profits net of any foreseeable charge or dividend	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	88,305
CET1 capital: regulatory adjustments	-
Additional value adjustments (-)	-
Intangible assets (net of related tax liability) (-)	- 31
deferred tax assets that rely on future profitability excluding those arising from temporary differences	-
Fair value reserves related to gains or losses on cash flow hedges	-
Negative amounts resulting from the calculation of expected loss amounts	-
Any increase in equity that results from securitised assets (-)	-
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-
Defined-benefit pension fund assets (negative amount)	-
Direct and indirect holding by an institution of own CET1 instruments (-)	-
Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (-)	-
Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (-)	-
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Empty set in the EU	-
Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-
of which: qualifying holdings outside the financial sector (-)	-
of which: securitisation positions (-)	-
of which: free deliveries (-)	-

Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related eligible tax liabilities)	-
Amount exceeding the 15% threshold	-
Of which: direct and indirect holding by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-
Empty set in the EU	-
of which: deferred tax assets arising from temporary differences	-
Losses for the current financial year (-)	-
Foreseeable tax charges relating to CET1 items (-)	-
Regulatory adjustments applied to CET1 in respect of amounts subject to pre-CRR treatment	-
Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	-
Of which: …. Filter for unrealised losses	-
Of which: …. Filter for unrealised loss on exposures to central governments classified in the "available for sale" category in the EU endorsed IAS 39.	-
Of which: …. Filter for unrealised gains	-
Of which: …. Filter for unrealised gains on exposures to central governments classified in the "available for sale" category in the EU endorsed IAS 39.	-
Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre CRR	-
Of Which: …	-
Qualifying AT1 deductions that exceed the AT1 capital of the institution (-)	-
Total regulatory adjustments to CET1	- 31
CET1 capital	88,274
Additional Tier 1 (AT1) capital: instruments	-
Capital instruments and the related share premium accounts	-
of which: classified as equity	-
of which: classified as liabilities	-
Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from AT1	-
Public sector capital injections grandfathered until 1 January 2018	-
Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	-
of which: instruments issued by subsidiaries subject to phase out	-
AT 1 capital before regulatory adjustments	-
AT1 capital: regulatory adjustments	-
Direct and indirect holding by an institution of own AT1 instruments (-)	-
Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (-)	-
Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Regulatory adjustments applied to AT1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Reg. (EU) No 575/2013	-

Residual amounts deducted from AT1 capital with regard to deduction from CET1 capital during the transitional period pursuant to art. 472 of Reg. (EU) No 575/2013	-
Of which: intangibles	-
Of which: shortfall of provisions to expected losses	-
Residual amounts deducted from AT1 capital with regard to deduction from T2 capital during the transitional period pursuant to art. 475 of Reg. (EU) No 575/2013	-
Of which items to be detailed line by line, e.g., reciprocal cross holding in T2 instruments, direct holding of non-significant investments in the capital of other financial sector entities, etc.	-
Amount to be deducted from or added to AT1 capital with regard to additional filters and deductions required pre CRR	-
Of which: … possible filter for unrealised losses	-
Of which: … possible filter for unrealised gains	-
Of which: …	-
Qualifying T2 deductions that exceed the T2 capital of the institution (-)	-
Total regulatory adjustments to AT1 capital	-
AT1 capital	-
Tier 1 capital (T1= CET1 + AT1)	88,274
Tier 2 (T2) capital: instruments and provisions	-
Capital instruments and the related share premium accounts	-
Amount of qualifying items referred to in art. 484 (3) and the related share premium accounts subject to phase out from T2	-
Public sector capital injections grandfathered until 1 January 2018	-
Qualifying own funds instruments included in consolidated T2 capital issued by subsidiaries and held by third parties (excluding row 5 and 34)	-
of which: instruments issued by subsidiaries subject to phase out	-
Credit risk adjustments	-
T2 capital before regulatory adjustments	-
T2 capital: regulatory adjustments	-
Direct and indirect holding by an institution of own T2 instruments and subordinated loans (-)	-
Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (-)	-
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Of which new holdings not subject to transitional arrangements	-
Of which holdings existing before 1 January 2013 and subject to transitional arrangements	-
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)(-)	-
Regulatory adjustments applied to T2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Reg. (EU) No 575/2013	-
Residual amounts deducted from T2 capital with regard to deduction from CET1 capital during the transitional period pursuant to art. 472 of Reg. (EU) No 575/2013	-
Of which: shortfall of provisions to expected losses	-
Residual amounts deducted from T2 capital with regard to deduction from AT1 capital during the transitional period pursuant to art. 475 of Reg. (EU) No 575/2013	-
Of which items to be detailed line by line, e.g., reciprocal cross holding in T2 instruments, direct holding of non-significant investments in the capital of other financial sector entities, etc.	-

Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre-CRR	-
Of which: ... possible filter for unrealised losses	-
Of which: ... possible filter for unrealised gains	-
Of which: ...	-
Total regulatory adjustments to T2 capital	-
Tier 2 capital	-
Total capital (TC = T1 + T2)	88,274
RWA in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Reg. (EU) No 575/2013	-
Of which: ... items not deducted from CET1	-
Of which: ... items not deducted from AT1 items	-
Of which: ... items not deducted from T2 items	-
Total risk weighted assets	471,665
Capital ratios and buffers	-
CET1 (as a % of total risk exposure amount)	18.72%
T1 (as a % of total risk exposure amount)	18.72%
TC (as a % of total risk exposure amount)	18.72%
Institution specific buffer requirement	2.29%
of which: capital conservation buffer requirement	1.25%
of which: countercyclical buffer requirement	-
of which: systemic buffer requirement	-
of which: G-SII or O-SII buffer	-
CET1 available to meet buffers (as a % of risk exposure amount)	15.17%
Amounts below the thresholds for deduction	-
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-
deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-
Applicable caps on the inclusion of provisions in Tier 2	-
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach	-
Cap on inclusion of credit risk adjustments in T2 under standardised approach	-
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach	-
Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (1 Jan 2014 - 1 Jan 2022)	-
Current cap on CET1 instruments subject to phase out arrangements	-
Amount excluded from CET1 due to cap	-
Current cap on AT1 instruments subject to phase out arrangements	-
Amount excluded from AT1 due to cap	-
Current cap on T2 instruments subject to phase out arrangements	-
Amount excluded from T2 due to cap	-

Annex 2: Asset Encumbrance

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Debt securities	65,042	67,187	34,070	34,247
Other assets	37,701	-	422,215	-
Total	**102,743**	**67,187**	**456,285**	**34,247**