Anadolubank Nederland

Capital and Risk Management Pillar III Disclosures 2014

Contents

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). The CRD IV was enforced in the Dutch law as amendments to the 'Wft, Wet Financieel Toezicht' and further accompanying regulations as well as Pillar III disclosures.

This document contains the Pillar III disclosures of Anadolubank Nederland N.V (hereafter referred to as Anadolubank or the "Bank") as at 31 December 2014 and should be read in conjunction with the Annual Report of the Bank 2014.

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 the De Nederlandsche Bank/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 situation through 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 2014 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 2014 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 III disclosures are prepared for the Bank on solo basis. The Annual Report 2014 contains more detailed information on the accounting policies used by the Bank.

Frequency

The Bank started to publish comprehensive Pillar III disclosures annually on the Bank's website (www.anadolubank.nl) since June 2014. The Pillar III disclosures are consecutively with the release of the Annual Report. 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 2014

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. The 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 the following items of improvement in 2014.

Developments in the Bank

Governance structure

In 2014, the Bank's corporate governance and compliance structure has been significantly enhanced, as explained in the Supervisory Board (SB) and the Management Board (MB) section of the Bank's Annual Report 2014 (page 4-5).

Anadolubank Nederland N.V obtained further improvement of its internal controls in 2014, 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 Bank uses the 'three lines of defense' principle, which provides a clear division of activities and responsibilities in risk management at different levels within the Bank. This was achieved by initiating the 'Risk Management Review Project' in 2013. The Bank's risk governance framework was established according to the risk strategy and appetite, which is embedded in the risk policies and methodologies, such as Credit Risk Policy, Liquidity Risk Policy and Market Risk/ALM Policy. The framework defines the roles and responsibilities of each line of defense, safeguards and controls the Bank's risk profile, supports efficient and effective risk management throughout the Bank, and ensures consistency between the Bank's risk management processes and risk appetite. The Management Board paid close attention in 2014 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.

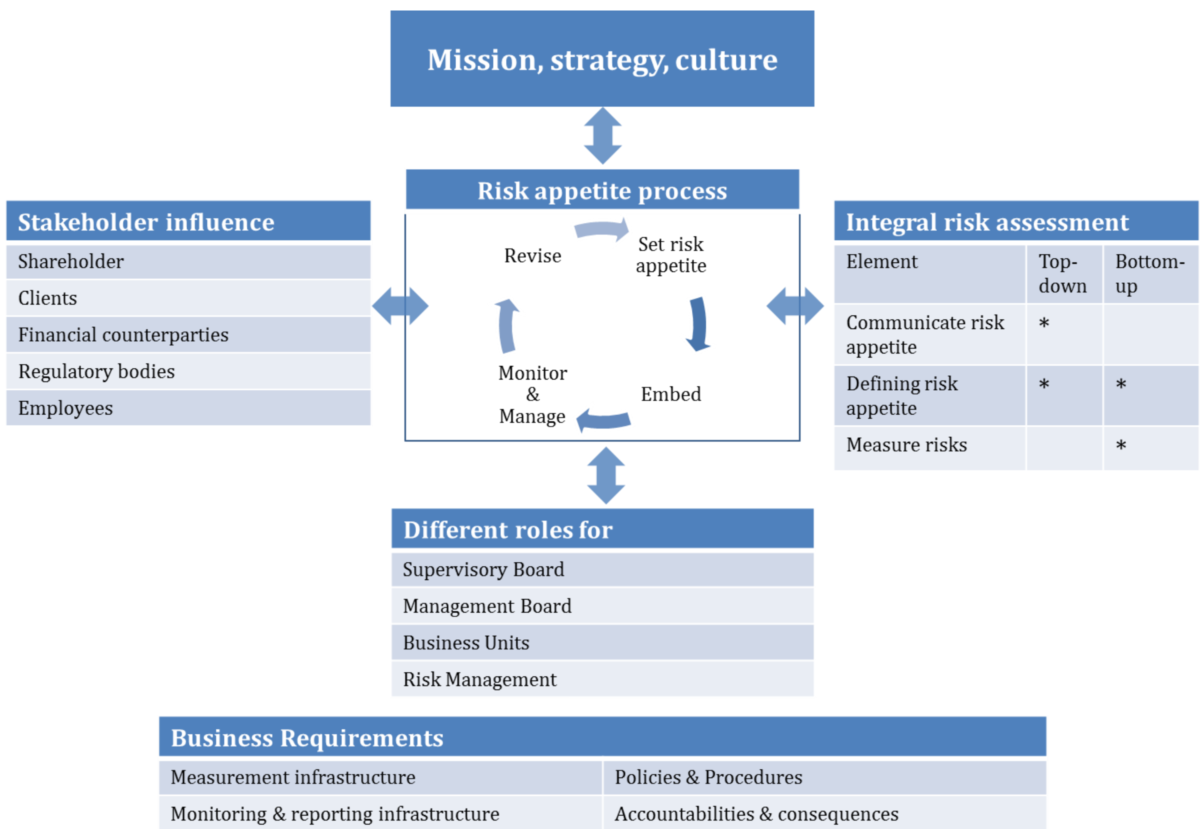
The Internal Control Department is established in May 2015, with the main purpose to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of business, reliability of financial information services and compliance with applicable laws and regulations. In July 2015, the Treasury Control Department will be in place and taking the responsibility of controlling of treasury activities in the Bank.

Risk appetite

The Risk Appetite Framework (RAF) within Anadolubank Nederland N.V. is in line with the corresponding regulatory requirements, as defined by the European Union (EU) legislation known as CRD IV, consisting of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), the Banking Code, Principles for an Effective Risk Appetite Framework, Financial Stability Board (FSB), Guidelines on Internal Governance, EBA.

The risk appetite is generated in the wake of a multidimensional exercise. The interconnectedness among risk appetite, strategy, and shareholders' expectations is articulated, the clarity of the risks become visible to the organization and roles and responsibilities of the boards and departments are defined. The elements, which have been taken into account in the Risk Appetite Framework, are displayed below. It includes the design process for setting Risk Appetite Statement and the governing procedures surrounding the embedding, monitoring and reporting of Risk Appetite Statement.

Anadolubank identifies the Bank's vision, mission and values in the Business Plan. The Business Plan helps Anadolubank to underpin the future operations by defining bottom up and top down objectives and setting targets for business units accordingly.



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 can be calibrated into 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 strong liquidity position to fulfill financial requirements/obligations.

- ***Reputation:*** Establishing long-term relationship with customers by providing high quality and tailor made services and products based on the values; fair, honest and sincere.

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

The Bank carries out a financial recovery plan which describes recovery options and represents a well-diversified set of options in a financial or other crisis since 2013. 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 Management Board in close consultation with DNB throughout 2013 and 2014. DNB has an 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 team 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 both 2013 and 2014. 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 2014. Compliance, Risk and Internal Audit departments have been strengthened accordingly, which has a significant increase in investment in systems in order to ensure the ethical business operations and controlled conduct of our business.

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 principles:

1. Strategic targets

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

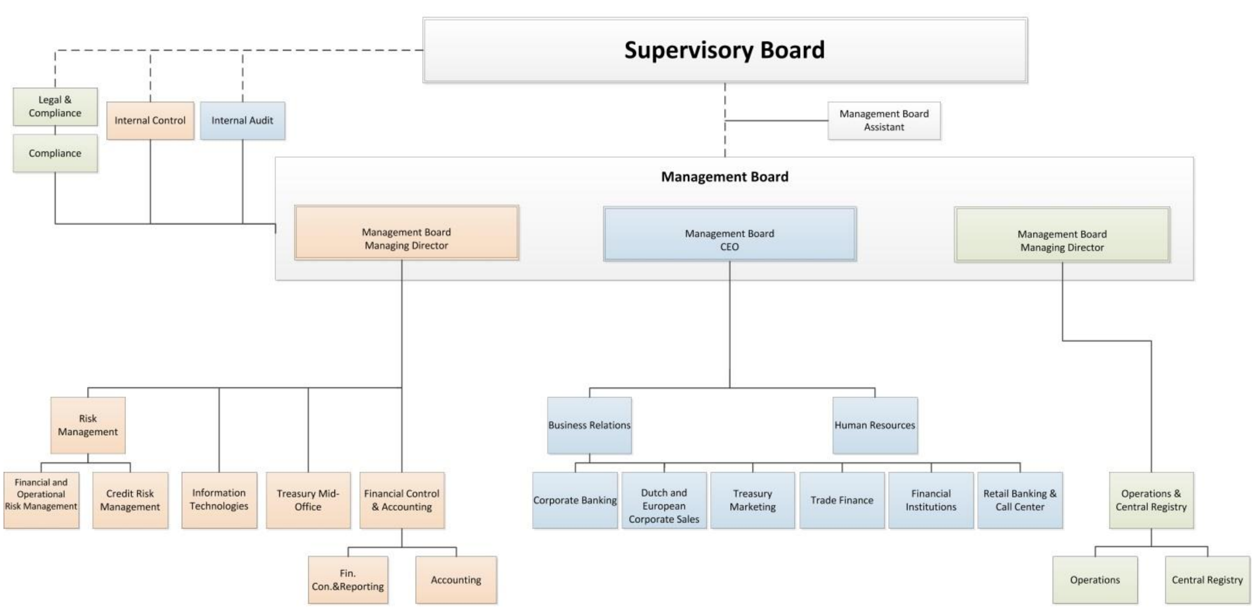
2. Organizational culture

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 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, the Credit Risk Management Department, Internal Control 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) 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 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.

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. 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.

6. 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.

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 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, 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.

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 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 2014, the Bank's total credit risk exposure was EUR 633 million (2013: 534 million). Loans to customers in 2014 kept the same as in 2013, 38%, which is still the largest part of the Bank's total credit exposure. Based on the Bank's business plan, the share of credit institutions in total credit portfolio decreased from 44%(2012) to 29% by the end of 2013, and further decrease to 22% in 2014. Government bonds and corporate bonds represent 20% of the total credit risk exposure.

Breakdown of credit exposure	31/12/13	31/12/14	Share in total risk 2013	Share in total risk 2014
Cash and balances with Central Bank	66,362	108,428	12%	17%
Loans to credit institutions	154,569	142,250	29%	22%
Loans to customers	205,057	239,062	38%	38%
Bonds and debt instruments	99,439	126,817	19%	20%
Derivatives	3,708	1,999	1%	0%
Credit risk exposure on-balance sheet	**529,135**	**618,556**	**99%**	**98%**
Off-balance sheet items:			0%	0%
Loan commitments	5,081	14,486	1%	2%
Credit risk exposure off-balance sheet	**5,081**	**14,486**	**1%**	**2%**
Total credit risk exposure	**534,216**	**633,042**	**100%**	**100%**

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.

The 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, 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 2014 (page 39).

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.

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 regarding to financial institutions and industry sectors. Credit exposure towards financial intermediation (such as factoring, leasing, etc.) represents 14% of the total exposure of EUR 509 million. Building materials, basic materials and chemical sectors active as the largest industry sectors, in total comprise 37% of loans to customers or 17% of the Bank's total 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		Total	
Concentration by sector	**31/12/13**	**31/12/14**	**31/12/13**	**31/12/14**	**31/12/13**	**31/12/14**	**31/12/13**	**31/12/14**
Corporate:								
Basic materials	21,826	29,231	-	-	645	-	22,471	29,231
Consumer products non-food	-	-	-	-	-	-	-	-
Building materials	19,116	35,605	-	-	-	-	19,116	35,605
Insurance& pension Funds	167	-	-	-	-	-	167	-
Private individuals	373	493	-	-	-	-	373	493
Technology	13,575	12,423	-	-	632	2,207	14,207	14,630
Financial intermediation	58,891	57,466	-	-	6,772	13,207	65,663	70,673
Construction& Infrastructure	3,645	11,989	-	-	-	-	3,645	11,989
Automotive	17,933	9,912	-	-	-	-	17,933	9,912
Transport&logistics	14,143	19,349	-	-	1,070	1,052	15,213	20,400
Food, beverages&tobacco	-	2,315	-	-	-	1,896	-	4,211
Capital goods	-	-	-	-	-	-	-	-
Chemicals	27,281	24,528	-	-	-	-	27,281	24,528
Oil&gas	12,983	7,406	-	-	6,986	7,166	19,969	14,571
Telecom	16,275	9,295	-	-	-	-	16,275	9,295
Others	354	-	-	-	-	-	354	-
Utilities	-	18,288	-	-	-	-	-	18,288
Healthcare (Inc. Social Work)	-	2,130	-	-	-	-	-	2,130
Government	-	-	5	-	20,391	26,349	20,396	26,349
Bank	-	-	154,564	142,250	62,943	74,939	217,507	217,189
	-	-	-	-	-	-	-	-
Provisions	(1,504)	(1,367)	-	-	-	-	-	-
Carrying amount	**205,057**	**239,062**	**154,569**	**142,250**	**99,439**	**126,817**	**460,569**	**509,496**

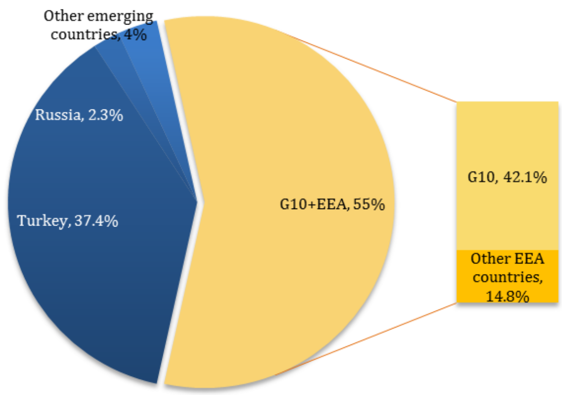
Breakdown by sector for assets is also provided in section financial risk management of the Bank's Annual Report 2014 (page 41).

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 in 2014 is shown in below chart. Exposure to G10 and EEA countries amounted to Euro 266 million or 57% of the total exposure.



The geographical breakdown of assets is disclosed in section financial risk management of the Bank's Annual Report 2014 (page 41).

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 rating, 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 non-retail clients will be rated according to the Anadolubank Rating Scale (ABR). In mitigating concentration risks in the credit portfolio, the guidelines for maximum exposures per client (including split-up per rating class and tenor) and portfolio 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 by type of external ratings.

	Loans and advances to customers		Loans and advances to banks		Interest bearing securities	
Credit quality analysis	**31/12/2013**	**31/12/2014**	**31/12/2013**	**31/12/2014**	**31/12/2013**	**31/12/2014**
Rated BBB- to AA	8,582	14,242	120,701	110,059	73,048	91,451
Rated B- to BB+	2,913	8,327	28,974	30,831	23,270	32,044
CCC	-	-	-	399	-	-
Unrated	195,066	217,860	4,893	961	3,120	3,322
	-	-	-	-	-	-
Provisions	(1,504)	(1,367)	-	-	-	-
Carrying amount	**205,057**	**239,062**	**154,569**	**142,250**	**99,439**	**126,817**

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 (Annual Report Page 29).

The following table shows the impairment and write-down as of 31 December 2013 and 31 December 2014:

Loan impairment charges and allowances	**2013**	**2014**
Balance at 1 January	12,981	13,914
New impairment allowances	1,504	78
Reversal of impaired loans	-	(340)
Amounts written off (-)	-	-
Effect of foreign currency movements	(571)	1,871
Balance at 31 December	**13,914**	**15,523**

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 2014						
	Notional Amounts	Up to 1 months	Up to 3 months	Up to 1 year	Over 1 year	Fair value assets	Fair value liabilities
Currency swap purchase	232,199	98,539	35,813	46,876	50,971	1,999	
Currency swap sale	239,039	97,833	35,781	49,832	55,593		8,045
Total	**471,238**	**196,372**	**71,594**	**96,708**	**106,564**	**1,999**	**8,045**

	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
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
Total	**559,389**	**419,850**	**20,107**	**102,198**	**17,234**	**3,708**	**28**

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.

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 100% of the derivatives. The Bank's derivative position is shown in the following table:

Derivatives	31/12/2013			31/12/2014		
External Credit Rating	Amount	%	Average Maturity	Amount	%	Average Maturity
Above A-	104,797	37%	164	158,543	68%	47
BBB+ to BBB-	16,894	6%	89	73,657	32%	529
Below BBB-	25,000	9%	2	-	0%	-
Unrated	134,717	48%	2	-	0%	-
Total	**281,408**	**100%**	**68**	**232,200**	**100%**	**200.00**

The composition of the maturity profile of the derivatives is also displayed to give a clear view of the portfolio. According to the above table, the weighted average remaining maturity for the portfolio is 200 days.

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 movements in market factors, i.e. prices and rates (including interest rates, credit spreads, equity prices, and foreign exchange rates), the correlations between them, and the volatilities. Market risk stems from all the positions included in banks' trading book 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 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 2014 respectively.

	31/12/2013		31/12/2014	
	Risk weighted assets	Pillar I capital requirement	Risk weighted assets	Pillar I capital requirement
Market Risk (Standardised Method)	**3,229**	**258**	**1,449**	**116**
Equity, trading book	-	-	-	-
Traded debt ins. trading book	1,649	132	900	72
Foreign exchange	1,580	126	549	44

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 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 2014, on the basis of the Bank's assets and liabilities at carrying amounts, categorized by currency, is disclosed in risk management section of the Bank's Annual Report 2014 (pages 44-45).

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 2014, the Pillar I capital requirement resulted from the 'specific risk' is amounted Euro 67 thousands. The 'general market risk' calculation, the 'maturity method' is applied. At the end of the year, Euro 5 thousand is allocated for 'general market risk'. Thus, Euro 72 thousand capital is allocated for the traded debt securities in the trading book.

The Bank only uses derivatives to hedge various imbalances on its own balance sheet in order to reduce risk such as currency 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 (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 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 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 2014.

Sensitivity of equity to interest rate movements	200 bp parallel increase	200 bp parallel decrease
31-Dec-14	(2,170)	1,093
31-Dec-13	(703)	202

End of 2014 results indicate that, in case of a sudden parallel increase of 200 bps in the interest rate, the net interest income will decrease EUR 2.17 million. A sudden parallel decrease of 200 bps has a positive effect of EUR 1.1 million on 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

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, the 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 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 the Treasury Department and is 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 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 in the section financial risk management of the Bank's Annual Report 2014 (page 43), shows that the Bank does not carry a large maturity mismatch. 60% 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 2014, 145%). NSFR will be implemented in 2018, and the Bank is already in line with the minimum regulatory requirement. At the end of 2014, NSFR was 129%.

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 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. 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 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.

Residual contractual maturities of financial assets and liabilities

The tables below show the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity, comparing 31 December 2014 figures with those of 31 December 2013. 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. Daily liquidity and the liquidity maturity calendar are part of the Bank's Risk Management. Liquidity tests and stress test scenarios are made under ICAAP, ILAAP and Recovery Plan.

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

The following table provides a maturity analysis of assets and liabilities according to their contractual remaining maturity:

31 December 2014

Assets	Carrying amount	Demand	<= 1 month	1-3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Not distributable
Cash and cash equivalents	108,428	101,386	7,042	-	-	-	-	-
Banks	142,250	-	4,074	15,265	96,973	25,938	-	-
Loans and advances	239,062	-	43,913	25,903	41,530	103,310	24,406	-
Interest bearing securities	126,817	-	-	34	6,019	74,893	45,870	-
Other assets	4,105	-	-	-	-	-	-	4,105
Total assets	**620,662**	**101,386**	**55,029**	**41,202**	**144,522**	**204,142**	**70,276**	**4,105**
Liabilities								
Banks	107,281	-	38,764	32,065	25,474	10,977	-	
Funds entrusted*	409,285	35,381	182,054	23,537	82,084	86,228	-	-
Current tax liabilites	170	-	-	-	-	-	-	170
Other liabilites	24,214	-	-	4,586	10,873	-	-	8,755
Total liabilities	**540,950**	**35,381**	**220,818**	**60,188**	**118,432**	**97,206**	**-**	**8,925**
Shareholders' equity	79,712	-	-	-	-	-	-	79,712
Total liabilities and equity	**620,662**	**35,381**	**220,818**	**60,188**	**118,432**	**97,206**	**-**	**88,637**
Net liquidity		**66,005**	**(165,789)**	**(18,986)**	**26,090**	**106,936**	**70,276**	**(84,532)**

* Including on demand saving accounts which has on average a longer term characteristic

31 December 2013(Restated)	Carrying amount	Demand	<= 1 month	1-3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Not distributable
Total assets	534,055	64,651	53,957	42,173	144,196	180,799	42,789	5,490
Total liabilities	534,054	131,887	73,984	60,083	75,051	118,856	-	74,194
Net liquidity		**(67,236)**	**(20,027)**	**(17,909)**	**69,144**	**61,944**	**42,789**	**(68,704)**

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: gross income. Risk weighted assets are calculated as 15% of the average of previous three years gross income. Operational events resulting in credit losses are part of the credit risk calculation. In fiscal 2014, 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 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.

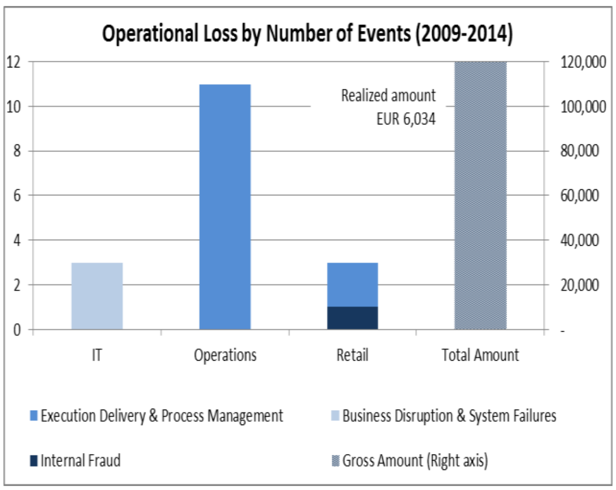
During the last 2 years, the Bank continuously has internal and external projects running to ensure that it can continue to comply with changing legislation and regulation. The Bank devoted much attention to this area in both 2013 and 2014. Many of the changes to the internal organization have now been realized. Legislation and regulation in the financial sector continued to be subject to rapid change and increasing complexity in 2014. 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.

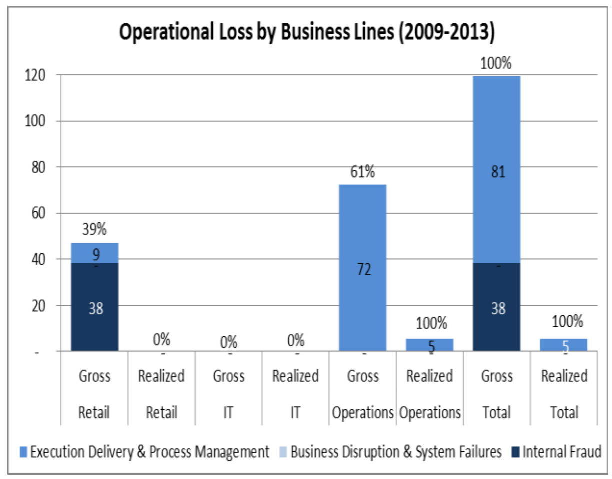
- Devote sufficient resource;
- Adequate procedures;

- Senior management involvement;
- Monitoring on a regular basis;
- Independent control function.

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 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 Management Board to provide insight into operational risk exposures, appetites and trends. During last 6 years, the number and magnitude of loss events was very minor, which are presented in the following graph.





The following table shows the regulatory capital requirement for operational risk, by using basic indicator approach, which is EUR 1.5 million over performance year 2014.

Operational Risk	31/12/2013	31/12/2014
Operational Risk Exposures	18,956	18,863
Capital Requirement	1,516	1,509

Capital management

The Bank had a capital ratio at the end of 2014 of 18.8%. 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.

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 2014 and 31 December 2013 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 Moodys, S&P and Fitch. 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 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.

Capital requirements	**31/12/13**	**31/12/14**
thousands of Euros		
Total risk weighted assets	**375,527**	**419,862**
Credit risk	353,342	399,550
Market risk	3,229	1,449
Operational risk	18,956	18,863
Tier 1 capital	**72,985**	**78,990**
Paid-in capital	70,000	70,000
Retained earnings	1,142	4,019
Revaluation reserves	(239)	(117)
Net profit	2,877	5,810
Regulatory adjustments	(795)	(722)
Tier 2 capital	-	-
Total capital	**72,985**	**78,990**
Tier 1 ratio %	19.4%	18.8%
Solvency ratio %	19.4%	18.8%

The largest part of the capital requirement relates to credit risk (93%). Market risk accounts for 0.3% of the capital requirements and operational risk comprises 4.5% of the capital requirements as of 31 December 2014.

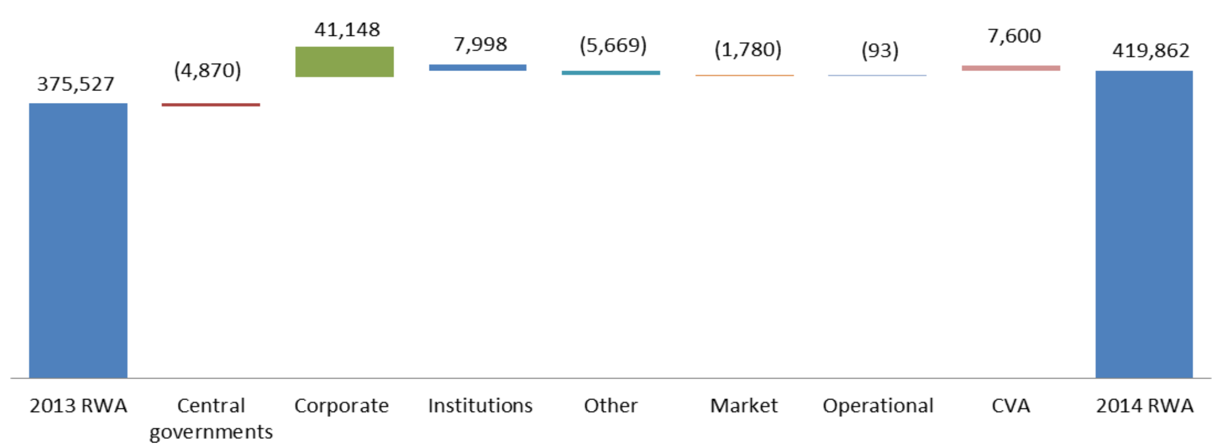
Risk-weighted assets amounted to Euro 419,862 thousand at the end of 2014 compared to EUR 375,527 thousands at the end of 2013.

Below table represents the Bank's exposure, RWA and minimum capital requirements under Pillar I for the end of 2014 and 2013 are broken down by different risk types, and exposure classes.

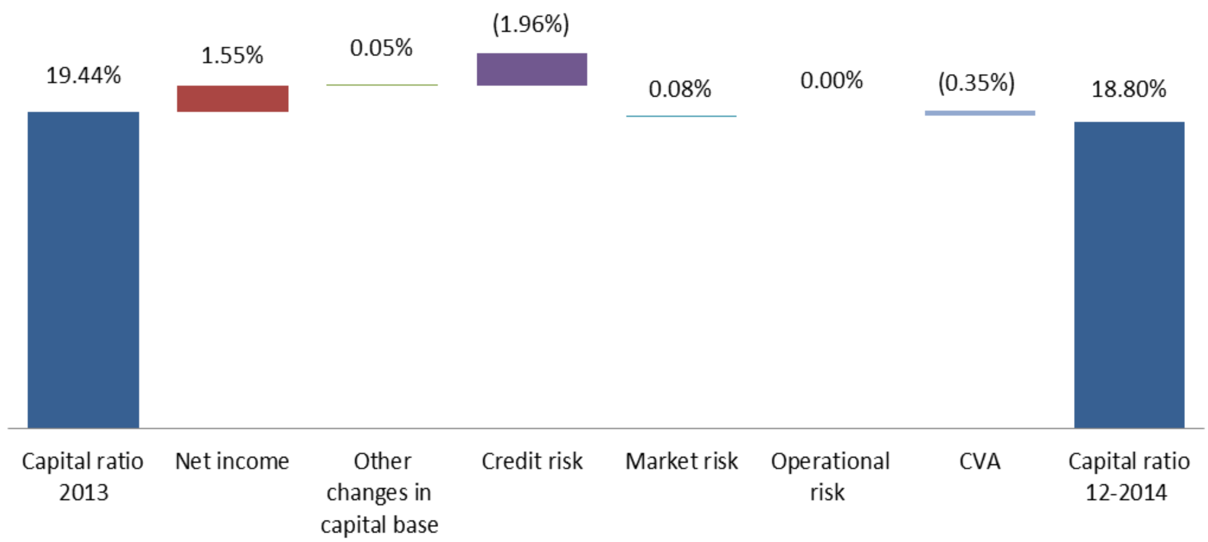
	31/12/13				31/12/14				
	Exposure on and off-balance sheet	**Risk-weighted assets**	**Exposure /RWA**	**Pillar 1 capital requirement**	**Exposure on and off-balance sheet**	**Risk-weighted assets**	**Exposure /RWA**	**Pillar 1 capital requirement**	**% of Distrubition**
Credit risk (Standardised approach)	**529,229**	**353,342**	**67%**	**28,267**	**630,920**	**391,950**	**62%**	**31,356**	**93.4%**
Central governments	74,883	9,950	13%	796	119,998	5,080	4%	406	
Corporate	212,253	207,841	98%	16,627	270,643	248,989	92%	19,919	
Institutions	231,854	125,405	54%	10,032	235,677	133,403	57%	10,672	
Retail	374	280	75%	22	496	373	75%	30	
Other	9,866	9,866	100%	789	4,106	4,105	100%	328	
Market risk (Standardised approach)		**3,229**		**258**		**1,449**		**116**	**0.3%**
Equity, trading book		-		-		-		-	
Traded debt inst. trading book		1,649		132		900		72	
Foreign exchange		1,580		126		549		44	
Operational risk (Basic approach)		**18,956**		**1,516**		**18,863**		**1,509**	**4.5%**
CVA		**-**				**7,600**		**608**	**1.8%**
Total		**375,527**		**30,042**		**419,862**		**33,589**	

The main factors behind the increase in RWA and the slightly decrease of the capital adequacy ratio in 2014 are shown in below graphs respectively.

RWA flow statements:



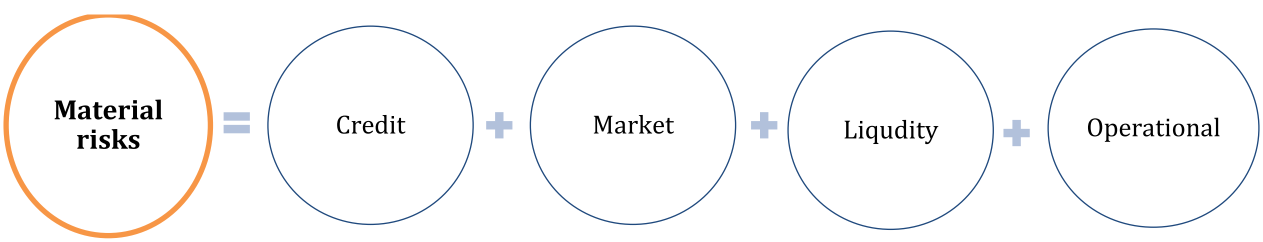
Change in Capital Ratio in 2014:



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 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 and Pillar II
Strategic Risk	Pillar II
Other Risks	Pillar II
Liquidity Risk	ILAAP Framework

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.

Remuneration policy

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.

This chapter describes the Remuneration Policy of Anadolubank Nederland N.V. 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 2015.

Scope

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 following four key principles: remuneration is

- Aligned with 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 'Remuneration Policy and the 'Remuneration Plan' describe further details. 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 regulatory environment continues to evolve. Further guidance is expected during 2015 from the EBA on sound remuneration policies, which may result in further amendments to the Dutch legislation and the regulation issued by DNB and AFM. The Management Board and Supervisory Board, in cooperation with the relevant control functions will undertake a review of the broader aspects of employee remuneration at the Bank during the course of the year, which may result in adjustments to the remuneration policy.

Governance

Different bodies and functions that have an important role in the determination, implementation and control of the Policy are the following:

The Management 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

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 with regard to the members of the Management Board. Given its size, Anadolubank Nederland N.V. will not establish a separate Remuneration Committee. A Supervisory Board charter is available with respect to the composition, tasks and responsibilities, appointment of members and the required expertise and knowledge of the Supervisory Board and its individual members.

Control functions

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.

The remuneration of Control Functions is sufficient to acquire and maintain qualified personnel. Performance criteria are mainly linked to their functions and independent of the performance or the financial results of the business or the business unit which is monitored or controlled by the individual Control Function staff member.

The Bank’s Annual Report 2014 contains a detailed overview of the Bank’s remuneration policy.

New regulatory standards

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

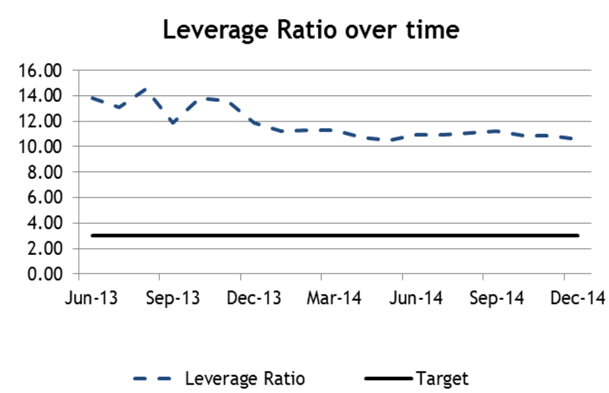
The European Council adopted new capital requirements regulations on 20 June 2013. CRD IV/CRR introduces new European rules for banks and investment firms with respect to prudential requirements and also includes implementation of the Basel III agreement in European legislation and regulation. In the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

The 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 2014 was 18.8%. 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 68% 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 do calculation, 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 10.54%, while maintaining a strong capital base at the end of 2014.

Leverage ratio	**31/12/13**	**31/12/14**
Thousands of EUR		
Tier 1 capital	72,985	78,990
Total exposure	613,749	749,170
Leverage ratio	11.89%	10.54%
CET1 capital	19.44%	18.81%
CET1 leverage ratio	11.89%	10.54%

Note: The 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. More details are stated in 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.

Please find below an overview of Anadolubank Nederland N.V's Basel III ratios for the last two years, which analyzes actual Basel III ratios of the Bank in accordance with international BIS requirements.

Basel III phase-in arrangements	Anadolubank Nederland N.V.		Basel III phase-in arrangements *Shading indicates transition periods – all dates are as of 1 January*					
	2013	**2014**	**2014**	**2015**	**2016**	**2017**	**2018**	**as of 2019**
Leverage ratio	11.9%	10.5%	Parallel run 1 Jan 2013 – 1 Jan 2017 Disclosure starts 1 Jan 2015				Migration to Pillar 1	3.0%
Minimum CET1 ratio	19.4%	18.8%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital conservation buffer	-	-			0.625%	1.25%	1.875%	2.5%
G-SIB surcharge	NA	NA			Phase-in			1.0%–2.5%
Minimum common equity plus capital conservation buffer	19.4%	18.8%	4.0%	4.5%	5.125%	5.750%	6.375%	7.0%
Phase-in of deductions from CET1 (including amounts exceeding the limit for DTAs, MSRs and financials*)	100.0%	100.0%	20.0%	40.0%	60.0%	80.0%	100.0%	100.0%
Minimum Tier 1 capital	19.4%	18.8%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum total capital	19.4%	18.8%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum total capital plus capital conservation buffer	19.4%	18.8%	8.0%	8.0%	8.625%	9.25%	9.875%	10.5%
Capital instruments that no longer qualify as Tier 1 capital or Tier 2 capital	NA	NA	Phased out over 10 year horizon beginning 2013					
Liquidity coverage ratio	331.5%	144.7%		60.0%	70.0%	80.0%	90.0%	100.0%
Net stable funding ratio	115.3%	129.0%					Introduce minimum standard	