

Pillar III Report 2018

Regulatory Capital Disclosures



Table of Contents

Table of Contents	2
Index of Templates	3
1. Introduction	4
2. Basel III Framework.....	4
2.1. Pillar I	4
2.2. Pillar II	4
2.3. Pillar III	5
3. Legal Structure	5
4. Risk Management	6
4.1. Objective	6
4.2. Risk Governance	6
4.3 Risk appetite framework.....	10
4.4. Capital Management.....	19
4.5 Key developments in 2018	23
4.6 Areas of improvement for 2019.....	24
4.7. Risk Types	24
5. Internal Audit.....	26
6. Compliance	27
7. Differences between accounting and regulatory scopes of consolidation and mapping of financial statements categories with regulatory risk categories	27
8. Capital structure	28
9. Regulatory Capital and Leverage Ratios	29
10. Risk-Weighted Assets.....	30
11. Credit Risk.....	30
11.1 General information	30
11.2 General credit risk.....	32
11.3 Credit quality of assets	35
11.4 Impairment allowances	37
11.5 Credit risk mitigation	38
11.6 Counterparty credit risk.....	40

11.7 CVA capital charge.....	41
12. Market Risk	42
12.1 Market Risk Capital Component	43
12.2 Market Risk – Internal Models (VaR).....	44
12.3 Interest-rate risk in the banking book	44
13. Operational Risk	45
14. Funding and Liquidity Risk	46
14.1 Stress-Test Scenarios	46
14.2 Funding Plan & Strategy.....	47
15. Remuneration Policy	47

Index of Templates

Template 1 - EU LI1: Differences between accounting and regulatory Scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	27
Template 2 - EU LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements	28
Template 3 - EU OV1: Overview of RWAs	30
Template 4 - EU CRB-B: Total and average net amount of exposures	32
Template 5 - EU CRB-C: Geographical breakdown of exposures.....	33
Template 6 - EU CRB- D: Concentration of exposures by industry or counterparty types.....	34
Template 7 - EU CRB-E: Residual Maturity of exposures	34
Template 8 - EU CR1-A: Credit quality of exposures by exposure class and instrument	35
Template 9 - EU CR1-B: Credit quality of exposures by industry or counterparty types	36
Template 10 - EU CR1-C: Credit quality of exposures by geography.....	36
Template 11 - EU CR1-D: Ageing of default exposures.....	37
Template 12 - EU CR1-E: Non-performing and forborne exposures	38
Template 13 - EU CR3: CRM techniques – Overview.....	39
Template 14 - EU CR4: Standardised approach – Credit risk exposure and CRM effects	39
Template 15 - EU CR5-Standardised approach– exposures by asset classes and risk weights	40
Template 16 - EU CCR1: Analysis of CCR exposure by approach	41
Template 17 - EU CCR2: CVA capital charge.....	42
Template 18 - EU MR1 – Market risk under the standardized approach.....	43

1. Introduction

The objective of Pillar 3 disclosure is to inform existing and potential stakeholders in Credit Europe Bank N.V on how the organization manages risk and capital adequacy. Credit Europe Bank N.V's Pillar III Disclosures contains information that enables an assessment of the risk profile and capital adequacy of Credit Europe Bank 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 Credit Europe Bank N.V (hereafter referred to as CEB or the "Bank") and should be read in conjunction with the Annual Report of the Bank. Pillar 3 disclosures are part of Basel framework, which is based on three-pillar concept.

Pillar I defines the rules for calculation of minimum capital requirements for credit, market and operational risks.

Pillar II addresses the internal processes for assessing overall capital adequacy (ICAAP) in relation to material risks not covered by Pillar I. Pillar II also introduces the Supervisory Review and Evaluation Process (SREP), which assesses internal capital adequacy processes of credit institution. DNB also analyses internal liquidity adequacy (ILAAP) since 2011.

Pillar III aims to complement the minimum capital requirements set in Pillar I and the supervisory review process of Pillar II. Pillar III introduces the minimum disclosure requirements, related to the key solvency and risk profile of the credit institutions.

2. Basel III Framework

2.1. Pillar I

CEB is regulated by DNB, which consequently acts as the home regulator for Basel III compliance. Banks are expected to meet the capital-requirements constraints imposed by Basel. These are a minimum capital ratio of 8%, which is a ratio of total own funds to total risk weighted assets (RWA). Basel III provides several approaches for calculating regulatory capital requirements. CEB adopted Standardized Approach for credit risk, market risks and operational risk.

2.2. Pillar II

Apart from the risks covered by Pillar I, CEB conducts regular assessment and monitoring of other risks within the internal capital adequacy assessment process (ICAAP). In addition CEB regularly conducts internal liquidity adequacy assessment process (ILAAP) and monitor liquidity. Material risks are assessed and continuously monitored. CEB complies itself to review ILAAP and ICAAP at least annually and adjust these approaches towards material risks and regulations if needed. The stress test is an important tool for analyzing the impact of negative events on the Bank's capital and liquidity adequacy. Stress tests analyses are used to assess the Bank in a series of negative macroeconomic events under gradual (3 years) and fast (up to 1 year) stress scenarios.

According to its capital management strategy CEB aims to ensure that it has sufficient capital base to cover both Pillar I and Pillar II risks.

2.3. Pillar III

The Pillar III disclosure aims to provide a higher transparency of banks' businesses and their risk structures which are communicated to the market participants. The disclosed information shall improve market participants' ability to assess banks' capital structures, risk exposures, risk management processes, and, hence, their overall capital adequacy. EBA published "follow-up review of Banks' transparency in their pillar 3 reports" and addressed the following improvements.

- Detailed information on the composition of own funds.
- Quantitative back-testing information regarding credit risk.
- Clearer information on credit risk mitigation techniques supplemented by adequate quantitative information on their impact.
- Valuation methodology used and detailed quantitative information on credit derivative instruments.

The Pillar III disclosures are prepared for CEB on consolidated basis. All amounts are in *Thousands of Euros*. The report is prepared annually and is published on the CEB's website www.crediteuropebank.com

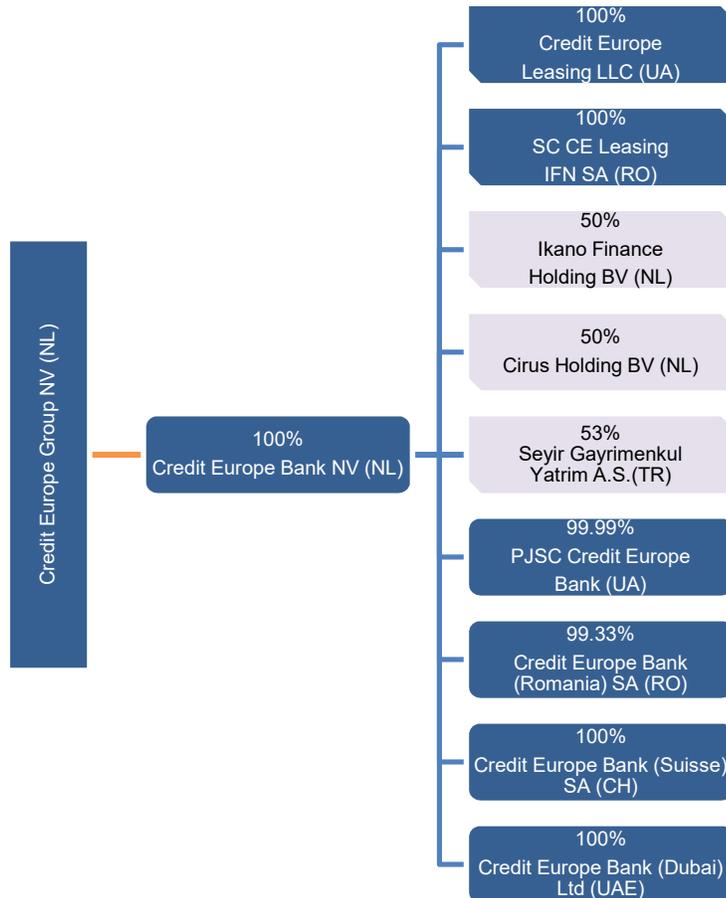
3. Legal Structure

The legal entity CEBNV ("CEB" or "the Bank") was incorporated on 24 February 1994, originally as Finansbank (Holland) N.V., under the laws of the Netherlands and rebranded into the name of Credit Europe Bank N.V. ("CEBNV") in 2007. Credit Europe Group N.V. ("CEG"), established on 14 October 1998, holds 100% of the shares in the legal entity CEBNV and is under the full supervision of DNB. The shares of Credit Europe Group N.V. are owned inter alia, through the investment company FIBA Holding A.S. in Turkey, by the Özyeğin Family.

Today, CEG is headquartered in the Netherlands through the legal entity CEBNV, and comprises banking subsidiaries in Russia, Romania, Switzerland, Ukraine and United Arab Emirates and leasing operations in Romania and Ukraine (in the process of closure). Credit Europe Bank has active branches in Germany and Malta and representative offices in China and Turkey. In addition, there are other indirect subsidiaries of CEB namely, Auto Partners, CE Europe Life Insurance and CE Leasing under CEB Russia and CE Ipotecar under CEB Romania. As per 31 December 2018 the total workforce of Credit Europe Bank was around 4,400.

Prior to 2018, The differences between IFRS reporting and Regulatory prudential consolidation scopes are insurance holding companies consolidated at CEB Russia. In Q3 2018, The bank has completed disposal of 90% shares of its wholly owned subsidiary CEB Russia Ltd. For regulatory capital and solvency adequacy, the scope of consolidation is prepared in accordance with CRD and CRR IV, which is similar as the consolidation scope under IFRs, but excluding insurance holding companies and reported with equity pickup method.

CEB's Legal Structure



4. Risk Management

4.1. Objective

The Bank, through a sound risk management, aims to ensure that risks taken and faced through day to day activities are consistent with Bank's strategies, risk appetite and shareholders expectations. Risk management provides the structural means to identify, assess, monitor, manage and report the risks inherent in its business activities. The core elements of the bank's risk management and control framework are:

- Adhering to the risk appetite and strategy set
- Periodically assessing the risk governance structure
- Maintaining capital management in line with the capital strategy
- Managing financial and operational risk in line with the risk appetite and strategy

4.2. Risk Governance

CEB has a well-established risk governance structure with clear defined roles and responsibilities for managing risks and addressing the appropriate risk mitigation solutions. The risk management at CEB is governed by policy level standards in accordance with CRD IV and regulations relating to implementation of CRD IV published by the Dutch Central Bank (De Nederlandsche Bank – DNB). The CEB risk management philosophy requires direct reporting lines and a clear division of tasks and responsibilities. At the same time, it ensures that bank-wide criteria for acceptance, monitoring, control and management of risks are deeply rooted. We clearly separate risk ownership from business activities.

CEB exercises full control over its subsidiaries' business performance and steers their risk appetite. In addition, we employ the following risk management governance structure:

- Effective Audit & Risk Committees at subsidiary as well as consolidated level;
- Direct reporting of general managers of the banks' subsidiaries to the CEO of CEB;
- Presence of a global CRO function on the Managing Board;
- A uniform credit committee structure at both local and the consolidated level.

Credit Europe Bank's risk management and internal control framework enables the Managing Board to control the financial and non-financial risks of business activities. This framework is governed by a system of policies, procedures, committees, as well as support and control functions. Limits and controls have been put in place to mitigate financial and non-financial risks to an acceptable level in line with Credit Europe Bank's risk appetite. The risk appetite has been approved by the Supervisory Board and is designed to i) set the maximum level of risk the Bank is willing to accept in order to achieve its business objectives and ii) protect the Bank's activities, not only in terms of profitability, sound capital adequacy and liquidity ratios, but also in terms of reputation and integrity risks. To maintain the quality of financial reports and to increase the effectiveness of reporting, the Bank has implemented internal financial reporting controls.

The risk consolidation is conducted by the Group Risk Management Department (GRMD) which is responsible for measurement and monitoring of risks at consolidated level. Each banking subsidiary has local risk management which reports both to local management and head office management. CEB has also a global Operational Risk Management (ORM) Department whose goal is to consolidate the already-existing ORM activities and coordinate implementation of the framework at locations where there was no prior ORM activity. The framework uses the Risk Control Self-Assessment and Operational Loss database to identify risks and establish risk mitigating action points. Related departments have been given awareness trainings to ensure that operational-risk management is embedded in day-to-day operations. The GRMD and ORM operate under the supervision of the Chief Risk Officer (CRO). The CRO has overall responsibility for developing and maintaining effective controls on financial and non-financial risks, liquidity and capital management principles of CEB.

CEB monitors aggregated risks via specific committees as well as through reporting to Managing Board and Supervisory Board. More specifically, CEB's risks, capital and liquidity are monitored by The Supervisory Board

Sub-committees (e.g. Audit & Risk Committee, Compliance Oversight Committee) and the Managing Board Sub-committees (e.g. Asset-Liability Committee (ALCO), Compliance Management Committee, Non-Financial Risk Committee, Financial Risk Committee, IT Steering Committee, Corporate Credit Committee, FI Credit Committee).

CEB's Managing Board has the overall responsibility for all processes related to strategy definition, risk appetite setting, capital planning, business planning and budgeting, while the Supervisory Board conducts oversight on overall risk management and respective processes, in light of applicable local and international legal and regulatory requirements, to respond to the various financial and non-financial risks the Bank is exposed to. The Managing Board is also responsible for implementing and maintaining the risk policies within the organization, and monitoring the risk exposure to ensure that Credit Europe Bank's activities and portfolios are not exposed to unacceptable potential losses or reputational damage. Risk is assessed, managed and reported according to common principles that are approved by the CEO. The management annually reviews the effectiveness of the risk management and internal control framework and oversees that CEB has an adequate internal control framework.

Audit & Risk Committee (ARC) and Compliance Oversight Committee (COC) assist Managing Board in fulfilling its oversight responsibilities concerning the management and control of risk, risk frameworks and controls and processes associated with CEB's operations. These committees at the consolidated level play a pivotal role in CEB's risk governance framework. These committees meet 4 times a year and receive regular reports and updates on the Bank's actual risk appetite with respect to the approved risk appetite statement. Audit and Risk Committee reviews and monitors the limits for individual types of risks and takes decisions whether principal risks have been properly identified and are being appropriately managed. The Audit & Risk Committee monitors the risk management and internal control framework and findings of the internal audit function. It makes assessments on the existing risk management capacity / know-how of the Bank and raises action items / investment plans –where necessary- to reach the desired level. In addition, regular reports are presented to the Audit & Risk Committee by the management, internal audit, risk management and financial control. Regular risk reports are distributed covering credit risk, market risk, liquidity risk, operational risk, etc. Compliance reports including integrity risks (money laundering, improper conduct, conflicts of interest etc.) are reported to the Compliance Oversight Committee. The risk management and internal control processes provide reasonable assurance that the financial reporting does not contain errors of material importance. This includes its going concern basis and that the risk management and internal control framework regarding financial reporting risks worked properly in the year under review.

In addition, the Managing Board has established the Management Team which includes representation from the business, risk, financial control and treasury divisions in order to facilitate the implementation of robust processes.

Bank implements a “three lines of defense” governance framework to manage risks and exercise adequate oversight and accountability. The first and second lines of defense refer to risk ownership and control mechanisms to manage and oversee risks. The third line of defense provides independent assurance while assessing and managing its risks.

The first line of defense refers to Management and business lines which are risk owners and responsible for directly assessing, controlling and mitigating risks to maintain risk levels within the Bank's risk appetite. Business divisions are

responsible for managing the risks and the compliance of their daily operations. The second line of defense relates to risk, compliance and other control functions. They are responsible for identifying and analyzing risk, implementing effective risk management and assuring that risks are within approved limits and tolerance levels. They also create and maintain the policies and procedures which provide the boundaries for the local and consolidated business activities. The Managing Board ensures that risk management, compliance and other control issues are addressed and discussed with sufficient authority. The structure of the risk organization covers all relevant risks for CEB. The roles and responsibilities of the main control functions within the second line of defense are summarized below.

Corporate Credit Department

The credit risk assessment of bank's customers is under Corporate Credit department responsibility. Credit department must assure credit proposals are in compliance with established policies and credit risk appetite. Main activities of corporate credit risk department include: approving credit lines for customers, ensuring that credit risk is within the risk appetite set by the Managing Board, ensuring compliance with credit risk policies and conducting assessments of provision adequacy.

Risk Management Department

Risk Management Department independently oversees the implementation of the Bank's risk management framework. It is responsible for identifying, assessing, monitoring and reporting of financial risks such as credit, market, liquidity and interest rate (banking book), and non-financial risks such as operational risk and strategy risk. Risk Management Function provides relevant independent information, analyses and expert judgement on risk exposures, and advices on proposals and risk decisions made by the Managing Board and business or support units as to whether they are consistent with the institution's risk appetite. Risk function recommends improvements to the risk management framework and options to remedy breaches of risk policies, procedures and limits.

Compliance Department

The role of Compliance department is to make sure the Bank conducts its business activities in full compliance with laws, regulations and internal requirements. Compliance department supports the Bank in the identification, assessment, and reporting of all compliance risks related to the organization, to its transactions and conduct of all employees. In addition Compliance is managing non-financial risks like integrity risk, strategy risk, reputational risk, etc.

Financial Control

Financial Control is responsible for integrity and accuracy of the Bank's financial records. It monitors compliance with, and implementation of, international accounting standards. By overseeing both regulatory and management reporting it provides financial information to senior management as well as to regulatory bodies. Financial Control also supports businesses with financial insights through quantitative analysis, forecasting and measuring performance against targets.

Information Security Management Department (ISM)

The responsibilities of ISM is to ensure and monitor the implementation of security controls related to confidentiality, integrity and availability of information assets and the continuity of the critical business processes.

In that respect they establish and promote information security policies, standards and procedures, coordinate and support the business units with the implementation of security controls and oversee the effectiveness of the security controls implemented.

The third line of defense is the internal audit function, which assesses the functioning and effectiveness of business units, financial risk management and non-financial risk management activities. In order to guarantee effectiveness of the CEB's risk governance structure, internal and external audit functions provide independent and objective assurance of CEB's corporate governance, internal controls, and compliance and risk management systems as the third line of defense. They assure the effectiveness, completeness and efficiency of the internal controls in the first and second lines of defense. Internal Audit Department regularly reviews the implementation and effectiveness of the risk management framework and ensures the integrity of the risk management process. The internal audit function is organized in three units: internal audit, compliance audit and IT audit. Each unit has specific knowledge in their area and works closely together.

4.3 Risk appetite framework

CEB has developed a Risk Appetite Framework (RAF) where the Bank articulates risk tolerance levels and corresponding limits, targets, thresholds and acceptable boundaries for main significant risks categories. The risk appetite of CEB's defined on a consolidated level and applies to all subsidiaries and branches. It is based on the Bank's business plan (i.e. business strategy and company objectives), in addition to the guiding principles set by the Managing Board, and is endorsed by the Supervisory Board. CEB has defined the following roles and responsibilities with regard to its risk appetite.

Supervisory Board

The Supervisory Board approves the risk appetite and the tolerance levels and performs supervision and assessment at a strategic level whether the Bank's activities are in line and are appropriate in the context of the approved Risk Appetite Policy.

Managing Board

The Managing Board sets the risk appetite levels in quantitative and/or qualitative terms and thus, is the ultimate owner of the Policy. The Managing Board timely provides the Supervisory Board with the information relevant for assessing whether the Bank operations are in line with the risk appetite of the Bank and promptly takes the necessary actions in case the business operations are no longer within the approved risk appetite.

Supervisory Board Sub-committees

Supervisory Board sub-committees ensure that the Risk Appetite Policy is up-to-date and it reflects the risk appetite levels in an adequate and accurate manner. Such committees advise the Supervisory Board on the risk appetite of the Bank and CEB’s actual risk profile.

Managing Board Sub-committees

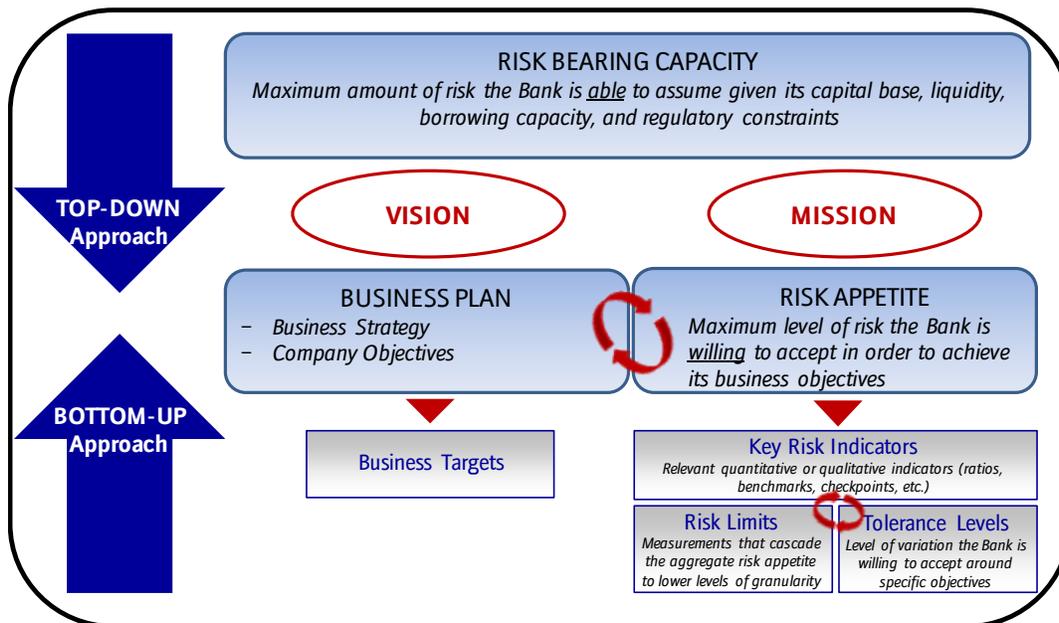
Managing Board sub-committees bear the overall responsibility for CEB’s risk management strategy and have to ensure that the Bank’s exposures are in line with the risk appetite as documented in this Policy.

Division/Department Managers

Division and department managers are responsible for managing their areas in line with the tolerance levels described in the Risk Appetite Policy and the relevant policies and procedures.

The risk appetite framework of the Bank is supported by internal documentation (e.g. policies and procedures), processes, controls and systems through which the risk appetite is established, communicated and monitored.

Risk Appetite Framework



KRIs, risk limits and thresholds, and tolerance levels are used to cascade the aggregate risk appetite to more granular levels for day-to-day risk management. The Bank employs a combination of a top-down and bottom-up approach in establishing its risk appetite framework:

The top-down approach implies that the Bank’s risk appetite framework is established through the business strategy and company objectives, risk appetite and tolerance levels, risk limit and threshold levels, and KRIs allocated to business

units as a result of a variety of methods (e.g. regulatory requirements, analysis of financial performance, analysis of historical risk-data, stress testing and scenario analysis);

The bottom-up approach means that the business units provide their estimates regarding risk and capital needs (e.g. as a result of risk and control self-assessments, analysis of an individual unit's strategies and needs).

To ensure that CEB's activities are consistent with its risk appetite, the risk appetite is subject to regular monitoring. The KRIs, risk limits and thresholds, and tolerance levels are reported on a periodical basis to the Managing Board and the Supervisory Board and reviewed at the relevant sub-committee meetings. The consolidated credit risk related reports are conducted on a monthly basis and contains detailed analysis of the portfolio structure, asset impairments and concentration risks. The consolidated market risk and liquidity gap reports are prepared on a monthly basis, except for VaR and liquidity positions which are reported daily to the Managing Board. In case of breach related business unit is expected to provide explanation and the reasoning of the limit breach and in certain cases the time required to eliminate the limit breach. Certain type of limit breaches are instantly directed to ALCO level, such as the exceedance of "nominal" limits (i.e. bonds or FX). For other type of limit breaches CRO has the authority to grant a grace period to correct the limit breach. In case the issue is not resolved within the grace period, the limit breach is directly escalated to ALCO.

CEB's end to end risk appetite process cycle is also aligned with other strategic processes including the Internal Capital Adequacy Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP), Capital Management, Recovery and Resolution Plan.

CEB's risk appetite is based on both (i) quantitative and (ii) qualitative assessment criteria which guide the Bank in determining the amount and types of risk it can prudently undertake. Quantitative criteria can include: % of total assets, required/available capital or total earnings and profit. Qualitative criteria can include the results of risk-assessments where the division/department manager assesses the risks and controls within their area of responsibility. CEB adapts a forward looking approach in assessing its appetite for each category of risk, in the sense that the actual level of risk might be higher or lower than the level implied by the assessment.

Table 1 to 3 presents an overview of CEB's current Risk Appetite Framework. Table 1 and 2 provide a summary of the financial and non-financial risk categories, respectively and of the assessment criteria that are employed. Table 3 summarizes the metrics used to measure and monitor the risks.

Risk Category	Risk Appetite ^[1]	Assessment Criteria Type ^[2]
Credit Risk		
Corporate-Commercial	High	Quantitative
Retail & SME	Limited	
Financial Institution	Limited	
Country Risk		
Developed Markets – G10	High	Quantitative
Other Developed Markets	Fair	
Emerging markets:		
-Turkey	Fair	Quantitative
-Romania	Fair	
-Russia	Limited	
-Other emerging markets	Limited	
Concentration Risk		
Country Concentration Risk	Material	Quantitative
Sector Concentration Risk	Low	
Single Concentration Risk Name	Limited	
Asset Quality	Limited	Quantitative
Market Risk	Low	Quantitative
Interest Rate Risk	Limited	Quantitative
Liquidity Risk	Low	Quantitative
Operational Risk	Low	Quantitative/Qualitative
Integrity Risk	Limited	Qualitative
Strategic Risk	Limited	Quantitative/Qualitative

^[1] Maximum level of risk the Bank is willing to accept in order to achieve its business objectives

^[2] CEB's risk appetite is based on both (i) quantitative and (ii) qualitative assessment criterias which guide the Bank in determining the amount and types of risk it can prudently undertake.

Financial Risks

Risk Category	Definition	Sub-Risk Category	Definition
Credit Risk	The risk that a counterparty fails to meet contractual or other agreed obligations (such as those in respect of credits or loan granted, exposures incurred or guarantees received), including where such is due to restrictions on foreign payments.	Default Risk	The risk of loss incurred due to non-performance or default of parties to which credit facilities have been made available (or in whose debt instruments investments have been made).
		Concentration Risk	The risk of a development or event having a significant to high impact on the value of the credit portfolio due to inadequate diversification within the portfolio.
		Country Risk	The risk of exposure to losses caused by events in a particular country. These items may result in inability of a business to receive funds from or send funds to counterparties outside this country.
Market Risk	The risk of exposure to changes in the market prices of marketable financial instruments within a trading or other portfolio.	FX Risk	The risk of changes in the value of a portfolio or of marketable instruments within a portfolio arising from changes of foreign exchange rates.
		Equity Risk	The risk of changes in the value of a portfolio or of marketable instruments within a portfolio arising from changes of equity prices.
		Commodity Risk	The risk of changes in the value of a portfolio or of marketable instruments within a portfolio arising from changes of commodity prices.
		Concentration Risk	The risk of a development or event having an above-average impact on the value of a portfolio due to inadequate diversification within the portfolio.
		AFS Portfolio	The risk of changes in the value of a portfolio of marketable securities arising from changes of interest rates or credit spreads.
Liquidity Risk	The risk that current assets cannot be converted at sufficient speed or at acceptable prices into cash.	--	--
Interest Rate Risk	The risk that interest rate fluctuations lead to undesirable effects on balance sheet and earnings performance as a result of a mismatch between interest rate sensitive assets and liabilities (including off-balance sheet items) in terms of interest rate periods and interest rate levels.	--	--

Non-Financial Risks

Risk Category	Definition	Sub-Risk Category	Definition
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.	INTERNAL FRAUD	Risk of fraud committed internally in CEB against its interests: Transactions not reported (intentional) Trans type unauthorized (w/monetary loss) Mismarking of position (intentional) Fraud / credit fraud Theft / extortion / embezzlement / robbery Misappropriation of assets Malicious destruction of assets Forgery Smuggling Account take-over / impersonation / etc. Tax non-compliance / evasion (willful) Bribes / kickbacks Insider trading (not on Bank's account)
		EXTERNAL FRAUD	Risk of activities committed by third parties: Theft/Robbery Forgery Hacking damage Theft of information (w/monetary loss)
		EMPLOYMENT PRACTICES AND WORKPLACE SAFETY	Risk of Non-compliance to employment or health-and-safety laws and regulations and grave operational hazards in CEB: Compensation, benefit, termination issues Organized labor activity General liability (slip and fall, etc.) Employee health & safety rules events Workers compensation All discrimination types
		CLIENTS, PRODUCTS & BUSINESS PRACTICES	Risk of failing to meet promises made to our clients: Fiduciary breaches / guideline violations Suitability / disclosure issues (KYC, etc.) Retail consumer disclosure violations Breach of privacy Aggressive sales Account churning Misuse of confidential information Lender Liability Antitrust Improper trade / market practices Market manipulation Insider trading (on Bank's account)

Risk Category	Definition	Sub-Risk Category	Definition
			<ul style="list-style-type: none"> Unlicensed activity Money laundering Product defects (unauthorized, etc.) Model errors Failure to investigate client per guidelines Exceeding client exposure limits Disputes over performance of advisory activities
		DAMAGE TO PHYSICAL ASSETS	<ul style="list-style-type: none"> Risk of losses incurred by damages caused to physical assets due to: Natural disaster losses Human losses from external sources (terrorism, vandalism)
		BUSINESS DISRUPTION AND SYSTEM FAILURES	<ul style="list-style-type: none"> Risk of supply-chain disruptions and business continuity: Hardware Software Telecommunications Utility outage / disruptions
		EXECUTION, DELIVERY & PROCESS MANAGEMENT	<ul style="list-style-type: none"> Risk of failure in delivery, transaction or process management: Miscommunication Data entry, maintenance or loading error Missed deadline or responsibility Model / system misoperation Accounting error / entity attribution error Other task misperformance Delivery failure Collateral management failure Reference Data Maintenance Failed mandatory reporting obligation Inaccurate external report (loss incurred) Client permissions / disclaimers missing Legal documents missing / incomplete Unapproved access given to accounts Incorrect client records (loss incurred) Negligent loss or damage of client assets Non-client counterparty misperformance Misc. non-client counterparty disputes Outsourcing

Risk Category	Definition	Sub-Risk Category	Definition
			Vendor disputes
Business Risk	The risk arises due to potential changes in general business conditions, such as market environment, client behavior and technological progress.	--	--
Integrity Risk	The risk of the integrity of the institution or the financial system being affected by the improper, unethical conduct of the organization, its management, staff or customers in contravention of legislation and regulation and the standards set by society or by the institution	Conflicts of Interest Risk	The risk of the institution's reputation (and possibly also its financial position) and/or other loss being affected by the harming of interests of third parties caused by the institution or its staff, due to involvement in multiple interests.
		Insider Trading Risk	The risk of the institution's reputation, regulatory status and possibly also its financial position being adversely affected by the possession of inside information and the use of such information by acquiring or disposing of, or by trying to acquire or dispose of, for the institution's own account or for the account of a third party, either directly or indirectly, financial instruments to which such information relates.
		Money Laundering/ Terrorism Financing Risk	The risk of the institution's reputation, regulatory status and possibly also its financial position being adversely affected by the (unwitting) involvement in money laundering and/or terrorism financing
		Tax Evasion/ Avoidance Risk	The risk of the institution's reputation, regulatory status and possibly also its financial position being adversely affected by the involvement in tax evasion or avoidance.
		Violation of Sanction Legislation Risk	The risk of the institution's reputation, regulatory status and possibly also its financial position being adversely affected by the institution's dealings with natural persons and/or legal entities that are subject to applicable sanctions legislation/regulation.
		Improper Conduct Risk	The risk of the institution's reputation, regulatory status and possibly also its financial position being adversely affected by the institution's intentional or unintentional facilitation of or involvement

Risk Category	Definition	Sub-Risk Category	Definition
	itself.		with other (criminal) offences.
Strategic^[3] Risk	The risk that affects or is inherent in a bank's business strategy, strategic objectives, and strategy execution.	--	--

Risk Limits

Risk	Metric
Credit risk	Large Exposure Limit
	Single Client Limit Framework
	Industry Limits
	Geography Limits
	Top 20 Borrower Group Limit
	Healthy Balance Sheet Ratio Limit ^[4]
	Country Concentration Capital Add-on Limit
	Asset Quality (NPL Ratio, Texas Ratio) Limits
	Stressed RWA and Profit/Loss Analysis
	IRB Impact Analysis
Liquidity And Funding	Internal Limit (6 Months Liquidity Buffer)
	Immediate Liquidity
	Liquidity Coverage Ratio
	Net Stable Funding Ratio
	Survival period
	Large issuer limit
	Funding Mismatch in Major Currencies

^[3] Described in detail in Annex 5

^[4] It measures exposures in countries outside of the European Economic Area ("EEA") with respect to its total assets and the deposits under the Dutch Deposit Guarantee Scheme ("DGS").

	Loan to Deposit Ratio Limit
	Encumbered Asset Limit
	Equity and Subordinated Funding Limit
Operational Risk	Annual Operational Risk Loss Limit
Solvency	Total capital Ratio Thresholds
	Tier1 Cap Ratio Thresholds
	CET1 Cap Ratio Thresholds
	ICAAP Profile Thresholds
Market Risk (Trading Book)	Nominal Limits
	PV01 Limit
	FX Limits
	Equity Trading Limits
	Value at Risk Limits
	CDS Trading Limits
	Holding period Limit
Market Risk (Banking Book)	Nominal Limits
	PV01 Limit
	Modified Duration Limits (BB)
	FX Limits
Interest Rate Risk on Banking Book	Repricing Mismatch Monitoring
	Scenario Analysis
	Change in Economic Value of Equity
Counterparty Risk	Limit Setting with Internal Model
Non-financial Risks	Qualitative assessment

4.4. Capital Management

4.4.1. Fundamentals of Capital Management Framework

A capital level commensurate with the bank's risk profile is the key to financial resilience. CEB operates with an optimum level and mix of capital resources. CEB has defined seven fundamental items for its capital management framework that it deems necessary in order to allow for the framework to soundly and adequately work. These items cover (i) an appropriate risk management that allows for an accurate risk assessment and risk control; solid methodologies for (ii) loss estimation as well as for (iii) capital resource estimation, which in turn will allow for (iv) a sound assessment of CEB's capital adequacy. In addition, CEB's fundamental items cover (v) a comprehensive capital policy and capital planning practices that allow CEB to determine adequate capital targets, -levels and -compositions. The above mentioned items are backed-up by (vi) an effective governance approach and (vii) robust internal controls. The fundamentals are summarised on the figure below accordingly.

Capital Management

Fundament 1: Sound foundational risk management
CEB has a sound risk measurement and risk management infrastructure in place that supports the identification, measurement, assessment, and control of all material risks arising from its exposures and business activities.
Fundament 2: Effective loss estimation methodologies
CEB has effective processes in place that allow for translating its risk measures into estimates of potential, expected losses including stress testing scenarios and the aggregation of those estimated losses across CEB.
Fundament 3: Solid resource estimation methodologies
CEB has a clear view on available capital resources and an effective process for estimating available capital resources (including the projection of retained earnings and under the consideration of stress testing scenarios).
Fundament 4: Coherent capital adequacy impact assessment
CEB has processes in place for bringing together estimates of losses and capital resources to assess the combined impact on its capital adequacy in relation to CEB's pre-defined targets for the level and composition of its capital.
Fundament 5: Comprehensive capital policy and capital planning
CEB has a comprehensive capital policy and robust capital planning practices for establishing capital targets, determining appropriate capital levels and composition of capital, making decisions about capital actions, and maintaining capital contingency plans.
Fundament 6: Effective governance
CEB has effective management board and senior management oversight of its capital management, including (i) the periodic review of CEB's risk infrastructure and loss-/resource-estimation methodologies; (ii) the evaluation and re-assessment of capital targets; (iii) the assessment of the appropriateness of the stress testing scenarios considered; (iv) the regular review of any limitations and uncertainties in all aspects of CEB's capital management; and (v) the approval of CEB's decisions related to capital management.
Fundament 7: Robust internal controls
CEB has robust internal controls in place governing the capital adequacy process components, including policies and procedures, change control, model validation and independent review, comprehensive documentation and regular review by CEB's internal audit division.

CEB's philosophy and objectives of capital management are shareholder as well as stakeholder oriented. Therefore, CEB's approach to capital management is dedicated to optimizing the shareholder's value by optimizing the return on capital while at the same time keeping CEB in a position, that allows it to maintain ready access to funding, meet its obligations to creditors and other counterparties, as well continue to serve as a credit intermediary before, during and after stress conditions. This status shall be held at all times and at all relevant levels of CEB, i.e. at a consolidated, a sub-consolidated and a solo level across all subsidiaries accordingly. In order to meet the above mentioned status, CEB is asked to be in financial resilience which in turn it defines as an adequate capital level that is commensurate with its overall risk profile. Consequentially, CEB will operate with an optimum level and mix of capital resources, adequately balancing its shareholder and stakeholder orientation.

A centralized capital management framework plays a major role in this approach and consists of four key guiding principles outlined in the following in greater detail accordingly.

Firstly, the framework, though being centrally run out of the Netherlands, features all relevant levels of CEB. I.e. risks and capital are efficiently managed at the consolidated group level of CEG, the sub-consolidated level of CEB NV as well as at the solo level of CEB NV.

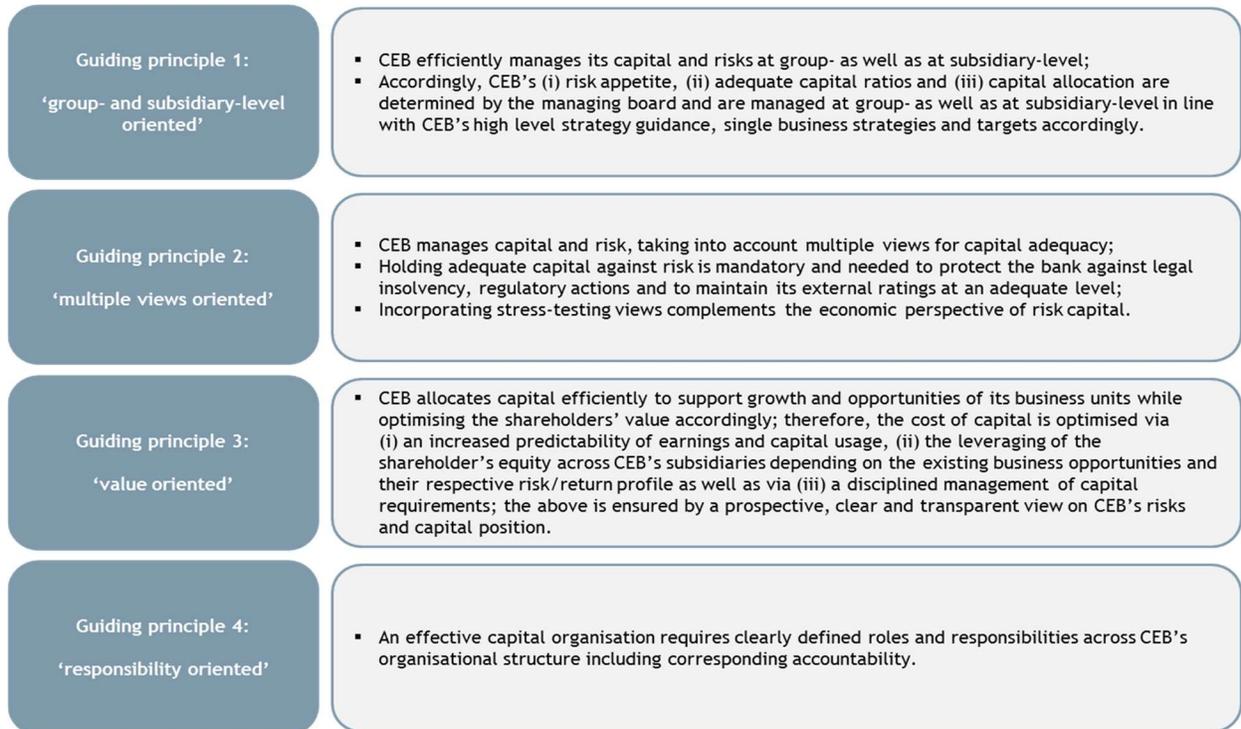
Secondly, the framework is designated to ensure CEB has sufficient capital resources available in order to meet the capital requirements of its regulators; i.e. those of DNB as well as those of the local regulators in the subsidiaries' operating countries. Moreover, the framework will also take into account the expectations on CEB's capital base from additional stakeholders like investors, creditors and rating agencies. Further, the framework shall ensure that CEB has sufficient capital resources available in order to meet its own risk appetite and defined internal principles and guidelines.

Thirdly, CEB allocates its capital under the consideration of the risk/return thresholds defined in the risk appetite statement. CEB's business units are required to fully understand the inherent risk/reward profile of their businesses and to generate a defined level of return on the capital deployed.

Fourthly, the framework excels due to its clear definition of roles and responsibilities across CEB's organizational structure. While the capital management framework is centrally held and operated by the risk, financial control and treasury divisions of CEB NV, the Managing Board and business units in the subsidiaries are required to contribute and are held responsible for the functioning of the framework accordingly.

Conclusively, CEB may summarize the above stated functioning of its capital management framework under four clearly defined guiding principles as outlined in the following figure.

Guiding principles for capital management



Applying these four guiding principles in turn will allow CEB to meet its capital management objectives that are to (i) optimize the shareholder's value, (ii) maintain sufficient capital resources in order to meet DNB's minimum regulatory capital requirements; (iii) ensure that locally regulated subsidiaries can meet their minimum capital requirements accordingly ; (iv) achieve adequate capital levels to support CEB's risk appetite and internal capital requirements; (v) maintain a strong capital base to meet and re-assure the respective expectations set not only by regulators, but also investors, creditors and market participants, and finally (vi) to sustain CEB's future business development accordingly.

4.4.2 CEB's capital management process

With its capital management process CEB's covers current, future and potential capital needs. While these three dimensions of capital need to be feed from CEB's strategy outline and its risk appetite statement, they in turn feed into the application of CEB's capital policy, capital planning and capital targets accordingly. These items finally allow CEB to define its capital management strategy that is covering a distinct period of time and is subject to continuous update. The figure below is graphically outlining the above statements accordingly.

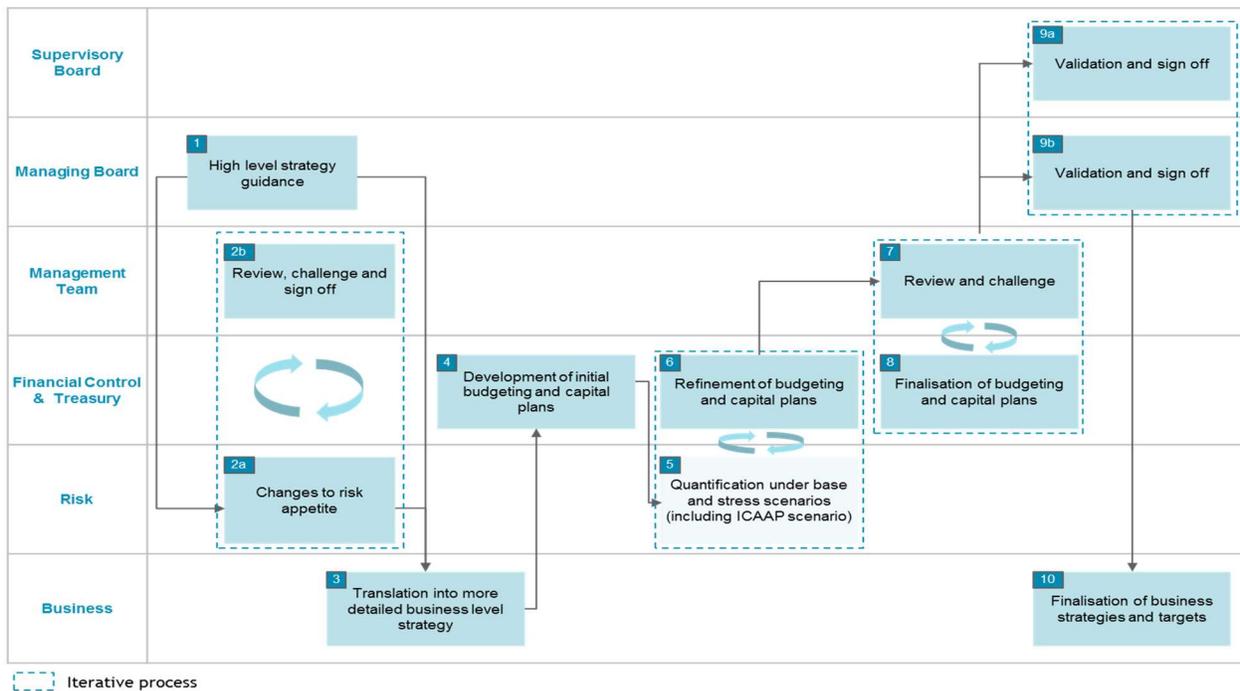
In terms of adequately managing these three dimensions of capital needs, CEB has defined five core activities that in summary build up to its capital management process: CEB will (i) measure, monitor and challenge its defined capital metrics and risk/return thresholds; (ii) estimate its capital (needs) into the future on the basis of its planning and budgeting efforts; (iii) allocate its capital on the basis of overall defined rules and policies; (iv) optimize its capital structure and (v) adequately communicate to external stakeholders. The activities are closely linked to CEB's risk appetite statement as well as to the planning and budgeting process. For a high-level overview of the activities refer to the figure below accordingly.

Per definition, CEB holds capital in order to cover unexpected losses on the basis of its given risk profile. Amount and quality of this capital is subject to policies and guidelines as well as to the expectations of CEB's different stakeholders (i.e. regulators, investors, creditors, rating agencies and market participants) and the CEBNV Managing Board (on the basis of and according to its risk appetite statement).

CEB measures, monitors and challenges its available and required capital (and hence its capital adequacy) on an ongoing basis. Measuring, monitoring and challenging the respective capital metrics, here, is set against CEB's actual risk appetite statement, which defines the respective capital targets per above view accordingly.

The estimation of capital is the process of projecting expected use and generation of capital that is derived from CEB's business planning and budgeting process. Under the consideration of CEB's high level strategy guidance, the capital projection will cover a multi-year period into the future. Further, the process covers analyzing the evolution of CEB's capital ratios against CEB's long-term strategic objectives and goals. The process ultimately feeds back into advising on CEB's ICAAP, CEBNV's risk appetite statement and, in case necessary, into CEB's capital actions and capital contingency planning under its overall recovery plan. The graph below outlines the overall processes flow from initial high level strategy guidance over risk appetite setting, capital planning and budgeting to final business strategy and target setting accordingly.

Capital Planning Process



4.5 Key developments in 2018

In 2018, the following events required specific attention of the Managing Board:

- CEB has completed disposal of 90% of shares of its wholly owned subsidiary CEB Russia Ltd on September 12, 2018. The transaction has been executed between the Bank and its shareholders, Fiba Holding A.S and Fina Holding A.S, in the form of a spin-off.
- CEB successfully accomplished the adoption of IFRS 9 as of 1 January 2018. Change of methodology regarding loan loss provisioning is duly modelled and implemented in CEB's IT systems, and the underlying models with forward looking macroeconomic overlays are successfully validated by an external party.
- CEB has initiated the setup of an Internal Financial Resources Management (IFRM) tool, whereby aiming to facilitate the Bank's budgeting and planning cycle for the Financial Year at an adequate granularity level, provide integrated and consistent scenario evaluation capabilities to test the impact of different scenarios on the bank's balance sheet, P&L and key performance indicators, and integrate comprehensive credit stress testing capabilities in line with the bank's SREP stress testing and IFRS 9 provisioning models.
- CEB has initiated a program to enhance its structural trade and commodity finance business, where different focus areas are determined, such as transaction monitoring dashboard, CRM dashboard, and operational excellence.

4.6 Areas of improvement for 2019

- CEB continues to make all necessary preparations to comply with changing regulatory requirements, including new EBA technical standards and guidelines; such as the implementation of the revised framework for measuring the interest rate risk in the banking book, entering into force by December 2019, and the implementation of the new guidelines for the definition of default, entering into force by December 2020. CEB conducts regulatory self-assessments and takes necessary measures by revising its internal policies and processes and updating its IT systems.
- CEB puts emphasis on establishing a profound NPE strategy to effectively manage and reduce its NPEs based on the final EBA guidelines on management of non-performing and forborne exposures, dated 31 October 2018.
- CEB kicks off a retail banking digitalization project, where the ultimate target is to digitalize and modernize its retail products.
- CEB continues with the roll out and implementation of the AML Improvement program to enhance its AML framework.
- CEB kicks off the implementation of a new and enhanced credit concentration risk model to better capture its exposure to single name, sector, and country concentration risks.

4.7. Risk Types

4.7.1. Pillar I Risks

In pillar I, which forms the base for the regulatory capital requirement, three risk types are covered: credit risk, market risk and operational risk.

Credit Risk

Credit risk is defined as the current or prospective threat to CEB's earnings and capital as a result of counterparty's failure to comply with financial or other contractual obligations. Credit risk constitutes the most significant risk of CEB and arises mainly from its trade finance, lending, treasury, mortgage and leasing businesses. Credit risk both stem from idiosyncratic risk factors and systematic factors like country risk and industry risk. Idiosyncratic risk factors are managed through counterparty risk assessment and monitoring while portfolio diversification is adopted as the main portfolio strategy to control country, industry and single name concentration risks.

Market Risk

Market risk is the risk that CEB's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates.

Operational Risk

CEB defines Operational Risk as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. It includes legal risk and outsourcing risk (within Execution, Delivery, & Process Management) but excludes strategic risk, business risk, liquidity risk, reputational risk.

4.7.2. Pillar II Risks

Concentration risks

This includes single-name, sector and country concentration risks. Calculation of capital requirements for the credit risk under Pillar I do not consider a buffer for credit risk concentrations, therefore an assessment of additional required capital due to concentration risk is conducted under Pillar II. GRMD prepares regular concentration reports to monitor its concentration risks on different levels. Concentration risk is managed with the limit structure and credit risk mitigation techniques.

Interest rate risk in the banking book

One of the Bank's major risks under Pillar II is the interest-rate risk on the banking book. The Bank defines interest-rate risk as the current or prospective risk to earnings and capital arising from adverse movements in interest rates. The trading book is also subject to interest-rate risk, but this type of risk is dealt with under the Market Risk Value-at-Risk section. Subsidiaries are not allowed to carry interest-rate positions and are expected to transfer their positions to the parent Bank, where centralized ALM and funding principles are in place. The Bank has a 'limited' risk tolerance towards interest-rate risk in its banking book.

Liquidity risk

Liquidity risk rises when an institution is unable to meet its due liabilities, since it is unable to borrow on an unsecured basis, or does not have sufficient good quality assets to borrow against or liquid assets to sell to raise immediate cash without severely damaging its net asset value. CEB manages its liquidity position on the consolidated level in order to be able to ride out a crisis without damaging the on-going viability of the business. This is complemented by its funding risk management which aims to achieve the optimal liability structure to finance its businesses cost-efficiently and reliably.

Strategic Risks

CEB conducted a strategic risk self-assessment to identify whether there is any material risk that might prevent CEB from reaching its targets. This assessment covers existing or planned mitigating actions, including but not limited to holding additional capital. Since the strategic risk factors like Fintech Risk, increasing complexity of new regulations and cyber-threats have not been "fully" covered within CEB's ICAAP, CEB allocates capital for these types of risk factors under Pillar II.

4.7.3. Recovery Plan

Recovery Plan has been prepared addressing the Bank's liquidity and capital situation under unforeseen events/crises. 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. CEB's Recovery Plan outlines the array of measures the Bank proposes to adopt in the event of a material deterioration of its financial situation triggered by idiosyncratic problems, market-wide stresses or a combination of both. CEB's Recovery Plan is embedded within the Bank's risk management and internal control framework and can be readily implemented in the event of a situation of severe stress.

CEB acknowledges the criticality of implementing sufficient measures to survive a severe crisis and restore the long-term viability of the Bank. As a minimum, CEB has set the following objectives for its Recovery Plan:

- (i) to ensure an adequate and timely response to a near-default stress scenario on its own strength;
- (ii) to reduce the impact of a crisis on the Bank thereby minimizing the probability of default; and
- (iii) to effect the integration of appropriate supportive measures into CEB's existing risk management and internal control framework.

CEB's Recovery Plan is not restricted to any one specific stress scenario but rather assesses whether the array of recovery measures proposed are sufficiently robust and varied in their nature to withstand a wide range of shocks.

The Recovery Plan is built upon CEB's business-as-usual ("BAU") operations which facilitate the proactive identification, monitoring, management and mitigation of the risk of near-default stress scenarios. These BAU activities are embedded within the Bank's risk management and internal control framework which aims to protect and strengthen CEB's foundation of capital and liquidity through escalating periods of stress.

5. Internal Audit

Internal Audit function provides assurance that the Risk Appetite Policy is duly complied with.

The risk appetite is translated into policies and procedures which establish the rules and guidelines that ensure limits and thresholds are adhered to during the day-to-day activities of the Bank. The Supervisory Board sub-committees (e.g. Audit & Risk Committee, Compliance Oversight Committee) and the Managing Board sub-committees (e.g. Asset-Liability Committee (ALCO), Compliance Management Committee, Non-Financial Risk Committee, Financial Risk Committee, IT Steering Committee, Corporate Credit Committee, FI Credit Committee), in collaboration with the relevant functions, set the risk tolerance levels and corresponding risk limits and threshold levels, and Key Risk Indicators (KRIs) for monitoring adherence to the approved risk appetite. The KRIs serve as early warning signals of increasing risk exposure and are an integral part of CEB's operating processes and existing risk management and internal control framework; they provide an indication that a risk limits or threshold level could be breached, prompting appropriate action such that the Bank's risk tolerance levels are maintained.

The main objectives of determining the risk appetite are to:

- Increase the transparency and accountability of the Bank's current and future risk profile;
- Improve decision-making on risk mitigation (i.e. accepting, reducing, avoiding or transferring risk) and performance management (i.e. risk versus return);
- Strengthen risk awareness and promote an adequate risk culture.

6. Compliance

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

7. Differences between accounting and regulatory scopes of consolidation and mapping of financial statements categories with regulatory risk categories

The scope of application of the Pillar III requirements is done on the Credit Europe bank consolidated level. The information disclosed in this document is not subject to an external audit, but is verified and approved internally within CEB. Differences can be found between the figures presented in this report and the figures in the Annual Report. This is mainly due to the fact that the figures in this report, unless otherwise stated, refer to the risk exposure under regulatory consolidation scopes and whereas the figures presented in the annual report are in line with the accounting framework.

Template 1 - EU LI1: Differences between accounting and regulatory Scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				Not subject to capital requirements or subject to deduction from capital
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	
Assets							
Cash and balances at central banks	651,773	651,773	651,773				
Items in the course of collection from other banks							
Trading portfolio assets							
Financial assets designated at fair value	87,728	87,728				87,728	
Derivative financial instruments	189,861	189,861		189,861			
Loans and advances to banks	431,978	431,978	431,978				
Loans and advances to customers	2,699,156	2,699,156	2,696,075	3,081			
Reverse repurchase agreements and other similar secured lending	-	-	-				
Available for sale financial investments	692,049	692,049	692,049				
Others	330,608	330,608	298,102				32,505
Total Assets	5,083,153	5,083,153	4,769,977	192,942		87,728	32,505
Liabilities							
Deposits from banks	416,497	416,497					416,497
Items in the course of collection due to other banks							
Customer accounts	3,649,762	3,649,762					3,649,762
Repurchase agreements and other similar secured borrowings							
Trading portfolio liabilities							
Financial liabilities designated at fair value	-	-					-
Derivative financial instruments	182,696	182,696		182,696			-
Others	250,113	250,113					250,113
Total Liabilities	4,499,068	4,499,068	-	182,696		-	4,316,372

The difference between accounting and regulatory scopes were caused by insurance entities consolidated under CEB RU in prior year. There is no accounting vs regulatory consolidation scope after CEB RU spin-off in 2018

Template 2 - EU LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

	Total	Items subject to			
		Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
Asset carrying value amount under scope of regulatory c	5,050,647	4,769,977		192,942	87,728
Liabilities carrying value amount under regulatory scope of consolidation	182,696			182,696	
Total net amount under regulatory scope of consolidation	4,867,951	4,769,977	-	10,246	87,728
Off Balance sheet amounts*	690,214	158,706			
Differences in valuations	156,217			166,679	(10,462)
Differences due to different netting rules, other than those already included in row 2	(178,599)	(65,545)		(104,234)	
Differences due to consideration of provisions	-				
Differences due to prudential filters	32,505	32,505			
Exposure amounts considered for regulatory purposes	5,568,289	4,895,644	-	72,690	77,266

* Off-balance sheet amounts in the first column are original exposures, prior to the use of credit conversion factors. Exposures reported in second column onwards are after application of the credit conversion factors (CCFs)

8. Capital structure

The bank's total own funds consist of Core Tier I capital (also named as Common Equity Tier I, CET 1), Additional Tier I capital (AT 1) and Tier II capital. CEB ensures that it holds enough capital to cover its material risks. The nature and quality of the capital which can be included into total own funds for the purposes of capital requirement calculation is subject to regulatory restrictions set out by CRD and the Dutch Central Bank. The table below presents information on the components of regulatory capital.

	Dec-18	Dec-17
Total Equity(FINREP)	584,084	889,598
Current year profit (1)	-	(14,994)
Eligible Current year profit after approval		-
Non-eligible minority interest (2)	(2,582)	(1,148)
Deductions from revaluation Reserve - AFS		2,461
Prudential filters		
Cash flow hedge reserve	(0)	111
Prudent valuation	(948)	(877)
Intangible asset (2)	(7,502)	(10,552)
Deferred tax assets rely on future profitability and do not arise from temporary differences (2)	(25,003)	(16,076)
Transitional adjustments to CET1 Capital (2)	-	(1,969)
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	48	(75)
- transitional adjustments to IFRs 9 provisions (3)	34,676	
Core Tier I	582,774	846,479
Additional Tier I	43,826	41,831
Transitional adjustments to AT1 Capital (2)		(1,530)
Tier I	626,600	886,780
Subordinated Liabilities	131,050	125,073
Tier II	131,050	125,073
Total Regulatory Capital	757,650	1,011,853

Core Tier I (CET1) capital of CEB includes total equity subtracts regulatory adjustments.

- (1) Current year profit is excluded from total own funds based on article 26, point 2 of CRR IV
Current year loss should be included in CET1 capital. In 2018, CEB carried loss due to CEB RU spin-off.
- (2) Transitional adjustments listed under CRD IV frame have been fully phased in by 31 December 2018
 - Non-eligible minority interest
 - Revaluation reserve
 - Other intangible asset (Non-solvency deductible under Basel II framework)
 - Deferred tax assets that rely on future profitability and do not arise from temporary differences
- (3) IFRs 9 transitional arrangement permits to add 95% additional IFRs9 provisions back to total own funds

Tier II capital of CEB comprises of subordinated liabilities which is assessed by DNB and approved as CRR compliant. For more details of subordinated liabilities, please see note 20, Subordinated liabilities of CEB’s Financial Statements as of 31 December 2018.

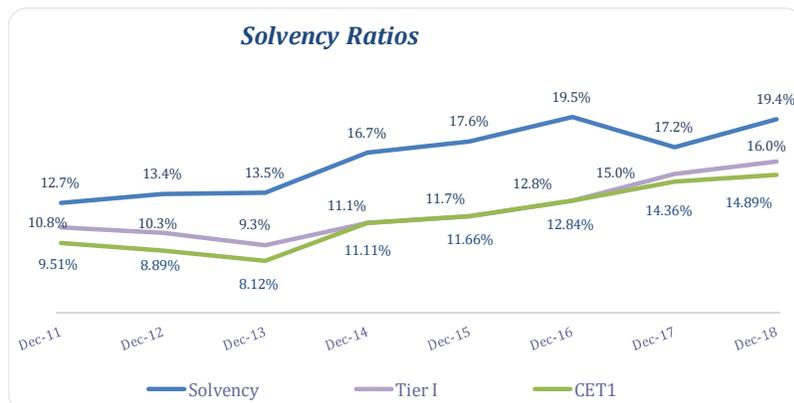
Key changes and drivers: The Own Funds have decreased by 25% due to CEB RU spin-off.

9. Regulatory Capital and Leverage Ratios

The table below summarizes our regulatory capital ratios. Total of Tier 1 and Tier 2 capital should correspond to at least 8% of the Bank’s risk weighted assets, of which Tier 1 capital must constitute at least 6%. The Credit Europe Bank follows the Standardized approach for credit risk calculation as defined by the CRR Title II.

Capital Ratio	Dec-18	Dec-17
Core Tier 1 (CT1) Ratio	14.89%	14.36%
Tier 1 ratio	16.01%	15.04%
Total Capital Ratio	19.35%	17.16%
Leverage Ratio	12.28%	11.87%

The historical evolution of the capital ratios is graphed below:



10. Risk-Weighted Assets

For calculating its minimum capital requirements, CEB applies the following methodology as laid down in CRD IV.

Credit Risk	Standardized Approach
Market Risk	Standardized Approach
Operational Risk	Standardized Approach
Counterparty Credit Risk	Mark-to-market Exposure
CVA	Standardized Approach

The table below presents a summary of the components of RWAs calculated in accordance with the CRR.

Template 3 - EU OV1: Overview of RWAs

Value-at-risk figures - Trading Book (2018)	Total	Diversification effect	Interest-rate risk	Foreign-exchange risk
Average	111	96%	42	73
Maximum	459	100%	455	262
Minimum	14	61%	0	14
Period-end	262	100%	0	262

Value-at-risk figures - Trading Book (2017)	Total	Diversification effect	Interest-rate risk	Foreign-exchange risk
Average	449	80%	378	147
Maximum	2,134	97%	2,188	260
Minimum	80	54%	8	8
Period-end	88	72%	35	87

Key changes and drivers: The significant decrease of credit risk RWA was mainly due to CEB RU spin-off.

11. Credit Risk

11.1 General information

Credit risk arises from the possibility of losses stemming from the failure of customers or counterparties to meet their financial obligations with Credit Europe Bank. The Bank undertakes credit risk by offering loans, guarantees and other credit products. Credit risk is the primary risk factor in the Bank's operations and taking on credit risk is a core activity of the Bank. The Bank has policies and procedures for accepting, measuring and managing credit risk. The objective of credit risk management is to achieve an appropriate balance between risk and return and to minimise potential adverse effects of credit risk on the Bank's financial performance.

The points below define the general approach towards credit risk at Credit Europe Bank:

- Group level policies and procedures to identify, measure, monitor, control and report material risks in all countries.
- Establishment of effective and efficient internal control mechanisms to ensure the integrity of credit processes.
- Group level Credit Risk Management function covers: Sovereign/Counterparty/Treasury/Corporate-Commercial/Retail and SMEs.
- Control and setting of local Credit Limit powers in all subsidiaries.
- Application of consistent Internal Credit Risk Rating Models in all subsidiaries.

- Establishment and maintenance of a sound internal rating system supported with an adequate number of rating models and processes to ensure its robustness across all lending types.
- Building a regular cycle of rating models validation that includes monitoring of model performance and stability; and model improvement where necessary.
- Stress testing of loan portfolios under alternative scenarios.
- Standardization of all product and facility definitions at Group level.
- Regulatory and Internal Concentration Limits are set at the Group level: Country / Single Name / Sector.
- CRR, standards and guidelines published by European Banking Authority (EBA) and DNB regulations.

Loans and receivables - customers

The Credit Exposure Classification and Treatment Policies for corporate as well as retail clients define the minimum standards for, and establish a single view, on identification and treatment of non-performing corporate credit exposures in Credit Europe Bank N.V. and all of its subsidiaries.

The policies also set minimum standards and explain the processes to be followed for the identification and treatment of obligors whose creditworthiness and repayment capacity of their performing exposures may potentially deteriorate or have already deteriorated, even though their credit exposures are still performing.

CEB differentiates between the following categories of assets in the loan portfolio:

- **Fully performing:** Fully performing exposures are defined as credit exposures that are not past-due or exposures past-due up to 30 days, provided that there is no significant increase in credit risk since origination. An exposure is past-due when any amount of principal, interest or fee has not been paid at the date it was due.
- **Underperforming:** Underperforming exposures belong to a sub-category of the performing asset class, where the Bank observes a significant increase in credit risk since origination. Underperformance might become evident if an exposure is past-due more than 30 days, subject to forbearance measures, or the assigned PD has increased significantly since the origination of the exposure (applicable for corporate exposures, measured by CEB's internal PD Master Scale).
- **Non-performing:** Non-performing exposures (NPE) are defined as exposures that satisfy either or both of the following criteria:
 1. material exposures which are more than 90 days past-due;
 2. the obligor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past-due.

An exposure is past-due only if there is a legal obligation to make a payment and this payment is compulsory. The counting of days past-due starts as soon as any amount of principal, interest or fee has not been paid to CEB at the date this obligation was due.

To be able to monitor delinquent corporate loans in a more structured way the Bank developed NPL & forbearance screens on solo level and strive to spread the system across subsidiaries.

11.2 General credit risk

Template 4 - EU CRB-B: Total and average net amount of exposures

EU CRB-B: Total and average net amount of exposures		
Dec-18	Net value of exposures at the end of the period ¹	Average Net Exposure over the period ²
Central governments and central banks	960,422	1,245,333
Regional governments or local authorities	88,770	32,691
Public sector entities	-	-
Multiateral development banks	3,475	3,215
International organisations	-	-
Institutions	717,035	584,600
Corporates	2,651,061	3,057,484
<i>of which: SMEs</i>	-	-
Retail	370,843	673,190
<i>of which: SMEs</i>	15,959	30,911
Secured by mortgages on immovable property	146,569	178,709
<i>of which: SMEs</i>	-	-
Exposures in default	225,886	206,772
Items associated with particularly high risk	-	-
Covered bonds	36,647	36,521
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings	-	-
Equity exposures	32,871	28,072
Other exposures	290,072	711,652
Total standardised approach	5,523,650	6,758,238

EU CRB-B: Total and average net amount of exposures		
Dec-17	Net value of exposures at the end of the period ¹	Average Net Exposure over the period ²
Central governments and central banks	1,534,383	1,204,939
Regional governments or local authorities	152,470	267,955
Public sector entities	-	-
Multiateral development banks	3,326	-
International organisations	-	-
Institutions	677,683	717,566
Corporates	3,440,931	3,574,144
<i>of which: SMEs</i>	25,548	23,693
Retail	1,333,101	1,330,065
<i>of which: SMEs</i>	64,862	63,901
Secured by mortgages on immovable property	259,526	362,581
<i>of which: SMEs</i>	-	-
Exposures in default	230,204	249,587
Items associated with particularly high risk	-	-
Covered bonds	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings	-	-
Equity exposures	28,573	56,210
Other exposures	470,755	461,233
Total standardised approach	8,130,952	8,224,279

¹ The net value is corresponding to the accounting value reported in financials according to the scope of regulatory consolidations

² The average of the net exposure values observed at the end of each quarter of the observation period

Key changes and drivers: The decrease in exposure was due mainly to CEB RU spin-off

Template 5 - EU CRB-C: Geographical breakdown of exposures

Dec-18	Russia	Turkey	Romania	Ukraine	Other Emerging Markets	Developed markets	Total exposure
Central governments and central banks	1,563	0	395,940	4,031	4,295	554,592	960,422
Regional governments or local authorities	-	-	-	-	-	88,770	88,770
Multiateral development banks	-	-	-	-	-	3,475	3,475
Institutions	1,487	97,931	6,850	0	115,801	494,966	717,035
Corporates	160,178	626,803	266,782	109,399	202,659	1,285,240	2,651,061
Retail	-	90	345,777	227	6	24,742	370,843
Secured by mortgages on immovable property	6,238	15,737	124,421	-	-	172	146,569
Exposures in default	7,421	57,885	93,225	14,976	7,670	44,709	225,886
Covered bonds	-	-	-	-	-	36,647	36,647
Equity exposures	18,995	-	1,392	-	780	11,704	32,871
Other exposures	-	57,223	85,553	1,998	863	144,435	290,072
Total standardised approach	195,882	855,668	1,319,940	130,632	332,074	2,689,453	5,523,650

Dec-17	Russia	Turkey	Romania	Ukraine	Other Emerging Markets	Developed markets	Total exposure
Central governments and central banks	171,456	0	420,796	7,568	7,108	927,455	1,534,383
Regional governments or local authorities	-	-	-	-	-	152,470	152,470
Multiateral development banks	-	-	-	-	-	3,326	3,326
Institutions	50,968	70,485	5,084	0	117,145	434,001	677,683
Corporates	647,725	1,071,059	274,882	109,679	248,803	1,088,782	3,440,931
Retail	919,708	115	365,025	392	5	47,857	1,333,101
Secured by mortgages on immovable property	40,479	17,492	108,713	-	11	92,831	259,526
Exposures in default	61,515	33,980	122,600	5,020	3,163	3,925	230,204
Covered bonds	-	-	-	-	-	-	-
Equity exposures	13,247	-	119	-	-	15,207	28,573
Other exposures	105,181	50,401	82,564	1,577	504	230,528	470,755
Total standardised approach	2,010,279	1,243,533	1,379,782	124,235	376,739	2,996,383	8,130,952

Key changes and drivers: Russia country risk decreased significantly after CEB RU spin-off and the exposure to Turkey was decreased with a view to decreasing country concentration.

Template 6 - EU CRB- D: Concentration of exposures by industry or counterparty types

Dec-18	Corporates
Oil & derivatives	417,552
Leisure & tourism	301,849
Construction & installation	300,628
Real estate	262,177
Financial services & investments	229,659
Iron & steel	193,862
Shipping & shipyards	193,289
Energy & Coal	162,675
Transportation, logistics & warehousing	116,861
Petrochemical, plasticizers & derivatives	106,677
Holding	93,191
Fertilizers	78,927
Retail	53,445
Textile, clothing and leather	51,913
Soft commodities & agricultural products	49,578
Food, beverage & tobacco	48,076
Paper and Pulp & Forestry	31,037
Automotive & Derivatives	30,027
Machinery-Office & Optical Equipment	28,337
Mining	15,001
Telecommunications	12,328
Building materials	9,497
Private Person	7,422
Technology, IT & Electronic Equipment	2,931
Luxury Goods	1,207
Services	496
Health & Medical Services	-
Media & publishing	-
Other	8,047
Total	2,806,689

Template 7 - EU CRB-E: Residual Maturity of exposures

Dec-18	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
Central governments and central banks	633,208	121,073	97,081	57,089	51,972	960,422
Regional governments or local authorities	-	74,982	9,325	4,463	-	88,770
Multilateral development banks	-	871	2,604	-	-	3,475
Institutions	66,329	500,489	41,536	108,682	-	717,035
Corporates	-	1,519,028	474,636	624,333	33,064	2,651,061
Retail	-	108,960	189,726	72,156	-	370,843
Secured by mortgages on immovable property	-	1,742	8,150	136,677	-	146,569
Exposures in default	-	40,083	68,963	41,705	75,135	225,886
Covered bonds	-	-	-	36,647	-	36,647
Equity exposures	-	-	-	-	32,871	32,871
Other exposures	18,565	-	-	-	271,507	290,072
Total standardised approach	718,102	2,367,228	892,021	1,081,752	464,548	5,523,650

Dec-17	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
Central governments and central banks	767,541	201,308	135,945	400,611	28,978	1,534,383
Regional governments or local authorities	-	152,470	-	-	-	152,470
Multilateral development banks	-	-	3,326	-	-	3,326
Institutions	95,170	450,269	53,759	58,873	19,611	677,683
Corporates	20,771	1,572,609	1,254,593	564,383	28,575	3,440,931
Retail	-	637,676	577,327	117,213	885	1,333,101
Secured by mortgages on immovable property	-	7,450	17,345	234,731	0	259,526
Exposures in default	-	31,809	18,810	55,232	124,353	230,204
Covered bonds	-	-	-	-	-	-
Equity exposures	-	-	-	-	28,573	28,573
Other exposures	61,746	-	-	-	409,009	470,755
Total standardised approach	945,229	3,053,591	2,061,105	1,431,043	639,984	8,130,952

Key changes and drivers: The significant decrease of exposure was mainly due to CEB RU spin-off.

11.3 Credit quality of assets

Template 8 - EU CR1-A: Credit quality of exposures by exposure class and instrument

	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures			
Central governments and central banks		960,422			960,422
Regional governments or local authorities		88,770			88,770
Public sector entities					-
Multiateral development banks		3,475			3,475
International organisations					-
Institutions	925	717,672	(924.75)	(637.33)	717,035
Corporates	206,475	2,693,689	(50,847.13)	(42,628.25)	2,806,689
<i>of which: SMEs</i>	-	-			-
Retail	86,494	378,777	(69,840.72)	(7,934.51)	387,496
<i>of which: SMEs</i>	3,984	16,011	(677.28)	(51.32)	19,266
Secured by mortgages on immovable property	55,253	146,951	(1,647.71)	(382.90)	200,174
<i>of which: SMEs</i>		-			-
Exposures in default					-
Items associated with particularly high risk					-
Covered bonds		36,647			36,647
Claims on institutions and corporates with a short-term credit assessment					-
Collective investments undertakings					-
Equity exposures		32,871			32,871
Other exposures		290,072			290,072
Total	349,146	5,349,347	(123,260)	(51,583)	5,523,650
Of which: Loans		3,131,134			
Of which: Debt securities		692,049			
Of which: Off-balance-sheet exposures	3,569	686,878	(233)		690,214

Template 9 - EU CR1-B: Credit quality of exposures by industry or counterparty types

Gross carrying values of				
Non-defaulted exposures	Defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Net values
11,046	413,034	(6,405)	(123)	417,552
16,572	302,421	(543)	(16,601)	301,849
12,053	300,131	(6,161)	(5,395)	300,628
35,622	233,859	(1,307)	(5,997)	262,177
17	231,512	(17)	(1,854)	229,659
3,850	190,498	(29)	(456)	193,862
67,590	152,314	(25,072)	(1,542)	193,289
3,393	161,057	(1,385)	(389)	162,675
8,048	112,594	(2,740)	(1,041)	116,861
4,925	102,094	(272)	(69)	106,677
-	93,501	-	(310)	93,191
-	79,076	-	(149)	78,927
10,961	47,902	(5,264)	(154)	53,445
699	58,941	(194)	(7,533)	51,913
333	49,533	-	(289)	49,578
13,909	34,363	(195)	(1)	48,076
50	31,138	-	(150)	31,037
4,796	25,864	(362)	(270)	30,027
1,516	27,653	(830)	(1)	28,337
-	15,001	-	-	15,001
72	12,519	(70)	(194)	12,328
-	9,603	-	(106)	9,497
7,421	1	-	-	7,422
-	2,931	-	-	2,931
1,207	-	-	-	1,207
465	32	-	-	496
-	-	-	-	-
-	-	-	-	-
1,933	6,119	-	(5)	8,047
206,475	2,693,689	(50,847)	(42,628)	2,806,689

Template 10 - EU CR1-C: Credit quality of exposures by geography

Gross carrying values of					
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Net values
Russia	7,421	190,596	-	(2,135)	195,882
Turkey	76,273	832,053	(18,388)	(34,270)	855,668
Romania	167,829	1,235,962	(74,605)	(9,246)	1,319,940
Ukraine	16,673	116,167	(1,696)	(511)	130,632
Other Emerging Markets	8,256	326,139	(585)	(1,735)	332,074
Developed markets	72,696	2,648,430	(27,986)	(3,686)	2,689,453
Total	349,146	5,349,347	(123,260)	(51,583)	5,523,650

11.4 Impairment allowances

The Bank aims to maintain sufficient reserves to cover its incurred losses. According to its policy, the Bank differentiates between:

- Provisions for individually assessed assets
- Provisions for collectively assessed assets

11.4.1 Individual Assessment

If there is objective evidence that a financial asset is impaired, then the Bank determines whether any specific provision is required.

11.4.2 Collective Assessment

Every obligor that is not individually assessed for impairment is subject to the collective provisioning regardless of its exposure amount. The provision is calculated using Probability of Default (PD), Loss given Default (LGD), and Exposure at Default (EAD).

- The Bank's PDs are derived from internal ratings as presented in the internal PD master scale.
- All subsidiaries are responsible for determining their own LGD estimation methodology. In case the LGD estimation is not available due to limited number of completed work-out cases, regulatory LGD values are used.
- For cash exposures, the EAD is defined as the on-balance sheet amount - carried at amortized cost. For non-cash exposures, the EAD is the exposure converted into cash by using the regulatory Credit Conversion Factor (CCF).

The tables below present the Bank's portfolio of loans and advances to customers, broken down by delinquency bucket:

Template 11 - EU CR1-D: Ageing of default exposures

Dec-18							
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year	Total
Loans			29,292	52,411	8,120	136,063	225,886
Debt securities							
Total exposures	-	-	29,292	52,411	8,120	136,063	225,886

Dec-17							
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year	Total
Loans			5,853	20,414	29,186	174,750	230,204
Debt securities							
Total exposures	-	-	5,853	20,414	29,186	174,750	230,204

Template 12 - EU CR1-E: Non-performing and forborne exposures

Dec-18	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing			On performing exposures	On non-performing exposures	On non-performing exposures	Of which forborne	On non-performing exposures	Of which forborne exposures	
				Of which defaulted	Of which impaired	Of which forborne							
Debt securities													
Loans and advances	385,840	222,569	38,981	163,271	163,271	163,271	55,297	(23,500)	(23,500)	(42,809)	(42,809)	275,689	
Off-balance-sheet exposures													
Total	385,840	222,569	38,981	163,271	163,271	163,271	55,297	(23,500)	(23,500)	(42,809)	(42,809)	275,689	

Dec-17	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing			On performing exposures	On non-performing exposures	On non-performing exposures	Of which forborne	On non-performing exposures	Of which forborne exposures	
				Of which defaulted	Of which impaired	Of which forborne							
Debt securities													
Loans and advances	417,701	249,691	61,695	168,010	168,010	168,010	71,774	(10,975)	(10,975)	(41,276)	(41,276)	277,699	
Off-balance-sheet exposures													
Total	417,701	249,691	61,695	168,010	168,010	168,010	71,774	(10,975)	(10,975)	(41,276)	(41,276)	277,699	

11.5 Credit risk mitigation

It is CEB's policy to ensure that the loan extension process is conducted under strong evidence of a customer's ability to repay the loan. Nevertheless, collaterals are actively used for the purposes of credit-risk mitigation. The Transactions and Collateral Management Department is organized as a separate department for collateral management of all types of lending. Transactional lending especially relies heavily upon collaterals and documentation.

Valuation reports, survey report updates and insurance policies are followed up systematically. Mainly related to trade finance, Collateral Management Agreements and Collateral Monitoring Agreements are also outsourced to expert collateral management agents who have management and reporting capabilities at the site of the collateral. As a principal, the value of the collateral should not have a material positive correlation with the credit quality of the provider for the risk mitigation effect to be considered.

Due to the application of Standardized Approach, not all available collaterals can be considered for solvency testing. Currently CEB applies Financial Collateral Comprehensive Approach to assess the value of collateral for risk mitigation purposes.

For **funded credit protections**, following collaterals are recognized as eligible:

- cash on deposit with, or cash-assimilated instruments held by, a lending credit institution;
- debt securities issued by central governments or central banks which securities have a credit assessment that is associated with credit quality step 4 or above;
- debt securities issued by institutions or other entities which securities have a credit assessment that is associated with credit quality step 3 or above;
- debt securities with a short-term credit assessment that is associated with credit quality step 3 or above;
- equities or convertible bonds that are included in a main index or listed on a recognized stock exchange;
- gold;

To reflect the possible fluctuations in the collateral value CEB applies supervisory haircuts set by the Dutch Central Bank, CEB strictly ensures that there is a proper documentation in place which legally enforces the pledge of the collateral to the exposure. Otherwise the collateral is not accepted for risk mitigation purposes. The main documents ensuring that CEB has the right to liquidate collateral in case the customer does not fulfill its credit obligations are Deed of Pledge and Framework Credit Agreements. The next tables show the carrying amount of collateralized exposure broken down by type of collateral obtained.

Template 13 - EU CR3: CRM techniques – Overview

Dec-18	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans	1,895,242	1,235,892	207,063		15,889		
Debt securities	692,049						
Total Exposures	2,587,291	1,235,892	207,063	-	15,889	-	-

Dec-17	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans	2,713,636	2,325,509	324,438		26,690		
Debt securities	746,853						
Total Exposures	3,460,489	2,325,509	324,438	-	26,690	-	-

Key changes and drivers: The significant decrease of exposure was mainly due to CEB RU spin-off.

Shown below is a general overview of the total RWAs that comprise the denominator of the capital requirements by risk.

Template 14 - EU CR4: Standardised approach – Credit risk exposure and CRM effects

Dec-18	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
Sovereigns and their central banks	1,049,192	-	1,049,192	-	16,532	2%
Non-central government public sector entities						
Multiateral development banks	3,475		3,475		-	
Banks	636,213	117,841	623,039	23,192	298,885	47%
Securities firms						
Corporates	2,270,711	395,570	2,229,260	93,543	2,327,917	103%
Regulatory retail portfolios	206,045	172,456	206,045	35,400	178,234	87%
Secured by residential property	125,515.39	779	125,515	156	43,985	35%
Secured by commercial real estate	20,633.55	-	20,634	-	10,317	50%
Equity	32,871	-	32,871	-	43,559	133%
Past-due loans	233,563	3,569	227,274	1,784	285,320	122%
Higer-risk categories						
Other assets	290,072	-	290,072	-	246,806	85%
Total	4,868,291	690,214	4,807,377	154,075	3,451,555	

Dec-17	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
Sovereigns and their central banks	1,686,853	-	1,686,853	-	222,865	13%
Non-central government public sector entities						
Multiateral development banks						
Banks	525,352	152,331	504,592	24,457	238,452	45%
Securities firms						
Corporates	2,942,345	498,586	2,904,649	99,916	3,047,929	104%
Regulatory retail portfolios	929,495	403,607	929,495	80,112	753,751	81%
Secured by residential property	144,076.02	81	144,076	16	50,432	35%
Secured by commercial real estate	115,369.32	-	115,369	-	57,685	50%
Equity	28,573	-	28,573	-	47,438	166%
Past-due loans	226,623	3,580	220,087	1,790	264,540	117%
Higer-risk categories						
Other assets	470,755	-	470,755	-	379,542	81%
Total	7,069,442	1,058,184	7,004,449	206,291	5,062,633	

Key changes and drivers: The significant decrease of exposure was mainly due to CEB RU spin-off.

Template 15 - EU CR5-Standardised approach – exposures by asset classes and risk weights

Dec-18											
Risk Weight	0%	2%	10%	20%	35%	50%	75%	100%	150%	250%	Total
Sovereigns and their central banks	945,769		95,214			2,396		5,812	-	-	1,049,192
Non-central government public sector entities (PSEs)											-
Multilateral development banks (MDBs)	3,475										3,475
Banks	-	2,998	36,647	302,173		245,575		56,669	36,847		680,907
Securities firms											-
Corporates	-			1,664		28,720		2,313,225	-		2,343,608
Regulatory retail portfolios	-						241,445				241,445
Secured by residential property					125,671						125,671
Secured by commercial real estate						20,633.6					20,634
Equity								25,745		7,126	32,871
Past-due loans								128,980	104,226		233,207
Higher-risk categories											-
Other assets	43,266							246,806			290,072
Total	992,511	2,998	131,861	303,837	125,671	297,324	241,445	2,777,237	141,073	7,126	5,021,082

Dec-17											
Risk Weight	0%	2%	10%	20%	35%	50%	75%	100%	150%	250%	Total
Sovereigns and their central banks	1,487,311					4,175		178,427	-	16,940	1,686,853
Non-central government public sector entities (PSEs)											-
Multilateral development banks (MDBs)	3,326										3,326
Banks	-	6,547		348,322		146,231		88,037	5,002		594,140
Securities firms											-
Corporates	-			28,351		-		3,002,489	26,513		3,057,353
Regulatory retail portfolios	-						1,009,607				1,009,607
Secured by residential property					144,092						144,092
Secured by commercial real estate						115,369.3					115,369
Equity								15,996		12,577	28,573
Past-due loans								136,553	85,325		221,878
Higher-risk categories											-
Other assets	91,214							379,542			470,755
Total	#####	6,547	-	376,673	144,092	265,775	#####	3,801,044	116,840	29,517	7,331,947

Key changes and drivers: The significant decrease of exposure was mainly due to CEB RU spin-off.

11.6 Counterparty credit risk

Counterparty credit risk (CCR) is part of CEB's overall credit risk framework, which deals with the determination of the exposure value for a position arising from a financial derivative or a securities financing transaction.

For the purpose of regulatory capital calculation and reporting, CEB currently employs the Mark to Market (MTM) method (also known as current exposure method –CEM) among the alternative methods prescribed by the Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR). Under the Mark to Market Method, the aggregation of MTM (mark to market) and PFE (potential future exposure) forms the exposure at default (EAD), where MTM is defined as the current replacement cost and PFE is determined as a percentage of the notional value of the contract.

To assign credit limits for counterparty credit exposures for its internal limit management, CEB has adopted an internal modelling method. The aim is to better capture the risk characteristics of the underlying instruments of the OTC derivatives and be able to effectively monitor the positive fair value of the contracts, netted current credit exposure and the collateral held.

CCR exposure or exposure at default (EAD) is measured at the level of the netted exposures. The internal model for measuring counterparty credit exposure takes into account the distributions for changes in the market value attributable

to changes in market variables, such as interest rates, foreign exchange rates, etc. The model then computes the firm's CCR exposure for the netting set at each future date given the changes in the market variables. The tail risk is calculated by Monte Carlo simulation for all currency pairs in both directions, therefore the calculated PFE percentages take into account the general wrong way risk due to changes in market variables.

For calculation of the PFE, if ISDA contract with the counterparty exists, multiple transactions netting is performed; i.e. netting and unwinding of the product notional with the same currency and maturity. Cross-product netting is not allowed while calculating PFE. If ISDA does not exist, no netting and unwinding is allowed. PFE is always positive by definition. If the Counterparty has CSA; PFE will be calculated over a horizon of 2 weeks if the maturity exceeds 2 weeks. For the calculation of MTM, if ISDA contract with the counterparty does not exist, netting or unwinding is not allowed. That is, only the positive MTM's will be taken into account; i.e. where the counterparty is in loss. If there is an available ISDA agreement, the system will assume full close-out netting and net all MTM's across all OTC derivatives for the same counterparty. CEB does not enter into netting agreements that require additional collateral due to an own rating downgrade.

Template 16 - EU CCR1: Analysis of CCR exposure by approach

Dec-18	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
Current Exposure Method SA-CCR (for derivatives)	75,511	43,199			58,407	36,780
Internal Model Method (for derivatives and SFTs)						
Simple Approach for credit risk mitigation (for SFTs)						
Comprehensive Approach for credit risk mitigation (for SFTs)					1,223	245
VaR for SFTs						
Total	75,511	43,199	-		59,630	37,024

Dec-17	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
Current Exposure Method SA-CCR (for derivatives)	78,657	100,974			-	73,114
Internal Model Method (for derivatives and SFTs)						
Simple Approach for credit risk mitigation (for SFTs)						
Comprehensive Approach for credit risk mitigation (for SFTs)					0	-
VaR for SFTs						
Total	78,657	100,974	-		-	73,114

11.7 CVA capital charge

The valuation of financial OTC trades carried out by Credit Europe as part of its trading activities includes credit value adjustments (CVAs). CVA is an adjustment of the trading portfolio valuation to take into account the counterparty credit risk. CVA is the fair value of any expected loss arising from counterparty exposure based on the potential positive value of the portfolio, the counterparty default probability and the estimated recovery rate at default.

The following table shows the value adjustment for counterparty credit risk (Credit Value Adjustment or CVA):

Template 17 - EU CCR2: CVA capital charge

Dec-18	EAD post-CRM	RWA
Total portfolios subject to the Advanced CVA capital charge		
(i) VaR component (including the 3 * multiplier)		
(ii) stressed VaR component (including the 3 * multiplier)		
All portfolios subject to the Standardised CVA capital charge	33,453	13,061
Total subject to the CVA capital charge	33,453	13,061

Dec-17	EAD post-CRM	RWA
Total portfolios subject to the Advanced CVA capital charge		
(i) VaR component (including the 3 * multiplier)		
(ii) stressed VaR component (including the 3 * multiplier)		
All portfolios subject to the Standardised CVA capital charge	65,510	32,997
Total subject to the CVA capital charge	65,510	32,997

12. Market Risk

Market risk is the risk that CEB's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates.

CEB draws the regulatory boundary between the 'Trading Book' and the 'Banking Book (i.e. the non-trading book)' in line with the Trading Book definition provided in Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR), Article 4 (85) and (86). In this respect, CEB classifies all positions in financial instruments held with trading intent, or in order to hedge those trading positions in its 'Trading book'. CEB has established portfolio-level limit structure per the trading book and the banking book. For the trading book, nominal limits, PV01 Limit, FX limits, equity trading limits, Value at Risk limits, CDS trading limits and holding period limit are in place; and for the banking book, nominal limits, PV01 Limit, modified duration limit and FX limits are in place. Any breach of the mentioned limits is clearly marked and demonstrated in Risk Management's 'Market Risk Report'. The circulation of this report triggers the escalation process, since the CRO and the division directors of Treasury and Risk Management are among the recipient list. Treasury is expected to provide explanation and the reasoning of the limit breach and in certain cases the time required to eliminate the limit breach.

Certain type of limit breaches are instantly directed to ALCO level, such as the exceedance of nominal limits (i.e. bonds or FX). For other type of limit breaches, particularly "sensitivity-based" metrics such as PV01 or VaR limits, CRO has the authority to grant a grace period (max 1 week) to Treasury to correct the limit breach. In case the issue is not resolved within the grace period, the limit breach is directly escalated to ALCO.

CEB's market risk policy is subject to the approval of CEB's Managing Board and reviewed annually by Risk Management Division. CEB's Audit & Risk Committee is informed about the level of limits and utilization at least on a quarterly basis. The ALCO determines the main pillars of CEB's trading book and banking book management and monitors compliance with the market risk policy, it bears the responsibility to monitor and control the composition,

characteristics and diversification of the Bank's regulatory books in line with the overall strategic objectives, and it monitors the current limit utilization and compliance with the limits. The Risk Management Division establishes and maintains systems and controls to manage the risks associated with the regulatory books, it ensures that all entry requirements for either of the regulatory books are satisfied, it monitors all the limits defined in this policy are complied with, and it builds and maintains efficient and accurate risk measurement systems for daily risk monitoring and ICAAP purposes. Treasury Department follows the principles laid down in this policy during the assignment of financial instruments to regulatory books and in coordination with Risk Management, it ensures that all trading and banking book positions are within the limits.

Market risk is split into two parts: market risk linked to trading activities and corresponding to trading instruments and derivative contracts; market risk linked to banking activities covering the interest rate and foreign exchange risks originating from the bank's intermediation activities.

12.1 Market Risk Capital Component

From a regulatory perspective, market risk stems from all the positions included in banks' trading book as well as from commodity and foreign exchange risk positions in the whole balance sheet. The standardised approach is used to calculate capital requirements for market risk as shown below.

Template 18 - EU MR1 – Market risk under the standardized approach

Dec-18	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)	53,751,164	4,300,093
Equity risk (general and specific)	-	-
Foreign exchange risk	23,513,383	1,881,071
Commodity risk		
Options		
Simplified approach		
Delta-plus method	1,574	126
Scenario approach		
Securitisation (specific risk)		
Total	77,266,121	6,181,290

Dec-17	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)	29,918,260	2,393,461
Equity risk (general and specific)	4,932,586	394,607
Foreign exchange risk	59,640,898	4,771,272
Commodity risk		
Options		
Simplified approach		
Delta-plus method	23,567	1,885
Scenario approach		
Securitisation (specific risk)		
Total	94,515,311	7,561,225

12.2 Market Risk – Internal Models (VaR)

CEB also measures the market risk of its trading book and the foreign-exchange risk of its banking book using an internal model, based on VaR methodology. VaR defines the maximum loss not exceeded by a given probability over a given period of time under normal market conditions. However, this approach fails to capture exceptional losses under extreme market conditions; that is why market risk measurement is complemented by periodic stress-testing analyses.

The internal historical simulation method of VaR model is used for risk-monitoring purposes whereas regulatory capital for market risk is calculated and reported quarterly according to the Standard Approach, as specified in the DNB's market risk regulations.

The internal historical simulation method is used starting from January 2013. The last 250 historical daily returns of market risk factors are used to stress the current trading positions to estimate possible fluctuations caused by market movements while keeping the portfolio fixed.

The internal limit for the 10-day trading portfolio, with VaR at 99% - confidence interval, is EUR 8 million (2017: EUR 8 million). This implies that diversified VaR from foreign-exchange risk and interest-rate risk in the trading book should not exceed this level.

Other market risks, such as liquidity, re-pricing and interest-rate risk, on the banking book are measured and monitored through sensitivity and gap analyses, detailed in subsequent sections.

Value-at-risk figures - Trading Book (2018)	Total	Diversification effect	Interest-rate risk	Foreign-exchange risk
Average	111	96%	42	73
Maximum	459	100%	455	262
Minimum	14	61%	0	14
Period-end	262	100%	0	262

Value-at-risk figures - Trading Book (2017)	Total	Diversification effect	Interest-rate risk	Foreign-exchange risk
Average	449	80%	378	147
Maximum	2,134	97%	2,188	260
Minimum	80	54%	8	8
Period-end	88	72%	35	87

12.3 Interest-rate risk in the banking book

One of the Bank's major risks under Pillar II is the interest-rate risk on the banking book. The Bank defines interest-rate risk as the current or prospective risk to earnings and capital arising from adverse movements in interest rates. The trading book is also subject to interest-rate risk, but this type of risk is dealt with under the Market Risk: Value-at-Risk section. The Bank has a 'minor', risk tolerance towards interest-rate risk in its banking book.

The Bank's interest-rate risk is monitored for the banking book by means of static re-pricing gap and interest rate sensitivity analyses once a month at all levels and for each major currency in use. Interest-rate sensitivity in the banking book is calculated according to the economic-value approach. All future cash flows, arising solely from on- and off-balance sheet assets and liabilities are discounted back to their present values with zero-coupon yield curves to see the impact of interest rate changes on the economic value of the Bank. The impact of the curve with the maximum net gain or loss compared to a benchmark curve is analysed.

Interest-rate sensitivity in the banking book is measured by means of PV01 method. The PV01 method is based on flat upward shifts of each currency's yield curve in magnitudes of one basis point. The economic value impact of these shifts on the banking book is then analysed. PV01 analysis is complemented with 200 basis-points (bps) scenarios, which consist of the parallel shifts of the yield curves by shifting short-term rates and long-term rates for each individual currency. The interest rate risk on the banking book, excluding the trading book has been calculated as EUR 17.6 million for 2018 with 200 basis point upward parallel rate shock (2017: EUR 11.2 million).

The impact of the curve with the maximal net gain or loss compared to a benchmark curve is then analyzed. Determination of economic internal capital to be set aside to cover potential interest-rate risk in the banking book is based on a Historical Simulation method. Historical economic values of the current banking book are calculated by discounting the re-pricing gaps in each of the major currencies with historical month-end zero-coupon swap curves in pre-defined maturity buckets. Once historical economic values are obtained, an economic value change distribution is created using a rolling window of one year.

The interest rate repricing gap table below is prepared to determine the Bank's exposure to interest rate risk as a result of maturity mismatches in its balance sheet. Repricing is based on remaining days to maturity for fixed rate instruments and next repricing date for floating rate instruments.

13. Operational Risk

The Bank has an Operational Risk Management (ORM) function, the goal of which is to enhance the operational risk culture of the Bank by promoting awareness of the Bank's operational risk management framework and providing oversight of its execution in line with the three lines of defence model.

ORM act as the second line of defence, providing the business line and other functions across the Bank, with support related to the implementation of the identification, assessment, measurement, mitigation, monitoring and reporting of operational risks, which together form a framework for managing the Bank's exposure to operational risk losses.

Operational risk events and significant control incidents are reported and analysed through the Operational Risk Incident Management framework. The effectiveness of the Bank's controls are assessed through the annual Internal Control Framework evaluations and the execution of Risk Control Self-Assessments. New products, or changes to

existing products, are subject to the Product Approval and Review. Key Risk Indicators are established and regularly monitored.

The Bank also has an established operational risk appetite, broken down by both business- and subsidiary-specific thresholds, which is monitored in the quarterly Non-Financial Risk Committee meetings.

Regular training and awareness sessions are provided to employees to ensure that operational risk management continues to be embedded in the Bank's day-to-day operations.

14. Funding and Liquidity Risk

The Bank defines liquidity risk as the current or prospective risk to earnings and capital arising from an institution's inability to meet its liabilities when they come due. CEB considers funding and liquidity as a major source of risk. CEB's minor and very limited tolerance towards liquidity risk is explicitly reflected its stress-testing and funding plan framework.

14.1 Stress-Test Scenarios

The Bank uses stress testing to verify that its liquidity buffer is adequate to withstand severe but plausible funding conditions.

The outcome of the stress testing shows the Bank the level of required liquidity across different time horizons. In this respect, the design and frequency of the stress test scenarios reveal the Bank's risk appetite and preparedness to withstand a liquidity crisis.

The main components of the required liquidity are as follows:

- The duration of the stress-tests.
- Run-off rates on retail and wholesale funding.
- Erosion in the value of liquid assets.
- The liquidity-related consequences of market risks.
- Additional margin calls / collaterals required.
- Restrictions in respect of the availability of assets.

The Bank maintains a buffer of 'readily available liquid assets' to prevent mismatches between the inflow and outflow of the Bank as a consequence of both foreseen and unforeseen circumstances. The definition of this liquidity cushion and the principles regarding its size and composition are directly linked to CEB's 'minor risk appetite':

- The list of eligible liquid assets.
- Liquidity value of liquid assets (i.e. haircuts) and the time-to-liquidity period.
- The treatment of non-marketable assets.
- The assumptions made in respect of the possibilities for rolling over the various funding lines such as wholesale and retail funding.

- The assumptions made in respect of the possibilities for rolling over the maturing assets.
- The use of secured / unsecured central bank facilities.

The Bank ensures that its available liquidity is larger than the required amount implied by its stress scenarios at all times.

14.2 Funding Plan & Strategy

The Bank's key funding principles also form an essential part of its liquidity risk appetite:

- Alignment with the asset profile and asset strategy
- Alignment with the liquidity risk appetite
- Minimizing any funding deficit risk by ensuring granular and stable funding
- Support the Bank's overall objective of achieving an investment grade rating
- Satisfy any minimum requirements from regulatory authorities
- Management of asset encumbrance

15. Remuneration Policy

The remuneration for Board members is in accordance with the Credit Europe Group remuneration policy. The purpose of this Policy is to define general rules and principles for the remuneration of the identified Employees working in the Group and to promote a sound remuneration culture.

The prevailing principles under this Policy are that:

- The remuneration policy has a primarily long-term focus and is in line with CEBNV's risk policy, strategy, goals and values, is not encouraging risk-taking in excess of CEBNV's adopted risk appetite with the solidity of the institution as primary focus and includes rules/measures to avoid conflicts of interest and ensure customer focus;
- The remuneration policy incorporates an internal and external balance of interests, taking into account the expectations of the various stakeholders and social acceptance;
- The amount of remuneration payable to Employees is reasonable in comparison to similar functions within the banking sector – national and international; and
- The Group's (variable) remuneration policy will be consistent with the capital requirements imposed on CEBNV.