CAPITAL ADEQUACY AND

RISK MANAGEMENT REPORT 2018

Pillar 3

June 2019

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1. Introduction

The purpose of this document is to provide relevant information about the capital position and risk profile of Demir-Halk Bank (Nederland) N.V. (hereafter referred to as DHB Bank) in the interest of a greater transparency towards third parties and to ensure compliance with the disclosure requirements established under the European Union's Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD). This disclosure document has been prepared by DHB Bank in accordance with the requirements of Pillar 3 set out in Articles 431-455 of the CRR. The scope of application of the Pillar 3 requirements is confined to DHB Bank and its branches. Unless otherwise stated, all figures are as of the bank's financial year-end, 31 December 2018.

The Pillar 3 disclosures are subject to rigorous internal controls to ensure the correctness of the information and compliance with disclosure requirements.

DHB Bank is a Dutch bank that operates internationally. The shareholders are HCBG Holding B.V., which owns 70% and Türkiye Halk Bankası A.Ş., which owns 30%. It funds its operations to a large extent via retail deposits collected in the Netherlands and Germany while its lending is focused on wholesale placements, mainly in the European Economic Area and Turkey. In conformity with the bank's business model, the primary clients of the bank in the wholesale segment are corporates, and, to a lesser extent, banks, while sovereign exposures account for only a very small portion of the total.

DHB Bank adopted the Standardised Approach for credit risk, market risk and credit valuation adjustment, and the Basic Indicator Approach for operational risk. The disclosures in this document are based on these approaches.

The Bank also publishes additional information in its annual report that can be found on its website: www.dhbbank.com.

2. Background

The Basel Committee on Banking Supervision (BCBS) has published its set of rules on 16 December 2010, referred to as Basel III.

Basel III consists of 3 supplementary Pillars:

- Pillar 1 – Minimum Capital Requirements,
- Pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) and
- Pillar 3 – Public Disclosure, which provides market participants with information on applied rules, own funds, risk analyses and thus the capital adequacy.

The transposition of the Basel III framework into European law was done in two parts: publication of the Capital Requirements Directive IV (CRD IV/Directive 2013/36/EU) and the Capital Requirements

Regulation (CRR/Regulation [EU] Nr. 575/2013). It was published in the Official Journal of the European Union on 27 June 2013. Part 8 of CRR includes additional provisions on regulatory disclosure for credit institutions. The CRR/CRD IV is legally enforced by Dutch law by the Financial Supervision Act (Wft, Wet Financieel Toezicht). Both, Directive and Regulation, are applicable since 1 January 2014.

Developments in disclosure requirements

The BCBS published in December 2018 updated Pillar 3 disclosure requirements. These requirements, together with the updates published in January 2015 and March 2017, complete the Pillar 3 framework.

DHB bank has incorporated the new requirements applicable in the Pillar 3 document. In addition to the changes required under CRD IV, DHB Bank closely monitors the ongoing regulatory developments and assess their impact.

3. Risk and Capital Management

3.1 Risk Governance and Culture

DHB Bank's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of the major risks taken or faced in its business activities. There is a culture of risk awareness and personal responsibility where collaboration, discussion, escalation and sharing of information are essential. DHB Bank's risk governance structure is based on the "Three Lines of Defense" model for managing the risks inherent in its business, with appropriate risk management oversight. DHB Bank is exposed to mainly credit risk in its business activities. Other relatively important risk areas, like in other banks, are liquidity risk, interest rate risk and operational risk.

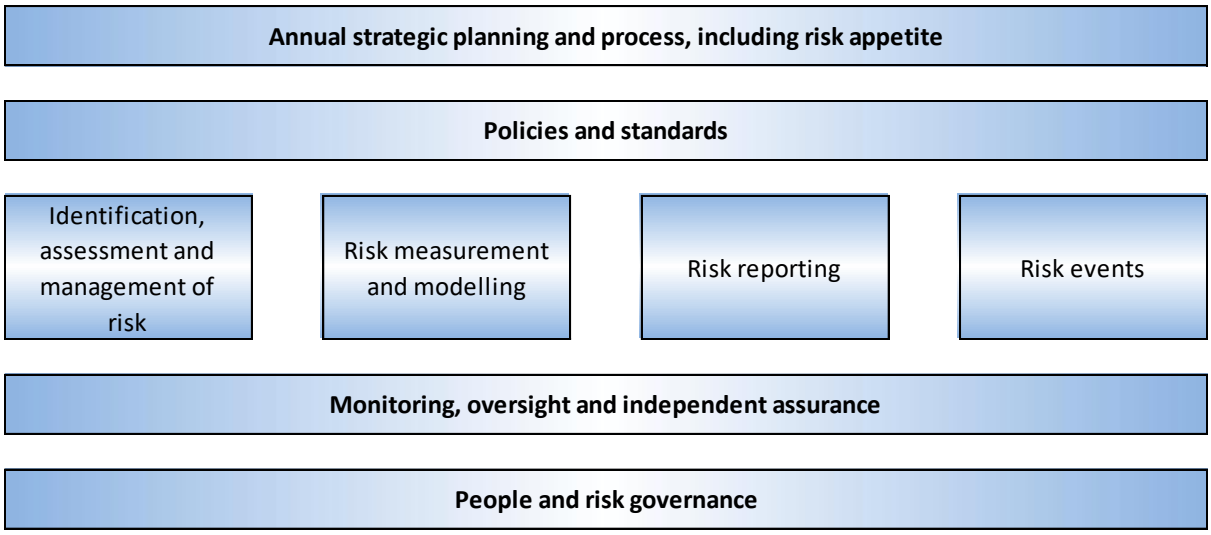
Three Lines of Defense		
First Line	**Second Line**	**Third Line**
Risk Ownership Business and Operation Units	Risk Control Risk and Control Units	Risk Assurance Internal Audit
- Owns the risks - Owns and controls losses / incidents - Manage day to day risks - Execute processes in the risk framework	- Design the framework - Monitor & Control execution - Report on KRIs - Advise and support 1st Line	Review and assurance on - effective design - execution of Control processes

DHB Bank continually strives to further strengthen the bank-wide risk and capital management framework in terms of organisational structure and processes as well as the methods for

identification, assessment, measurement, monitoring and control of risks. Accordingly, the Bank ensures that all risk-related policies are fully communicated and adopted at all levels within the organisation.

The Bank's risk management framework is based on the risk strategy and the risk appetite, which are integrated with the risk organisation, policies and methods. This framework aims to safeguard the Bank's desired risk profile and steer risk management processes in line with the risk appetite of the Bank.

Risk management framework



'Risk Appetite' is defined as the level and types of risk the Bank is willing to undertake within the boundaries of its risk capacity to achieve its strategic objectives. The Supervisory Board formally approves the Bank's Risk Appetite Statement (RAS) proposed by the Managing Board and exercises its oversight of risk management principally through the Board's Risk & Audit Committee (RAC), supported by assessments and reports prepared by the Internal Audit Department (IAD), Risk Management Department (RMD) and Compliance & Legal Department (CLD). RAC is responsible for the oversight of policies and processes by which risk assessment and management are carried out within the Bank's governance structure. RAC also reviews internal control and financial reporting systems that are relied upon to ensure integrated risk measurement and disclosure processes.

Formal risk governance processes have been established in the Bank; the management of risk is guided and monitored by a number of committees. Within the governance structure, Credit Committee (CC), Asset & Liability Management Committee (ALCO) and Organization & Control Committee (OCC) oversee particular risks. Risk Management Committee (RMC) oversees the management and control of the Bank's risks on an aggregate level, in addition to the committees and specialized functions that focus on specific risk areas. RMC also discusses and ultimately endorses the methodology and outcomes of the ICAAP and the ILAAP based on the reports by the Risk Management Department (RMD).

IT related risk factors are controlled and monitored by different departments and committees. The access control to the core banking application resides jointly on System Analysis team and Internal

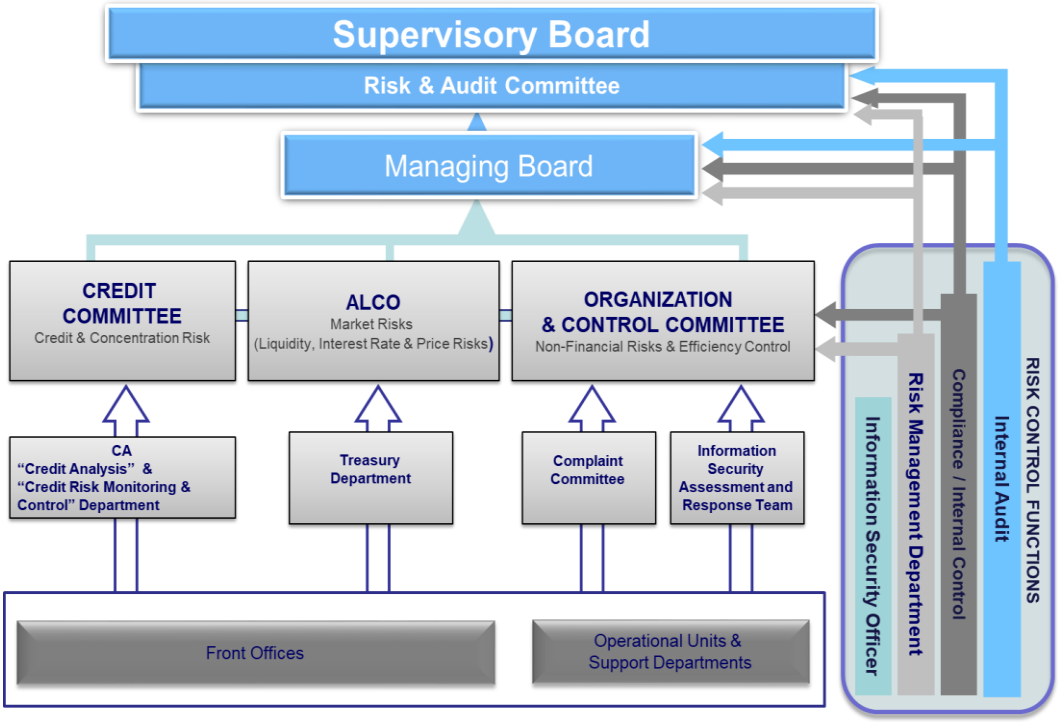
Control Unit, while technical control is exercised by the IT Department. Information security in the broadest sense (including access control, technical control and business continuity policies and activities) is ensured by the Information Security officer (ISO). ISO and IT units are part of the IT & IS Steering Committee, a platform for communication and decision on IT-related procedures and measures.

In the framework of compliance, the AML Officer, besides anti-money laundering measures, is responsible for the incident and the complaint management systems. In addition to the immediate benefits, the ultimate aim for maintaining these systems is gathering sufficient data needed to model operational risks.

Control with respect to the non-financial risks is carried out by the Internal Control Unit (ICU) and the internal and the external auditors. The ICU executes predefined operational controls daily, weekly, monthly or quarterly depending on the risks attributed to the concerned activities. The internal and external auditors also execute their inspections on the risk management systems, policies and practices. Finally the Compliance Officer, who reports directly to the Managing Board, and has a direct communication line to the Chairman of the Risk and Audit Committee and Chairman of the Supervisory Board, is responsible for integrity and compliance in the broadest context.

Assessment in lieu with the adopted risk appetite statement concerning both financial risks and non-financial risks are reported to the RMC. The Managing Board is responsible for reporting to the RAC and the Supervisory Board. With this structure, a consistent segregation of duties is achieved between risk generating, measuring, controlling and reporting units. The independent organisational positions of the IAD and CLD, with a direct information line to the RAC, also ensure an effective control in the respective fields.

The risk governance at DHB Bank is depicted in the following figure;



3.2 Risk Appetite

The risk appetite framework describes the types of risk and their magnitude that the Bank is prepared to take in executing its strategy. Risk appetite is central to an integrated approach to risk controls and capital management. It also supports the bank in achieving its strategic objectives for all stakeholders, including but not limited to shareholders, depositors, customers and employees as well as being a key element of meeting the Bank's obligations under the supervisory review and evaluation process.

The risk appetite is articulated by the Managing Board through a comprehensive set of metrics. Thresholds are established to measure the performance of the business against its risk appetite. The articulation of risk appetite is also linked to the results of a comprehensive risk assessment, which is periodically performed during ICAAP and ILAAP. In addition, the Bank also uses stress testing and scenario analysis to formulate risk appetite, especially in liquidity and capital adequacy management.

The Risk Appetite Statement (RAS) is discussed and re-evaluated annually by the Supervisory Board's Risk & Audit Committee to enable the alignment of the Bank's strategy with the chosen risk appetite. RAS can also be revised during the year whenever there are material changes in the Bank's strategy or business environment.

Periodic risk assessment and reporting of inherent risks in the Bank's activities is part of the risk management framework to allow for an aggregated view of risks. Both qualitative and quantitative targets are actively monitored, managed and mitigated by the Managing Board, Risk Management Committee and Risk & Audit Committee, to ensure that the performance of business activities remains within pre-determined risk tolerance levels. Risk appetite adopted by the Bank is communicated to the assistant general managers, head of departments and country managers. By communicating within the organisation and embedding it in the internal processes, the Bank encourages a more conscious risk taking behaviour and reinforces risk culture within the organisation. A strong and widespread risk culture is in its turn an essential catalyst that elevates a risk appetite statement from a set of words into a statement of action.

3.3 Capital Management Framework

The Bank's risk environment requires continual monitoring and assessment in order to identify and manage complex interactions. The risk governance and ownership, the risk appetite as well as the scope and nature of monitoring and reporting processes that DHB Bank has put in place are aimed at meeting these challenges.

Furthermore, DHB Bank ensures that it has adequate own resources to cover unexpected losses arising from discretionary risks such as credit risk and market risk, or non-discretionary risks, which are risks arising by virtue of its operations, such as operational risk and reputation risk etc. DHB Bank essentially has two approaches for the calculation of its capital need; a regulatory and an internal approach. The regulatory approach is largely based on fixed, uniform rules for covering the Bank's

risks in accordance with the Basel II/III standards. The internal approach sets capital adequacy targets and uses the Bank's risk appetite along with its risk profile and business plans as a basis. Other determining factors are expectations and/or requirements of the stakeholders as well as the position of the bank in its operating markets. As a consequence, the internal approach encompasses the regulatory approach in order to be comprehensive, effective and consistent.

The requirements/expectations of regulators concerning capital adequacy are not only driven by the Basel guidelines for standard Pillar 1 and Pillar 2 risks, but also by a capital add-on requirement introduced in the Netherlands in July 2010 to achieve a certain prudential objective, namely to reduce the banks' credit risk concentration in emerging countries. The Bank manages capital in accordance with prudential rules set out under CRD IV, and relevant rules issued by DNB.

The internal capital management approach is embedded in a formal ICAAP whose regulatory framework is rooted in the CRD IV. It consists of a number of interlinked components that form part of management and decision-making processes such as the Bank's risk appetite, capital and risk management frameworks, and stress testing. Risk management department performs the ICAAP by which the Managing Board examines the bank's risk profile from both regulatory and economic capital viewpoints and ensures that the level of available capital;

i. Exceeds the bank's minimum regulatory capital requirements by a predetermined margin,
ii. Remains sufficient to support the bank's risk profile,
iii. Remains consistent with the bank's strategic goal,
iv. Is sufficient to absorb potential losses under severe stress scenarios.

Although the regulatory approach and constraints have become more dominant as indicated above, the ICAAP retains its relevance as an integral part of risk management since it ensures a coherent link between the bank's risk profile, its risk management and capital adequacy. ICAAP also promotes a continuous monitoring of the risk environment and an integrated evaluation of various risks and their interactions. It represents a bank-wide approach to deal with all material risks and all business activities of DHB Bank.

The process itself starts with risk identification, assessment and measurement, which involves all relevant departments. The definition of risks is largely adopted from Basel Committee on Banking Supervision published documents, European Union regulations and requirements, European Banking Authority technical standards, guidelines and recommendations, and DNB's Financial Institutions Risk Manual (FIRM). The Bank thoroughly explains all related risks, mitigation and control measures along with monitoring and management aspects as an integral part of the ICAAP.

The table below illustrates a summary of the risk appetite and methodologies under the ICAAP framework:

Summary of risk appetite and Pillar 2 capital assignment per risk type for FYE 2018

Risk area	Risk type	Risk appetite*	Regulatory reference, benchmark and method for risk evaluation	Capital requirement calculation approach	
				Pillar 1	Pillar 2
Credit Risk (CR)	Default and rating migration	Medium	Standardized Approach (SA), periodical credit portfolio risk assessment, provisioning and stress testing	✓	
	Underestimation of CR in the SA	Low	Qualitative assessment and adjustment		✓
	Concentration:				
	-Borrower	Medium	Adapted from Bank of Spain Approach		✓
	-Sector	Medium			✓
Country risk		Medium to High	Policy Rule on country concentration		✓
Market Risk (MR)	Trading risk	Low	Standardized Approach, Value-at-risk model (VaR) and Limits	✓	
	FX risk	Low	Standardized Approach, Value-at-risk model (VaR) and Limits	✓	
	Underestimation of MR in the SA	Low			No add-on
Interest Rate Risk in the Banking Book		Low	(Duration) Gap analysis, Earnings-at-Risk and Capital-at-Risk models		✓
Liquidity Risk		Low	Addressed in Internal Liquidity Adequacy Assessment Process (ILAAP)		No add-on
Operational Risk (OR)	IT related risks	Low to Medium	Basic Indicator Approach	✓	
	Non-IT related risks	Low			
	Underestimation of OR under SA	Low	Qualitative review		No add-on
Other Risks	Legal	Low	Qualitative review		No add-on
	Integrity, compliance and reputational risk				
	Business (incl. strategy)	Low	Policy rule on business model		
	Climate Risk	Low	Qualitative review		
	Pension	Low	Qualitative review		
	Model	Low			

** Risk appetite is scaled up here according to: Low, Medium and High. Based on periodical risk assessments, any temporary deviation from the prescribed appetite level is reported, acknowledged and treated by the management under the supervision of the Risk & Audit Committee of the SB.*

The projected capital position is subjected to stress testing to determine the impact on the Bank's position should a severe economic downturn materialise. These stress testing scenarios consider not only changes in the macroeconomic environment but also the key risks and vulnerabilities within the Bank's business model. Stress testing scenarios are developed based on DNB's recommendations and workshops with representation from various business units including the Managing Board. By incorporating appropriate stress testing and capital planning, ICAAP reflects internal measures to ensure that the Bank is adequately capitalised now and in the future. Outcomes of the stress tests are also used as early warning indicators to evaluate the adequacy of the Bank's Recovery Plan. Recovery Plan sets out the possible key measures to be taken by a bank in case of a near-default situation – without assuming the availability of publicly funded (emergency) support – in order to emerge from a severe crisis independently and with its core business intact.

The Bank continually develops its capital management framework by benchmarking its ICAAP and stress testing methodology against recommended good practices. As the regulation and supervision of financial institutions are currently undergoing a period of significant change in response to the global financial crisis and the ensuing financial, market and economic environment, the Bank has dedicated considerable time to monitor policy actions that may influence its capital position and capital management framework. Refinement of the internal methodology has been performed regularly since its first implementation in 2007/2008.

The primary purposes of the Bank's capital management framework, policies and practices are to support its business strategy and to ensure that it is sufficiently capitalised to withstand even severe macroeconomic downturns.

3.4 Capital Base

DHB Bank's capital structure consists entirely of Tier 1 common capital - which includes paid-in capital and reserves.

The total capital base of DHB Bank is Euro 223.2 million at the end of 2018. The components of the capital base are presented in the table below.

Capital items (EUR '000)	2018	2017
Tier 1 capital		
Paid up capital (A)	**113,750**	**113,750**
Reserves (incl. retained earnings)	109,912	111,065
Net income from current year*	-	-
Eligible reserve (B)	**109,912**	**111,065**
Tier 1 capital (A + B, before deductions)	223,662	224,815
Adjustments to CET1 due to prudential filters	- 474	- 545
Total Tier 1 capital	**223,188**	**224,270**
Tier 2 capital	-	-
Capital base (Tier 1 + Tier 2)	**223,188**	**224,270**

**100% of the net profit for the year 2018 and 100% for the year 2017 are distributed as dividend*

3.5 Pillar 1 Risks and Capital Requirements

This section describes DHB Bank's regulatory capital requirements that arise from Pillar 1 risks in the CRD IV, namely credit risk including counter party credit risk, credit valuation adjustment, market and operational risks as of 31 December 2018.

The regulatory minimum capital requirement is expressed as eight percent of risk weighted assets (RWA). To calculate RWA according to the Basel II/III framework, DHB Bank adopted the Standardised Approach (SA) for credit and market risk, and the Basic Indicator Approach for operational risk. The adopted approaches are consistent with the size, complexity and nature of the Bank's activities.

In order to calculate the regulatory capital requirements under the SA, the Bank uses external ratings from eligible external credit assessment institutions (ECAI). These are applied to all relevant exposure classes in the SA. If more than one rating is available for a specific borrower, the selection criteria as set out in the CRR are applied in order to determine the relevant risk weight for the capital calculation.

The following standardised exposure classes apply to DHB Bank;

Sovereigns; Exposures to governments consist of sovereign governments, central monetary institutions and agencies guaranteed by a sovereign government. Sovereign exposures are risk weighted based on their credit ratings. Exposures to central governments within the European Union are assigned a risk weight of 0%, where such claims are denominated and funded in the relevant domestic currency of that sovereign.

Banks; Exposures to banks relate to all claims on financial institutions authorised and supervised by the competent authorities and subject to prudential requirements comparable to those in the European Union. Exposures to a bank are risk weighted based on the ratings assigned to them by eligible rating agencies. Exposures to a bank of up to three months residual maturity for which a credit assessment by eligible rating agencies is available are assigned risk weights that are generally one category more favourable than the standard risk weights applied to banks exposures (see CRR Article 120).

Corporates; Exposures to corporates include exposures to large non-bank corporations as well as to small and medium-sized companies that do not meet the conditions of retail exposure. Exposures to corporates with external credit ratings by eligible rating agencies are assigned a risk weight from 20% to 150%. Exposures without external rating are assigned a risk weight of 100%.

Retail; Exposures are classified as retail exposures upon meeting the conditions stipulated insolvency requirements for credit risk. Retail exposures are assigned a risk weight of 75%.

Exposure secured on real estate property; this exposure class refers to the exposures or any part of an exposure secured by mortgages on residential property. Exposures in this class are assigned a risk weight of 75%.

Exposure in default; this exposure class includes claims which are past due more than 90 days. Shorter past due items are included in the corresponding exposure classes mentioned above. The unsecured part of any past due item is assigned a risk weight of 150% if value adjustment allowances are less than 20%, and 100% if value adjustments allowances are no less than 20% of the unsecured part.

Others; Other items consist of fixed assets, prepayments and other assets for which no counterparty can be determined. Other items are assigned a risk weight of 100%.

An overview of the capital requirements and the RWA at the year-ends of 2018 and 2017 divided into different risk types is presented in the table below.

		2018		2017	
Pillar 1 Risks and Capital Requirement (EUR '000)		**RWA**	**Capital Requirement 8%**	**RWA**	**Capital Requirement 8%**
Credit risk		1,122,088	89,767	1,252,322	100,186
of which:	*Sovereign*	406	33	-	-
	Banks	117,284	9,383	205,873	16,470
	Corporates	982,087	78,567	1,030,896	82,472
	Retail	1,410	113	2,906	232
	Exposure secured on real estate property	3,323	266	1,776	142
	Exposures in Default	7,924	634	1,858	149
	Covered bonds	-	-	-	-
	Others	9,654	772	9,014	721
Market risk		-	-	-	-
Operational risk		76,129	6,090	71,883	5,751
Credit valuation adjustment (CVA)		1,037	83	1,876	150
TOTAL		**1,199,254**	**95,940**	**1,326,082**	**106,087**

3.6 Credit Risk

Credit risk is the largest risk making up more than 93% of the total RWA at 31 December 2018. The information in this section is analysed in several dimensions to give an in-depth view of the distribution of the credit portfolio in different exposure classes, risk weights, geographies and industries.

3.6.1 Overview of credit risk management

DHB Bank manages credit risk in a coordinated manner at all relevant levels within the organisation.

A primary element of the credit approval process is a thorough risk assessment of the credit exposure associated with each obligor. An obligor is defined as a group of individual borrowers that are linked to one another by various criteria, including capital ownership, demonstrable control over business or other indication of group affiliation. The Bank measures and consolidates all claims on the same obligor ("one obligor principle"), requiring the aggregation of all facilities (direct or contingent) to the borrower itself, its subsidiaries, parent and related affiliates.

The creditworthiness of an obligor is represented by an internal rating. While DHB Bank uses the standardised approach for credit risk, internal rating system has been further refined in order to strengthen the Bank's credit risk management system. In addition to the internal rating on obligor, the Bank's risk assessment procedures also take into consideration the risks specific to the type of credit facilities and the applicable risk mitigation factors.

DHB Bank dedicates considerable resources for controlling credit risk effectively. Credit monitoring is carried out through credit reviews on obligor level as well as on portfolio level by the Credit Analysis and Credit Risk Monitoring Control Departments which reports to the Credit Committee on a regular basis.

3.6.2 Credit risk profile

This section presents an overview of DHB Bank's credit risks. All exposures mentioned refer to on- and off balance sheet items after the application of credit conversion factors and the specific provisions.

In the following table, the credit exposures are broken down into risk weights at the end of 2018 and 2017.

	2018		2017	
Credit exposures by risk weights (EUR '000)	**Exposures***	**RWA**	**Exposures***	**RWA**
0%	284,902	-	308,606	-
4%	10,162	406	-	-
20%	129,931	25,986	202,409	40,482
35%	-	-	5,075	1,776
50%	178,323	89,161	210,771	105,385
75%	6,310	4,732	3,874	2,906
100%	999,921	999,762	1,102,418	1,101,773
150%	1,360	2,039	-	-
Other risk weights	-	-	-	-
TOTAL	**1,610,908**	**1,122,088**	**1,833,152**	**1,252,322**

** Credit Exposures in this document refer to on-and off balance sheet items after application of credit conversion factors*

The next tables provide the distribution of DHB Bank's total exposure by remaining maturity at the end of 2018 and 2017 respectively.

Credit Exposures by maturity at 31 December 2018, (EUR '000)	**< 3 months**	**3 - 6 months**	**6 - 12 months**	**1-3 years**	**> 3 years**	**TOTAL**
Sovereign	176,148	-	4,999	37,224	33,870	**252,241**
Banks	40,255	81,958	40,836	45,379	13,151	**221,579**
Corporates	240,334	64,645	150,363	304,047	311,668	**1,071,057**
Retail	1,279	1	8	33	559	**1,880**
Exposure secured on real estate property	-	2	4	91	4,334	**4,430**
Exposures in Default	1,654	-	728	3,484	1,377	**7,244**
Covered bonds	-	-	-	-	-	**-**
Other items	17,412	-	14,457	7,567	13,041	**52,477**
Total Credit Exposures	**477,081**	**146,605**	**211,396**	**397,825**	**378,000**	**1,610,908**

Credit Exposures by maturity at 31 December 2017, (EUR '000)	< 3 months	3 - 6 months	6 - 12 months	1-3 years	> 3 years	TOTAL
Sovereign	219,452	-	20,219	31,315	15,567	**286,553**
Banks	61,522	67,956	128,609	87,096	43,263	**388,446**
Corporates	268,432	71,019	164,226	350,649	261,954	**1,116,280**
Retail	2,017	113	710	149	885	**3,874**
Exposure secured on real estate property	-	12	13	49	5,001	**5,075**
Exposures in Default	172	-	-	-	1,685	**1,858**
Covered bonds	-	-	-	-	-	**-**
Other items	13	-	10,336	-	20,718	**31,067**
Total Credit Exposures	**551,608**	**139,100**	**324,113**	**469,258**	**349,073**	**1,833,152**

The following table breaks down the main exposure categories according to the sectors of DHB Bank's counterparties at end of 2018 and 2017.

Credit Exposures by exposure class and industry, (EUR '000)		2018	2017
Sovereign		252,241	286,553
Banks		221,579	388,446
Corporates		1,071,057	1,116,280
of which:	*A - Agriculture, forestry and fishing*	7,009	*7,010*
	B - Mining and quarrying	27,461	*25,236*
	C - Manufacturing	164,029	*160,917*
	D - Electricity, gas, steam and air conditioning supply	79,440	*84,351*
	E - Water supply	1,310	*2,627*
	F - Construction	90,010	*116,695*
	G - Wholesale and retail trade	68,681	*58,163*
	H - Transport and storage	56,430	*73,243*
	I - Accommodation and food service activities	66,329	*31,173*
	J - Information and communication	13,012	-
	K - Financial and insurance activities	321,266	*359,068*
	L - Real estate activities	83,211	*75,401*
	M - Professional, scientific and technical activities	20,848	*57,493*
	N - Administrative and support service activities	20,375	*19,519*
	O - Public administration and defence, compulsory social security	-	-
	P - Education	-	-
	Q - Human health services and social work activities	14,412	*15,981*
	R - Arts, entertainment and recreation	33,965	*27,928*
	S - Other services	3,270	*1,476*
	T - Activities of households as employers; undifferentiated goods and services-producing activities of households for own use	-	-
	U - Activities of extraterritorial organisations and bodies	-	-
Retail		1,880	3,874
Exposure secured on real estate property		4,430	5,075
Exposures in Default		7,244	1,858
Covered bonds		-	-
Other items		52,477	31,067
Total Credit Exposures		**1,610,908**	**1,833,152**

The tables below show the credit exposures divided into main geographical areas according to the location of the ultimate shareholder at the end of 2018 and 2017 respectively.

Credit exposures by exposure class and geography at 31 December 2018, (EUR '000)	Netherlands	Other Europe	Turkey	Others	TOTAL
Sovereign	165,076	87,165	-	-	252,241
Banks	13,655	103,113	89,209	15,602	221,579
Corporates	158,072	702,557	124,857	85,572	1,071,057
Retail	1,354	526	-	-	1,880
Exposure secured on real estate property	796	3,634	-	-	4,430
Exposures in Default	2,538	1,302	3,405	-	7,244
Covered bonds	-	-	-	-	-
Other items	3,526	10,124	18,879	19,948	52,477
Total Credit Exposures	**345,016**	**908,420**	**236,350**	**121,122**	**1,610,908**

Credit exposures by exposure class and geography at 31 December 2017, (EUR '000)	Netherlands	Other Europe	Turkey	Others	TOTAL
Sovereign	207,574	78,978	-	-	286,553
Banks	51,196	185,051	136,599	15,600	388,446
Corporates	176,483	555,598	286,850	97,349	1,116,280
Retail	2,990	796	89	-	3,874
Exposure secured on real estate property	916	4,159	-	-	5,075
Exposures in Default	540	677	508	132	1,858
Covered bonds	-	-	-	-	-
Other items	2,185	28,882	-	-	31,067
Total Credit Exposures	**441,885**	**854,140**	**424,045**	**113,081**	**1,833,152**

3.6.3 Counterparty Risk and Derivatives

Derivatives are not only affected by the market risk but also by the counterparty risk measured within the calculation of RWA related to the credit risk. DHB Bank uses derivatives to manage interest rate and currency risks on an ongoing basis.

Counterparty risk is the risk that DHB Bank's counterparts in a derivative contract defaults prior to maturity of the contract and that DHB Bank has a claim on the counterpart at that time.

As per end of 2018 and 2017, the main sources of counterparty risk were currency swaps and interest rate swaps.

Derivative Contracts (EUR '000)	2018			2017		
	Exposures*	RWA	Capital requirement	Exposures*	RWA	Capital requirement
Interest rate contracts	2,536	1,366	109	3,593	1,852	148
Foreign exchange contracts	942	291	23	4,648	968	77
Other contract	-	-	-	-	-	-
TOTAL	**3,478**	**1,656**	**133**	**8,241**	**2,820**	**226**

**The exposures represent the credit exposure to derivative transactions after taking account of legally enforceable netting agreements and collateral arrangements*

DHB Bank uses the mark-to-market method to calculate the exposure value according to the credit risk framework in CRR. Counterparty credit exposure comprises the sum of current exposure (replacement cost) and potential future exposure. The potential future exposure is an estimate that reflects possible changes in the market value of the individual contract during the remaining life of the contract, and is measured as the notional principal amount multiplied by a risk weight. The size of the risk weight depends on the contract's remaining lifetime and the underlying asset.

The Bank applies limits to mitigate counterparty risk similar to any other credit risk. In addition, the Bank enters into collateral agreements with all major counterparties.

3.6.4 Credit risk mitigation

DHB Bank uses a variety of instruments to mitigate and reduce credit risk on its lending. The most essential of these is to assess, at the outset, the ability of an obligor to service the proposed level of borrowing without distress. As a result, depending on the customer's standing and the type of product, credit facilities may be granted on an unsecured basis. However, DHB Bank usually obtains collaterals for the loans granted. Collateral is considered as credit risk mitigation even if it does not affect the regulatory capital adequacy calculations for the respective exposure. The internal facility rating assignment process also includes the assessment and valuation of collaterals among other factors.

Besides cash collaterals, to a small extent the Bank also accepts credit protection mainly in the form of mortgages, third party (customer) cheques, promissory notes, assignment of receivables, insurance or bank guarantees. In the cases of insurance and bank guarantee, risk mitigation is effected in the form of substituting the risk of the counterparty with the risk of the provider of credit protection. However, this shift only takes place when the risk weighting of the guarantor is better than that of the obligor and other prudential conditions are met.

The following table gives information on the credit risk mitigation for regulatory capital calculation as per end of 2018 and 2017.

Credit exposures and credit risk mitigation (EUR '000)	2018			2017		
	Credit Exposures	Collateralised	Guaranteed	Credit Exposures	Collateralised	Guaranteed
Sovereign	252,241	-	-	286,553	-	-
Banks	221,579	-	34,009	388,446	-	19,509
Corporates	1,071,057	41,418	129,048	1,116,280	20,964	100,159
Retail	1,880	855	-	3,874	11	-
Exposure secured on real estate property	4,430	-	-	5,075	-	-
Exposures in Default	7,244	-	-	1,858	-	-
Covered bonds	-	-	-	-	-	-
Other items	52,477	-	-	31,067	-	-
TOTAL	**1,610,908**	**42,272**	**163,057**	**1,833,152**	**20,975**	**119,668**

3.6.5 Asset quality

The information presented in this section uses financial statement values and is largely sourced from the 2018 Annual Report of DHB Bank.

An assessment is made at each balance sheet date to test whether there is objective evidence that a specific financial asset or group of financial assets may be impaired ('loss event'). Developments that lead to loss events may include:

- A breach of contract, such as default in the payment of interest or principal;
- Significant financial difficulty of the issuer or obligor;
- Restructuring of the loan where a concession is granted due to the borrower's financial difficulty.

If such evidence exists, an impairment loss is recognised in the statement of income.

An indication of the overall credit quality of DHB Bank's financial assets can be derived from the table below as per end of 2018 and 2017.

Asset Quality (EUR '000)	**2018**	**2017**
Neither past due nor impaired	1,588,527	1,816,854
Past due but not impaired	5,230	1,835
Impaired (*)	*18,615*	*15,022*
Impairment Allowances	(11,684)	(9,035)
Total	1,600,688	1,824,676

(*) Impaired amount does not include the fully insured impaired retail loans in Belgium.

The creditworthiness of the customers that are not rated by external rating agencies is assessed with reference to the Bank's internal credit rating system. The internal rating is based on many factors derived from both financial and non-financial assessments of the borrower. The internal rating system is an essential tool for managing and monitoring the credit risk of the Bank.

The assessment and administration of past due and impaired loans, write-offs and provisions fall under the responsibilities of the credit risk management units and the Credit Committee.

As per 1st of January 2018, general provisions are calculated under IFRS 9 based on forward looking expected credit loss methodology for the entire portfolio. Specific provision amounts are determined through a combination of specific reviews, historical data and estimates. Provisions for loan losses are determined separately for each exposure for wholesale loans, and according to a predefined model for retail loans. Provisions against a particular impaired loan may be released when there is improvement in the quality of the loan. The Bank's write-off policies are determined on a case-to-case basis. For restructured loans, the policy enables reclassification of a restructured loan into a performing loan when a certain number of repayments are executed.

The following table details the change of provisions balance at the end of 2018 and 2017 respectively.

Change of total credit risk provisions (EUR '000)	**2018**	**2017**
Opening balance, 1 january	9,627	10,402
Addition	2,416	1,706
Release	(314)	(801)
Write-off	(409)	(1,707)
Exchange rate movement	364	(566)
Closing balance, 31 December	**11,684**	**9,034**

Though provisions for loan losses are considered adequate, the use of different methods and assumptions could produce different provision amounts for loan losses, and amendments may be required in the future, as a consequence of changes in the estimated loss, the value of collateral and other economic events.

3.6.6 Transition to IFRS 9

Preparations for IFRS 9 at DHB Bank were successfully finalized in 2017. As per 1st of January 2018, the provisions are reported under IFRS 9 and not comparable with previous years under IAS 39.

The IFRS 9 provision calculation model did not cause a significant increase in loan loss provision in 2018, thanks to the rigorous credit underwriting practices as well as the short tenor of the exposures. Therefore the impact of the transition to IFRS 9 provision modelling was very low on the bank's equity base.

Allowance (EUR '000)	**Allowance IAS 39 /IAS 37 31 December 2017**	**Re-measurement ECL impairment allowance and IBNR reversal**	**IFRS 9 1 January 2018**
Loans and advances (at amortized cost)	9,034	593	9,627
Debt instruments (AFS/FVOCI)	-	7	7
Financial guarantees	-	7	7

The bank does not expect any material change in its capital adequacy or in other key regulatory ratios going forward.

3.7 Market Risk

DHB Bank uses the Standardised Approach to capture the market risk capital requirement. As of end of 2017 and 2018, there is no capital requirement for market risk. Foreign currency risk in the bank is managed generally by using derivatives to reduce currency exposures to acceptable levels. After

taking into account foreign currency derivatives, the Bank has no material net exposure to foreign exchange rate fluctuations.

The Bank uses a combination of value-at-risk (VaR) model and stress tests to monitor the risk arising from open foreign currency positions representing the net value of assets, liabilities and derivatives in foreign currency. The internal VaR model and risk limits are used only for risk management purposes and not regulatory capital measurement purposes.

3.8 Operational Risk

The Bank defines operational risk as the potential for incurring losses in relation to employees, technology, system failure (including non-availability) and frauds. It excludes legal, compliance, business and reputation risk.

The capital requirement for operational risk is calculated at DHB Bank according to the Basic Indicator Approach. Under this approach, the capital requirement for operational risk is equal to 15% of the three- year average gross income, which results in a capital requirement for operational risk of Euro 6.1 million at 31 December 2018.

Operational risk is inherent in each of the bank's business and support activities, resulting from inadequate or failed internal processes, human resources and systems or external events, and can never be eliminated entirely. However, shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk. For the purpose of mitigating operational risk, since 2007 DHB Bank has implemented a risk self-assessment program called ORCA, which stands for Operational Risk and Control Assessment.

The main aim of this program is to enhance the risk awareness in the Bank and minimise operational risk at every stage of daily activities. The ORCA program covers all units of the Bank and involves all staff in developing a strong control environment. This program focuses on different areas of operational risks (IT related risks, process related risk, staff related risks and external risks) according to the specific business activities, business lines, departments and countries.

With the guidance of Risk Management Department, all units proceed through a predefined route to identify risks by using tools such as questionnaires, interviews and workshops; estimate their potential impact, and devise an action plan suitable to the size and nature of those risks. As a permanent self-improvement initiative, the program cycle foresees continuous monitoring and periodical independent review of the involved risks and respective measures in response to changing activities and operating environments.

4. Pillar 2 Risks

4.1 Interest rate risk in the banking book (IRRBB)

Interest rate risk in the banking book consists of exposures deriving from the balance sheet and is measured in several ways in accordance with the financial supervisory authority's guidelines. The IRRBB is monitored and controlled both from a value perspective (such as using the duration of equity and PV01 measure) and from an income perspective (sensitivity in net interest income, NII)[1].

Through its management of interest rate risk, DHB Bank aims to hedge the effect of prospective interest rate movements that could reduce its future net interest income, while balancing the cost of such hedging activities on the current net revenue stream.

Regarding the income perspective, NII is exposed to external factors such as yield curve movements and competitive pressure. The NII risk depends on the overall business profile, especially mismatches between interest-bearing assets and liabilities in terms of volumes and repricing periods. The IRRBB is minimised as the Bank's rate sensitive assets and liabilities are mostly floating rate, where duration is lower. In general, DHB Bank aims to use matched currency funding and usually converts fixed rate instruments to floating rate to better manage the duration in the asset book.

The following tables indicate the Bank's interest rate sensitivities in the banking book from the income perspective at the end of 2018 and 2017 respectively.

NII sensitivities by major currencies at 31 Dec 2018, (EUR '000)	Interest rate shock of +/- 200 bps	
	200 bp decrease	200 bp increase
EURO	-2,949	3,342
US Dollar	13	-13
Other	-24	24
TOTAL	**-2,960**	**3,353**

NII sensitivities by major currencies at 31 Dec 2017, (EUR '000)	Interest rate shock of +/- 200 bps	
	200 bp decrease	200 bp increase
EURO	-2,679	3,023
US Dollar	-48	48
Other	-31	31
TOTAL	**-2,759**	**3,103**

In addition to the regular monitoring of the interest rate risk using the above mentioned metrics, on a monthly basis DHB Bank performs stress testing to calculate the immediate net effect on the fair value (FV) of a range of parallel shocks in rates, by currency. Furthermore, the Bank reports PV01 to measure changes in economic value resulting from a one basis point (0.01%) parallel rise in interest rates. The PV01 measure incorporates the entire rate sensitive segment of the balance sheet for the Bank and is classified into appropriate buckets.

[1] Non-maturity interest rate sensitive assets and liabilities are bucketed in the short term. The bank's equity is considered a non-interest sensitive component and is excluded from the interest rate risk computations.

As per the regulatory requirements, interest rate risk reporting also include the measurement of the 'outlier criterion', which refers to the maximum loss of market value expressed as a percentage of capital base in the event of a parallel rate hike or drop of 200 basis points. The 'outlier criterion' is subject to an internal limit of 4%. The following tables show a range of severe interest rate shocks with positions at the end of 2018 and 2017 respectively. At 31 December 2018, the standard instantaneous parallel shock of 200 bps leads to a potential decrease of Euro 1.1 million, or 0.46% of the capital base. In terms of the outlier criterion, the Bank's interest rate risk position is at a risk level that is considered low in view of the above-mentioned 4% threshold.

Fair value sensitivity to interest rate shocks at 31 Dec 2018, (EUR '000)	**-300**	**-200**	**-100**	**+100**	**+200**	**+300**	**PV01**
Euro	2,703	1,751	850	-800	-1,549	-2,248	9
USD	-743	-500	-253	258	521	790	-3
Other	90	60	30	-30	-61	-92	0
TOTAL	**2,050**	**1,311**	**628**	**-572**	**-1,089**	**-1,550**	**6**
Equity Value (IFRS)					**238,105**		
Standard 200 bps shock as % of equity					**-0.46%**		

Fair value sensitivity to interest rate shocks at 31 Dec 2017, (EUR '000)	**-300**	**-200**	**-100**	**+100**	**+200**	**+300**	**PV01**
Euro	3,198	2,068	1,003	-939	-1,815	-2,628	10
USD	-1,486	-989	-494	492	982	1,471	-5
Other	20	14	8	-9	-18	-29	0
TOTAL	**1,731**	**1,093**	**516**	**-456**	**-851**	**-1,186**	**5**
Equity Value (IFRS)					**241,818**		
Standard 200 bps shock as % of equity					**-0.35%**		

4.2 Liquidity risk

Liquidity risk is defined as the risk of being unable to meet the bank's current or future payment obligations without incurring unacceptable costs or losses. The ability to maintain a sufficient level of liquidity is crucial to financial institutions, particularly in maintaining appropriate levels of liquidity during periods of adverse conditions. The bank's funding strategy is to ensure adequate liquidity and various funding sources to meet actual and contingent liabilities during both stable and adverse conditions. Liquidity risks can be categorized in broader terms as funding liquidity risk and market liquidity risk.

a. Funding liquidity risk occurs when the Bank cannot fulfil its obligations as they come due without incurring excessive losses. Payments have to be executed on the day when they are due, or the Bank is declared illiquid if it fails to perform.

b. Market liquidity risk occurs when the Bank is unable to sell specific assets without losses.

In the aftermath of the latest global financial crisis, regulators have introduced stricter supervisory guidelines in many areas with regard to liquidity standards. The Netherlands is also among the first countries in the EU that has started to monitor and observe the local (Dutch) banks' compliance plan with Basel III.

Liquidity Coverage Ratio (LCR) became binding for all EU credit institutions in October 2015. Liquidity ratios (LCR and NSFR), the measure originated from the 2010 Basel Accord (Basel III), are both monitored within DHB Bank's risk framework.

The LCR regulation stipulates that banks must have a liquidity reserve that ensures a survival horizon of at least 30 calendar days in case of a severely stressed liquidity situation.

The Net Stable Funding Ratio (NSFR) is intended to ensure a sound funding structure by promoting an increase in long-dated funding. The NSFR regulation stipulates that at all times banks must have stable funding equal to the amount of their illiquid assets for one year ahead.

The liquidity and funding position of DHB Bank in 2018 comfortably met the requirements. As on 31 December 2018, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) were at 210% and 162.5%, respectively, well above the minimum regulatory requirements of 100%.

Furthermore, DHB Bank also performs an internal liquidity adequacy assessment process (ILAAP) based on DNB's ILAAP Policy Rule and submits the required documentation to DNB for supervisory review and evaluation process (SREP). The internal process, governance and consultative dialogue with the supervisory body to meet the ILAAP rules are similar to the ICAAP mentioned above.

Policy statements that are part of the ILAAP package stipulate that DHB Bank's liquidity management reflects a conservative attitude towards liquidity risk. The Bank defines the liquidity risk appetite by setting limits for applied liquidity risk measures. The most central measure is the Survival Horizon, which defines the risk appetite by setting a minimum survival of 6 months under a combination of bank-specific and market-wide stress scenarios with limited mitigation actions[2]. Furthermore, to ensure funding in situations where DHB Bank is in urgent need of cash and the normal funding sources do not suffice, the Bank holds a liquidity buffer that consists of ECB eligible debt securities and highly liquid assets.

Please refer to the DHB Bank's Annual Report as of 31 December 2018 for a maturity distribution table.

Under the ICAAP framework, no capital was allocated to cover liquidity risk considering the strength of the Bank's liquid assets as mentioned above and the appropriateness of the Bank's current policies and measures.

[2] The stress scenario used to measure compliance with the risk appetite framework includes among others an assumption of retail deposit outflows under a combination of bank-specific and market-wide stress amounting to respectively 25%, 35% and 40% in one-month , three-month and six-month periods along with significant haircuts on the bank's liquidity buffer.

According to European Banking Authority (EBA) Report on asset encumbrance, an asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

In certain cases, assets on DHB Bank's balance sheet are encumbered. The table below provides an overview of the bank's asset encumbrance position based on the CRR (Part Eight) and the related guidance from the EBA. All totals are reported using the median-of-the-sums method.

Encumbered and unencumbered assets: ***Based on median value of the 4 quarters in the financial year 2018, (EUR '000)***	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets of DHB Bank	**226,801**	**-**	**1,488,325**	**-**
Loans on demand	-	-	177,494	-
Equity instruments	-	-	-	-
Debt securities	170,312	170,416	35,938	35,979
- of which: covered bonds	-	-	-	-
- of which: asset-backed securities	-	-	-	-
- of which: issued by general governments	40,423	40,528	26,024	26,065
- of which: issued by financial corporations	82,633	82,639	9,914	9,914
- of which: issued by non-financial corporations	15,420	15,420	-	-
Loans and advances other than loans on demand	60,503	-	1,258,829	-
- of which: mortgage loans	-	-	188,966	-
Other assets	-	-	14,128	-

The following activities at DHB Bank give rise to encumbered assets:

- Collateral agreements (ISDA/CSA contracts) encumbered assets to secure derivative positions.
- Encumbered Syndication for TRS Funding
- Participation in Targeted longer-term refinancing operations (TLTRO) for which eligible assets are pledged as collateral

DHB Bank has a low level of asset encumbrance, as a result of prudent balance sheet management, whereby a variety of funding sources is readily available. The total asset encumbrance as per end of year 2018 was EUR 131 million. The median asset encumbrance ratio for DHB Bank in 2018 was 13%.

The following table shows the encumbered assets along with their associated liabilities.

Sources of encumbrance ***Based on median value of the 4 quarters in the financial year 2018, (EUR '000)***	**Matching liabilities, contingent liabilities or securities lent**	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered**
Carrying amount of selected financial liabilities	**204,704**	**226,801**
Derivatives	1,918	6,690
- of which: Over-The-Counter	1,918	6,690
Deposits	202,283	219,763
Repurchase agreements	202,283	219,763
- of which: central banks	159,657	170,312
Total Sources Of Encumbrance	**204,704**	**226,801**

4.3 Concentration risk

DHB Bank deals with concentration risk by taking into account separately single name concentration, country concentration and sector concentration.

A main assumption used in the determination of the Pillar 1 risk weights is that the credit portfolio is well diversified. In practice, however, a portfolio is not necessarily fully diversified, causing the so-called concentration risk that is to be addressed under Pillar 2.

DHB Bank has a framework to measure concentration risk quantitatively and established an approach that links concentration risk levels to capital allocation within the ICAAP process in a conservative manner.

The Policy Rule on Maximising the Deposits and Exposures Ratio was introduced under the Act on Financial Supervision (hereafter referred to as New Business Model Policy Rule) in February 2014.
The Policy Rule requires Dutch banks to comply with a certain ratio between the banks' exposure outside the European Economic Area (EEA) and their deposits under the coverage of the Dutch deposit guarantee scheme, with the required ratio determined in relation to the respective banks' balance sheet size. DHB Bank is fully compliant with the Policy Rule and has deposits to exposures ratio of 17% at the end of 2018, which is well within the required limit of 25%. DHB Bank plans to maintain its share of lending activities towards the EEA, thus progressing in a direction that the bank had already started to pursue following the 2008 crisis in the context of its strategic alignment. This strategic path further strengthens the bank's standing by maintaining the diversification in its assets. It is notable that country risk diversification not only strengthens the Bank's risk position but also allows it to reduce Pillar 2 capital add-on requirements under the current capital regime.

The Bank also has to comply with the Large Exposure Rule as embedded in CRD IV, and with the above mentioned (referred to section 3.3 Capital Management Framework) policy rule on the treatment of concentration risk in emerging countries, introduced by DNB in July 2010, to reduce the credit concentration in emerging markets.

4.4 Other Risks

4.4.1 Legal, Compliance, Integrity and Reputation risk

Legal risk is the possibility that lawsuits, adverse judgments or contracts that turn out to be unenforceable can disrupt or adversely affect the operations of the Bank. The Compliance and Legal Department supports to manage legal risk. External legal advisors are also consulted wherever necessary. In addition, the Compliance Officer has a proactive role in this respect, aiming at reducing pro-actively the risk of compliance, as well as legal and eventual reputation risk.

Reputation risk is highly correlated with integrity and compliance risk management, which are embedded in the policies and corporate governance of the Bank. The Managing Board takes the necessary actions to establish a proper ethical culture within the Bank. The Bank's line management is responsible for applying, monitoring and controlling the integrity policy and rules in their units,

and reports to the Managing Board and the Compliance Officer. As a third line of defense, the Internal Audit Department also evaluates integrity issues in particular and compliance issues in general during its regular and specific audits. The three lines of defense of DHB Banks' governance framework are used to manage these risks effectively. These three lines of defense principles provide a clear division of activities and define roles and responsibilities for risk management at different levels within the bank.

4.4.2 Climate Risks

DHB Bank, in line with the regulatory guidelines (DNB's 'Waterproof'), use the supporting assessment frameworks (Equator Principles, S&P climate risk vulnerability index etc.) to assess the riskiness of its portfolio with respect to the climate related risks.

DHB Bank will continue monitoring the development of Climate Risk as part of its climate risk mitigation strategy as defined in ICAAP, refine its methodology for risk measurement, quantify the limits for such exposures and incorporate these limits in Risk Appetite Statement.

5. Capital Buffers

DHB Bank is subject to the capital buffer requirements that are applicable since 2016.

The capital conservation buffer (CCB) is a capital buffer of a bank's total exposures that needs to be met with an additional amount of required capital. The effect of CCB is particularly significant. This ratio was 0.625% in 2016 and has subsequently increased in 2018 to 1.875%. It is currently at 2.5% since beginning of 2019.

The institution specific countercyclical capital buffer (CCyB) is part of a set of macro prudential instruments, designed to help counter pro-cyclicality in the financial system. Capital should be accumulated when cyclical systemic risk is judged to be increasing, creating buffers that increase the resilience of the banking sector during periods of stress when losses materialise.

DHB Bank's exposures in countries which have set a countercyclical buffer rate greater than zero is relatively small, resulting in countercyclical buffer requirement of 0.04% in 2018. The table below gives an overview of the exposure distribution for the countries along with the countercyclical buffer requirement.

List of Countries (EUR '000)	General Credit Exposures	Own funds requirements		Own funds requirements weights	Countercyclical buffer rate
	Exposure Value for SA	of which: General credit exposures	Total		
Netherlands	166,285	162,363	12,989	16.16%	-
Turkey	147,141	128,261	10,261	12.77%	-
Germany	122,766	119,212	9,537	11.87%	-
Belgium	118,183	63,245	5,060	6.30%	-
Romania	54,332	54,332	4,347	5.41%	-
United States of America	51,532	50,659	4,053	5.04%	-
France	57,317	44,971	3,598	4.48%	-
Bulgaria	42,726	41,726	3,338	4.15%	-
United Kingdom	58,754	41,624	3,330	4.14%	1.00%
Hungary	35,347	35,347	2,828	3.52%	-
Italy	34,964	34,452	2,756	3.43%	-
Macedonia	33,657	33,657	2,693	3.35%	-
Malta	28,052	28,052	2,244	2.79%	-
Greece	27,275	27,275	2,182	2.72%	-
Croatia	22,217	22,210	1,777	2.21%	-
Luxembourg	20,397	20,360	1,629	2.03%	-
Republic Of Kosovo	20,068	20,068	1,605	2.00%	-
United Arab Emirates	17,271	17,271	1,382	1.72%	-
Slovenia	15,065	15,065	1,205	1.50%	-
Spain	13,810	13,803	1,104	1.37%	-
Others	49,929	30,604	2,448	3.05%	-
Total	**1,137,088**	**1,004,556**	**80,364**	**100.00%**	

Amount of institution specific CCyB (EUR '000)	2018
Total risk exposure amount	1,199,254
Institution specific countercyclical buffer rate	0.04%
Institution specific countercyclical buffer requirement	497

6. Capital Adequacy Conclusion

DHB Bank is committed to exceed its capital adequacy targets on a continuous basis. Overall risk position and capital level are constantly monitored and adjusted, if necessary, to meet the capital requirement from regulatory and economic perspectives. DHB Bank's capital base and capital ratios exceed the regulatory minimum requirements outlined in CRR/CRD. Considering the results of capital adequacy stress testing, and business expectations, the Bank's assessment is that the buffers held for regulatory and economic capital purposes are sufficient. Capital ratio in 2018 was more than twice the minimum regulatory capital ratio requirement of 8%. Owing to its straightforward business model and strategies as well as to its robust equity base, the bank does not make use of hybrid capital instruments.

The following table provides an overview of DHB Bank's capital adequacy ratios as per end of 2018 and 2017.

Capital Adequacy Ratios (EUR '000)	2018	2017
RWA (Pillar 1)	1,199,254	1,326,082
Regulatory capital requirements	95,940	106,087
CET1 capital	223,188	224,270
Capital base	223,188	224,270
Tier 1 ratio (in %)	18.6%	16.9%
Capital ratio (in %)	18.6%	16.9%
Capital ratio/Regulatory capital requirement (in %)	232.6%	211.4%

7. Leverage Ratio

Since January 2014, the CRR/CRD IV rules have required credit institutions to calculate, report and monitor their leverage ratios, defined as tier 1 capital as a percentage of total exposure.

In January 2015, the requirements for calculating the leverage ratio were redefined and issued by the European Commission in Delegated Act EU 2015/62.

The leverage ratio is based on the relationship between Tier 1 capital and the unweighted total of all on-balance-sheet and off-balance-sheet asset items (including derivatives).

DHB Bank takes the leverage ratio requirements into account for optimisation of its portfolio. The risk of excessive leverage is addressed by including the leverage ratio in the internal planning and control process. Based on the business and risk strategy, an internal target ratio is specified as an additional key risk indicator, supplementing the capital ratios. DHB Bank calculates its Leverage ratio on a quarterly basis and the changes in the leverage ratio are subject to regular monitoring.

The following table shows the Bank's leverage ratios based on CRR/CRD IV regulation as per end of 2018 and 2017.

Leverage Ratio (EUR '000)	2018	2017
Total Tier 1 capital for the leverage ratio	223,188	224,270
Total Common Equity Tier 1 (CET1) capital	223,188	224,270
Additional Tier 1 (AT1) capital	-	-
Total Tier 1 capital for the leverage ratio	**223,188**	**224,270**
		-
Total statutory assets per the statement of financial position	1,604,982	1,821,955
Off balance sheet items	2,964	3,468
Derivative exposures adjustment	3,478	8,241
SFT exposure adjustment		-
Other regulatory adjustment		-
Exposures for the leverage ratio	**1,611,424**	**1,833,664**
Leverage ratio	**13.9%**	**12.2%**

8. Remuneration

DHB Banks's current Remuneration Policy was approved in the General Meeting of Shareholders (GMS) in April 2011, further developed in 2012, and lastly revised in 2017 with respect to the new regulations in this area. It is also subject to annual review and was last reviewed in March 2019.

It is composed of four sub-policies that have separate stipulations for the members of the Management Board (MB), for the members of senior staff in general, for senior staff engaged in risk management and control functions, and for other staff members. The body overseeing the remuneration of the MB members is the General Meeting of Shareholders (GMS) with the recommendation of the Supervisory Board (SB). With the prior approval of the SB, the MB decides on the remuneration for the senior staff in general and senior staff engaged in risk management and control functions.

The MB is authorised to independently arrange the remuneration of the other staff members. The remuneration policy stipulates criteria according to many financial and non-financial objectives, all reflecting the bank's long-term strategies and risk policy. From these objectives, performance targets are derived for staff members throughout the organisation. The remuneration of the SB and MB members is reported in the annual reports of the bank.