

Risk Management and Capital Adequacy Pillar III Report

(CREDIT EUROPE BANK N.V.)

for the half year ended December 31, 2009

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1. Introduction

CEB was founded originally as Finansbank (Holland) N.V. in 1994. Today, headquartered in the Netherlands, Credit Europe Bank comprises banking subsidiaries in Romania, Ukraine, Suisse, United Arab Emirates (Dubai) and Russia including leasing subsidiaries in Romania, Russia and Ukraine. It has branches in Belgium, Germany and Malta, with representative offices in China (Shanghai) and Turkey (Istanbul).

Starting from January 2008 CEB monitors, and reports its solvency position according to the Basel II rules and principles. The main regulatory document, which embodies the requirements of Basel II in EU, is 'Directive 2006/48/EC' of 14 June 2006 relating to the taking up and pursuit of the business of credit institution (CRD).

The CRD is legally enforced under Dutch 'Supervisory Regulation on Solvency Requirements for Credit, Market and Operational Risks' dated 11 December 2006.

With the Basel II framework Basel Committee on Banking Supervision has modified and improved the set of rules regarding the capital adequacy requirements for banks, set out in 1988 Basel Capital Accord (Basel I).

The Basel II framework is based on three pillars:

- 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;
- 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.

1.1. Pillar I

CRD maintained same level of minimum capital requirements (8%) as it was under Basel I. In this respect the main changes in the new framework relate to the calculation of Risk Weighted Assets (RWA).

Under previous regulation calculation of RWA was simple and standardized. Basel II, however, uses more sophisticated and risk sensitive approaches for assessing the risks, aiming to promote a more forward-looking approach to capital management.

Additionally to credit and market risks the new risk type is introduced under Basel II – operational risk.

Basel II provides several approaches for calculating regulatory capital requirements. The overview of these methods is provided below.

CREDIT RISK	MARKET RISK	OPERATIONAL RISK
Standardized Approach	Standardized Approach	Basic Indicator Approach
Foundation Internal Rating Based Approach	Internal Models Approach	Standardized Approach
Advanced Internal Rating Based Approach	-	Advanced Measurement Approach

CEB adopted Standardized Approach for credit and market risks and Basic Indicator Approach for operational risk.

1.2. Pillar II

Apart from the risks covered by Pillar I, CEB conducts regular assessment and monitoring of other risks, which it considers material. This is done within the internal capital adequacy assessment process which is described in CEB's ICAAP document. CEB complies itself to review ICAAP annually and adjust the approach towards material risks if needed.

Currently ICAAP covers following risks:

- concentration risk (incl. single-name and sector concentration);
- country concentration;
- interest-rate risk on the banking book.

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.

1.3. Pillar III

Minimum disclosure requirements for capital and risk management are laid down in CRD.

The main objective of the Pillar III disclosures is 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.

In this report CEB provides Pillar III related qualitative and quantitative disclosures which are required by CRD.

The Pillar III Disclosure Report covers following topics:

- Description of the group structure;
- Description of capital and risk management strategies and approaches;
- Regulatory capital requirements under Pillar I and capital adequacy profile;
- Description of credit and dilution risks;
- Impaired and past due assets;
- Credit quality of CEB's portfolio;
- Counterparty credit risk;
- Description of credit risk mitigation techniques;

- Operational risk;
- Market risk;
- Interest rate risk;
- Liquidity risk.

The Pillar III disclosures are prepared for CEB on consolidated basis. Disclosures containing regulatory capital requirements, and capital adequacy information are also provided on the level of Credit Europe Group N.V. and significant subsidiaries. The list of significant subsidiaries is available in Annex I of this document. Unless otherwise stated, all amounts are in thousands of euros.

Pillar III Disclosure Report is prepared semi annually and is published on the CEB's website www.crediteurope.nl

2. Group Structure

CEB differentiates between legal and prudential consolidation scopes.

CEB prepares its IFRS financial statements under legal consolidation scope, determined by IFRS 27 Consolidated and Separate Financial Statements and IFRS 28 Investments in Associates.

Prudential consolidation scope is used for the reporting towards regulator, which is the Dutch Central Bank and currently is taken without any change as the Basel II consolidation scope and therefore pertain solely to the banking institutions.

In order to satisfy the conditions of prudential reporting CEB deducts from its regulatory capital base insurance entities which are consolidated under legal consolidation scope.

Table below provides an overview of CEB's legal structure as of 31 December 2009.

Table 1 Description of entities consolidated/deducted from capital base

(31 December 2009)

Name of the entity	Book Value	Interest %	Domicile
<i>Entities fully consolidated</i>			
Credit Europe Bank Ltd	252,623	96.28%	Russia
CSJC Credit Europe Bank	46,600	99.99%	Ukraine
Credit Europe Leasing LLC	(10,740)	100.00%	Ukraine
Credit Europe (Romania) Bank S.A.	180,414	96.39%	Romania
Credit Europe (Suisse) Bank S.A.	88,358	100.00%	Switzerland
Credit Europe (Dubai) Ltd.	25,432	100.00%	The United Arab Emirates
Credit Europe Bank Consumer Finance S.A.	5,115	100.00%	Belgium
Credit Europe Leasing LC Russia	3,318	98.04%	Russia
Herald Maritime Corporation	(541)	100.00%	Marshall Islands
Cavendish Shipping SA	(275)	100.00%	Marshall Islands
Total entities fully consolidated	590,304		
<i>Entities deducted from own funds</i>			
CE Life Ltd.	2	100%	Russia
Total entities deducted from own funds	2		
<i>Entities neither consolidated nor deducted from own funds</i>			
Stichting Credit Europe Custodian Services S.A	0.125	100.00%	The Netherlands
Total entities neither consolidated nor deducted from own funds	0.125		

There is no legal restrictions on transfer of funds or regulatory capital within the group; however re-allocating capital from the subsidiaries to the parent bank might be subject to the approval of the local supervisor in certain cases.

3. Capital and Risk Management

3.1. Roles and Responsibilities

In the course of 2008 CEB has further strengthened its group risk management function with additional expertise and clearer reporting lines, which has enabled a centralized measuring, monitoring and controlling of risks at CEB and other organizational levels. The division has sub-functions, such as Credit Risk, Market Risk and Treasury Risk Control, Quantitative Analysis and Operational Risk, and Capital Management.

The risk consolidation is conducted by the Group Risk Management Department (GRMD) which is responsible for measurement and monitoring of risks at consolidated level.

The GRMD operates under the supervision of Chief Credit and Risk Officer (CCRO) and CFO, which are the members of Group Risk Management Committee (GRMC)

The CCRO is responsible for handling credit, operational and legal risks framework. This includes approving and implementation of related policies and procedures at CEB level, conducting control over credit decision process, monitoring of the rating models.

Market and liquidity risks, as well as capital planning process including capital adequacy reporting is under responsibilities of CFO.

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 of VaR and liquidity positions which are reported to Managing Board daily.

3.2. Capital Management

CEB's approach to capital management is driven by its business plan/strategy and overall risk appetite taking into account the regulatory and business environments in which it operates.

CEB's policy is to maintain at all times a strong capital base that will enable it to:

- comply with the requirements set by the regulators of the markets where CEB operates;
- safeguard its ability to continue as a going concern so that it can continue to provide returns for its shareholders and benefits for other stakeholders; and
- support the development of its business.

3.3. Risk Strategy

CEB's risk strategy sets out what types and to what extent the risks should be taken in order for CEB to achieve its business targets. It also states how the risks are controlled, monitored and mitigated. This is done through established organizational structure, monitoring processes and framework of principles incorporated into the number of CEB's policies and procedures.

Within the different types of risks which CEB is exposed to due to its business activities the most material are credit risk, market risk, liquidity risk, interest rate risk, concentration risks (incl. country concentration) and operational risk. As non-material risks CEB identifies settlement risk, pension risk, reputation and residual risks.

The type and nature of each type of material risks are described below.

3.4. Risk Types

3.4.1. Pillar I Risks

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.

The main sources of credit risk are mainly different forms of lending but also off-balance sheet items, like letters of guarantee and letters of credit. Counterparty credit risk which arises from derivative instruments and securities financing is also part of credit risk.

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.

3.4.2. 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

CEB defines interest rate risk as the current or prospective risk to earnings and capital arising from adverse movements in interest rates. Interest rate risk arising from trading book is dealt with in Market Risk.

CEB aims at regularly capturing all major sources of interest rate risk and measuring the effect of interest rate changes on economic value of the bank.

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.

4. Regulatory Capital Requirements and Capital Adequacy Profile

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. This section describes main elements of CEB's capital base and provides capital adequacy profile of CEB, CEG and its significant subsidiaries.

4.1. Structure of Total Own Funds.

The total own funds eligible for regulatory purposes are composed of three components: Tier I capital also referred as "core capital", Tier II or "supplementary capital" and Tier III. Currently CEB's capital base includes Tier I and Tier II capital. The main terms and conditions of these elements are summarized below.

Tier I capital of CEB includes share capital and share premium, retained earnings and current year profit, other eligible reserves (excl. revaluation reserves for tangible assets) and minority interests.

Other eligible reserves are composed of fair value reserves, hedge reserves and translation reserves. Fair value reserves includes the cumulative net change in the fair value of available-for-sale investments, whereas changes in the fair value of interest-bearing instruments are not included in the total own funds in any way. For more information about the features of the main elements included into Tier I capital refer to note 21, p. 67 of CEB's Financial Statements as of 31 December 2009.

Tier II capital of CEB comprises of subordinated liabilities and revaluation reserves for tangible assets.

Issued liabilities qualify as subordinated debt if claims by the holders are subordinated to all other current and future liabilities of CEB. These liabilities qualify as capital, taking into account remaining maturities (for more details see note 20, p.67 of CEB's Financial Statements as of 31 December 2009).

Revaluation reserves for tangible assets includes accumulated unrealised gains on tangible assets.

Deductions from total own funds includes goodwill and solvency deductible intangible assets, as well as participations held in insurance and other entities, which are not subject to banking supervision.

In order to include the above mentioned components in the total own funds CEB ensures that Tier II capital is less than or equal to the Tier I capital as required by the Dutch Central Bank.

The table below provides the structure of CEB's total own funds.

Table 2 Structure of total own funds for solvency purposes

Composition of total own funds	December 2009	December 2008
Tier I capital		
– paid up share capital	399,500	399,500
– share premium	163,748	162,321
– eligible reserves (including retained earnings)	5,546	20,030
– fair value reserves (*)	(219)	(2,352)
– minority interests	17,608	22,983
– income from current year	49,277	72,173
Deductions from Tier I capital(**)	(12,975)	(8,543)
Total Tier I capital	622,485	666,112
Tier II capital		
– subordinated capital	223,490	231,079
– revaluation reserves	4,728	4,207
Deductions from Tier II capital	(1,246)	(1,050)
Total Tier II capital	226,972	234,236
Total own funds	849,457	900,348

(*) Fair value reserves have been adjusted for the fair value of interest bearing instruments that should not be included into total own funds in any way, as laid down in the Dutch 'Financial Supervision Act'.

4.2. Capital Adequacy

Next section provides an overview of regulatory capital requirements of CEB and concerns only Pillar I risks: credit, market and operational risks.

The capital requirements for credit risk are split by exposure classes as defined in the 'Supervisory Regulation on Solvency Requirements for Credit, Market and Operational Risks' dated 11 December 2006. There are following exposure classes under current portfolio structure of CEB:

Central governments and central banks includes exposures to central governments and central banks.

Financials Institutions comprises of exposures to credit institutions and investment firms.

Corporates: here is included exposure to corporate customers, as well as exposure from private banking activities and exposure to retail and small and medium-sized costumers which do not satisfy the criteria of 'Retail exposure' class.

Retail exposure is defined as exposure to retail and small and medium-sized costumers, which according to the Dutch regulation on Solvency Requirements for Credit Risk can be classified as retail exposure.

Exposure secured on real estate property refers to the exposures or any part of an exposure secured by mortgages on residential property.

Past due items. According to the requirements of the Dutch Central Bank it includes only assets which are past due more than 90 days. Other past due and/or impaired assets are included in the corresponding to the counterparty type exposure class.

Other items comprises of tax and other assets, cash and equity participations, tangible, and intangible assets which are not deducted from the total own funds.

The table below provides the capital requirements of CEB broken down by exposure classes and main risk types.

Table 3 Capital requirements and risk weighted assets

(31 December 2009)

	Risk Weighted Exposure	Average RW (%)	Capital Requirements
Credit Risk			
Central governments and central banks	120,833	5.7%	9,667
Institutions	489,575	50.3%	39,166
Corporates	3,543,449	97.4%	283,476
Retail	875,484	75.0%	70,039
Secured by real state property	237,848	40.2%	19,028
Past due items	185,178	117.8%	14,814
Other items	171,892	72.5%	13,751
Total Credit risk	5,624,258	63.4%	449,941
Market Risk			
Equity in the trading book	1,056	-	84
Trading securities (specific risk)	68,082	7%	5,447
General market risk	162,431	-	12,994
Foreign Exchange	53,407	-	4,273
Total Market Risk	284,975	-	22,798
Total Operational Risk	850,600	-	68,048
Total of items	6,759,834	-	540,787

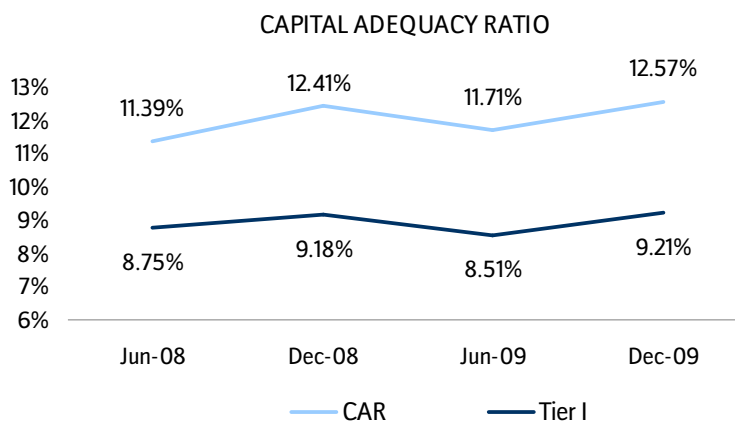
(31 December 2008)

	Risk Weighted Exposure	Average RW (%)	Capital Requirements
Credit Risk			
Central governments and central banks	228,749	11.7%	18,300
Institutions	675,921	46.2%	54,074
Corporates	3,759,121	98.2%	300,730
Retail	1,076,330	75.0%	86,106
Secured by real state property	270,035	42.2%	21,603
Past due items	61,837	108.4%	4,947
Other items	169,996	8.8%	13,600
Total Credit risk	6,241,990	55.2%	499,359
Market Risk			
Equity	554	0%	44
Trading securities (specific risk)	77,035	30.6%	6,163
General market risk	177,113	-	14,169
Foreign Exchange	61,156	-	4,892
Total Market Risk	315,858	-	25,269
Total Operational Risk	695,233	-	55,619
Total of items	7,253,081	-	580,247

Capital Ratio is calculated as a ratio of 'Total Own Funds' over 'Total Risk Weighted Assets (RWA)', (composed of RWA for credit, market and operational risks) and is subject to a regulatory minimum of 8%.

CEB reports capital requirements to its local regulator on consolidated level, as well as on the level of CEG. CEB (Holland) is also subject to regulatory requirements on a stand alone basis.

As it is seen from the graphs presented below, CEB maintains the capital and tier I ratios well above regulatory requirements of 8% and 4%.



Among other entities consolidated under CEB only CEB Swiss S.A and CEB Romania S.A. operate under Basel II framework. Solvency profile of Russian, Ukrainian and Dubai subsidiaries is subject to the local regulation of the country of their domicile.

The next table provides an overview of the local capital requirements for significant entities consolidated under CEB.

Table 4 Minimum capital requirements (local regulation)

(31 December 2009)

	Significant subsidiaries						CEB N.V. consolidated (audited)	CEG N.V. (audited)
	CEB Russia Ltd.	CEB Ukraine CJSC	CEB Dubai	CEB Swiss S.A.	CEB Romania S.A.	CEB NV (Holland)		
Total Own funds	290,081	44,685	30,066	90,566	180,513	834,264	849,457	819,745
Total RWA	1,469,016	77,994	184,938	504,557	1,156,482	6,829,249	6,759,834	6,746,872
Capital Ratio								
- actual (local)	19.75%	57.29%	16.26%	17.95%	15.61%	12.22%	12.57%	12.15%
- required (local)	11%	10%	10%	8%	8%	8%	8%	8%
Capital surplus (deficit)	172,559	38,446	15,271	50,201	87,995	287,924	308,670	279,995

(31 December 2008)

	Significant subsidiaries						CEB N.V. consolidated (audited)	CEG N.V. (audited)
	CEB Russia Ltd.	CEB Ukraine CJSC	CEB Dubai	CEB Swiss S.A.	CEB Romania S.A.	CEB NV (Holland)		
Total Own funds	277,081	46,837	21,648	85,142	192,230	831,449	900,348	860,594
Total RWA	1,493,479	166,554	132,484	487,032	1,550,555	7,492,238	7,253,081	7,225,810
Capital Ratio								
- actual (local)	18.55%	28.12%	16.34%	17.48%	12.40%	11.10%	12.41%	11.91%
- required (local)	11%	10%	10%	8%	8%	8%	8%	8%
Capital surplus (deficit)	157,603	33,513	11,049	46,179	68,185	232,070	320,101	282,529

5. Credit Risk

This section provides an overview over CEB's credit risk.

In the below tables the total credit risk covers risk associated with the probability of the customer's default and arising mainly from CEB's cash and non-cash loan portfolios, treasury business, including available-for-sale and held-to-maturity assets as well as from derivative instruments which give rise to counterparty credit risk.

Non-cash loan portfolio is comprised of issued letters of guarantees and letters of credits as well as of other irrevocable and revocable credit commitments.

The total exposure for counterparty credit risk is calculated in accordance with the current exposure method and is a sum of potential future exposure and positive current replacement costs after application of the relevant netting options.

Also trading book assets which are subject to specific risk are included in the below tables. These are equity in the trading book and trading securities.

Table 5 Breakdown of total exposure per exposure class

(December 31, 2009)

	Exposure Value	Average Exposure Value
Credit Risk		
Central governments and central banks	2,110,812	1,763,753
Regional governments or local authorities	-	25,007
Institutions	1,224,880	1,601,820
Corporates	4,040,925	4,417,587
Retail	1,425,787	1,462,068
Secured by real state property	591,208	617,366
Past due items	157,170	139,465
Other items	237,147	174,593
Total Credit risk	9,787,931	10,201,659
Equity in trading book	528	456
Trading securities	995,202	1,073,356

(December 31, 2008)

	Exposure Value	Average Exposure Value
Credit Risk		
Central governments and central banks	1,956,160	919,882
Institutions	1,489,370	1,969,948
Corporates	4,676,955	5,002,066
Retail	1,694,641	1,690,266
Secured by real state property	639,754	622,402
Past due items	57,062	50,527
Other items	234,776	595,298
Total Credit risk	10,748,719	10,850,388
Equity in trading book	369	645
Trading securities	251,232	296,241

The average exposure is calculated as the average for period end of each.

The total exposure arising from revocable credit facilities and other contingent liabilities which are unconditionally cancellable as of 31 December 2009 amount to EUR 190,870 ml. (2008: EUR 174,132 ml.)

The following tables broke down total exposure by the type of financial assets. Tangible, tax and other assets as well as cash balances, captured under 'Other items' exposure class are not included in the below tables.

Table 6 Total exposure broken down by asset type

(December 31, 2009)

	Central governments and central banks	Institutions	Corporates	Retail	Secured by real state property	Past due items	Total
Demand deposits with central banks	1,556,311	-	-	-	-	-	1,556,311
Financial investments	554,502	399,066	155,267	-	-	9,005	1,117,840
Loans and receivables - banks	-	604,033	10	-	-	11,470	615,514
Loans and receivables - customers	-	-	3,183,231	1,307,553	591,208	136,695	5,218,687
Contingent liabilities and other commitments	-	53,592	566,960	118,234	-	-	738,787
Counterparty credit risk	-	168,189	135,456	-	-	-	303,645
Total credit risk	2,110,812	1,224,880	4,040,925	1,425,787	591,208	157,170	9,550,784
Equity in trading book	-	-	528	-	-	-	528
Trading securities	690,619	298,470	6,113	-	-	-	995,202

(December 31, 2008)

	Central governments and central banks	Institutions	Corporates	Retail	Secured by real state property	Past due items	Total
Demand deposits with central banks	1,915,832	-	-	-	-	-	1,915,832
Financial investments	40,328	268,052	78,340	-	-	-	386,720
Loans and receivables - banks	-	952,932	-	-	-	-	952,932
Loans and receivables - customers	-	-	3,119,835	1,553,086	639,738	57,062	5,369,721
Contingent liabilities and other commitments	-	65,435	1,210,264	141,555	16	-	1,417,270
Counterparty credit risk	-	202,951	268,517	-	-	-	471,468
Total credit risk	1,956,160	1,489,370	4,676,955	1,694,641	639,754	57,062	10,513,943
Equity in trading book	-	85	285	-	-	-	369
Trading securities	160,859	83,384	6,997	-	-	-	251,239

The break down of the total exposure by geographical region is provided in the below table.

Table 7 Geographical distribution of total exposure

(31 December 2009)

	Russia	Turkey	Romania	Ukraine	Other Emerging Markets	Developed markets	Total exposure
Credit Risk							
Central governments and central banks	100,267	-	313,100	18,250	81,967	1,597,228	2,110,812
Institutions	217,698	166,177	53,104	37,379	22,627	559,706	1,056,691
Corporates	863,114	1,546,616	551,724	89,929	103,010	751,076	3,905,469
Retail	584,545	-	471,130	11,741	0	358,371	1,425,787
Secured by real state property	49,203	-	532,797	6,873	-	2,335	591,208
Past due items	36,532	10,190	72,597	10,693	10,179	16,979	157,170
Counterparty credit risk	1,273	101,296	927	-	29	200,119	303,645
Total credit risk	1,852,632	1,824,280	1,995,379	174,865	217,812	3,485,815	9,550,784
Equity in trading book	-	-	528	-	-	-	528
Trading securities	11,983	9,484	-	-	10,307	963,428	995,202

(31 December 2008)

	Russia	Turkey	Romania	Ukraine	Other Emerging Markets	Developed markets	Total exposure
Credit Risk							
Central governments and central banks	157,227	2,586	248,170	18,834	-	1,529,343	1,956,160
Institutions	213,808	86,911	116,270	135,249	99,183	634,998	1,286,419
Corporates	787,968	2,083,944	629,079	189,250	99,923	618,275	4,408,439
Retail	744,155	-	611,972	25,474	-	313,040	1,694,641
Secured by real state property	54,046	-	577,449	8,258	-	-	639,754
Past due items	16,392	7,602	23,983	899	7,573	614	57,062
Counterparty credit risk	41,892	267,045	-	-	280	162,250	471,468
Total credit risk	2,015,488	2,448,089	2,206,923	377,964	206,959	3,258,520	10,513,943
Equity in trading book	-	-	369	-	-	-	369
Trading securities	27,016	34,858	4,819	4,691	16,448	163,627	251,461

Next tables show the breakdown of total credit exposure by residual maturity. Counterparty credit risk is not included in the analysis.

Table 8 Breakdown of credit risk by residual maturity**(31 December 2009)**

Remaining maturity	Central governments and central banks	Institutions	Corporates	Retail	Secured by real state property	Past due items	Total
<= 1 year*	1,875,925	756,788	2,238,490	95,108	90,733	68,018	5,125,063
1 year – 5 years	101,578	171,086	1,373,241	896,476	29,893	55,845	2,628,120
> 5 years	133,310	128,816	293,737	434,203	470,582	19,295	1,479,943
Unallocated	-	-	-	-	-	14,013	14,013
Total	2,110,812	1,056,690	3,905,469	1,425,787	591,208	157,170	9,247,139

(31 December 2008)

Remaining maturity	Central governments and central banks	Institutions	Corporates	Retail	Secured by real state property	Past due items	Total
<= 1 year	1,927,022	1,131,495	2,479,729	644,663	70,925	24,695	6,278,528
1 to 5 years	27,598	77,455	1,574,484	722,072	89,907	20,275	2,511,792
> 5 years	1,540	77,469	354,226	327,906	478,922	7,005	1,247,068
Unallocated	-	-	-	-	-	5,088	5,088
Total	1,956,160	1,286,419	4,408,439	1,694,641	639,754	57,062	10,042,475

Past due and impaired assets

In 2009, CEB adjusted its Loan Assessment and Impairment Policy to align its definitions to the industry practices and regulatory requirements. CEB believes that the new classification of 'loan portfolio', which is based on the respective recovery capabilities and debtors' creditworthiness levels, provides a more detailed and transparent overview of the portfolio's credit quality.

According to the new policy, CEB differentiates between the following categories of assets in the loan portfolio:

- Standard (performing) loans covers corporate (retail/SME) loans on which payments are made according to the contractual terms, repayment problems are not expected in the future and which are totally recoverable (collectable).
- Watch List (sub-standard loans) is for corporate loans where problems with principal or interest payments are not necessarily present yet, but which require close monitoring due to negative trends in the debtors' payment capability or cash-flow positions, for instance. Corporate loans experiencing delays of contractual payments of less than 90 days or credit-quality deterioration in terms of internal rating.
- Non-Performing Loans (NPL) includes loans and receivables with limited (doubtful) recovery prospects. These clients:
 - have limited means for total recovery because their repayment capacity is inadequate to cover payments on respective terms; they are likely to lead to losses if these problems are not solved; or,
 - are in a situation where full or partial recovery prospects are fully dependent on the outcome of the liquidation of the underlying assets or recourse to the guarantor; or,
 - have suffered significant credit quality deterioration; or,
 - have delayed the capital and/or interest payments for more than 90 days as of the day of their payment date

- Delinquent Loans are retail loans (including SME loans and the residential-mortgage portfolio) with a delay in contractual payment of no more than 90 days (also shown on Watch List).

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

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

All Watch List and NPL corporate customers are analysed individually, regardless of their size. Standard (performing) loans are subject to individual assessment only if they are deemed 'significant'. The 'significance criterion' is established at Group level, and amounts to EUR 1 million. In terms of individual assessment, the trigger point for impairment is formal classification of an account as exhibiting serious financial problems and where any further deterioration is likely to lead to failure. Two key inputs to the cash-flow calculation are the valuation of all security and collateral and the timing of all asset realizations.

Retail exposure is solely subject to collective assessment, regardless of exposure size.

CEB calculates collective impairment allowances for retail portfolios using the dynamic statistical model, based on analysis of the portfolio's default and recovery rates according to historical data. The same approach is implemented across CEB's entities, with adjustment made in respect of specific local conditions. The methodology was first implemented in 2008 and remained unchanged in 2009. For more information about past due and impaired assets refer to note 38.f., p. 90 of CEB's Financial Statements as of 31 December 2009.

6. Credit Quality

In order to calculate the RWA CEB is using external ratings provided by the eligible credit assessment institutions (ECAIs). These are Moodys, S&P and Fitch.

The ratings provided by ECAIs are aggregated into 6 groups, so called 'credit quality steps' and mapped to the risk weights.

Tables below provide breakdown of credit risk exposure by risk weight.

Table 9 Breakdown of credit risk exposure by risk weight

(31 December 2009)

Risk weight	Exposure value1)	Adjusted Value of Collaterals and other credit enhancements		Exposure, net of collaterals, adjusted for risk substitution effect
		Outflow (-)	Inflow	
0%	1,878,054	-	-	1,943,308
20%	724,118	(236,640)	41,130	528,608
35%	513,896	-	-	513,896
50%	461,156	-	133,294	594,450
75%	1,502,473	(164,095)	-	1,338,378
100%	4,366,686	(165,893)	-	4,372,686
150%	104,401	-	-	104,401
Total	9,550,784	(566,628)	174,424	9,395,727

(31 December 2008)

Risk weight	Exposure value1)	Adjusted Value of Collaterals and other credit enhancements		Exposure, net of collaterals, adjusted for risk substitution effect
		Outflow (-)	Inflow	
0%	1,665,206	-	-	1,665,206
20%	796,392	-	43,935	840,327
35%	565,916	-	-	565,916
50%	460,807	-	108,954	569,761
75%	1,702,118	(144,937)	-	1,557,182
100%	5,248,549	(133,766)	-	5,114,782
150%	74,956	-	-	74,956
Total	10,513,943	(278,703)	152,890	10,388,129

7. 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. Under this approach following collaterals are recognized as eligible:

- cash on deposits;
- 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;
- equities or convertible bonds; and
- gold.

In order to reflect the possible fluctuations in the collateral value CEB applies supervisory haircuts set by the Dutch Central Bank.

CEB strictly follows 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. The distinction is made between collaterals eligible for capital adequacy calculation and other collaterals.

Table 10 Breakdown of total exposure by type of collateral

(31 December 2009)

	Central governments and central banks	Institutions	Corporate	Retail	Residential real estate	Past due	Total Exposure
Eligible collateral and other credit enhancements							
Cash collaterals	-	-	155,163	-	-	401	155,564
Bank Letter of Guarantee	-	-	7,312	-	-	-	7,312
Insurance applied	-	-	1,073	164,095	-	-	165,168
Margin accounts	-	236,640	-	-	-	-	236,640
Total Eligible Collaterals	-	236,640	163,547	164,095	-	401	564,683
Other financial collaterals							
Other financial collaterals	-	-	566,223	132,171	-	19,163	717,556
Other physical collaterals	-	-	1,522,294	424,298	616,244	113,970	2,676,806
	-	-	-	-	-	-	-
Total Other Collateral	-	-	2,088,517	556,468	616,244	133,134	3,394,363
Collateralized exposure, gross	-	236,640	2,252,064	720,563	616,244	133,534	3,959,046
Uncollateralized exposure, gross	2,110,812	991,407	1,830,886	727,982	(24,823)	163,679	5,799,945
Impairment Allowances (-)	-	(3,168)	(42,025)	(22,758)	(213)	(140,043)	(208,207)
Net Exposure Total	2,110,812	1,224,880	4,040,925	1,425,787	591,208	157,170	9,550,784

(31 December 2008)

	Central governments and central banks	Institutions	Corporate	Retail	Residential real estate	Past due	Total Exposure
Eligible collateral and other credit enhancements							
Cash collaterals	-	-	124,908	905	-	-	125,814
Bank Letter of Guarantee	-	-	7,421	-	-	-	7,421
Insurance applied	-	1,437	-	144,032	-	-	145,469
Margin accounts	-	-	-	-	-	-	-
Total Eligible Collaterals	-	1,437	132,329	144,937	-	-	278,703
Other financial collaterals							
Other financial collaterals	-	-	861,667	37,744	-	12,485	911,897
Other physical collaterals	-	-	1,559,173	571,957	631,950	57,425	2,820,505
	-	-	-	-	-	-	-
Total Other Collateral	-	-	2,420,840	609,702	631,950	69,910	3,732,402
Collateralized exposure, gross	-	1,437	2,553,169	754,639	631,950	69,910	4,011,105
Uncollateralized exposure, gross	1,956,160	1,487,933	2,134,419	969,312	8,545	112,243	6,668,613
Impairment Allowances (-)	-	-	(10,633)	(29,310)	(742)	(125,091)	(165,776)
Net Exposure Total	1,956,160	1,489,370	4,676,955	1,694,641	639,754	57,062	10,513,943

Besides financial collaterals CEB also accepts unfunded credit protections. These are mainly bank guarantees, insurance, CDS and fiduciary deposits. The risk mitigation in this case is

provided by substituting the risk of the direct counterparty by the risk of the issuer (provider) of credit protection.

The credit quality of unfunded credit protections that CEB possesses as of reported periods is shown in the table below:

Table 11 Credit quality of unfunded credit protection

(31 December 2009)

Rating Mapping	Collateral type	
	Letters of guarantees	Insurance
Aaa-Aa3	-	41,130
A1-A3	5,947	124,038
Unrated	1,365	-
	7,312	165,168

(31 December 2008)

Rating Mapping	Collateral type	
	Letters of guarantees	Insurance
Aaa-Aa3	1,182	42,753
A1-A3	6,239	102,716
	7,421	145,469

8. Counterparty Credit Risk

Counterparty Credit Risk is the risk that the counterparty of a transaction could default before the final settlement of the transaction's cash flows. It arises mainly from the derivative contracts and securities financing. The main sources of counterparty credit risk that CEB regularly faces are currency and interest rate swaps and forwards as well as equity and currency options.

Calculation method for the purpose of capital adequacy reporting

For assessing the extent of counterparty credit risk CEB applies Current Exposure Method (CEM) as laid down in 'Supervisory Regulation on Solvency Requirements for Credit, Market and Operational Risks' dated 11 December 2006.

Under CEM, the exposure value shall be calculated as the sum of the positive current replacement cost per item and the potential future credit exposure. The current replacement cost shall be determined on the basis of the current market value of contracts with positive values. The value of potential future credit exposure regardless of whether the current replacement cost is positive or negative, is the product of the total of the notional principal amounts or of the underlying values and supervisory multiplier which depends on the nature of the product and residual maturity of the contract.

Mitigation of counterparty credit risk

As a part of its normal securities financing and derivatives trading activities, CEB enters into master agreements such as ISDAs, GMRA's, accompanied by Collateral Support Annexes (CSA's). Among these agreements, only a few of them make explicit reference to calling additional collaterals in case of CEB's downgrade by one of the established rating agencies.

Risk Management's assessment underlines that –given the current portfolio composition of derivatives- the actual amount that CEB would be required to pledge is insignificant.

Apart of close-out netting agreements CEB attracts also other collaterals for mitigation purposes. These are mostly cash but also debt securities and equity shares issued by a A and above rated counterparties.

Next table shows the effect of the risk mitigation techniques of the counterparty credit risk.

Table 12 Mitigation of the counterparty credit risk

(31 December 2009)

	Institutions	Corporates	Total
Gross positive fair value	98,757	93,053	191,810
Reduction from netting agreements (-)	(49,760)	(12,664)	(62,424)
Netted current replacement costs	48,996	80,389	129,386
	-	-	-
Potential future credit exposure	119,193	55,066	174,259
	-	-	-
Total CCR	168,189	135,456	303,645
	-	-	-
Collaterals held (-)	-	(23,851)	(23,851)
	-	-	-
Total CCR net of collaterals	168,189	111,604	279,793

(31 December 2008)

	Institutions	Corporates	Total
Gross positive fair value	97,778	126,007	223,786
Reduction from netting agreements (-)	-	-	-
Netted current replacement costs	97,778	126,007	223,786
	-	-	-
Potential future credit exposure	105,173	142,509	247,682
	-	-	-
Total CCR	202,951	268,517	471,468
	-	-	-
Collaterals held (-)	-	(38,816)	(38,816)
	-	-	-
Total CCR net of collaterals	202,951	229,700	432,652

9. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal and outsourcing risk but excluding business, strategy and reputational risk.

During the last quarter of 2008, CEB established an Operational Risk Management (ORM) department across the company, whose goal is to consolidate already existing ORM activities and coordinate implementation of the framework at locations where there was no prior ORM activity. The framework uses a risk-control self-assessment and operational-loss database to identify risks and to establish risk-mitigating action points. There are ORM officers at each department ensuring that operational risk management is embedded in the day-to-day operations.

A new product-approval process has also been introduced to ensure that new products and processes are introduced in a well prepared manner by all parties involved.

Within the Basel II framework CEB uses the Basic Indicator Approach with a goal to move to the Advanced Measurement Approach after fulfilling the necessary requirements. Under the Basic Indicator Approach, the capital requirement for operational risk is equal to 15% of the three year average gross income. The three-year average is calculated on the basis of the year-end audited figures. The gross income includes following items:

- Net interest income;
- Net fee and commission income;
- Results from trading activities.

10. Market Risk

Market risk is defined as the current or prospective threat to CEB's earnings and capital as a result of adverse movements in market prices (security and derivative prices, as well as interest rates and foreign exchange rates) or in parameters such as volatility and correlations. The trading portfolio includes financial instruments such as securities, derivatives and FI loans, which are exposed to short-term price/interest-rate fluctuations. Eligible positions should be in line with the guidelines and principles set out in the Market Risk Policy. No eligible positions and financial instruments approved by ALCO are monitored

within the scope of the banking book. In line with its business plan, CEB has 'minor' risk appetite in market risk.

CEB aims at regularly measuring and monitoring its market risk associated with adverse market movements affecting the trading components of its treasury and FI portfolio. It measures its market risk using different approaches, both standard and internal models.

CEB's risk tolerance in the form of limits is determined to manage market risk efficiently and to keep market risk within these limits. Risk limits, such as VaR limit, notional limits and sensitivity limits, are set by considering the primary risk factors. In case of a limit breach, ALCO is convened to determine strategy and take necessary actions to restore the outstanding exposure to within limits in a certain period of time. CEB 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 VaR model is used only for risk monitoring purposes and not for regulatory capital purposes. Regulatory capital for market risk is calculated and reported quarterly according to the Standard Approach as specified in the market risk regulations of the Dutch Central Bank.

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

Value-at-risk of trading units	Total	Diversification effect	Interest-rate risk	Foreign-exchange risk
Average	8,807	28.35%	8,812	685
Maximum	12,325	2.19%	12,207	394
Minimum	3,890	48.14%	7,356	144
Period-end	5,854	0.88%	5,848	58

Stressed Value-at-Risk, a measure proposed by BIS in 'Revisions to the Basel II market risk framework' (BIS, July 2009), is a replication of the usual VaR, with the only difference being the market-data window. The Bank has chosen a period of high financial stress for its incremental market-risk measure: August 2008 – August 2009. The other parameters are identical to those used for regular VaR reporting: Historical Simulation method, 99% confidence interval, daily returns and also the portfolio. As of December 31, 2009, the 10-days stressed VaR is EUR 6.23 million.

11. Interest Rate Risk

CEB defines interest rate risk as the current or prospective risk to earnings and capital arising from adverse movements in interest rates. Subsidiaries are not allowed to carry interest rate positions and expected to transfer their positions to the parent bank where centralized ALM and funding principles are in place. CEB has a "minor" risk tolerance towards interest rate risk in its banking book.

For the Repricing Gap any mismatch exceeding 15% of the equity, at maturities longer than 6 months, is hedged, unless otherwise approved by ALCO. Treasury and ALCO does closely follow-up the interest-rate sensitivity of each currency on duration basis. For the maturity Gap the consolidated Gap shouldn't be negative for the first 6 months unless otherwise approved by ALCO.

Interest Rate Risk analysis can be found in note 38.k, p. 96 of Annual Report, 31 December 2009.

12. 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. Liquidity risk arises from inability to manage unplanned decreases or changes in funding sources and the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

The Bank monitors its liquidity position on a daily basis and conducts regular liquidity stress testing. The Bank identifies the following items as the key liquidity-risk drivers:

- **Withdrawal of deposits:** The Bank should withstand a severe meltdown in its non-maturity deposits through deploying its available liquid assets. The severity is defined as a 40% loss in the saving-account balance in a period of one month.
- **Erosion in value of liquid assets:** The Bank applies a 75% haircut for the securities that are not eligible for re-financing through the European Central Bank (ECB). The remaining qualifying securities are taken into account after adding nominal 5% on top of the existing haircuts applied by the ECB. The policy also incorporates a scenario of material price drops, which in return further decrease the re-financing capacity..
- **Erosion in value of liquid assets:** The Bank applies a 75% haircut for the securities that are not eligible for re-financing through the European Central Bank (ECB). The remaining qualifying securities are considered after applying certain haircuts according to their external ratings.
- **Additional collateral requirements:** The Bank has sensitivity to certain FX parities due to its involvement in swap markets. The Bank might face intensive margin calls from the counterparties if certain FX rates move in the adverse direction. The Bank measures the required liquidity under worse-than-expected FX market conditions.

The Board and senior management ensure that the Bank's funding strategy and its implementation are consistent with their expressed risk tolerance. The board delegates responsibility for establishing specific liquidity-risk policies and practices to the Asset/Liability Committee (ALCO). ALCO is responsible for ensuring that measurement systems adequately identify and quantify the Bank's liquidity exposure and that reporting systems communicate accurate and relevant information about the level and sources of that exposure.

Any violation of the liquidity policy and predefined limits is reported to ALCO. In the case of limit excess during a market turmoil, ALCO calls an immediate meeting to discuss options to bring the liquidity to its desired levels. This can include slowing down and/or ceasing to enter into new commitments, selling assets from trading and AFS portfolios, and increasing spreads to attract new long-term funds on the consumer and corporate sides, as defined in

the Bank's contingency-funding plan. To mitigate liquidity risk, the Bank diversifies funding sources as customer deposits and funds borrowed from abroad and it keeps certain level of assets as cash and cash equivalents.

Liquidity gaps as a result of size and maturity mismatches in assets and liabilities also generate liquidity risk. Liquidity-gap analysis is done on a monthly basis, to be submitted to ALCO, or more frequently when required. It distributes all on-balance sheet assets' and liabilities' expected cash flows in predefined maturity bands according to remaining contractual maturity.

In its second consultation paper, 'International Framework for Liquidity Risk Measurement, Standards and Monitoring', the Basel Committee proposes a strengthened liquidity framework which introduces quantitative standards for funding and liquidity. The two proposed measures are a 30-day liquidity coverage ratio designed to ensure short-term resilience to liquidity disruptions and a longer-term structural liquidity ratio to address liquidity mismatches and promote the use of stable funding sources. Our interim impact study found that CEB NV is well above the proposed thresholds, verifying CEB NV's strong liquidity position.

Treatment of non-maturity liabilities

CEB's approach to non-maturity liabilities such as saving accounts is as follows: CEB targets withstanding a severe meltdown in its saving accounts deploying its available liquid assets. The severity is defined as a 40% withdraw in the saving account balance in a period of 1 month. The scenario anticipates a fast start in the beginning, i.e. around 11% of the saving accounts is withdrawn in the first week and reaching 40% in one month.

Required one week and one month liquidity

On daily basis the minimum thresholds for one week and one month liquidity are measured and monitored. The one week/month required liquidity is the sum of: 40% of the saving accounts, the foreign exchange stress impact, liquidity stress impact and the 5-days/10-days trading portfolio 99% value at risk.

The foreign exchange stress is performed by applying the maximum historical adverse return of the FX time series to the FX gross open position for each foreign currency. The highest loss effect is measured as the maximum devaluation of long or short FX position. The final FX impact is the summation of the individual currency impacts.

The liquidity stress is computed by increasing the existing valuation haircuts of the ECB eligible securities to more conservative levels: the first scenario increases them with 5%, while the second scenario doubles the current valuation haircut. The highest decrease in liquidity on portfolio level is picked to be the liquidity stress result.

Maturity gap analysis can be found in note 38.i, p. 94 of Annual Report, 31 December 2009.

ANNEX I: List of Significant Subsidiaries

Credit Europe Bank N.V. (Amsterdam)

Credit Europe Bank Ltd (Russia)

CSJC Credit Europe Bank (Ukraine)

Credit Europe (Romania) Bank S.A.

Credit Europe (Suisse) Bank S.A.

Credit Europe Bank Ltd (Dubai)