Annual Report **2013**

Financial Statements of DHB Bank for the Year 2013

DHB Bank

DEMİR-HALK BANK (NEDERLAND) N.V.

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Demir-Halk Bank (Nederland) N.V. – hereafter referred to as DHB Bank – was established as a commercial bank under Dutch law in 1992. Headquartered in Rotterdam, the bank conducts its activities through locations in the Netherlands, Germany, Belgium, and Istanbul. As of year-end 2013, DHB Bank's balance sheet size was EUR 1,735.1 million and equity EUR 232.6 million.

Bank Profile & Financial Highlights

Owned by HCBG Holding B.V. (70%) and Türkiye Halk Bankası A.Ş. (30%), DHB Bank has a two-tiered management structure, the Managing Board and the Supervisory Board.

The bank is funding its operations to a large extent via retail deposits collected in the Netherlands, Germany and Belgium. The bank's lending is focused on wholesale placements, mainly in Turkey and Europe, with an investment appetite, to a certain extent, for the Commonwealth of Independent States (CIS) as well. Credit customers include financial institutions as well as corporates and, on a smaller scale, retail clients.

DHB Bank's Ba2 long-term bank deposits credit rating by Moody's Investor Services was reaffirmed in December 2013 with a stable outlook.

DHB Bank sees its primary role in creating value for all its stakeholders while living up to its economic and social responsibilities.

Mission Statement

Delivering quality through transparent and fairly priced products and services to retail clients in the European markets where we are present and to international enterprises in a select number of countries in order to foster mutually beneficial long-term relationships for sustainable business success in favour of all our stakeholders.

Vision Statement

Being an international bank of choice in the niche markets where we operate, a trusted partner for our customers, a valuable investment for our shareholders, a preferred employer for our staff, and a good corporate citizen for society.

Consolidated	**2013**	**2012**
	(EUR 000)	(EUR 000)
Total assets	1,735,051	1,810,879
Loans and receivables – banks	328,592	413,512
Loans and receivables – customers	849,462	755,798
Deposits from customers	1,262,715	1,333,623
Total equity	232,612	225,889
Net interest income	49,313	49,971
Net fee and commission income	5,640	9,010
Result on financial transactions*	(11,229)	(16,471)
Net profit	18,105	17,877
Solvency ratio (%)**	17.84	16.71
Number of employees	142	146
Number of locations	10	10

** The result on financial transactions represents overwhelmingly the interest cost of swap transactions (that are not designated for hedge accounting purposes) that the bank conducts for funding its loans in USD and TRY denomination.*

*** If 50% of the net profit for the year 2013 is distributed as dividend as proposed by the Managing Board and adopted by the Supervisory Board and General Meeting of Shareholders, and ultimately depending on the no-objection decision of De Nederlandsche Bank (the Dutch Central Bank), the solvency ratio would be 17.14%.*

We are pleased to present the financial statements of DHB Bank for the year ending December 31, 2013. These financial statements were prepared by the Managing Board (MB), and have been audited by KPMG Accountants N.V. The external auditors' unqualified report is attached to the annual accounts.

Report of the Supervisory Board

We propose to the annual General Meeting of Shareholders (GMS) to adopt the financial statements for 2013 and the appropriation of the financial result. Pursuant to Article 23, clause "d" of the Articles of Association (AoA) of the bank, GMS's approval will discharge the Managing Board from liability with respect to its management of the bank's activities. Similarly, pursuant to Article 23, clause "e" of the AoA, GMS's approval will discharge the Supervisory Board (SB / the Board) from liability with respect to its supervision of the bank's activities.

The Board of DHB Bank is composed of eight members. In alignment with the Dutch Corporate Governance Code, half of the members, including the chairman, are independent. The SB is responsible for the supervision of the policy of the Managing Board, for the supervision of the general course of affairs and risk management, and for assessing and approving the strategies proposed by the Managing Board; these responsibilities and authorities of the SB are defined in the Supervisory Board Policy. This policy covers other aspects as well and is updated from time to time as needed. The SB conducts its activities either with all its members or via its sub-committees that are set up for particular fields and that are comprised of members particularly specialized in these fields. Decisions taken in these committees are subsequently submitted to the SB for final approval or for information purposes, depending on the committees' functions and authorities. These committees are:

Risk and Audit Committee (RAC): The RAC assists and advises the SB in fulfilling its oversight responsibilities with regard to risk and audit issues. The RAC discusses the bank's risk profile and assesses, at a strategic level, whether capital allocation and liquidity impact in the general sense are in line with the approved risk appetite, among other subjects. The RAC convenes periodically, at least three times a year.

Remuneration and Compensation Committee (RCC): The RCC assists and advises the SB in fulfilling its responsibilities with regard to the remuneration of the members of the MB, of the senior staff in general, and of the senior staff engaged in risk management and control functions.

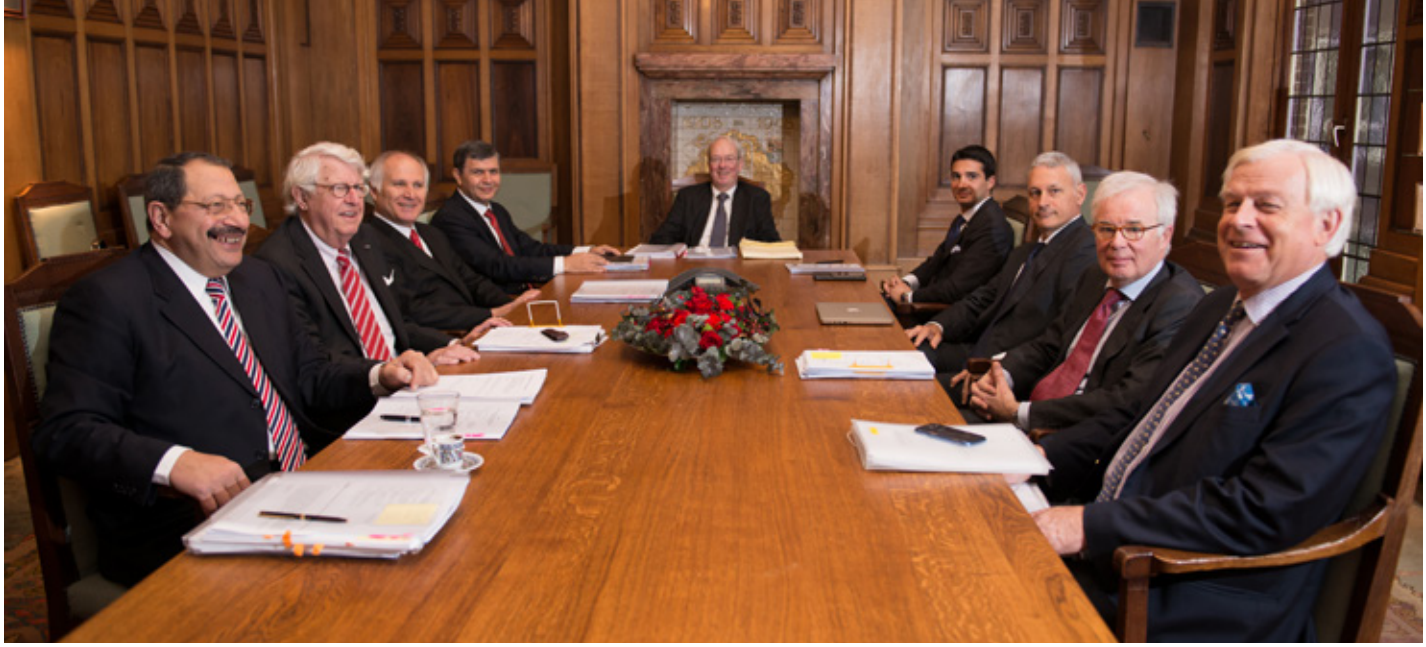
Related Party Transactions Committee (RPTC): The RPTC reviews and grants pre-approval to the transactions with (i) one or more of its shareholders or with one or more individuals or legal entities directly or indirectly related to shareholders of the Bank, (ii) members of the MB or their Relatives, or (iii) members of the SB or their Relatives. The members of the RPTC are appointed from among the independent members of the SB who are not related to the relevant transaction.

Supervisory Board Credit Committee (SBCC): The SB has delegated part of its authority to grant/approve credit limits to the SBCC for amounts and transaction types as stipulated in the bank's Credit Approval Authorities Principles.

Nomination Committee: The Nomination Committee convenes whenever necessary for identifying, selecting and proposing candidates for vacancies in the SB and MB.

During 2013, the SB and/or its sub-committees regularly convened at least every month in the fulfilment of its/their duties, either in person or via teleconference. In its supervision, deliberations and decisions, the Board put particular emphasis on risk management, on corporate governance, on the financial performance of the bank, on regulatory requirements, on market developments, and on compliance with the stipulations of

"Half of the supervisory board members, including the chairman are independent."



the Dutch Banking Code (DBC), all in the framework of the stakeholders' interests. The SB has in particular continued to spend ample time on discussing and reviewing the business model, the strategic path and long term plan of the bank. This was partly due to diverging opinions on the speed and direction of complying with the requirements, guidance and suggestions of the regulatory authority, as against the needs and interests of all the real stakeholders. In awareness of its duty of care towards clients and of the bank's responsibility towards the society, the SB engaged in trying to maintain a healthy and fair balance between all its stakeholders' interests while endeavouring to keep a low risk profile and conducting its duties within the boundaries set by the regulatory authorities. As a multitude of important changes in the regulatory environment, with implications on the strategic path and business model of the bank, also necessitated the refinement of the bank's internal governance concerning strategic decisions, the SB and MB jointly organized informal meetings directly with the shareholders both to provide them with more frequent updates – beyond the annual general meetings of shareholders - and have their opinions on the strategic direction and business model of DHB Bank.

As part of its working routine, the SB met regularly with the MB. The main matters discussed included the regulatory environment and requirements. These issues take up much time and are not always conducive to clients' business on the asset and liability sides of our balance sheet nor to the bank's financial performance, or to the economic and financial developments in the bank's markets of operations. These topics, together with other bank-specific subjects, were covered extensively in the management reports as well as in the reports of the internal and external auditors. The Board has put emphasis in its discussions with the MB on other issues as well, specifically its business model, strategic planning and budgeting, risk appetite and risk management. In particular, the SB has continued to closely monitor the financial and economic turmoil in the Eurozone as well as developments in Turkey, along with the bank's general exposures and investment profile in terms of size, borrower segments and geographical coverage. The SB has always taken keen interest in providing ongoing added value and appropriate services to our clients. A veritable avalanche of rules and regulation, taxes, levies, decrees etc. in the banking sector continued to require a great effort on the part of the Managing Board and the Supervisory Board so as to align these with the justifiable wishes of shareholders and clients, and keep them informed timely, comprehensively and appropriately.

In this context, an important regulatory development in the Netherlands is the enactment of the Policy Rule on Maximizing the Deposits and Exposures Ratio under the Act on Financial Supervision (hereafter referred to as New Policy Rule) in February 2014. The New Policy Rule, on which more information is provided under the section 'Report of the Managing Board', will have implications for the business model of the bank. The strategic path proposed by the MB to fully comply with the new requirements over a certain timeframe was extensively deliberated and approved by the SB. In a nutshell, the new path, which is developed taking into consideration all the stakeholders' interests, will increase the assets' local anchorage in the European Economic Area. The SB will monitor the carrying out of this strategic shift within the bank's stringent risk management framework.

During 2013, the SB and MB were in dialogue with DNB also in the context of the central bank's industry-wide thematic examinations on various subjects, like: IT and information security, internal audit, money transfer activities, banknote handling operations, and monitoring of customers and transactions in the context of anti-money laundering. In terms of risk absorption capacity, DHB Bank has an adequate capital buffer by international standards to weather unexpected local and/or regional crises. A sticky and proven retail deposit base,

From left to right:
Mr M.Shafik Gabr,
Mr Hans J.Ph. Risch,
Dr Nurzahit Keskin,
Mr Süleyman Kalkan,
Mr Hanno W. E. Riedlin,
Mr Kemal H. Cıngıllıoğlu (observer),
Mr İ. Hasan Akçakayalıoğlu,
Mr Henk Sliedrecht,
Mr Theodoor J. Bark.

along with other liquidity measures, should enable the bank to withstand possible future liquidity squeezes in the markets. This position is a result of and supported by DHB Bank's internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP).

Where applicable, the SB, along with its sub-committees, namely the RAC and the RCC, closely monitored compliance with regulatory changes throughout the year, including the changes concerning the risk management and reporting and the remuneration policy. Overall, in close communication with the MB as well, the SB and its committees continued to ensure the full implementation of the Dutch Banking Code in the bank in both text and spirit. The RPTC, consisting of two independent SB members, reviewed and pre-approved some transactions the bank entered into with related parties in the ordinary course of business. The SB and SBCC regularly convened to assess the credit proposals of the credit committee of the bank.

Corporate governance, which was significantly strengthened and enhanced in the past couple of years, continued to underline the supervisory and administrative principle of the bank, while all the stipulations of the DBC have to be fully adopted by DHB Bank. Furthermore, the Board acknowledges that, though the Dutch Corporate Governance Code is not necessarily fully applicable to DHB Bank on the grounds that it is not a listed company, the bank largely complies with the Code's relevant requirements, including internal risk management, internal audit, corporate governance and compliance. The independent organizational structure of the Internal Audit Department and the Compliance Department, with a direct information line to the RAC and its Chairman, also ensures an effective control in the respective fields. The Chairman of the RAC has periodically one-to-one meetings with the Head of Internal Audit and of the Compliance Department. Regarding compliance with the Dutch Banking Code, detailed information is provided by the MB in the last section of this annual report.

All the SB members in office – and the MB members – took part in lifelong learning sessions organized during 2013. In three sessions, which were facilitated by external consultants, the subjects covered were Global & Turkey: Recent Economic and Market Developments; Country Risk Analysis in a Risky World; and Classification of risk, behavioural finance and heuristics, models and their shortcomings, and recommendation for sound risk management (jointly presented by an external consultant and the chairman of the SB). These sessions were considered to be valuable in maintaining and enhancing the expertise of the SB members. Furthermore, the SB is of the opinion that these sessions, combined with their professional background and experience, also helped the members of the MB to continue fulfilling the expertise requirements developed by DNB in the exercise of their functions.

The bank's Supervisory Board Policy stipulates that the functioning of the Supervisory Board is to be evaluated under independent supervision once every three years. The involvement and contribution of each member, their cultural and social fit within the SB, their self-development, the effectiveness of the lifelong learning, and the relationship between the Supervisory Board and the Managing Board are among the subjects of this evaluation. Based on the members' self-assessment and individual interviews conducted by Prof.dr. Mijntje Lückerath-Rovers, who is an expert on corporate governance as facilitator, the independent evaluation of the SB took place in the third quarter of 2013. The outcome of this evaluation was discussed among the members with the facilitator in a special session. The SB is of the opinion that this evaluation further cemented the already constructive working principles of the Board by providing an additional

Supervisory Board Committees

	Riedlin, H.	Akçakayalıoğlu, H.	Bark, T.	Risch, H.	Keskin, N.	Sliedrecht, H.	Gabr, S.	Kalkan, S.
Risk & Audit Committee (RAC)		•		•	•	• Chair		
Remuneration and Compensation Committee (RCC)	• Chair		•					•
Related Party Transaction Committee (RPTC)				• Chair		•		
Nomination Committee (NC)	•		• Chair	•				
Supervisory Board Credit Committee (SBCC)		•		•			• Chair	•

> "In the course of 2014, the SB will continue its strategic oversight concerning the business model and activities of the bank on the basis of sound risk parameters."

open and congenial discussion platform, with a view to constantly adapting to the continuously changing banking environment.

As per the new regulations in a bid to improve confidence in the financial sector, starting 2013 SB members of Dutch banks and insurers have to pledge an oath to put their clients' interests first, and to observe other, similar principles. All the SB members of DHB Bank took that pledge in 2013, and signed the Banker's oath.

The periodical meetings of the RAC, whose members have sound knowledge and/or experience of the financial aspects of risk management and/or of audit and internal control systems, were also attended by the MB members, by the Head of Internal Audit, by the Compliance Officer and by a representative of the external auditor, KPMG Accountants N.V. The Chairman of the SB regularly attends these meetings as an observer. Besides financial reporting, internal audit, internal control systems and risk management policies and practices, the other subjects regularly reviewed included credit risk, corporate governance and its applications, compliance, as well as the assessment of the bank's risk appetite and its risk profile vis-à-vis the respective risk appetite. The risk appetite statement proposed by the MB and approved by the SB after some fine-tuning for 2013 covered various risk dimensions including capital adequacy, liquidity, various credit risk types and credit concentration, market risks, operational risk, IT and information security, integrity and reputation risk, compliance with regulations, for which the risk appetite levels are aligned with DHB Bank's business model and with its respective expertise and experience. A new risk management requirement was introduced by the regulator in 2013 in the Netherlands, namely the development of a recovery plan that sets out for the banks the possible key measures to be taken in 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 RAC and SB reviewed and approved the bank's comprehensive and wide-ranging recovery plan that was developed and improved by the MB throughout 2013, and are convinced that the measures envisioned therein provide adequate comfort regarding the preparedness of the bank against predictable and unpredictable crisis scenarios. In the context of risk management, the bank's risk monitoring and control mechanisms were also stepped up in 2013. Overall, the SB continues to accordingly maintain its view that internal risk management is adequately organized at DHB Bank.

In the course of 2014, the SB will continue its strategic oversight concerning the business model and activities of the bank on the basis of sound working risk parameters, including strong solvency and liquidity levels in compliance with the regulatory requirements and in alignment with the approved 2014 risk appetite statement. An ongoing dialogue with our Shareholders on strategic issues will continue to contribute to find a sound commercial direction.

The SB appreciates the revitalization of the bank's commercial activities, which, combined with the positive effects of the strategic realignment, yielded satisfactory results in the bank's overall performance for the past three years. In this connection, as proposed by the Managing Board, and adopted by the Supervisory Board and General Meeting of Shareholders, DHB Bank distributed 50% dividend in 2013 from the 2012 financial year net profit.

A number of changes took place in the

composition of the Supervisory Board and Managing Board, as explained below.

Mr Mehmet Emin Özcan resigned from his position in the Board on 1 May 2013, subsequent to his appointment to the position of Vice Chairman of Vakifbank and his consequent departure from Halkbank. We would like to thank him for the valuable inputs and contributions he provided during his tenure in the SB since 1 June 2010. We wish him success in his new endeavors.

Mr Süleyman Kalkan, a proficient banker who served in several managerial and executive positions throughout his career, joined the SB on 31 October 2013, following the completion of various processes such as selection and nomination by the Nomination Committee, discussions and decisions at the SB and shareholders levels and ultimately subsequent to the receipt of DNB's no-objection decision.

During the second half of 2013, Mr Kemal Cıngıllıoğlu has started to attend the meetings of the Supervisory Board and its sub-committees in the position of observer.

After 43 years of active professional life, of which the last 11 were with DHB Bank, first as member of the Supervisory Board (SB) and since 2006 as member of the MB, Mr Ab Rutgers retired on 31 December 2013. On this occasion, we would like to express our sincere appreciation for the contributions he made during his terms of office, and wish him well in this new phase of his life.

At the MB level, some developments in the banking environment during the past few years, such as relatively much more focus on regulatory aspects, governance and risk management along with the strategic alignment of commercial activities, have resulted in intense workloads for the members of the MB. Therefore, on the advice of the GMS, the SB decided to re-instate the former 3-member Managing Board structure at DHB Bank. Accordingly, after selection processes initiated by the Nomination Committee, and receiving DNB's respective no-objection decisions, 2 new members joined the MB to complete the intended structure.

On 27 November 2013, Mr Steven Prins joined DHB Bank as member of the Managing Board. Mr Prins is an all-round banking professional who started his career at Rabobank International in 1987. After joining GE Artesia in 1994, he rose through the ranks at that bank, most recently serving as CEO. We wish him success in his new role at DHB Bank.

Mr Okan Balköse, an experienced banker who started his career at Iktisat Bankasi in 1993 and who, after various executive positions at a number of financial institutions, assumed the General Manager position of Bank Pozitif Kredi ve Kalkınma Bankası in 2004, joined DHB Bank on 1 January 2014 as member of the Managing Board. We wish Mr Balköse success in his new position.

We express our appreciation for the dedication of DHB Bank's management and staff, and thank them for their efforts during the year under review.

Our Shareholders continued to provide us support, maintaining their financial commitments in times of upheaval and in an environment that has changed from warmly welcoming into rather unfavourable. We are very appreciative of this attitude.

Finally, we would like to thank all our clients and partners for the confidence they continue to place in DHB Bank.

Rotterdam, 11 April 2014

Mr Hanno W. E. Riedlin
Chairman

Mr İ. Hasan Akçakayalıoğlu

Mr Theodoor J. Bark

Mr Hans J.Ph. Risch

Dr Nurzahit Keskin

Mr Mehmet Emin Özcan
(Until 1 May 2013)

Mr Henk Sliedrecht

Mr M. Shafik Gabr

Mr Süleyman Kalkan
(Since 31 October 2013)

Report of the Managing Board

Overview and Highlights

Starting its operations in 1992 with EUR 8.1 million (equivalent of NLG 17.8 million) in equity, the bank grew over the years to become a full-fledged commercial bank with an equity of EUR 232.6 million and asset size of 1,735.1 million at the end of 2013. During this time-span, comparatively short in the general banking context, the bank has successfully, and independently, weathered financially and economically turbulent times, both regional and global. Thus, DHB Bank has established that it possesses the organizational structure, operational infrastructure and human resources to continue, now and in future, on its path in long-term sustainable banking for the benefit of all its stakeholders. The bank's relatively small size, centralized organization, and focused business areas with straightforward products and services are the main factors securing its flexibility in swiftly adapting to changing environments.

DHB Bank's activities are anchored in traditional commercial banking, based mainly on retail funding and wholesale asset generation. Retail deposits are collected from Belgium, Germany and the Netherlands, primarily via Internet and call centre channels, supported by regional main branches in Germany and Belgium as well as local branches in the Netherlands. The bank's wholesale asset generation activities are centralized at the Head Office in Rotterdam. DHB Bank has a representative office in Istanbul as a direct liaison location for its interests in Turkey and the region. Wholesale asset generation activities comprise primarily placements in the form of corporate loans, (trade-related) bank syndications, bilateral (trade-related) bank loans, and securities investments. To a lesser extent, DHB Bank also provides consumer loans. As with the liability side, geographical diversity is an essential feature of DHB Bank's activities on the asset side. Areas covered include primarily Turkey, Europe and the Commonwealth of Independent States (CIS). As a niche area, the bank has also included in its customer portfolio Turkish companies operating and generating revenue stream outside Turkey – primarily in Europe.

"...providing ongoing added value and appropriate services to our clients..."

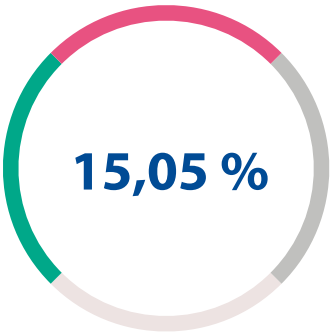
The MB sets the working guidelines centred around the below principles, all in the framework of its risk appetite:

- Compliance with regulatory requirements,
- Adherence to corporate governance and risk management principles,
- Maintenance of sufficient capital buffer by international as well as local standards,
- Maintenance of adequate liquidity,
- Focus on asset quality, and
- Ensuring sustainable profitability, and,
- Upholding interests of all its stakeholders.

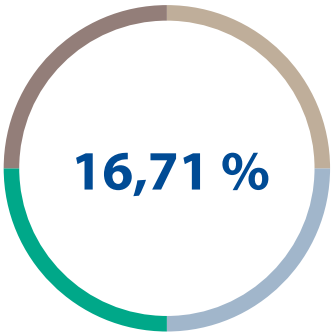
In this context, for the past few years, the bank's corporate governance and compliance structure has been significantly enhanced, as explained in the sub-section 'Banking Code & Corporate Governance'.

Starting in the last quarter of 2010, DHB Bank implemented a strategic alignment program. The purpose of this program was to revive and restructure the bank's lending activities that had been scaled back during the 2008 global crisis by focusing on asset quality as well as on exceptionally high liquidity and a high capital base. The

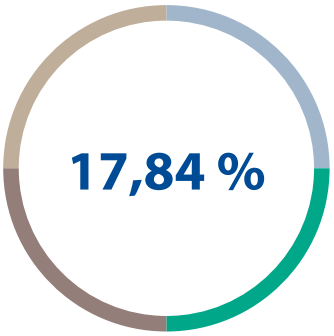
Solvency Ratio %



2011



2012



2013

strategic alignment program geared the bank's activities towards a more active placement policy to further diversify its geographical coverage. It also redefined the client base, increasing corporate placements in a wider geography while simultaneously reducing the volume and proportion of bank placements. In recent years, regulatory requirements have progressively become more stringent, encompassing almost all banking activities, including corporate governance and business model issues. In view of this fact, and in parallel with economic developments, the strategic alignment program is an on-going process in the bank's agenda as explained in more detail in the Strategic Alignment & Business Model section.

During the year under review, DHB Bank slightly reduced its balance sheet from EUR 1,810.9 million at the end of 2012 to EUR 1,735.1 million at the end of 2013. The decrease was primarily driven by a voluntary and planned reduction in retail funds, while, on the other hand, a slight increase was achieved in 'due from banks', and, more importantly, in the equity, despite the 50% dividend distribution in 2013 from the 2012 net profit, compared with the previous year.

The realignment of DHB Bank's activities continued to bear its results; thanks to an active asset and liability management in keeping with the approved risk appetite, the bank closed the year with a EUR 26.6 million operating result before impairment and before tax, well above the budgeted amount and the 2012 figure in spite of slight downsizing throughout the year under review. DHB Bank had not set aside a significant impairment charge in 2012. In 2013, specific provisions were set aside for a particular loan that has been restructured. Accordingly, DHB bank closed the year with a EUR 18.1 million net profit.

Parallel to its financial activities, in the course of 2013, DHB Bank continued to reinforce its corporate governance applications, while also carrying out projects related to risk management. The bank's corporate governance framework and risk management infrastructure are explained in the below sections. In this context, the bank was in frequent dialogue with DNB in relation to the supervisor's regular supervision areas such as ILAAP, ICAAP and Basel III, and its system-wide thematic examinations including prudential reporting, IT and information security, internal audit, money transfer activities, banknote handling operations, and monitoring of customers and transactions in the context of anti-money laundering. DHB Bank's results were generally satisfactory in these examinations, while some areas of improvement recommended by the regulator have been tackled accordingly. The business model subject was a permanent agenda item of the discussions with DNB. In addition, tripartite meetings are organized yearly between DNB, the bank's Internal Audit Department and the external auditors during which various aspects of reporting, internal audit and risk management are jointly reviewed and discussed.

With regard to risk management, among other measures, in 2013, the bank developed a comprehensive recovery plan that describes a range of possible robust and credible recovery measures designed to respond to financial stresses, whether idiosyncratic or systemic, while at the same time assessing these measures' feasibility and impact. The recovery plan, which was developed by the MB and approved by the SB, was continuously improved throughout 2013 - in consultation with DNB. This recovery plan is an integral part of the bank's risk management framework.



Shareholders

HCBG Holding B.V. holds 70% of DHB Bank's shares, while the remaining 30% is owned by Türkiye Halk Bankası A.Ş (Halkbank).

HCBG Holding B.V., whose principal business activity is to act as a financial holding company, is 100% owned by Dr. Halit Cıngıllıoğlu. In addition to his indirect investment in DHB Bank, Dr. Cıngıllıoğlu has a direct interest in Demir Kyrgyz International Bank OJSC as well; that bank's other shareholders are the International Financial Corporation and the European Bank for Reconstruction and Development, each with a 15% stake.

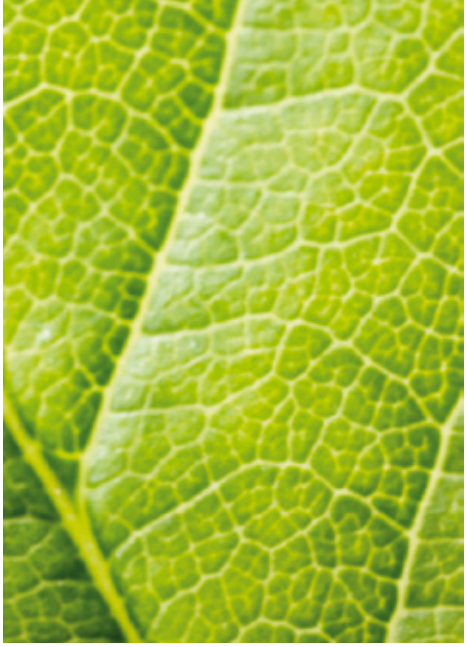
Halkbank, with nearly EUR 48 billion balance sheet size, is the sixth largest bank by assets in Turkey; its main shareholder is the Turkish state with a 51.1% stake, while 48.8% is free float, and the remainder is held by other shareholders. Halkbank, which has established itself as the leading bank for financing SMEs in Turkey, continues its mission to contribute to the country's economic development.

The shareholders of DHB Bank have once again demonstrated their support to the bank. In line with their traditional commitment since DHB Bank's establishment in 1992, they decided to retain 50% of the 2012 profit in the equity, subsequent to the no-objection decision of DNB as per the Dutch regulations concerning dividend distributions. This no-objection decision, on the other hand, is considered by the MB as a validation of DHB Bank's solid financial standing within a financial and economic environment still underway to reaching stability.

Additionally, in 2009, Halkbank and DHB Bank had signed a liquidity contingency agreement as a supplementary precaution designed to help DHB Bank to weather any unexpected very severe deterioration in the markets. This agreement allows DHB Bank to rely upon an immediate cash support from Halkbank, and has been last extended in July 2013 for EUR 100 million and for a period of 18 months.

"...traditional commitment since DHB Bank's establishment in 1992..."





"Balancing the interests of all the stakeholders, including the bank's clients, are the major principles guiding the decisions of the Managing Board."

Managing Board

The Managing Board (MB) is responsible for the day-to-day management of the bank, for the development of strategies and for the fulfilment of the bank's obligations towards regulatory bodies. The MB consists of three members with different but complementary and long-term backgrounds in the banking sector. The résumés of the MB members are presented in this annual report before the financial statements section.

Safeguarding the continuity of the bank and balancing the interests of all the stakeholders, including the bank's clients, are the major principles guiding the decisions of the Managing Board. To this end, the MB ensures a balanced assessment of the commercial interests of the bank and the risks to be taken, taking into account the approved risk appetite of the bank. All the deliberations, strategic planning and day-to-day management of the MB are conducted on a collegial basis, resulting in unanimous resolutions. Based on these guiding principles, the MB frequently consults the senior management of the bank as well, and the majority of decisions are taken following discussions and deliberations at various bank committee meetings. In addition, apart from regularly discussing subjects related to the day-to-day management of the bank, the MB regularly meets at least once a month to consider, deliberate and take decisions on subjects adhering to a predetermined generic agenda.

While being jointly responsible for the management of DHB Bank, the members of the MB have separate primary responsibilities. In this framework, the MB member whose primary responsibilities include the commercial activities of the bank is not directly involved in risk management areas. Utmost care is jointly taken not to deviate from the risk appetite statement; this goal is achieved to a very large extent despite the volatile financial and economic environment. In case of temporary or potential deviations, which were very rare throughout 2013, the related subjects are extensively discussed by the related committees, including the RAC, based on written explanations on the respective matters in order to ensure the alignment of the risk profile and risk appetite of the bank. Temporary deviations during the year were solely due to rapidly changing regulations; the bank took progressive steps to eliminate these within the timeframe stipulated in the respective regulation and in consultation with the supervisor. The continuity of DHB Bank's activities is the core driver behind risk management. Going beyond the production and review of detailed management information system reports, risk management is a continuous process handled via the

different committees of the bank, some of which are Asset & Liability Committee, Credit Committee, and Risk Management Committee.

The Chairman of the MB annually prepares a lifelong learning programme for the members of the MB. Together with the SB, the MB members attended lifelong learning sessions organized during 2013. The three subjects covered were; Global & Turkey, Recent Economic and Market Developments; Country Risk Analysis in a Risky World; and Classification of Risk, Behavioural Finance and Heuristics, Models and their Shortcomings, and Recommendations for Sound Risk Management (jointly presented by an external consultant and the chairman of the SB). In the same context, the MB members additionally took part, individually, in other seminars and webinars, which were Leading by Example, and Monitoring Risk while Pursuing High Returns.

Banking Code & Corporate Governance

DHB Bank is committed to preservi ng the bank's integrity and reputation and to strictly complying with applicable laws and regulations. Within these working guidelines, the bank's internal governance structure as well as the respective policies and procedures have been significantly developed and expanded since 2011.

The bank's commitment to strictly observing the Dutch Banking Code (DBC), and the Dutch Corporate Governance Code to the extent applicable, is expressed in the Supervisory Board Policy, the Managing Board Policy, and the Articles of Association. These are embedded in the bank's corporate culture and supported and substantiated with various policies, procedures, measures and practices, some of which are briefly described below.

Banking Code

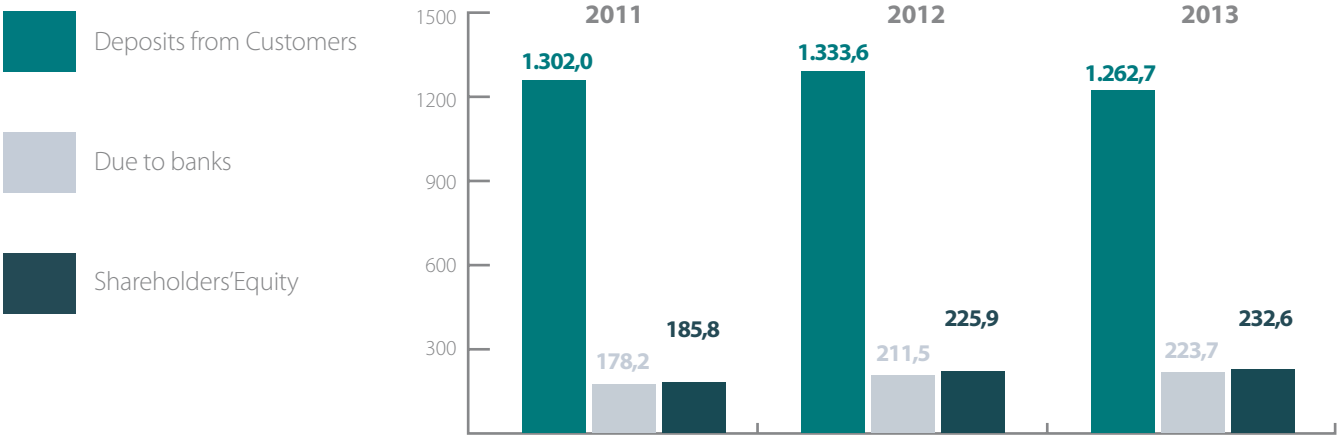
DHB Bank has made significant efforts regarding the implementation of the DBC since it came into effect on 1 January 2010. A majority of these measures were put into practice by the bank just before or after this date, while in the subsequent period intensive efforts were directed at closing the identified gaps. By 2012, DHB Bank had become fully compliant with the DBC. Detailed information pertaining to the implementation of the DBC is presented at the end of this annual report under the title 'Implementation of the Dutch Banking Code at DHB Bank'.

Corporate Governance

DHB Bank puts particular emphasis also on transparency and accountability, on effective risk management, and on accurate disclosure of information as part of its corporate governance culture. On the other hand, DHB Bank is a non-listed company, so that it is not subject to the Dutch Corporate Governance Code (CGC) per se. Nevertheless, in view of its responsibilities towards all its stakeholders and particularly towards its clients, as well as in line with its economic and financial role, and also as part of corporate social responsibility, the bank strives to keep its corporate governance structure up-to-date by embedding in the whole organization the principles set forth in the CGC, to the

"...the MB ensures a balanced assessment of the commercial interests of the bank and the risks to be taken..."

Liabilities (EUR million)



extent commensurate with the bank's size, activities and complexity.

In terms of organization, the Compliance Department of the bank plays an important role in corporate governance practices, while the Internal Audit Department has the task of assessing whether internal control measures have been designed properly, are present and working effectively in relation to the quality and effectiveness of the system of governance, among others. The Planning, Coordination and Communication Department generally oversees and facilitates applications related to corporate governance.

This sub-section explains some particularities of the bank's corporate governance structure.

- **Articles of association**: As the most important document related to corporate governance, the articles of association of DHB Bank require that at least 50% of the SB members in office, including the chairman, are independent.

- **Supervisory board policy**: In line with the articles of association, the supervisory board policy also requires that at least 50% of the SB members in office, including the chairman, are independent. The SB Policy (and integral to it the policy for the related party transaction committee) additionally prescribes that related party transaction approval takes place at arms' length. The SB Policy also prescribes that, in the event of the 50% threshold being breached, the independent members receive 50% of the votes in the decision-making.

- **Managing board policy**: The managing board policy comprises articles and stipulations related but not limited to corporate strategy and risks inherent in business activities; design and implementation of risk management and internal control framework; financial reporting process; compliance with legislations; consideration of clients' interests and social responsibility; and audit issues, among others, all of which are strictly followed.

- **Social responsibility**: DHB Bank's Corporate Social Responsibility Policy covers the bank's adherence to the principles of social responsibility in all the decisions made and in all the activities undertaken. Based on the principles of accountability, transparency, ethical behaviour, respect for stakeholders' interests, respect for the rule of law, respect for human rights, and respect for the environment, this policy aims to guide the bank in contributing to sustainable development, including the health and welfare of the society.

- **Ethical values**: For the purpose of strengthening DHB Bank's corporate culture, the bank's staff handbook is kept updated to address more clearly the seven elements of an ethical culture, including the values of balancing interests, balanced actions, consistent actions, openness for discussion, leading by example, feasibility and transparency.

- **Integrity**: DHB Bank strives to adhere to the highest standards of integrity in all its transactions and relationships. To avoid integrity failures, the bank's integrity risk policy is based on ensuring that a general culture of high ethical standards prevails throughout the bank and that integrity risks are efficiently managed. The general approach is a top-to-down approach, and the process starts with a strong ethical stance at the top.

- **Duty of care towards clients**: DHB Bank has substantiated its existing practices in this respect by adopting a Client First Policy, intended also as a guideline for the management and staff in decision-making and client interaction, so as to put the clients' best interest first. This policy also sets out the principles regarding product development and review, human resources policy and corporate culture, complaint procedures, and

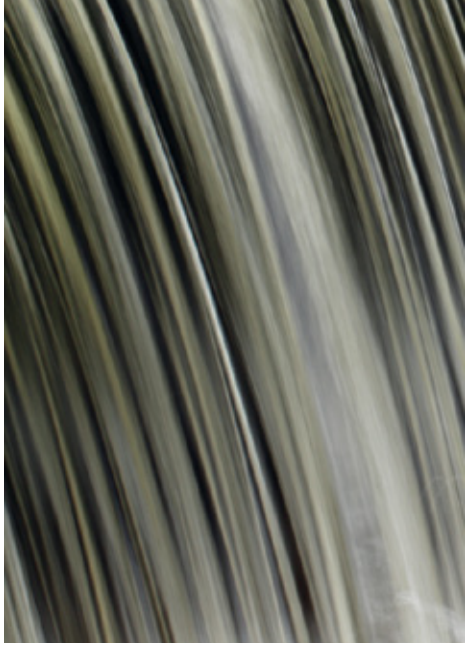
communication/transparency with clients. This last principle in particular is given special attention by the bank in all its relations and dealings with its clients. In this context, the terms and conditions related to the bank's account services were updated in 2012 with a view to make their content more clear, transparent and easily understandable. DHB Bank has placed a client care statement on its website.

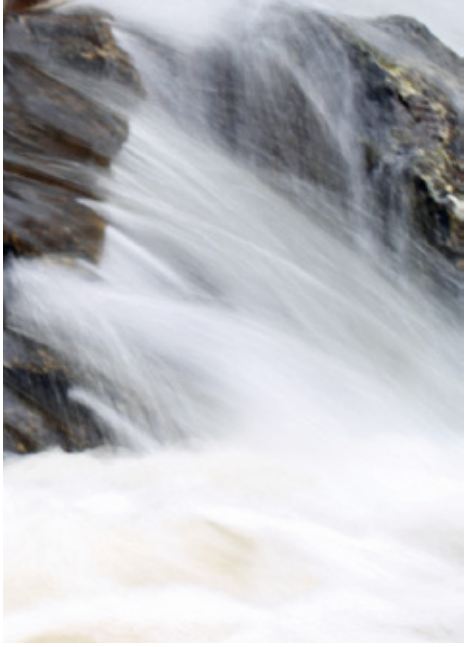
- **Complaint procedure**: As part of its duty of care towards clients and in application of the client first principles, DHB Bank has in place a complaint procedure, designed to resolve any issue or problem brought forward by the customers. For issues not resolved at lower levels, the customers can contact the bank's Complaint Committee, which is chaired by a member of the Managing Board and which convenes periodically. Customers can file their complaints via the bank's website, where they are also informed about their option of also contacting local authorities.

- **Product approval**: In line with the requirements of the client first principle, DHB Bank, in 2011, improved its Product Approval Procedure with more focus on the duty of care towards clients, among others. The updated procedure is designed to have a reasonable assurance that risks possibly generated by the product are identified, that risk mitigating measures are decided upon and implemented, and that the technical implementation of the product in DHB Bank's systems is prepared, thus contributing to risk management as well as client care duties. In the process, all the relevant departments' inputs are taken into consideration before offering the planned product to potential clients. In 2012, the Internal Audit Department reviewed whether the product approval process had been designed properly. This department is also responsible for checking whether the procedure works effectively in practice. New products launched in 2012 were subject to the new procedure; none were launched in 2013.

- **Conflicts of interest**: Prevention of conflicts of interest is among the key elements of corporate governance. So as to ensure controlled and sound business operations, DHB Bank has a Policy on Conflict of Interest as a guideline. This policy covers measures to prevent conflicts of interest and measures to prevent DHB Bank or its employees from committing legal offences that could damage confidence in the bank or in the financial markets. It further outlines measures to

"The Compliance Department of the bank plays an important role in corporate governance practices."





prevent confidence in DHB Bank or in the financial markets from being damaged because of the bank's doing business with certain kinds of clients. Finally, this policy describes measures being taken to prevent DHB Bank or its employees from performing other acts that are contrary to generally accepted standards and might seriously damage confidence in DHB Bank or in the financial markets. Other practices concerning this subject are covered by the Related Party Transactions Committee Policy, the Related Party Credit Acceptance and Approval Procedure, the Procedure on Financial Services to Employees and Supervisory Board Members, and provisions on promotional gifts as included in the Code of Conduct (Staff Handbook).

In addition to these policies and practices, DHB Bank also has in place a wide range of policies, procedures and applications pertaining to various aspects of governance and compliance such as Business Continuity Policy, Compliance Policy, Credit Approval Authority Policy, Integrity Risks Policy, Customer Due Diligence Procedure and the like.

The independence of the compliance function at DHB Bank is ensured thanks to the direct reporting of the Compliance Officer to the RAC, and again direct reporting line between the Compliance Officer and the Chairman of the SB. In this context, the Compliance Policy documents the rights and duties of the Compliance officer.

In 2013, DHB Bank continued to consistently apply its existing practices in relation to Know Your Customer and customer acceptance criteria. Other compliance-related processes and applications that have been reinforced in the course of the year are as follows:

The One-Tier Board Act entered into effect in the Netherlands on 1 January 2013. Among other stipulations, this new act indicates that a management board or supervisory board will be deemed to have a balanced gender distribution if, of the seats occupied by individuals, at least 30% are occupied by women and at least 30% by men. DHB Bank's current boards are deemed unbalanced according to this act, as their members were appointed at the time based on their qualifications and experiences, regardless of their gender. In future appointments, this stipulation will be taken into account to the extent possible to create more balance in DHB Bank's boards.

DHB Bank is committed to continuously enhancing its corporate governance and compliance structure in line with related developments in the respective fields.

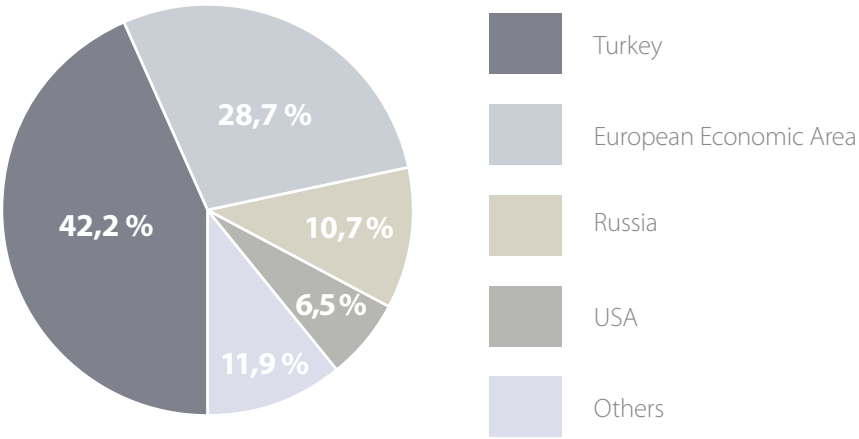
Clients First

Clients form the backbone of DHB Bank's activities. In addition, they are perceived as vital partners under a continuity aspect as well as from the perspective of corporate social responsibility.

In the past several years, the global financial crisis and the – perceived – role that banks and other financial institutions worldwide have played in it have led to a widespread loss of confidence in the financial system on the part of many customers. So as to rebuild and strengthen this confidence, banks need to ensure that, more than ever, client relationships are developed on a long-term, sustainable basis. This is possible only if banks always have the client's best interest at heart. Accordingly, DHB Bank believes that only if the bank can consistently fulfil clients' real financial needs at fair terms will it be able to maintain their goodwill, resulting in continued business and sustainable profitability, and in the interest of both parties. DHB Bank has always been committed to these principles.

Although DHB Bank takes into account the interests of all its customers ranging from individuals to corporates and financial institutions, the bank pays particular attention to the interests of its retail customers, as the other groups are professional entities equipped to assess and pursue their best interest. Even so, DHB Bank conducts all its

Geographical Distribution of Exposures



activities on a fair and open basis, including all dealings with corporates and financial institutions. This is ensured by transparent and unequivocal negotiations and agreements in order to prevent reputational risk.

DHB Bank does not offer complex products, but still strives to avoid any asymmetry of information between its clients and the bank. This is especially important for products having a great impact on the customer's life. The bank is aware that under these circumstances, a particular responsibility falls on itself as the stronger, better-informed party in the relationship, to ascertain and act upon the real financial needs of the client. This is additionally supported by clear, understandable and open communication. The bank puts the client's best interest first beyond a traditional customer care approach; in this context, DHB Bank strives to offer only products with sufficient added value for the client, and it ensures that easy channels are established for customers to direct any complaint straight to the bank and/or to the Ombudsman.

The bank has materialized this approach and the underlying principles by adopting a Client First Policy. Furthermore, in 2013, customer care training sessions were organized for staff who are in direct contact with the bank's customers.

Economic and Regulatory Environment

From a general perspective, 2013 was marked for DHB Bank by regulatory and economic developments that affected its activities and that will stretch to 2014 and beyond, as summarized below.

A wide array of measures had been implemented in recent years by central banks to contain the financial crises unfolding in various areas of the globe, most notably: FED's massive purchase of long-term treasury bills (Quantitative Easing - QE), the ECB's long term financing operations and its decision on outright monetary transactions etc. These resulted in a vast amount of market liquidity and created a very low interest rate environment, which inevitably put pressure on the profitability of the commercial banks including DHB Bank, as loan spreads over base rates (and/or fixed loan rates) did not compensate for these low levels compared with the pre-crisis period in general. The announcement by the FED concerning its planned exit strategy from QE (which initially caused nervousness in emerging markets due to expected foreign liquidity drainage from their economies, until it was made clear that the exit would not be very soon but gradually) was counter-balanced overall by the ECB's decision to cut the refinancing rate by 25bps to 0.25% p.a. in November 2013 as a measure against deflationary threats. An important portion of DHB Bank's assets are with variable interest rates based on a spread over reference rates or with fixed rate loans that are renewed or granted according to these – lately extremely low - reference rates. This adverse condition is exacerbated by the fact that, for the past few years, the reduction in deposit interest rates did not match the reduction pace of credit yields and base rates, mainly due to the advent of Basel III that favors the collection of retail deposits over wholesale funds, as well as the scarcity of the latter in relation to risk concerns. On a parallel note: In December 2011 and February 2012, the ECB had lent Eurozone banks a total of more than EUR 1 trillion in twin 3-year, ultra-cheap lending operations called LTROs (long-term refinancing operations) - a maneuver that ECB President Mario Draghi said "avoided a major, major credit crunch". One year later, approximately EUR 200 billion out

> "… the bank pays particular attention to the interests of its retail customers."

of the total were optionally pre-paid by the banks. This was a sign that the eurozone financial system is still reliant on ECB funds, while on the other hand also reflecting the scarcity of adequate placement opportunities for banks, which compelled some institutions to partially repay these cheap funds. DHB Bank did not exercise its repayment options on the EUR 150 million funds that were procured under the respective program.

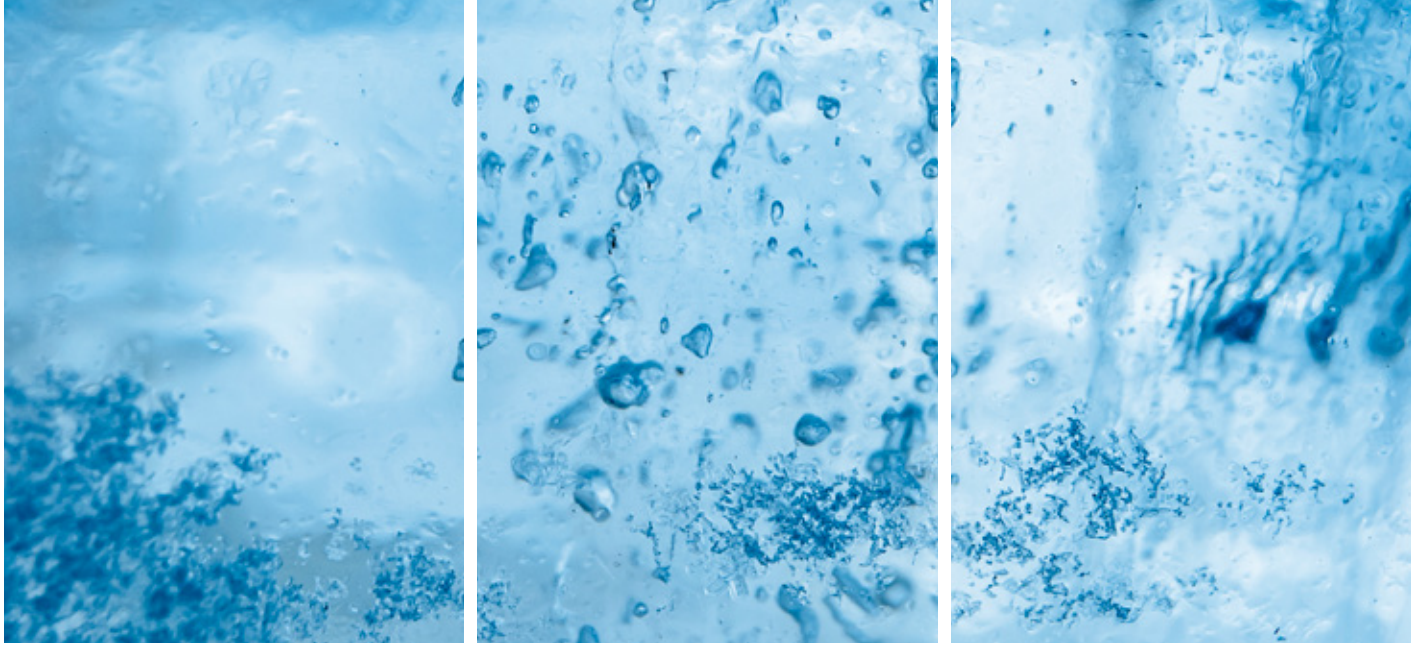
Fitch in November 2012, and Moody's in May 2013, upgraded Turkey – which remains DHB Bank's relatively most important market, though on a decreasing scale – to investment level. This corroborated the country's relative safe status, which was already evident by record levels of foreign direct investments and low interest rates even before these rating changes. The upgrades further pulled down the yields of Turkish assets both in Turkish Lira and foreign currency in the corporate and bank customer segments of DHB Bank in the first half of 2013. Starting towards the end of the year, spreads in Turkey started to rise and the currency depreciated, due to political developments combined with the U.S. Federal Reserve deciding to wind down its stimulus efforts. From a macro-economic perspective, the main challenge Turkey is facing is its large current account deficit. It has been successfully managed so far, but further challenges might be expected in case political and social developments have more implications for the country's general finances. Another attention point is the high external indebtedness of the corporate segment of Turkey. Adverse developments in these two areas might also widen the yields. From a risk management perspective, the bank will obviously continue to closely monitor the country and the bank's respective exposures, which are mostly short term. Another attention area for DHB Bank will be the Turkish local elections and presidential elections in the first and second half of 2014.

No major fluctuations and developments are expected regarding other geographies that the bank is active in.

Despite the afore-mentioned tighter asset yields, however, DHB Bank continued to refrain from accepting greater risks with higher returns to compensate for this pressure on profitability, and instead opted for the complete implementation of its strategic alignment to capitalize on its expertise and experience in particular customer segments and geographies.

From a regulatory perspective, DNB has widened the scope of its supervision conducted throughout 2013, as part of their system-wide thematic examinations on prudential reporting, IT and information security, internal audit, money transfer activities, banknote handling operations, and monitoring of customers and transactions in the context of anti-money laundering.

Throughout the year, DHB Bank was in dialogue with DNB regarding the subject of its business model. This, too, is a new system-wide attention area in the agenda of DNB, which was introduced in February 2014, with a Policy Rule on Maximizing the Deposits and Exposures Ratio under the Wet op het Financieel Toezicht (Act on Financial Supervision) in the Netherlands (hereafter referred to as New Policy Rule). In a nutshell, the New Policy Rule requires the 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 overall in relation to the respective banks' balance sheet size. In other words, the rule promotes either more lending in the European Economic Area; or more wholesale funding versus retail deposit funding under the coverage of the Dutch deposit guarantee scheme; or a combination of both, all three alternatives depending on the banks' respective balance sheet compositions. This regulation seems designed for boosting economic activities in the EEA from a political perspective; from a prudential regulation perspective, on the other



hand, it promotes wholesale funding and/or encourages lending to a region whose economic and financial stability has yet to be re-established, with both of these options encompassing risks to a certain extent and in relative terms. Against this backdrop, the MB has prepared - in consultation with the De Nederlandsche Bank (the Dutch Central Bank, DNB) - a strategic roadmap to fully comply with this regulation gradually and over a certain timeframe. According to this plan, DHB Bank will continue to shift its lending activities more towards the EEA – a direction that the bank had already started to pursue three years ago in the context of its strategic alignment. This strategic path was discussed and approved by the SB, which is of the opinion that, aside from the regulatory necessity, this would further strengthen the bank's commercial footing by increasing the diversification in its assets.

Further, in the first half of 2013, DHB Bank has successfully completed its Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) as per year-end 2012 financial figures, and the subsequent Supervisory Review and Evaluation Process (SREP) was conducted by DNB. The bank's ICAAP and ILAAP incorporate adequate measures to maintain the solvency and liquidity of the bank at high levels both in regulatory and financial terms; they also cover various liquidity stress scenarios and demonstrate the bank's resilience to distressed circumstances for a prolonged period of time. DHB Bank is also in compliance, well ahead of the respective deadlines in 2015-2018, with all the ratios of the Basel III Accord, including Liquidity Coverage Ratio, Net Stable Funding Ratio, Leverage Ratio, Minimum Common Equity Capital Ratio etc. The tight regulatory liquidity requirements of DNB are still in place, and DHB Bank accordingly continues to maintain relatively high liquidity levels in the form of cash, balances with ECB and ECB eligible securities.

An important system-wide regulatory requirement of the year under review was the development of a recovery plan that specifies what measures the bank intends to take in case a crisis erupts. It aims, in a near default scenario, to identify and remove potential (operational) impediments, to provide for adequate crisis management governance and to enhance the bank's recoverability. Throughout 2013 and in consultation with DNB, DHB Bank has developed and improved its recovery plan, whose latest version is deemed appropriate concerning the bank's capacity for recovery on its own in different and serious (plausible) crisis situations.

"DHB Bank will continue to shift its lending activities more towards the European Economic Area."



Strategic Alignment & Business Model

With the aim of attaining reasonable recurring profitability and ensuring sustainability in the aftermath of the global financial crisis in 2008, DHB Bank had successfully implemented its strategic alignment program from the last quarter of 2010. The main element of this program was the revision of the bank's lending activities and the related country exposures for diversification and effective capital management. The bank's priority activities, investment profile and working guidelines for the years to come were determined accordingly. The foundation of the alignment, which was revised on different occasions without affecting its essentials, was the maintenance of adequate capital by international and local standards.

In this context, DHB Bank continued to adapt its asset and liability composition during the year under review. The general aim was to maintain the balance sheet size in the EUR 1.7 billion to EUR 1.8 billion range, with slight deviations depending on market circumstances and opportunities. Retail deposits were to remain the main funding source while also, to a smaller extent, benefitting from wholesale funding potentials such as mainly repo transactions.

In terms of investment profile, the strategic alignment called for geographical diversification. Therefore, the bank started to create, on a selective basis, new exposures to banks and/or to corporates in some CIS countries (particularly Russia; some clients here had been part of the bank's portfolio in the past), as well as in Central, Eastern and South-Eastern European countries. DHB Bank continued to put more emphasis on corporate customers instead of bank customers in terms of customer segments, with a particular focus on Turkish companies operating and generating revenues outside Turkey. These efforts bore results, thanks to which Turkish exposures decreased to approximately 42 % of total non-interest earning assets at the end of 2013, of which nearly 18 percentage points were very short term placements (up to 1 month maturity) in local currency that are conducted for liquidity management purposes as well.

Due to the regulatory developments mentioned in the section above, particularly the business model issue, DHB Bank started to refine its strategic alignment in the first quarter of 2013. This process is essentially a continuation and expansion of the bank's earlier undertakings in this respect, based on DHB Bank's customary stringent risk assessment, limit establishment and monitoring practices. It involves further reduction of Turkey exposure and more focus on local anchorage (increase of EEA exposure) over a certain timeframe, a continued shift from exposures to banks towards exposures to non-banks, and exploration of wholesale funding opportunities in the years to come, depending on market opportunities.

Another earlier initiative, the lending activities towards international commodity traders and towards SMEs (small and medium-sized enterprises) in the Netherlands, Germany and Belgium has been put on a hold for the time being.

> "....with a particular focus on Turkish companies operating and generating revenues outside Turkey."

Business Lines

The bank's business lines are centred on two main categories, namely wholesale asset generation and retail banking.

Wholesale Business

On the assets side, wholesale banking is the foremost revenue generation source for DHB Bank. This business is conducted by the Corporate Marketing, Financial Institutions & Forfaiting and Treasury departments. Primary customers of the bank in this segment are mainly corporates, and, to a lesser extent, banks, while sovereign lending accounts for only a very small portion of the total. In keeping with its strategic alignment, as explained in the corresponding section of this report, the bank revised and redefined its target customers in its current, new and potential markets. The extensive exploration of potential new markets and customers continued during 2013, and the related credit assessments were carried out. As a general rule, DHB Bank does not accept greater risks in order to drive returns, and adheres to its traditionally stringent risk assessment, credit granting and monitoring principles.

The main product types in this segment were and will continue to be secured or unsecured bilateral loans to corporates, trade-related and commercial bilateral bank loans and syndications, and securities, mainly of banks and corporates. The geographical spectrum comprises European countries, the CIS, USA and Turkey. Securities investments and short-term money market placements are primarily made in the EU, as are overnight placements with a view to manage the bank's liquidity. Resulting from its business model, in 2013, the bank continued to use FX swaps for USD and TRY funding as well as interest rate swaps for hedging purposes. Credit default swap exposures, which had been established in earlier years, were completely off-loaded in 2013 in keeping with the de-risking decision taken in this respect.

In wholesale banking, the momentum gained on corporate loans continued during 2013. In this area, the accent was on providing finance to Turkish companies operating and generating revenue streams outside Turkey. Such clients cover a geographical spectrum including Egypt, France, Hungary, Saudi Arabia, United Arab Emirates etc. These operations were supported by extensive marketing and credit assessment activities. This is a niche segment that the bank has been aiming to develop further and in which it has started to establish long-term cooperation with certain clients. Apart from its traditional cooperation with Turkish companies operating locally, DHB Bank also engaged in more short-term placements denominated in local currency in Turkey.

In 2013, DHB Bank reduced its lending activities to banks as part of its strategic alignment program. Nevertheless, this asset segment still represents an important portion of DHB Bank's balance sheet. These loans mostly in the form of syndicated facilities are extended on a selective basis with maturities generally shorter than one year. Thanks to their tradability in secondary markets, depending on market circumstances, such loans are also considered an asset & liability management tool. In 2013, in the new target countries there were no opportunities matching the risk appetite level of the bank or its pricing expectations. Therefore, apart from Turkey, exposures in the form of bank syndications and bilateral bank loans were conducted on a very selective basis primarily in Russia. During the year, immediate liquidity was mainly kept with ECB, while money market placements with counterparts were kept at comparatively negligible levels.

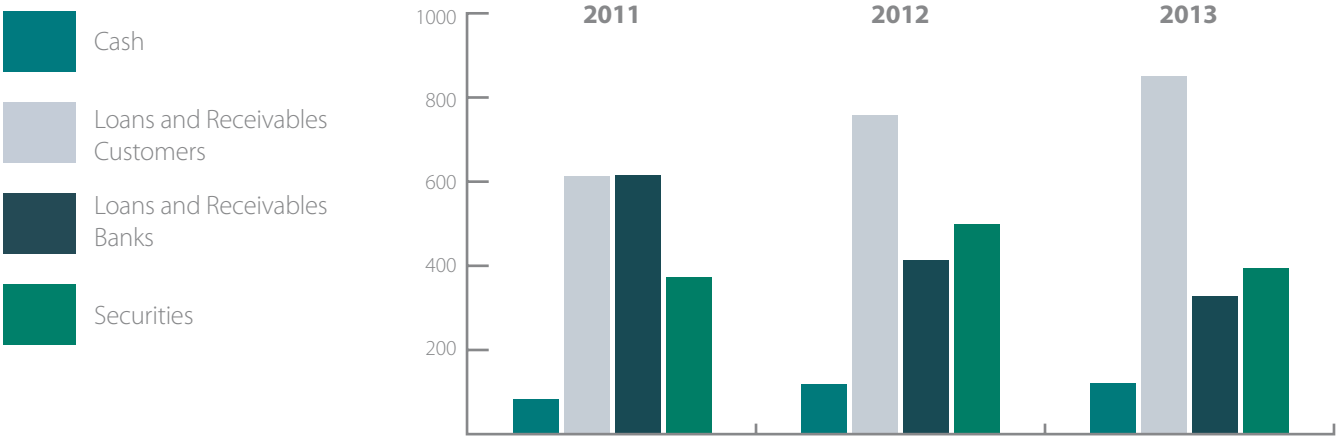
Securities transactions and investment activities were slightly reduced in 2013 but still maintained as an important activity, since these asset types provide the dual benefit of being liquidity and investment tools. DHB Bank does not keep a significant securities trading book.

Initiatives that started during 2012 to explore cooperation potentials with Multilateral Development Banks, Development Finance Institutions and Export Credit Agencies around the world in order to diversify the bank's geographical coverage under the umbrella of these institutions yielded their results, thanks to which DHB Bank entered into transactions arranged by these entities.

On the liabilities side, for the past few years, DHB Bank has refrained from procuring wholesale funding in the form of syndicated term loan facilities. In 2013, the bank did not carry any syndication in its liabilities due to unfavourable conditions, and has no immediate plans of tapping the markets to this end until conditions improve. Nonetheless, as part of its new strategies, the bank continued in 2013 to make use of repo funding, of which a major portion consists of deals closed with the ECB. This, however, accounts for only a small portion of total liabilities. DHB Bank occasionally made use of wholesale funding in the form of bank loans or money market borrowings during the year, for relatively small amounts and for diversification purposes.

Under the supervision of the Managing Board, the Treasury Department in cooperation with the Risk Management Department continued to manage liquidity and market risk in 2013. As an extension of its post-crisis strategies and as a preparation for upcoming regulatory changes, during a major part of the year DHB Bank maintained a considerable liquidity base, which corresponded to a

Assets (EUR million)



high proportion of the saving deposits.

In terms of market risk management in general, and FX risk management in particular, and due to the traditional balance sheet composition of assets denominated partly in USD with funding mostly in EUR, the bank was usually active in FX swaps as a EUR placer and USD taker. Market conditions continued to put extra stress on USD funds around the world; this was reflected by rather higher costs compared with conventional Libor rates. In this context, DHB Bank focused on funding its USD denominated assets with cross-currency swaps matching the maturities of the related assets. The bank also conducts FX swaps for funding its short term exposures in TRY denomination. Furthermore, the bank refrained from granting new loans denominated in USD, unless for special opportunities, preferring lending in EUR instead.

Retail Operations

DHB Bank's retail operations consist of retail deposits, retail services and consumer loans.

Retail deposits collected from Germany, the Netherlands and Belgium, which have already proved their stickiness in several globally or regionally stressed environments, constitute the main pillar of the bank's funding and financial management.

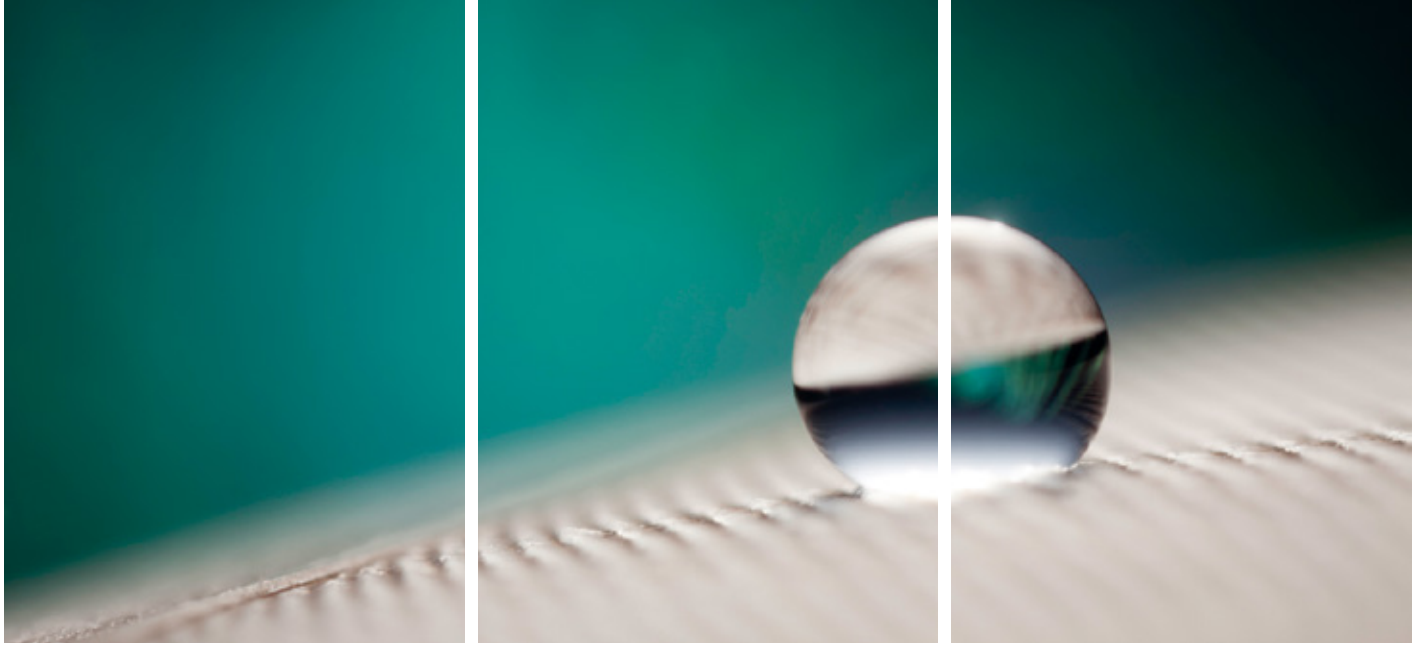
As part of its strategic alignment and in the framework of its active deposit management principles, as well as in light of the new regulatory rules that led the management to maintain the balance sheet size in the EUR 1.7 billion to EUR 1.8 billion range, DHB Bank gradually reduced its total retail deposit base by 5% throughout 2013.

Deposits management was also conducted with the main goal of maintaining term deposits at least at 40% of total deposits; the originally envisioned ultimate aim of reaching an even distribution between these two products had to be slightly adjusted in view of the bank's focus on maintaining a high capital base, and rates offered by the bank on these products were adjusted in line with the new target.

As far as the bank's product range is concerned, DHB Bank developed floating rate term deposits and started to offer these to its customers in the Netherlands and Germany so as to improve market penetration in the term deposits segment. The bank also occasionally launched special deposit campaigns in Germany. Such campaigns consisted of offering, for a short period, slightly higher interest rates with the aim of collecting long-term time deposits in order to ensure stable funding matching the longer-term commercial loans. These campaigns were considered successful; they yielded high response rates, thus generating some new time deposits as well as indicating room for additional initiatives to manage deposit volumes and maturities when needed.

Consumer lending on a funded basis, which had been completely halted after the 2008 crisis when consumer loan brokerage activities were intensified instead in cooperation with other providers, gradually resumed in 2012. As a result, the 2013 year-end retail loans balance was realized as EUR 33.5 million. Consumer lending activities including those for Turkey Home Credit, a special mortgage product offered to residents of European Union member countries for their residential purchases in Turkey, continued in a centralized structure located in Belgium,.

Workers' remittances, mostly to Turkey, are a niche for DHB Bank in the Netherlands and remain a stable source of income despite the reduced overall volume attributable to the general trends. On the other hand, customer coverage has increased in the Netherlands via a local internet platform called 'Ideal', which allows clients to send their funds to Turkey via the Internet, denominated in either EUR or TRY, without having to visit bank branches or even being a DHB Bank account holder. The same service has been offered in Germany since the end of 2012.



Financial Review

The 2013 EU-IFRS financial statements of DHB Bank are prepared on a consolidated basis, incorporating the bank's participating interest in Best CreditLine B.V. and Stichting DHB Bewaarfonds whose financial contributions are minimal. Best CreditLine B.V. was established as a separate entity to provide consumer loans via intermediaries, while Stichting DHB Bewaarfonds, now inactive, was established as a separate legal structure to provide custodian services to third parties.

In the Dutch banking sector, DHB Bank stands as a small-sized bank, which provides flexibility and swiftness in adapting to changes in the economic and financial environment. This advantage is coupled with a straightforward business model based on traditional banking. The bank closed 2013 with EUR 1,735.1 million in assets, registering a EUR 75.8 million decrease compared with the previous year. The purpose of this reduction, which was conducted parallel to the bank's 5-year plan, was to slightly deleverage with a view to continue maintaining a strong capital buffer by international and local standards.

The bank's financial goal is to maintain sustainable profitability while keeping adequate capital ratios and relatively high liquidity levels in the form of cash and cash equivalent investments as per regulatory requirements.

Liabilities

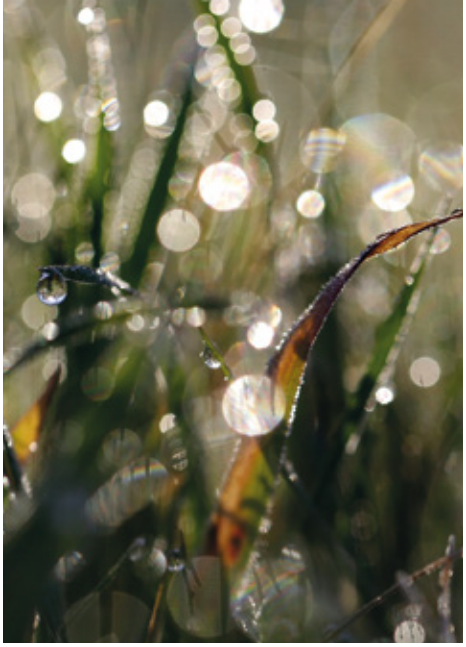
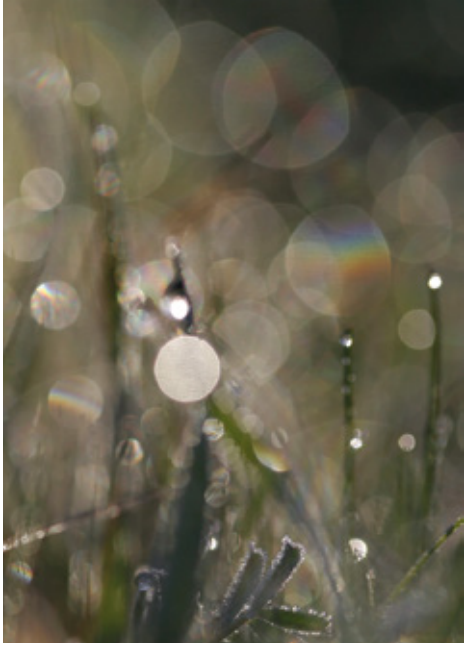
Apart from the shareholders' equity, DHB Bank's liabilities consist mainly of customer deposits, while wholesale funds occupy a relatively small portion. Total deposits from customers corresponded to 72.8% of the balance sheet at the end of 2013.

The bank's own resources have traditionally been at very comfortable levels by international standards, with a strong loss absorption capacity, and the same was valid for 2013. The shareholders' equity stood at EUR 232.6 million as of December 31, 2013, which corresponded to 13.4% of total liabilities compared with 12.5% in 2012, pointing to a continued deleveraging that supported the capital base in line with the bank's strategies. In absolute terms, equity increased by EUR 6.7 million in 2013, thanks to the positive effect of the 2013 net profit of EUR 18.1 million being reported in the equity, and after distributing, in mid-2013, 50% of the bank's 2012 net profit.

With regard to capital adequacy, DHB Bank reported 16.91% Tier 1 and 17.14% total capital ratios at year-end 2013, which were comfortably compliant with also Basel II requirements. These ratios represent a slight improvement over the 15.83 % Tier 1 and 16.03% total capital ratios at the end of 2012, and were attained thanks to the strategic alignment that restructured the bank's asset mix. Calculations for both 2012 and 2013 are taking into account the 50% effective dividend distribution for 2012 and the planned proposal of the same percentage dividend distribution for 2013.

DHB Bank is utilizing the standardized approach under Pillar 1 according to the Basel II Capital Accord. The internal capital adequacy assessment process under Pillar 2 is regularly updated and submitted to DNB. In terms of financial transparency, additional disclosures are published on the web site of DHB Bank along the lines of Pillar 3. The bank's capital level is also adequate as per the local requirements that demand – compared to international Basel standards – additional capital in line with the Policy Rule on the treatment of concentration risk in emerging countries.

Deposits from customers, the liabilities item overwhelmingly consisting of retail deposits, were slightly decreased in 2013 by EUR 70.9 million. Collected from the Netherlands, Germany and Belgium, customer deposits represented 84.0% of non-equity liabilities with EUR 1,262.7 million in 2013 versus 84.1% and EUR 1,333.6 million in 2012. In terms of

product breakdown, saving deposits constituted 57% of the total while the remaining 43% were accounted for by term deposits as of year-end 2013, the same as in 2012. Out of total customer deposits, 67.2% were collected in Germany, 19.7% in the Netherlands and 13.1% in Belgium.

The 'Due to banks' item, as a wholesale funding source, amounts to 14.9% of non-equity liabilities with EUR 223.7 million. Nearly EUR 150 million of this item consists of long term repo deals with the ECB, while the remainder comprises a smaller amount of short-term repo deals and some bilateral bank loan transactions.

The EUR 2.2 million "financial liabilities held for trading" item represents the valuation of derivative transactions that are not designated for hedge accounting, while other liabilities with a balance of EUR 12.2 million include items such as accrued expenses, payables to suppliers, premiums payables et cetera.

The EUR 1.4 million provision amount is related to onerous rental contracts and future obligations such as pensions.

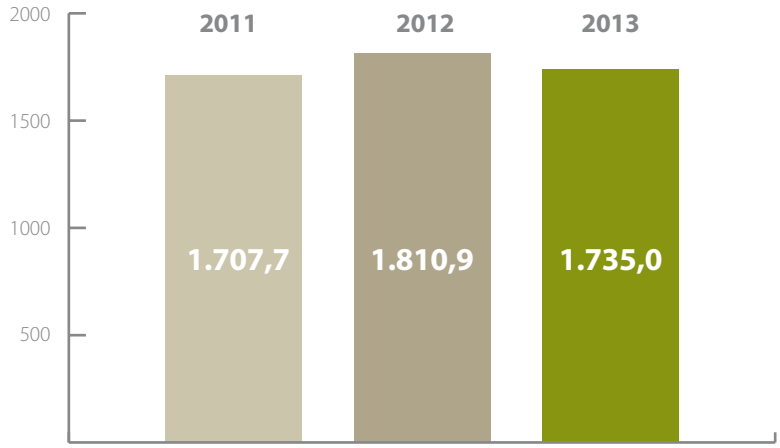
Assets

DHB Bank's interest-earning assets, including balances with the European Central Bank (ECB), corresponded to 99.2% of the total balance sheet, and were mainly comprised of bank placements, corporate loans and securities investments. These were split between fixed interest rate and floating interest rate assets, whereby the latter corresponded to roughly 30% of the total and the former to 70%.

The distribution of DHB Bank's assets reflects its efforts for diversification in terms of geography and product range. Setting aside non-interest earning assets, 42.2% of the bank's assets including off-balance-sheet items originated from Turkey, 28.7% from EEA (of which 11.8 percentage points from the Netherlands), 10.7% from Russia (as subsequent event, exposure to Russia was pro-actively reduced to 4.8% as of end-March 2014 due to the Crimean crisis turning into an international event, without incurring material impact), 6.5% from the USA, and the remainder from other countries. It is the aim of DHB Bank to have a more diversified geographical composition in the future, with a further reduction in direct Turkey exposures. A Turkey-related third party insurance that was procured at the end of 2012 for a relatively small amount was cancelled at the end of 2013.
The EUR 121 million cash item primarily consists of balances with the ECB as well as cash at branches. In economic terms, however, the immediately available liquidity of DHB Bank in a wider context was substantially higher at 18.1% of the balance sheet total, or EUR 314 million. These include cash and balances with central banks, the available ECB eligible securities after haircuts, the available funds in the form of the contingent liquidity line from Halkbank, and funds maintained with correspondent bank accounts. From a stricter regulatory calculation perspective, the liquidity of the bank was EUR 283 million or 16.3%.

The 'loans and receivables – customers' item, which comprises corporate and retail loans, posted an increase of EUR 93.7 million or 12.4% between 2012 and 2013. With EUR 849.5 million in total including a small proportion of retail loans, it was the largest asset item with 49.0% of the balance sheet in 2013 compared with 41.7% in 2012. The increase is the result of the successful implementation of DHB Bank's aforementioned strategic alignment that favours corporate loans. A majority of this item is accounted for by bilateral placements in the form of working capital loans to corporates in Turkey, including short-term loans in local currency, and, as a relatively new form of activity since 2011, loans to Turkish companies operating and generating revenue stream outside Turkey. Apart from traditionally providing export financing to Turkish companies and loans to European companies, during the past few years DHB Bank positioned itself as a counterparty financing Turkish corporates' investments and operations

Total Balance Sheet (EUR million)



outside the country, aiming to become their 'home bank abroad'. Loans to SMEs in the Netherlands represent another part of this loan segment; however, their contribution is currently small, and management has halted expansion plans in this field on strategic and economic grounds.

Retail loans occupied a small portion of the total. DHB Bank progressively resumed granting retail loans on a funded basis to its customers in 2012 instead of acting as an intermediary as in recent years, resulting in a relatively small total outstanding amount of EUR 33.5 million as of year-end 2013. This is also partly the result of the bank's aim to revive the Turkey Home Credit loan product.

The 'loans and receivables – banks' item represented another important portion of DHB Bank's assets at the end of 2013, with a figure of EUR 328.6 million, or 18.9% of the balance sheet (2012: EUR 413.5 million or 22.8%, and 2011: EUR 615.4 million or 36.0%). This decrease is the outcome of the strategic alignment plan that envisaged credit expansion in corporate loans at the expense of bank loans. Accordingly, the decrease in this loan type is partially offset by the increase in non-bank loans, as explained in the above paragraph. Still, DHB Bank continues to consider bank lending as an important activity in its overall lending policy. Thanks to their relatively short term, as well as their liquid nature in the secondary market for syndications and promissory notes, bank loans can serve as liquidity management tools as well as investment products. Depending on alternative opportunities, and as far as feasible given liquidity and capital requirements, bank loans – as well as securities and short-term Turkish Lira loans – had a pivotal function: their balance was reduced or increased according to developments in non-bank loans. This strategy will be maintained in 2014 while the overall direction is set as increasing non-bank loans. The bank loans item does not include bank placements in the form of securities, which are booked under the securities item in the balance sheet. In terms of products, the banks item consists mainly of – trade-related – bank placements in the form of syndicated term loan facilities and bilateral bank loans, the discounting of bills of exchange and promissory notes, as well as the financing of letters of credit and, to a lesser extent, money market placements; all of these also contributed to the flexible maturity structure of the assets, thanks either to their short term or their marketable nature in the secondary markets. Out of the total banks item, EUR 214.4 million were bilateral bank loans, EUR 103.7 million syndication placements, while the remainder consisted of money market and similar placements.

Securities investments showed a decrease of EUR 103.0 million, amounting to EUR 395.1 million or 22.8% of the balance sheet at the end of 2013 compared to EUR 498.1 million or 27.5% respectively in 2012. This decrease is due to the decision to off-load a portion of these investments for replacing with better yielding corporate loans, and also to downsizing measures. A portion of these securities are used to fund short-term Turkish Lira placements by repo and cross currency swaps. The majority of the securities item was related to ECB eligible securities, of which the predominant portion is minimum A-rated, while the rest consisted mainly of investment grade Europe, CIS and USA bank securities.

Income Statement

DHB Bank possesses a straightforward earnings model: The key revenue driver is interest income with a relatively small contribution of commission income, while the main expense items are staff costs and administrative expenses. Excluding the "result on financial transactions" item as clarified below, net interest income accounted for 90% of total operating income versus 10% for net commission income in 2013. As for the expense items, excluding impairment charges, staff expenses accounted for 66% of total operating expenses versus 31% for administrative expenses and 3% for depreciation and amortization expenses for the same

period. Detailed information regarding various risk factors such as credit risk or market risks that might affect the earnings of the bank, and their management and hedging, is presented in the financial statements part of this annual report.

2013 was marked by a further decline in base rates. Euro base rates (3-month and 6-month Euribor, which were the main components of the bank's floating rate assets) were realized at 0.278% p.a. on average in the period January-December 2013, the lowest ever, and more or less at the level projected by the bank. These adverse conditions were balanced by the bank's strategic alignment activities, which call for a more effective utilization of the bank's resources and a shift from low yielding securities and bank placements towards higher yielding corporate loans, in the framework of the bank's approved risk appetite, which is largely unchanged from the previous years' risk appetite. As a result, the low asset yield environment did not have a significant impact on the net interest income of the bank; with a balance of EUR 49.3 million, this figure remains close to the previous year's total. This result was also achieved thanks to reduced deposit costs as well; deposit rates had been reduced in mid-December 2012. Further reductions followed in mid-April 2013 and finally in mid-June 2013. Overall, interest income in 2013 was realized as EUR 75.8 million (2012: EUR 85.9 million) versus EUR 26.5 million interest expense (2012: EUR 35.9 million).

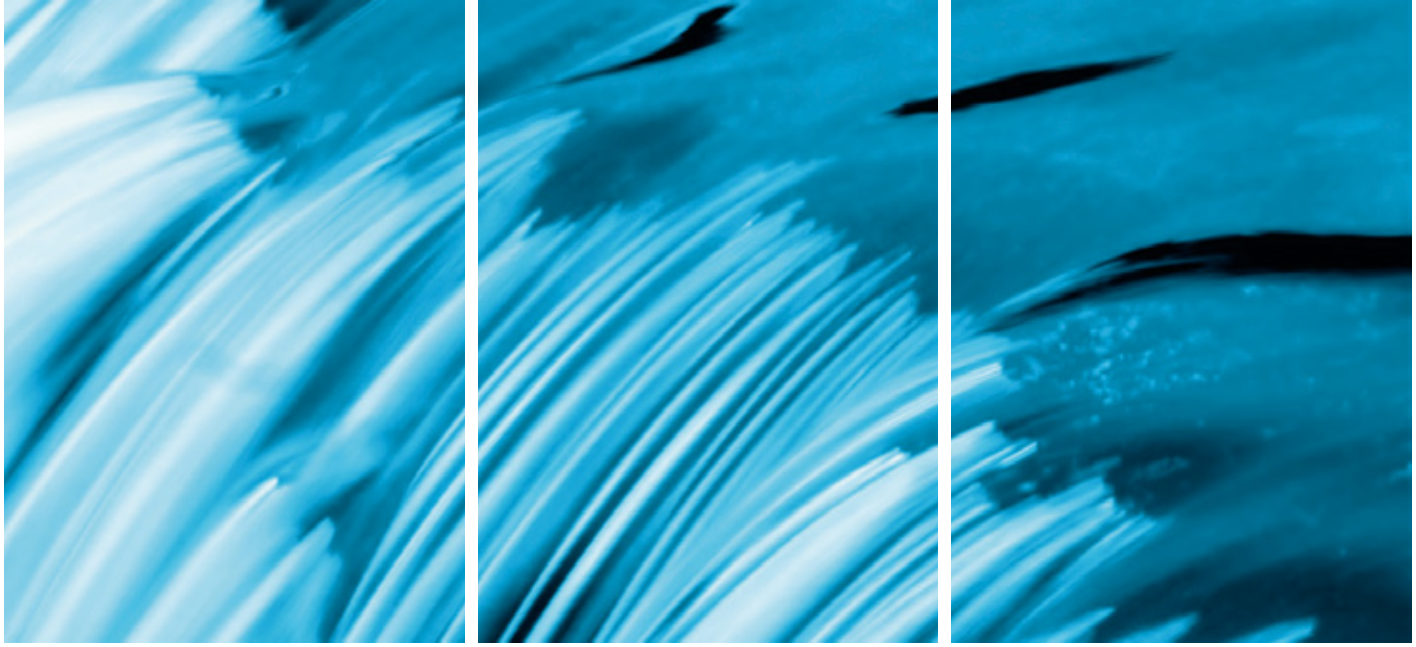
The level of net commission income registered an important decrease from EUR 9.0 million in 2012 to EUR 5.6 million in 2013, as a combined result of decrease in both commission income and commission expense. Commission income, with an end-2013 balance of EUR 6.1 million, consists primarily of upfront fees received in relation to syndicated facilities whose all-in yields usually include large portions of commissions alongside interest incomes, and of income from banking services, mainly in the form of remittance services, as well as, to a lesser extent, brokerage fees for insurance intermediation. The reason behind the EUR 3.5 million decrease on the income side is primarily reduced volumes in the above-mentioned syndicated facilities. Fees related to banking services also showed a slight decline in relative terms. The commission expense item mainly represents fees related to banking services in the course of daily operations, with a negligible yearly cost of EUR 400,000 in 2013. Fees and commissions from cash loans are amortised over the lifetime of the loans, unless they are considered as immaterial.

As per EU-IFRS, the EUR -11.2 million result on financial transactions mainly represents i) the result from securities transactions, ii) the result of the mark-to-market valuation of derivative transactions, namely interest rate swaps, FX swaps and CDSs, and iii) the net interest cost of swap transactions. Of this total amount of financial transactions, EUR -20.4 million represents the interest cost of swap transactions that the bank conducts for funding its loans denominated in USD and TRY. Thus, these are not related to any positions taken for trading purposes as the bank in general does not keep a trading book.

Total operating expenses showed a decline of EUR 1.2 million and closed the year with EUR 17.0 million. Staff costs decreased nearly by EUR 0.2 million, while other operational expenses also decreased by EUR 0.9 million primarily thanks to EUR 1.2 million release from provisions made the previous years in relation to the failing of DSB Bank.

With regard to the EUR 2.8 million total impairment charges, apart from some write-offs and releases, the main item was due to the management's decision to set aside a specific provision for an exposure that was restructured. 'Net impairment charge' included also a EUR 0.7 million collection made in relation to an impaired loan that had been written-off in the past.

DHB Bank's consolidated 2013 income statement reported a pre-tax profit of EUR 23.8 million, thereby demonstrating



the continuing positive effects of the bank's strategic alignment program.

Key Indicators

Some of the key indicators related to DHB Bank's 2013 performance are as follows:

As mentioned above, the bank's capital adequacy ratio stood at 17.14% at the end of the financial year under review, whereas Tier 1 capital ratio calculated as per Basel II Capital Accord was 16.91% (both ratios assuming 50% dividend is distributed), reflecting its low leverage. The bank's total equity over total assets was 13.4%, a noteworthy improvement compared with the past few years. This level was intentionally attained by the management so as to maintain a high level of capital adequacy and liquidity while preserving asset quality.

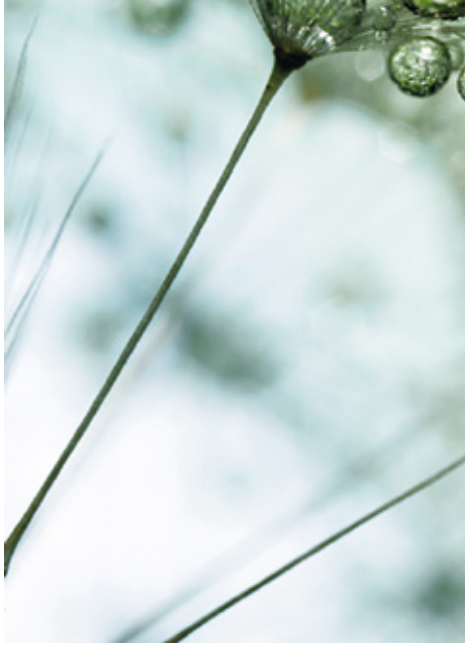
The cost to income ratio was realized as 39.0% at the end of 2013, improved from the 43.4% of 2012. Compared with previous years, when the ratio was around 70%, this improvement is the result of cost efficiency measures implemented in previous years having their positive effects more recently, as well as an outcome of the strategic alignment that provides for more focused lending operations and correspondingly more efficient revenue generation.

As of year-end 2013, total non-performing loans (defined as bank, corporate, retail and sovereign loans for which any of the principal, instalment or interest receivables are 90 days overdue) as a proportion of the bank's total loans portfolio stood at gross 1.23% with a 47.4% coverage ratio, compared with 1.0% and 78.0% in 2012. Regarding the specific provision set aside for a particular exposure, as mentioned in the sub-section Income Statement above, management is of the opinion that the loan loss coverage is adequate, based on the fact that the company is still continuing its operations, and paying interest on its debts, and also thanks to a recently completed restructuring.

DHB Bank's net interest margin was realized as 1.71% for 2013, the same as 2012. While this level is an improvement over the previous years thanks to the strategic alignment, it still reflects the relatively high deposit and funding costs in the markets of DHB Bank compared with reduced asset and base yields, as explained in the Economic & Regulatory Environment section.

The bank's pre-tax return on assets (ROA) and on shareholders' equity (ROE) was 1.35% and 11.46% respectively in 2013, compared with the 1.30% and 11.78% ratios in 2012 - a combined result of downsizing and deleveraging undergone during the past year.

> "The bank's capital adequacy stood at 17.14%."



Bank Operations

DHB Bank has a centralized organizational structure. The bank's wholesale banking activities, including credit decision processes and primary risk management functions as well as treasury activities and IT services are conducted via its head office in Rotterdam. The bank's branches in the Netherlands and units abroad mainly focus on marketing and customer relations, deposit collection, retail loans, as well as local legal & compliance functions and liaison, among others. Major developments at DHB Bank in 2013 from an operational and organizational perspective are presented below.

September 2013 marked the 10th year of the implementation of the bank's core banking system Matrix, first in the Netherlands and subsequently in Germany and Belgium. As a banking tool having significant cost benefits, Matrix was internally designed, developed and implemented as a modularly structured integrated complete standard banking software solution, which covers the whole range of the requirements of DHB Bank including the MIS needs of the management. It is an integrated comprehensive total banking solution with an open architecture that allows interfaces with many third party financial and non-financial systems. Considering also the 24/7 availability and multi-branching and multi-country features, Matrix is characterized by a very high degree of flexibility.

A new architecture was implemented in DHB Bank's IT network in April 2013 to ensure multiple layers of network by separating the users' computers and the servers. The operation, which was completed successfully with the participation of the external service providers, improved network security especially against the threats initiated through the users' computers.

Within the IT Department's yearly scheduled actions, an assessment was conducted by a service provider in November 2013 to test DHB Bank's IT infrastructure for possible vulnerabilities and associated risks related to the internet, including for penetration security. Following the test, the respective service provider reported that the risk profile of the bank is low where "the system can continue to operate and a corrective action plan is not directly necessary".

DHB Bank also agreed with a third party for the implementation of a Content Management System (CMS), an application to enhance the bank's Internet websites by improving the content management system, web marketing tools and other functionalities. This application offers a powerful content editing interface, which is effective from a technological and functional point of view as well. It is planned to launch the new websites of the bank in 2014.

As part of DHB Bank's IT Strategy, a single contact point for the existing internal IT service desk support has been implemented. In this context, a unified service desk tool, namely OTRS, an integrated web based solution, has been established to create a single point of contact between end users (internal users) and IT, enabling a categorized single-platform solution. It is also possible to enlarge the coverage of this platform to implement a single/centralized system for various internal communication requirements.

The Treasury Department launched the pilot phase of live foreign exchange quotations to some counterparties through the FX Trading platform. The aim is to enhance name awareness and increase the foreign exchange income of DHB Bank by simultaneous buying and selling transactions without creating FX positions. Currently, a number of correspondent banks can access and execute transactions with DHB Bank's live foreign exchange quotations on Bloomberg. After completing the pilot phase, it is planned to introduce this service to other counterparties (that have available credit limits with DHB Bank) as well.

The recent European Market Infrastructure Regulation (EMIR) aims to increase the stability of the over-the-counter (OTC) derivative markets throughout the European Union and to improve transparency and reduce the risks associated with the derivatives market. In line with the requirements of EMIR, a new reporting will be implemented (by February 2014) concerning the banks' OTC transactions to a Trade Repository (TR). TR is an entity that will centrally collect the reports of derivatives contracts in a transaction register supervised by the European Securities and Markets Authority. It will include the notification of all the banks' OTC transactions to the TR, the timely confirmation of new OTC derivative transactions and the reporting of unconfirmed OTC derivative transactions to the AFM, and later the mark-to-market valuation of outstanding contracts on a daily basis. An internal project development team comprised of the related departments has already developed the bank's respective reporting infrastructure. Furthermore, certain types of standardized derivatives contracts that are concluded between financial parties OTC will eventually have to be cleared through a Central Counterparty (CCP).

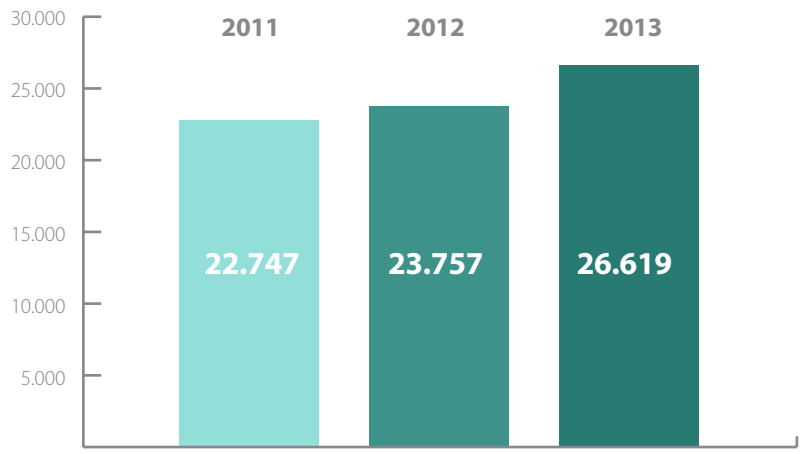
DHB Bank continued to conclude FX option transactions, mainly with a select group of corporate customers. This product was introduced in 2012 and developed in 2013 with good volumes and revenues. In order to increase the respective volumes and service fees, active marketing will continue in 2014, to both existing clients (account management) and new prospects (cross-selling to clients using other products). Furthermore, with the strategic goal of increasing cooperation with Turkish companies operating and having revenue streams outside Turkey, the bank will intensify its efforts to provide current account services to these customers, with the ambition to becoming their "home bank in Europe" for all their banking requirements outside their banking relations in Turkey.

The ORCA project (Operational Risk and Control Assessment), which has been applied at DHB Bank since 2008, is a first tool to manage non-financial risks and increase the awareness for risks throughout the organization. Earlier this year, the direct supervision of the project had been transferred from the Organization & Control Committee to the Risk Management Department (RMD), which is now responsible for the administration of the project. The Assistant General Manager responsible for operations will continue to provide oversight. In regular intervals, the operating units of the bank are required to review their previous risk registers, update any developments for determined risks and control measures in their working area, and add any newly recognised risks. The latest risk register maintenance was finalized in July 2013 and updated in November 2013.

The Dutch data protection authority (College Bescherming Persoonsgegevens, the CBP) requires DHB Bank as an institution to perform a "Plan-Do-Act-Cycle" to identify and manage risks in relation to private data. The core focus is to ensure that the bank is at all times aware of the risks in relation to handling data of its customers and employees, and ensure that those risks are mitigated to an acceptable level. This also falls in line with the data classification and ownership requirements laid out by DNB. As per the regulations, it is mandatory to properly identify and classify the data (including physical copies). Thereafter, based on the classifications, the data should be handled appropriately. As per the respective guidelines of CBP, general workplace checks were conducted for the Head Office by the Information Security Department in September 2013. The scope of the tests was to check whether critical business documents/customer information can be obtained from documents or files left on the desks of the staff. Identified areas of improvement were shared with the staff.

1 February 2014 was the deadline for the mandatory migration of all Dutch banks to the SEPA (Single Euro Payments Area) standard. Thanks to the completion of

Operating profit (EUR x 1000)



a number of infrastructural projects throughout 2013, DHB Bank has become fully compliant with the regulations pertaining to the SEPA standard well before this deadline. DHB Bank completed DNB's corresponding questionnaire in a timely manner in February 2013, indicating therein that DHB Bank would be fully compliant with the standards as of July 2013. A follow-up meeting was held on 8 April 2013 with DNB on the subject upon their request, during which some technical details were elaborated, such as the fact that DHB Bank is providing mostly SCT (SEPA Credit Transfer) services and handling fewer SDD (SEPA Direct Debit) transactions due to a smaller number of corporate customers.

Business Continuity Plan (BCP) tests organized annually for unforeseen events/disaster scenarios were conducted once again in November 2013. By progressively increasing the severity of the yearly tests, the latest test was designed on the assumption that the head office building would not be available, including primary IT resources and key staff. Accordingly, the related business units moved to Germany to conduct the tests and to evaluate systems recovered by external consultants or internal backup staff. The tests, which were conducted with deliberate stringent assumptions to simulate possible extreme real-life conditions, were useful in that they revealed certain areas for improvement, including documentation for access to privileged IT accounts and access to Internet Banking.

A new Corporate Marketing Research & Analysis section has been established in 2013 within the Corporate Marketing Department. This section focuses on market research and cooperates with other departments of the bank in carrying out portfolio and account profitability analysis. This helps to further strengthen performance management in terms of risk and return parameters at all levels.

As part of its strategic drive to position itself as preferred lender to Turkish corporates having investments/operations outside Turkey, throughout 2013, DHB Bank continued its joint advertisement campaign with its corporate loan customers, a campaign that was launched at the end of 2012.

The bank ceased to operate its own ATMs in the Netherlands on economic grounds, opting instead for sharing agreements with other banks.

"The bank's risk bearing capacity is continually assessed within the overall management of risks and was ensured at all times during the financial year under review."

Risk Management

DHB Bank's business activities are naturally exposed to a variety of risks in all aspects of its operations. Therefore, the bank's ability to properly assess and manage risks is recognised as critical to both its soundness and its profitability.

The bank's risk management framework is intended to provide comprehensive control over the on-going management of all risks inherent in its business activities. DHB Bank manages its risks by seeking to ensure that business activities provide an appropriate balance between the returns achieved and the risks assumed, and that they remain within the bank's risk appetite. The bank`s risk bearing capacity is continually assessed within the overall management of risks and was ensured at all times during the financial year under review.

DHB Bank continually strives to further strengthen the bank-wide risk and capital management framework in terms of organizational structure, processes and responsibilities, as well as methods for the identification, measurement, monitoring and control of risks. To achieve this, management ensures that all risk-related policies are fully communicated and adopted at all levels within DHB Bank.

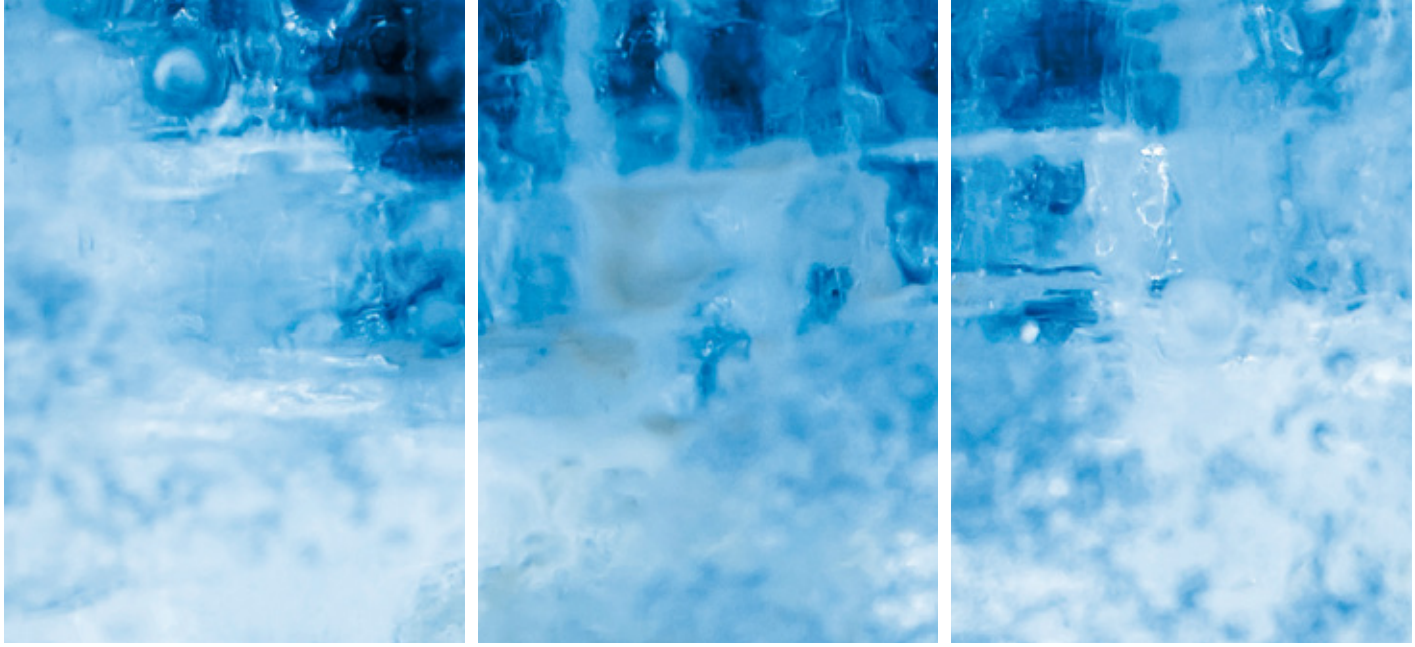
Risk Governance

The bank's risk governance structure is based on the overarching principle that all the business units are primarily responsible for managing risks in their operations within the approved risk appetite framework. Each business unit works in close cooperation with the independent risk assessment units and actively participates in the relevant committees to manage the respective risks appropriately.

The Supervisory Board has the final authority to approve the risk appetite statement proposed by the Managing Board, exercising 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), the Risk Management Department (RMD) and the Compliance & Internal Control Department (CIC), the RAC is responsible for the oversight of policies and processes by which risk assessment and management are carried out within the governance structure. Similarly, the RAC also reviews internal control and financial reporting systems that are relied upon to ensure integrated risk measurement and disclosure processes.

Within the governance structure, DHB Bank's Credit Committee and its Asset & Liability Management Committee (ALCO) deal with particular risks, while the Risk Management Committee (RMC) oversees both financial and non-financial risks bank-wide. Furthermore, the RMC oversees the management and control of the bank's risks on an aggregate level, while the committees and specialized functions focus on specific risk areas. All committees support the Managing Board in fulfilling its responsibilities with regard to integrated risk management and provide oversight to the front offices, which are responsible for managing the risks in their activities within the approved risk limits and tolerance.

The bank maintains a good standard of risk management by means of adapting the available tools and methodology to its own needs, following the proportionality principle. The control environment in the bank is based on the three lines of defence principle for the segregation of duties. With business units assuming the first line of defence function as noted above, the Risk Management Department and the Credit Analysis & Risk Management Department, along with the Compliance & Internal Control department form the main second line of defence. They support the business units in their decision-making, but have also sufficient independence and countervailing power to avoid risk concentrations. The Internal Audit Department as the third line of defence oversees and assesses



the functioning and effectiveness of the first two lines.

The bank pays the utmost attention to the prevention of integrity risk and associated reputation risk. With this approach, the bank maintained its strong governance structure in 2013, as detailed in the preceding sections of this report.

Risk and Capital Management

DHB Bank's capital management framework, within the broader risk management system, aims to ensure that there is sufficient capital to cover all the residual risks in line with the regulatory requirements and the bank's business objectives and rating targets.

For European banks, new capital and liquidity requirements, as proposed by the Basel Committee in the form of the Basel III accord, are being implemented through the capital requirement directive IV (CRD IV), which entered into force on 1 January 2014. DHB Bank was prepared in time to implement all relevant CRD IV elements. The bank has also implemented systems and methods to regularly monitor its compliance with the Basel III capital and liquidity ratios.

The bank has benefited from ongoing efforts to satisfy higher regulatory and supervisory standards not only with respect to capital management through its periodical internal capital adequacy assessment process (ICAAP), but also in relation to liquidity risk management through its internal liquidity adequacy assessment process (ILAAP) as required by the Liquidity Policy Rule of DNB.

Both ICAAP and ILAAP involve setting internal targets and defining strategies for achieving those targets consistent with the bank's risk appetite, business plans, operating environment and regulatory requirements. The ICAAP adopted by the bank has also taken into account the implications of DNB's policy rule generally requiring higher capital requirements for risk concentrations in emerging countries. For DHB Bank, the country concentration regulation is also considered a catalyst to diversify its country exposures and to ensure the maintenance of a high BIS capital ratio in the coming years.

In 2013, DHB Bank also submitted its recovery plan to DNB. This document included detailed tasks and responsibilities for (i) recovery in case of financial crisis, (ii) monitoring of related metrics, (iii) stress testing and recoverability assessment and (iv) follow-up activities to enhance the success rates of recovery options. These tasks and responsibilities are embedded in the regular, going-concern organisation and processes. Similarly, DHB Bank has set up the necessary procedures to monitor the related metrics and a decision-making process to determine whether or not the recovery plan should be activated.

Basel II/III disclosure

The CRD IV contained certain minimum disclosure requirements regarding risk and capital management in line with the Pillar 3 rules. Its goal is to encourage market discipline by developing a set of disclosure requirements that will allow stakeholders to assess certain specified information regarding the bank's implementation of Basel II, including capital resources, capital adequacy, risk profile, and risk management practices.

DHB Bank publishes its Pillar 3 disclosures on its website. The next Pillar 3 disclosure will be available during the first half of 2014 based on 31 December 2013 figures.

Expectations

DHB Bank's post-2008 period was shaped by high liquidity, a strong capital base and sound asset quality; these guiding principles allowed it to weather the difficult period, albeit at the price of modest profitability. The strategy that the bank started to implement at the end of 2010 prepared the ground for DHB Bank to adjust its asset composition and to have an edge on ensuring sustainable profitability for the years ahead thanks to the revitalization of its commercial orientation. Management is confident that operational profitability at levels similar to the successful 2013 will be attained in 2014 and in a progressive trend in the following years, as the ongoing strategic alignment brings about further benefits coupled with expected further improvements in the operating environment. On the other hand, apart from reference interest rates' being at record lows, credit spreads have also narrowed due to the combined effect of vast market liquidity and lenders' search for quality assets with higher yields. This trend has been particularly observable for high-credit standing institutions in all countries in general, and in Turkey in particular during the past two years. Towards the end of 2013, spreads widened to a certain extent in this country on macro-economical and political grounds as well as in reaction to the decision by the Fed to taper the QE programme. This latter decision, however, coupled with the ECB cutting rates, had only limited impact on long-end rates. Accordingly the financial environment is expected to continue putting pressure on the bank's profitability in terms of interest margin in the short-to-medium term.

In many Eurozone countries, including the Netherlands, since the 2008 global crisis, deposit rates –the commercial banks' main funding cost – have decoupled from Euribor rates, causing a significant discrepancy between funding costs and lending rates, as a result of which funding costs are much higher than lending spreads for low-risk investments and for corresponding maturities. This phenomenon is expected to continue for some time, perhaps to a lesser degree, at least until capital markets improve and economic recovery in the Eurozone picks up significantly so that policy rates once again trend upwards, based on other parameters as well. DHB Bank will continue to closely monitor the market developments and manage its offered deposit rates accordingly.

Regarding its bank and corporate exposures, DHB Bank expects its asset quality to remain healthy. The bank maintains strict credit underwriting processes, and its exposures are mainly to countries (or to customer segments) that are less affected from the Eurozone crisis,

> " Management is confident that operational profitability will continue in a progressive trend in the following years. "

such as Turkey and Russia, among others. Another comforting aspect is the fact that bank and corporate customers continue to be selected among those with high credit standings as well as hard collaterals in some cases. Finally, DHB Bank will continue to make use of its traditionally rigorous risk monitoring processes.

It is the aim of DHB Bank to become the 'Home Bank in Europe' of its recently acquired Turkish corporate customers operating and having revenue streams outside Turkey, for all their banking requirements outside their banking relations abroad. To enhance its services in this area, the project to offer an internet-based account management system for corporate customers, namely 'Business Online', is expected to be fully implemented in the first half of 2014.

Liquidity and capital management will continue to be another focal point, and the Supervisory Review and Evaluation Process in relation to ICAAP and ILAAP of 2013, which further improved the bank's situation with regard to these two parameters, will be on the permanent agenda of the bank in the years to come. Possessing a strong capital base and highly liquid balance sheet, DHB Bank does not expect any adverse developments in these fields. Thanks to the development of a recovery plan, management does not expect the long-term viability of the bank to be affected by a potentially severe crisis, idiosyncratic or systemic. The maintenance of the recovery plan, ILAAP and ICAAP will be conducted on a yearly basis.

The bank intends to maintain its presence in Belgium and Germany for diversification purposes. For the same reason, exploration of physical expansion possibilities in other European countries will be on the agenda of the management.

With an efficient and upgraded in-house IT system, DHB Bank has no plans for major new investments in this area in the near future, except for ongoing IT operation and maintenance expenses and management information system applications.

As a result of management's strategic stance on controlled credit expansion towards Turkish corporate customers operating and having revenue streams outside Turkey, particularly in the EU, within the limits of sound risk and capital management, it is anticipated that DHB Bank will report a similar profitability in 2014 under current market interest rate dynamics, as the bank does not intend to ease its risk appetite. In this context, the bank projects, for 2014, an asset size of around EUR 1.7 billion and a capital adequacy ratio slightly above 16% throughout the year.

In terms of business model and strategic positioning, DHB Bank will adjust its activities parallel to the requirements of the 'Policy Rule on Maximizing the Deposits and Exposures Ratio under the Act on Financial Supervision'. On the same grounds, due to the rigorous approach of DNB concerning risk concentration and capital measures, despite the bank's respectable solvency ratio by international standards, balance sheet growth is not envisioned in the near future.

From left to right:
Mr Steven Prins,
Mr Kayhan Acardağ,
Mr Abram Rutgers,
Mr Okan Balköse.

Board and Staff

As at year-end 2013, the bank employed 142 staff.

In the course of the year, in line with its strategic alignment endeavours and changing requirements, the bank strengthened its human resources for different functions. Throughout the year, facilitated by internal or external trainers, the staff attended numerous trainings and workshops, including budget activity planning meetings, a workshop on legal risks of lending in the Dutch market, training on ethical hacking and countermeasures, client first awareness and information security awareness, the latter of which was also offered to some correspondent banks.

In the course of 2013, the following changes were made to the composition of DHB Bank's Supervisory Board and Managing Board.

Mr Mehmet Emin Özcan resigned from his position in the Board on 1 May 2013, subsequent to his appointment to the position of Vice Chairman of Vakifbank and his consequent departure from Halkbank. We would like to thank him for the valuable inputs and contributions he provided during his tenure in the SB since 1 June 2010. We wish him success in his new endeavors.

Mr Süleyman Kalkan, a proficient banker

who served in several managerial and executive positions throughout his career, joined the SB on 31 October 2013, following the completion of various processes such as selection and nomination by the Nomination Committee, discussions and decisions at the SB and shareholders level and ultimately subsequent to the receipt of DNB's no-objection decision.

During the second half of 2013, Mr Kemal Cıngıllıoğlu has started to attend the meetings of the Supervisory Board and its sub-committees in the position of observer.

After 43 years of active professional life, of which the last 11 were with DHB Bank, first as member of the Supervisory Board (SB) and since 2006 as member of the MB, Mr Ab Rutgers retired on 31 December 2013. On this occasion, we would like to express our sincere appreciation for the contributions he made during his terms of office, and wish him well in this new phase of his life.

On 27 November 2013, Mr Steven Prins joined DHB Bank as member of the Managing Board. Mr Prins is an all-round banking professional who started his career at Rabobank International in 1987. After joining GE Artesia in 1994, he rose through the ranks at that bank, most recently serving as CEO. His contributions already started to have positive effects on DHB Bank's activities.

Mr Okan Balköse, an experienced banker who started his career at Iktisat Bankasi in 1993 and who, after various executive positions at a number of financial institutions, assumed the General Manager position of Bank Pozitif Kredi ve Kalkinma Bankasi since 2004, officially joined DHB Bank on 1 January 2014 as member of the Managing Board, after progressively getting acquainted with the bank's operations during December 2013. We are confident that the expertise of Mr Balköse will further support DHB Bank in its commercial activities.

The new MB members of DHB Bank also signed the moral and ethical conduct declaration, putting the clients' interests first.

In conclusion, we would like to express our sincere thanks to the members of our Supervisory Board for their continued support. We would also like to offer our sincere thanks and appreciation to the bank's management and staff for their effort and dedication, which have helped to build DHB Bank into what it is today, as well as to our clients and partners who chose to work with us.

Having left more than 20 years behind, we trust that we will continue together on a successful path, sustain profitability in 2014, and further strengthen the bank's franchise to deliver added value to our stakeholders in the years to come.

Rotterdam, 11 April 2014

Mr Kayhan Acardağ
Senior General Manager

Mr Abram Rutgers
General Manager
(until 31 December 2013)

Mr Steven Prins
General Manager
(since 27 November 2013)

Mr Okan Balköse
General Manager
(since 1 January 2014)

Governing Bodies & Management

Supervisory Board

Mr Hanno W. E. Riedlin
Chairman

Born in The Netherlands in 1947, Mr Riedlin gained his masters degree of law at the Leiden University. Between 1972 and 1994, he held posts at various international locations of ABN Amro Bank, following which he occupied in the Rabobank Group until 2007 different executive positions, including Global Credit Risk, Global Market Risk, International Private Banking & Trust, Special Asset Management, as well as the positions of Head of Audit Department and Head of Risk Management Department.

Mr Riedlin had advisory functions to Financierings-Maatschappij voor Ontwikkelingslanden (FMO), Bank Respublika in Azerbaijan, TCXFund and Musoni, and was a member of the Board of Accion Investments in Microfinance, Boston, and in that capacity chaired the Compliance Committee until 30 October 2012. He joined DHB Bank as Chairman of the Supervisory Board in April 2011.

Mr İsmail Hasan Akçakayalıoğlu
Member

Born in 1963, Mr Akçakayalıoğlu graduated from the Middle East Technical University (METU), Ankara, Computer Engineering under graduate and masters degrees. He has completed his MBA study at Yeditepe University, Istanbul.

After graduating from METU, Mr Akçakayalıoğlu has worked in Arthur Andersen and Andersen Consulting in London and Istanbul offices. Prior to his Chairman and CEO positions at BankPozitif Kredi ve Kalkınma Bankası A.Ş., which he has been heading since 2002, he had worked in the banking sector at various management levels including the CEO position. Mr Akçakayalıoğlu is a Board Member of TUSIAD Global Economic Relations Committee, Chairman of Israel Working Group of TUSIAD and Deputy Chairman of Turkish-Israel Business Council of DEIK (Foreign Economic Relations Board). He is also a member Economic and Financial Affairs Committee of TUSIAD under which he was the president of Banking Working Group in 2012

He is also the Chairman of C Faktoring A.Ş., Chairman of JSC BankPozitiv Kazakhstan, Chairman of Demir Kyrgyz International Bank and Member of the Supervisory Board of Demir-Halk Bank (Nederland) N.V. Mr Akçakayalıoğlu is a member of DHB Bank's Supervisory Board since August 2002.

Mr Theodoor Joseph Bark
Member

Born in The Netherlands in 1945, Mr Bark joined ABN Bank after high school in The Netherlands. He held international assignments since 1969 in Japan and Hong Kong and subsequently was country manager South Korea, Regional Manager Middle East, CEO Saudi Hollandi Bank in Saudi Arabia, Regional Manager Western/Northern Europe; thereafter Regional Manager Central Europe and CIS.

In 1997 he became member of North America Management team specifically responsible for Canada and Mexico. Mr Bark retired in 2002 from ABN-Amro Bank as Regional Manager, based in Malaysia, in charge of selling various operations of the bank in Asia, Middle East and Africa. He joined DHB Bank as member of the Supervisory Board in 2002, and concurrently is advisor, director and Supervisory Board member in other locations of the majority shareholder of DHB Bank.

Mr Hans J.Ph. Risch
Member

Born in The Netherlands in 1941, Mr Risch started his banking career in 1962 with Pierson Heldring & Pierson. Since 1968 he served among others as director and or member of the managing board of various banking institutions in The Netherlands. As of January 1, 1997 Mr Risch joined DHB Bank as member of the Managing Board. In 2006 he retired and was appointed as member of the Supervisory Board of the bank.

Mr Risch was the Honorary Consul General of Turkey since 2003, and stepped down at the end of 2013 from this position subsequent to Turkey opening a fully fledged permanent Consulate General in Amsterdam.

Dr Nurzahit Keskin
Member

Born in 1962 in Istanbul, Dr. Keskin holds a Master of Arts degree from the Department of International Banking, the Institute of Banking and Insurance, Marmara University, a PhD from Sakarya University and a bachelor's degree from the Afyon Faculty of Economic and Administrative Sciences of Anadolu University.

Starting his career as a lecturer at Marmara University in 1986, he subsequently held different positions such as independent

auditor, management consultant and senior executive at various national, multinational and international companies in Turkey. In 2003, Dr. Keskin became a member of the Executive Board of Türkiye Cumhuriyeti Ziraat Bankası A.Ş. and was also on the boards of this bank's several subsidiaries abroad. Since 2005, Dr. Keskin has been a member of the Board of Directors of Türkiye Halk Bankası A.Ş. and joined the Supervisory Board of DHB Bank in 2008.

Mr Mehmet Emin Özcan
Member (until 1 May 2013)

Born in 1960 in Beytüşşebap, Mr Özcan is a graduate of the Department of Economics and Finance, Faculty of Political Sciences, Ankara University.

He began his career as an Assistant Inspector at Türkiye İş Bankası A.Ş. in1983. Following this, he assumed various management roles at Albaraka Türk Katılım Bankası A.Ş. Between March 2003 and April 2005, Mr Özcan served as an Executive Board Member at Türkiye Halk Bankası A.Ş. During the same period, he worked as a Board Member of Demir-Halk Bank (Nederland) N.V., Halk Yatırım Menkul Değerler A.Ş. and Halk Finansal Kiralama A.Ş. Between April 2005 and May 2010, he was appointed as the Board Member of the Board Directors of T.C. Ziraat Bankası A.Ş. He also participated as a Member of the Board of Directors in T.C. Ziraat Bankası A.Ş.'s various subsidiaries. Currently Mr Özcan serves as the Chairman of the Board of Directors of the Association of National Development Finance Institutions in Member Countries of the Islamic Development Bank(ADFIMI). He was appointed as Vice Chairman of the Board of Directors of Türkiye Halk Bankası A.Ş. on 24 May 2010. Mr Özcan rejoined DHB Bank's Supervisory Board as member in June 2010.

Mr Henk Sliedrecht
Member

Born in The Netherlands in 1948, Mr Sliedrecht joined KPMG in 1972 and became an audit partner in 1986 and was involved in the audit and advisory of banks, investment funds, venture capital funds and the Dutch stock exchange.

He left KPMG for retirement in 2006 and became member and from 2009 chairman of the Supervisory Board of WBV Heerjansdam, a local housing corporation. From 2008 till 2011 he was appointed as administrator in the emergency regulation of the Landsbanki office in The Netherlands. In 2012 Mr Sliedrecht joined the Supervisory Board of DHB Bank.

Mr M. Shafik Gabr
Member

Born in Cairo, Egypt in 1948, Mr Gabr joined Rabobank Nederland in 1976 after high school education and a study at Agricultural Economics at Ain Shams University. He held many senior and executive positions in the bank's international division, mostly involving emerging markets related financing, and also participated in the business decision making process of the bank through his membership in credit, banking and country limit committees. Mr Gabr concluded his career with the bank as Managing Director with global responsibility for Rabobank's activities in (structured) trade & commodity finance, financial institutions and multilateral development banks & government relations.

Following his Rabobank career, Mr Gabr established in 2009 an emerging markets finance consultancy, advising a number of Dutch corporates mainly in the agriculture sector as well as the International Finance Corporation (IFC), World Bank Group. He further acts as authorized intermediary (Finder) for the Multilateral Investment Guarantee Agency (MIGA), World Bank Group. Mr Gabr joined the Supervisory Board of DHB Bank in December 2011.

Mr Süleyman Kalkan
Member (Since 31 October 2013)

Mr Kalkan was born in 1956 in Kırşehir, Turkey. He graduated from Ankara University, Faculty of Political Sciences, Department of International Relations. He started his career in 1983 as an Assistant Inspector in İşbank, the largest private bank in Turkey. He continued in the same bank as Deputy Manager of Retail Loans in 1993, as Regional Manager of Commercial and Corporate Loans in 1995, and as Manager of Non-Performing Loans between 1997 and 2003, while, at the same time, he worked as a Member of the Disciplinary Board of the Bank. Mr Kalkan served as the branch manager of Levent and Balmumcu branches in Istanbul until March 2010 at the same Bank.

Mr Kalkan also served as the member of the Supervisory Board in different İşbank subsidiaries like TSKB, (The Industrial Investment Bank of Turkey, 2009-2010), Anadolu Hayat Emeklilik (Life Insurance Co., 2007-2009) and İş Faktoring (Factoring Co.,1996-1998). Between March 2010 and March 2013, he was the CEO and General Manager of Vakifbank, one of the leading state bank of Turkey. At the same time, He was the Chairman of the Supervisory Board in Güneş Sigorta (Insurance Co.) and Vakıf International AG (Vienna), both subsidiaries of VakıfBank,

As from 1 April 2013, he is the Vice-Chairman of the Supervisory Board of Halkbank. Mr Kalkan joined the Supervisory Board of DHB Bank in October 2013.

Managing Board

Mr Kayhan Acardağ
Senior General Manager

Born in 1957 in Turkey, Mr Acardağ holds a bachelor's degree from METU (Middle East Technical University, Turkey), Faculty of Administrative Sciences, Department of Management (1980) as well as an MBA from the University of Warwick-United Kingdom (2007).

He started his career at the Board of Sworn Bank Auditors in Turkey, where he served as Sworn Bank Auditor until 1989. He joined Türkiye Halk Bankası A.Ş. in 1989 in the position of Advisor to the Chairman of the Supervisory Board, and subsequently served as Manager of the Fund Credits Department until 1993. Mr Acardağ has held various executive positions at DHB Bank since 1993 and has been a member of the bank's Managing Board since 2004.

Mr Abram Rutgers
General Manager
(Until 31 December 2013)

Born in The Netherlands in 1948, Mr Rutgers joined an international grain-trading company in Amsterdam after the completion of Nyenrode business school in 1970. In 1973 he decided to join the international division of ABN Bank. His postings abroad include countries like Iran, Saudi Arabia, Belgium, Greece, Kenya. He also served as ABN's country manager in the United Arab Emirates, Turkey and Morocco.

In 2002, Mr Rutgers joined the Supervisory Board of DHB Bank, and in 2006 he was appointed to the Managing Board of DHB Bank.

Mr Steven W. Prins
General Manager
(Since 27 November 2013)

Born in 1965 in the Netherlands, Mr Prins graduated from Hogere Economische School, Groningen, Department of Business Economics in 1987.

After graduation, he worked at Rabobank International, Utrecht between 1987 and 1994 first as financial analyst and subsequently as area manager in the fields of correspondent banking and trade finance. He gradually progressed to the CEO position of GE Artesia Bank, Amsterdam in 2004, subsequent to joining this bank in 1994 and after having worked at various managerial positions in the bank and being promoted in 2003 to the position of CFO and member of the Managing Board.

Mr Prins joined DHB Bank in November 2013 as member of the Managing Board.

Mr Okan Balköse
General Manager
(Since 1 January 2014)

Born in Turkey in 1970, Mr Balköse graduated from Bilkent University, Department of Industrial Engineering in 1991, and received his Masters degree from the same department in 1993. He also holds an MBA from Yeditepe University (2004).

He started his banking career in 1993, and, after serving in managerial positions in several financial institutions such as Iktisat Bankasi, Demirbank, Citibank and Eczacibasi UBP, he has worked as the General Manager of Bank Pozitif Kredi ve Kalkinma Bankasi between 2004 -2013.

Mr Balköse joined DHB Bank in January 2014 as member of the Managing Board.

Senior Management

Ms Bahar Kayıhan
Assistant General Manager
Operations & System Analysis and Process Development & Retail Services and Savings & Information Security

Ms Ayten Türkmen
Assistant General Manager
Corporate Marketing (Until 4 May 2013)

Ms Ayşe Çıngıl
Assistant General Manager
Corporate Loans & Credit Analysis and Risk Management

Mr C. Levent Es
Assistant General Manager
Financial Institutions & Forfaiting

Department Heads

Compliance & Internal Control & Legal Affairs
Mr Rudolf Zandboer

Corporate Marketing
Mr Gaspar Esteve Cuevas

Financial Control
Mr Ercan Erdoğan

Financial Institutions & Forfaiting
Ms Ayşın Atalay-de Jong

General Affairs
Ms Kiraz Başaran, *Section Manager*

Human Resources
Ms Gülhan Develi, *Section Manager*

Information Security
Mr Dheeraj Katarya

Information Technology
Mr Nezih Engin

Internal Audit
Mr Simon de Vries

Operations & Documentary Credits
Ms Pınar Olierook-Türe

Planning, Coordination & Communication
Mr B. Affan Sağ

Risk Management
Mr Djono Subagjo

System Analysis & Process Improvement
Mr Fatih Teke

Treasury
Mr İrfan Çetiner

Retail Branches Netherlands

Amsterdam – Rotterdam - The Hague
Mr M. Devrim Baykal
Manager

Foreign Main Branches

Germany
Mr Wilfried Hübner
Country Manager

Belgium
Mr René Bienfait
Country Manager

Istanbul Representative
Ms Fulya Baran

Financial Statements
for the Year 2013

Consolidated statement of financial position

As at 31 December

(in thousands of EUR)	**Notes**	**2013**	**2012***
ASSETS			
Cash and balances with central banks	4.1	120,766	118,959
Financial assets held for trading	4.2	25,376	3,777
Available for sale financial assets	4.3	379,810	449,767
Securities held to maturity	4.4	15,266	48,346
Loans and receivables – banks	4.5	328,592	413,512
Loans and receivables – customers	4.6	849,462	755,798
Derivative financial instruments – hedge accounting	4.7	1,801	570
Property and equipment	4.8	12,070	11,700
Intangible assets	4.9	141	51
Current tax assets	4.10	–	6,738
Deferred tax assets	4.10	198	109
Other assets	4.11	1,569	1,552
Total assets		**1,735,051**	**1,810,879**
LIABILITIES			
Due to banks	4.12	223,668	211,459
Financial liabilities held for trading	4.2	2,162	12,446
Deposits from customers	4.13	1,262,715	1,333,623
Derivative financial instruments – hedge accounting	4.7	271	2,444
Provisions	4.14	1,377	2,145
Current tax liabilities	4.15	2,786	7,955
Deferred tax liabilities	4.15	2,353	3,354
Other liabilities	4.16	7,107	11,564
Total liabilities		**1,502,439**	**1,584,990**
EQUITY			
Share capital	4.17	113,750	113,750
Retained earnings		94,520	85,337
Other reserves	4.18	6,237	8,925
Net profit		18,105	17,877
Total equity		**232,612**	**225,889**
Total equity and liabilities		**1,735,051**	**1,810,879**
Commitments and contingent liabilities	6.1	9,477	13,511

The notes to the financial statements are an integral part of these consolidated financial statements.

** The comparative figures have been restated due to the revised accounting standards for employee benefits (IAS 19). Further reference is made to paragraph 3.17*

Consolidated income statement

(in thousands of EUR)	**Notes**		**2013**		**2012***
Interest income		75,839		85,899	
Interest expense		(26,526)		(35,928)	
Net interest income	5.1		49,313		49,971
Fee and commission income		6,069		9,551	
Fee and commission expense		(429)		(541)	
Net fee and commission income	5.2		5,640		9,010
Result on financial transactions	5.3		(11,229)		(16,471)
Result on hedge transactions	5.4		(100)		(548)
Other operating income	5.5		11		20
Total operating income			**43,635**		**41,982**
Administrative expenses:					
• Staff expenses	5.6	(11,193)		(11,427)	
• Other administrative expenses	5.7	(5,319)		(6,214)	
			(16,512)		(17,641)
Depreciation and amortization			(504)		(584)
Total operating expense			**(17,016)**		**(18,225)**
Operating result before impairment			26,619		23,757
Net impairment charge	5.8		(2,781)		(301)
Total expense			**(19,797)**		**(18,526)**
Operating profit before tax			**23,838**		**23,456**
Income tax expense	5.9		(5,733)		(5,579)
Net profit			**18,105**		**17,877**
Attributable to:					
shareholders of the parent company			18,105		17,877
non-controlling interest			–		–

The notes to the financial statements are an integral part of these consolidated financial statements.

** The comparative figures have been restated due to the revised accounting standards for employee benefits (IAS 19). Further reference is made to paragraph 3.17*

Consolidated statement of changes in equity

The movements in equity are as follows:

(in thousands of EUR)

	Share capital	Retained earnings	Revaluation reserve	Legal reserve	Defined benefit obligation reserve	Cash Flow hedge reserve	Fair value reserve	Consolidated net profit	Total
At January 1, 2012	**113,750**	**83,954**	**2,792**	**19**	**–**	**23**	**(16,072)**	**1,356**	**185,822**
Effect IAS 19	–	(73)	–	–	55	–	–	–	**(18)**
At January 1, 2012 Restated	**113,750**	**83,881**	**2,792**	**19**	**55**	**23**	**(16,072)**	**1,356**	**185,804**
Appropriation of prior year net profit	–	1,356	–	–	–	–	–	(1,356)	**–**
Change in revaluation reserve	–	–	(213)	–	–	–	–	–	**(213)**
Change in defined benefit obligation reserve	–	–	–	–	(246)	–	–	–	**(246)**
Change in cash flow hedge reserve	–	–	–	–	–	341	–	–	**341**
Change in fair value reserve	–	–	–	–	–	–	22,245	–	**22,245**
Net profit as reported in annual report 2012	–	–	–	–	–	–	–	17,549	**17,549**
Net profit effect by IAS19	–	–	–	–	–	–	–	328	**328**
Total comprehensive income	**–**	**–**	**(213)**	**–**	**(246)**	**341**	**22,245**	**17,877**	**40,004**
Transactions with owners, recorded directly in equity									
Change in legal reserve	–	19	–	(19)	–	–	–	–	**–**
Transfer to / from retained earnings	–	81	–	–	–	–	–	–	**81**
At December 31, 2012*	**113,750**	**85,337**	**2,579**	**–**	**(191)**	**364**	**6,173**	**17,877**	**225,889**

** The comparative figures have been restated due to the revised accounting standards for employee benefits (IAS 19). Further reference is made to paragraph 3.17*

	Share capital	Retained earnings	Revaluation reserve	Legal reserve	Defined benefit obligation reserve	Cash Flow hedge reserve	Fair value reserve	Consolidated net profit	Total
At January 1, 2013	**113,750**	**85,337**	**2,579**	**–**	**(191)**	**364**	**6,173**	**17,877**	**225,889**
Appropriation of prior year net profit	–	8,774	–	–	–	–	–	(8,774)	**–**
Effect IAS 19	–	328	–	–	–	–	–	(328)	**–**
Change in revaluation reserve	–	–	284	–	–	–	–	–	**284**
Change in defined benefit obligation reserve	–	–	–	–	236	–	–	–	**236**
Change in cash flow hedge reserve	–	–	–	–	–	(336)	–	–	**(336)**
Change in fair value reserve	–	–	–	–	–	–	(2,872)	–	**(2,872)**
Net profit for the year	–	–	–	–	–	–	–	18,105	**18,105**
Total comprehensive income	**–**	**–**	**284**	**–**	**236**	**(336)**	**(2,872)**	**18,105**	**15,417**
Transactions with owners, recorded directly in equity									
Transfer to / from retained earnings	–	81	–	–	–	–	–	–	**81**
Dividends paid	–	–	–	–	–	–	–	(8,775)	**(8,775)**
At December 31, 2013	**113,750**	**94,520**	**2,863**	**–**	**45**	**28**	**3,301**	**18,105**	**232,612**

The notes to the financial statements are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

(in thousands of EUR)	**2013**	**2012***
Net profit	18,105	17,877
Items that are or may be reclassified to the income statement		
Cash flow hedge reserve	(336)	341
Fair value reserve	(2,872)	22,245
Items that will never be reclassified to the income statement		
Revaluation reserve	284	(213)
Defined benefit obligation reserve	236	(246)
Other comprehensive income	**(2,688)**	**22,127**
Total comprehensive income for the year	**15,417**	**40,004**
Attributable to:		
• owners of the parent	15,417	40,004
• non-controlling interest	–	–
Total comprehensive income for the year	**15,417**	**40,004**

The notes to the financial statements are an integral part of these consolidated financial statements.

** The comparative figures have been restated due to the revised accounting standards for employee benefits (IAS 19). Further reference is made to paragraph 3.17*

Consolidated cash flow statement

(in thousands of EUR)	**2013**	**2012***
Operating activities		
Net profit	18,105	17,877
Adjustments for noncash items included in profit:		
Depreciation and amortization for property and equipment	476	575
Depreciation and amortization for intangible assets	28	9
Impairment on tangible assets	(70)	(156)
Provisions and impairment	2,851	457
Net change in provisions	(453)	644
Income tax expense	5,733	5,579
Movements in operating assets:		
Change in financial assets held for trading	(21,599)	(3,655)
Change in loans and receivables – banks	85,991	201,667
Change in loans and receivables – customers	(97,876)	(143,495)
Change in income tax assets and other assets	6,632	3,075
Movements in operating liabilities:		
Change in due to banks	12,209	33,244
Change in deposits from customers	(70,908)	31,606
Change in financial liabilities held for trading	(10,284)	(11,789)
Change in derivative financial instruments	(3,404)	(649)
Change in income tax liabilities and other liabilities	(13,501)	7,083
Net interest income	(49,313)	(49,971)
Interest received	79,016	84,088
Interest paid	(30,121)	(34,100)
Income tax paid	(3,026)	(3,139)
Net cash flow from operating activities	**(89,514)**	**138,950**
Investing activities		
Additions to financial investments	(320,030)	(321,697)
Disposals and redemptions of financial investments	420,485	217,919
Investments in property and equipment	(246)	(149)
Investments in intangible assets	(118)	(41)
Disposal of property and equipment	5	6
Net cash flow from investing activities	**100,096**	**(103,962)**
Financing activities		
Dividends paid	(8,775)	–
Net cash flow from financing activities	**(8,775)**	**–**
Net Cash Flow	**1,807**	**34,988**
Cash and balances with central banks at January 1	118,959	83,971
Cash and balances with central banks at December 31	120,766	118,959
Net change in cash and balances with central banks	**1,807**	**34,988**

The notes to the financial statements are an integral part of these consolidated financial statements.

** The comparative figures have been restated due to the revised accounting standards for employee benefits (IAS 19). Further reference is made to paragraph 3.17*

Notes to the consolidated financial statements

1. Corporate information

The shareholders are HCBG Holding B.V. of Amsterdam, which owns 70% and Türkiye Halk Bankası A.Ş. of Ankara, which owns 30%.

The financial position of the bank is related to the economic developments in Turkey, CIS countries and the Eurozone on the asset side, and The Netherlands, Belgium and Germany on the liabilities side. The financial statements reflect the Management's best assessment of the financial position of the bank with respect to these developments.

The income statement in company's financial statements has been presented in abridged form pursuant to the provisions of Article 402, Part 9 of Book 2 of the Netherlands Civil Code.

2. Basis Of Preparation

2.1 Compliance status

The consolidated financial statements of DHB Bank and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (EU-IFRS), as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU).

The consolidated financial statements for the year ended December 31, 2013 were authorized for issue in accordance with a resolution of the Managing Board, the Supervisory Board and the General Meeting of Shareholders on April 11, 2014.

2.2 Basis of measurement

The consolidated financial statements are prepared on a historical cost basis, except for available for sale financial assets, financial assets and liabilities held for trading, derivative financial instruments-hedge accounting and property in use by the bank which have been measured at fair value.

2.3 Functional and presentation currency

The consolidated financial statements are presented in Euros, which is the functional currency of DHB Bank.
All amounts are stated in thousands of EUR, unless otherwise stated.

3. Summary of significant accounting policies

3.1 Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities, income and expenses of DHB Bank and its subsidiaries Best CreditLine B.V. and Stichting DHB Bewaarfonds. In accordance with EU-IFRS the company income statement is also presented in an abbreviated form to show company results and results of subsidiaries.

Subsidiaries
Subsidiaries are entities controlled by DHB Bank. Control exists when DHB Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial

statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The financial statements have been prepared using uniform accounting policies and measurement for all transactions in similar circumstances.

All intra-group balances and transactions, including income, expenses and dividends and unrealized gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit and loss and net assets not owned, directly or indirectly, by DHB Bank and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

3.2 Foreign currency translation

Transaction and balances

DHB Bank prepares its consolidated financial statements in Euros, which is DHB Bank's functional and presentation currency. The euro is the functional currency for all entities in DHB Bank.

Foreign currency transactions are initially recorded in the functional currency at the rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency with respect to the spot rate at the balance sheet date. All differences are presented in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated by using the exchange rates at the date when the fair value was determined.

Foreign operations

The assets and liabilities of the foreign subsidiaries are translated into DHB Bank's presentation currency (euro), at the spot rate at the balance sheet date. The income statement of the foreign subsidiaries is translated at the weighted average exchange rates for the year. Exchange differences arising on translation are stated under equity in a separate component.

3.3 Significant accounting estimates

The preparation of financial statements in accordance with EU-IFRS requires the use of certain accounting estimates and also requires the management to make judgements and assumptions that affect the application of policies and reported amounts of assets and liabilities. These estimates and assumptions are based on management experience and other factors that are believed to be reasonable under certain circumstances, the results of which affect the judgments made about carrying values of assets and liabilities that are not readily apparent from other sources. Although DHB Bank tries to make maximum use of market inputs and rely as little as possible on estimates specific to DHB Bank, actual results may differ from these estimates.

DHB Bank reviews the estimates and underlying assumptions on an ongoing basis. The most significant use of judgments and estimates are made in the following areas:

- determination of fair values of non-quoted financial instruments,
- determination of impairment losses on loans and receivables,
- determination of deferred tax assets and liabilities.

These items are explained in related sections.

3.4 Financial instruments – recognition and subsequent measurement

Recognition date

Transfer of financial assets which require delivery of assets within a certain time frame generally established by regulation or convention in the marketplace are recognised on the settlement date, i.e. the date that DHB Bank receives or delivers the asset.

Initial recognition of financial instruments

Financial instruments are classified depending on the purpose for which the financial instruments were acquired and their characteristics at initial recognition. All financial instruments are measured initially at fair value, including any directly attributable incremental costs of acquisition or issue.

Measurement of financial instruments

Financial instruments are measured at amortized cost or fair value.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective yield. The amortization is included in the income statement under 'Interest income'.

Following IFRS 13, the bank defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. If there is an active market for the asset or liability, the fair value represents the quoted price in that market. A market is considered active if transactions take place with sufficient frequency and volume.

Where a market is not active and where quoted prices do not exist for a financial instrument DHB Bank establishes fair value using valuation techniques. Valuation techniques use discounted cash flow analyses and make maximum use of market inputs. Valuation techniques rely as little as possible on estimates specific to DHB Bank.

These valuation models were built by incorporating all factors that market participants would consider in setting a price and they are consisted with accepted economic methodologies for pricing financial instruments. Valuation model inputs reasonably represent market conditions together with market expectations and measures of the risk and return factors inherent in the financial instrument.

DHB Bank consistently evaluates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available market data.

At initial recognition, the best evidence regarding the fair value of a financial instrument is the transaction price, unless the fair value is evidenced by observable fair market transactions in the same instrument, or is based on a valuation technique that includes inputs only from an observable market.

Classifications of financial instruments

DHB Bank classifies financial assets and liabilities into the following measurement (valuation) categories:

a. **Financial assets and liabilities held for trading:**
   This category includes securities held for trading, derivative contracts consisting of cross currency swaps and forward foreign exchange contracts, interest rate swaps, options on bonds and foreign currencies, futures on equities and credit default swaps. At initial measurement financial assets and liabilities held for trading are recorded in the balance sheet at fair value and are subsequently re-measured also at fair value with changes being realized in the income statement under the item 'Result on financial transactions'. The positive fair value differences are recorded in assets under item 'Financial assets held for trading' and the negative fair value differences are recorded in liabilities under item 'Financial liabilities held for trading'.

b. Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. DHB Bank does not intend to make immediate short-term profits by selling loans and receivables. At initial measurement this category is recorded in the balance sheet at fair value and is subsequently re-measured at amortized cost, using the effective yield method, less provision for impairment. The losses arising from impairment are recognised in the income statement under 'Net impairment charge' and disclosed in the movement table under loans and receivables.

c. Securities held to maturity:

Held to maturity investments are non-derivative, interest bearing securities such as government bonds, treasury bills and various debt instruments issued by banks and companies with fixed or determinable payments and fixed maturities. At recognition, it is assumed that DHB Bank has the positive intent and ability to hold these financial assets till maturity.

After initial measurement at fair value, held to maturity investments are subsequently measured at amortized cost using the effective yield method, less provision for impairment. The losses arising from impairment are recognised in the income statement under 'Net impairment charge'.

d. Available for sale financial assets:

Available for sale financial assets are non-derivative assets which do not qualify to be classified as financial assets held for trading, loans and receivables and held to maturity investments. Available for sale financial assets consist of interest bearing securities and syndicated bank loans classified as available for sale. DHB Bank has the intention to hold these assets for an indefinite period of time, however may also decide to sell them in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

At initial measurement these are recorded in the balance sheet at fair value including directly attributable transactions costs and are subsequently re-measured also at fair value. Unrealized gains and losses are recognised net of taxes directly in equity under the item 'Fair value reserve' until the investment is sold. Interest income is calculated using the effective interest method and recognised in the income statement under 'Interest income'. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement under 'Result on financial transactions'. The losses arising from impairment of such investments are also recognised in the income statement.

e. Derivative financial instruments – Hedge accounting

Derivatives held for asset-liability risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities. Principal objective of DHB Bank's asset-liability management is to manage the bank's overall risk exposure through minimizing risk positions while maximizing earnings. Derivatives held for risk-management purposes are measured at fair value in the balance sheet.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortised through the income statement over the remaining term of the hedged item or recognised directly when the hedged item is derecognised. For non-interest bearing instruments, the cumulative adjustment of the hedged item is recognised in the income statement only when the hedged item is derecognised.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity under the item 'cash flow hedge reserve'. The hedged item, which is designated as part of a cash flow hedge, does not change as far as the administrative processing is concerned. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects net

result. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when a hedging instrument expires or is sold. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is transferred immediately to the income statement.

f. Other financial liabilities

These are non-derivative financial liabilities ('Due to banks' and 'Deposits from customers') with fixed or determinable payments that are not quoted in an active market. At initial measurement this category is recorded in the balance sheet at cost and is subsequently re-measured at amortized cost.

3.5 Derecognition of financial assets and liabilities

Financial assets

DHB Bank derecognizes a financial asset when:

- contractual rights to receive cash flows from the financial asset expired;
- rights to receive cash flows from the asset were retained but there exists an obligation to pay them in full without material delay to a third party under a specific arrangement transferring substantially all risks and rewards;
- rights to receive cash flows from the asset were transferred;
- all the risks and rewards of the asset, or the control of the asset were transferred substantially.

When DHB Bank has transferred its contractual rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of DHB Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that DHB Bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Offsetting financial assets and financial liabilities

DHB Bank mitigates the credit risk of derivatives by entering into master agreements and holding collateral in the form of cash.

Derivative transactions are either transacted on an exchange or entered into under International Swaps and Derivatives Association (ISDA) master agreements. In general, under ISDA master agreements in certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions.

The above ISDA and similar master arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the bank or the counterparties. In addition the bank and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

3.6 Impairment of financial assets

DHB Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the

initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include one or more of the following indications:

- The Borrower has been placed in bankruptcy leading to the avoidance or delays in the repayments regarding the financial assets;
- The Borrower has failed the repayment of principal, interest or fees and the payment problem remained unsolved for a certain period;
- The Borrower has demonstrated significant financial difficulty which will possibly have a negative impact on the estimated future cash flows of the financial instrument;
- Historical experience, updated for current events, provides evidence that a proportion of a group of assets is impaired, although the related events that represent impairment triggers are not captured by DHB Bank.

(i) Loans and receivables due from banks and customers

For amounts due from banks and loans and receivables from customers carried at amortized cost, DHB Bank first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant.

If DHB Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Loans together with the associated allowance accounts are written off when there is no realistic prospect of future recovery and the collateral has neither been realized nor transferred to DHB Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. When any part of a claim is deemed uncollectible or forgiven, a write-off is charged to the allowance account. When a write-off is later recovered, the recovery is recognised in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective yield. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective yield. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The bank provides provisions to cover potential loan losses on a collective basis based on an incurred but not reported (IBNR) loss method. For the purpose of calculating the IBNR loss, individually assessed loans and receivables for which no evidence of loss has been specifically identified on an individual basis are grouped together according similar risk characteristics, taking into account credit rating, exposure class, industry and geographical location. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the year on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from year to year (such as changes in unemployment rates, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Held to maturity financial investments

For held to maturity investments DHB Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are recognised in the income statement.

(iii) Available for sale financial assets

For available for sale financial assets, DHB Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In case of debt instruments classified as available for sale, impairment is assessed based on the significant or prolonged decline in the fair value below cost. 'Significant' or 'Prolonged' are interpreted on a case-by-case basis. Generally 20% and 9 months are used as triggers. Interest based on market rates is accrued at the effective yield on the reduced carrying amount of the asset and is recorded as part of interest income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

3.7 Cash and cash equivalents

Cash and cash equivalents include notes and coins in hand, balances held with central banks and are used by DHB Bank in the management of its short-term commitments.

3.8 Repurchase and reverse repurchase transactions

Securities sold subject to repurchase agreements ('repos') are recorded in the balance sheet in the items 'Available for sale financial assets' or 'Securities held to maturity'. The repo amounts are presented separately in the notes of the annual report. The legal title of the securities is transferred to the lender and the borrowings are recorded in the balance sheet item 'Due to banks'.

Securities purchased under agreements to resell ('reverse repos') are recorded in the balance sheet items 'Loans and receivables – banks' or 'Loans and receivables – customers'. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

3.9 Property and equipment

Property in use by the bank is stated at fair value, being the market value, at the balance sheet date. Increases in the carrying amount arising on revaluation of property in use by the bank are credited to the revaluation reserve in shareholders' equity, taking deferred tax liabilities into account. Decreases in the carrying amount that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the income statement.

The fair values of property in use by the bank are based on periodic appraisals by independent experts and any interim adjustments.

Depreciation is recognised in the income statement based on the fair value and the estimated useful life. Depreciation is calculated on a straight-line basis over their estimated useful lives as follows:

- Real estate 600 months
- Rebuilding cost real estate 120 months

Equipments are measured at cost less accumulated depreciation and impairment losses.
Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is recognised in the income statement on a straight-line basis over their estimated useful lives as follows:

- Leasehold improvements Over the term of respective leases or 120 months
- Furniture and fixtures 60 months
- Vehicles 60 months
- Office equipment and IT hardware 36 months

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Upon disposal or when no future economic benefits are expected from its use an item of property and equipment is derecognised. Gains and losses on derecognition of the asset are determined by comparing proceeds with carrying amount and are recognised in the income statement under 'Other operating income' in the year the asset is derecognised.

3.10 Intangible assets

Intangible assets mainly include the value of computer software. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful life, subject to a maximum of 120 months.

3.11 Impairment of non-financial assets

DHB Bank assesses the non-financial assets carried at fair value, whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, DHB Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

Previously recognised impairment losses are reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. In such a case, the carrying amount of the asset is increased to its recoverable amount.

3.12 Provisions

Provisions mainly consist of provisions for defined benefit plan pension obligations and rent obligations for closed branches.

Defined benefit plan pension obligations are calculated according to the projected unit credit method of actuarial cost allocation. Under this method, each plan member's benefits are funded as they would accrue, taking into account future salary increases. The total expected pension to which each plan member is entitled is broken down into units, each corresponding with a year of past or future credited service. For liabilities not covered by plan assets, there is an unfunded liability, for which a provision is created and presented in the balance sheet in the item 'Provisions'.

DHB Bank recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for future operating losses are not recognised. Restructuring provisions are recognised when DHB Bank has approved a detailed and formal restructuring plan, and the restructuring either has started or announced publicly. These kind of provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.13 Income taxes

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax rules used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax

Deferred income tax is provided, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for permanent differences for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

Deferred tax assets are recognised when it is probable that the future economic benefits resulting from the reversal of taxable temporary differences will flow to DHB Bank. Deferred tax liabilities are recognised for all taxable temporary differences that have arisen in relation with the core banking business. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Current tax and deferred tax relating to items recognised directly in equity are not recognised in the income statement.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.14 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to DHB Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

a) Interest income and expense

Interest income or expense for financial instruments is recorded at the effective yield measured at amortized cost and fair value. Effective yield exactly takes into account all accrued interests and fees with interest character. These amounts are amortized through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets or financial liability.

All contractual terms of the financial instrument including any fees or incremental costs that are directly attributable to the instrument are taken into account for the calculation of the effective yield (except future credit losses). The carrying amount of the financial asset or financial liability is adjusted if DHB Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective yield and the change in carrying amount is recorded as interest income or expense.

Even if the value of a certain financial asset or a group of similar financial assets has been impaired, interest income continues to be recognised using the original effective yield applied to the new carrying amount.

b) Fee and commission income

DHB Bank earns fees and commission income from various services provided to customers. Fees and commissions against services over a period of time are generally recognised on an accrual basis. These fees include cash loan commissions which are not considered part of the effective yield of the related financial instrument, non-cash loan commissions and other fees and commissions.

Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Management and service fees are recognised based on the applicable service contracts. Fees for bank transfers and other banking transaction services are recorded as income when collected.

c) Result on financial transactions

Result on financial transactions comprises the following items:

- *Foreign currency exchange transactions*
  Differences on foreign currency exchange transactions are recognised under 'Result on financial transactions'.
- *Securities held for trading*
  Dividends received and (un)realized gains and losses regarding securities held for trading are recognised under 'Result on financial transactions'.
- *Derivatives held for trading*
  Interest income and expenses and (un)realized gains and losses regarding derivatives held for trading are recognised under 'Result on financial transactions'. (Un)realized gains and losses on option trading transactions are included under 'Result on financial transactions'.
- *Available for sale financial assets*
  Gains and losses arising from disposals of available for sale financial assets are recognised under 'Result on financial transactions'.

d) Hedge accounting

Gains and losses arising from hedge accounting transactions are recognised under 'Result on financial transactions' including the ineffective portion that qualifies as cash flow hedges. Further reference is made in section 3.4 Financial instruments – recognition and subsequent measurement.

3.15 Equity components

Legal reserve
Legal reserve comprises the reserves set aside to comply with legal requirements.

Defined benefit obligation reserve
This item relates to actuarial gains or losses on defined benefit pension plans.

Revaluation reserve
Revaluation reserve comprises the differences between the carrying amount and the fair value of property in use by the bank determined by independent appraisers. This reserve is set aside on a net basis. The depreciation of the revaluation reserve is presented in this item as well.

Cash flow hedge reserve
This item relates to the effective portion of the cumulative net change in the fair value of derivatives used for cash flow hedges.

Fair value reserve
In this component gains and losses arising from a change in the fair value of available for sale assets are recognised, net of taxes. When the relevant assets are sold, impaired or otherwise disposed of, the related cumulative gain or loss recognised in equity is transferred to the income statement.

3.16 Cash flow statement

The cash flow statement is based on the indirect method of calculation and gives details of the source of liquid funds, which became available during the year and the allocation of these funds. The cash flows are separated according to whether they arise from operating, investing, or financing activities.

Movements in interbank deposits, loans and receivables, and deposits from customers are included in the cash flow from operating activities. Investing activities cover purchases, sales, and redemptions in respect of the investment portfolio as well as investments in and sales of property and equipment and intangible assets. The issue of shares, the borrowing and repayment of subordinated loans and the payment of dividends are treated as financing activities.

3.17 New standards and interpretations adopted

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2013. Information on these new standards is presented below.

- *IFRS 13: Fair Value Measurement*

  IIFRS 13 introduces a single source of guidance on how fair value is measured and new disclosure requirements such as including fair value hierarchy disclosures for non-financial assets/liabilities and disclosure on fair value measurements that are categorised in Level 3.

  DHB Bank has applied IFRS 13 retrospectively for the first time in the current year. DHB Bank does not make fair value adjustments to cover the credit risk on derivatives (credit value adjustment – CVA, and debit value adjustment – DVA) as major part of the portfolio is supported with a so-called credit support annex (collateralised deals) and as such the CVA/DVA will not lead to material fair value movements.

- *Amendments to IFRS 7: Offsetting financial assets and financial liabilities*

  Amendments to IFRS 7 introduce disclosures about the impact of netting arrangements on an entity's financial position.

  DHB Bank does not have any material impact from the adoption of the amendments.

- *Amendments to IAS 1: Presentation of Other comprehensive income (OCI)*

  As a result of the amendments to IAS 1, DHB Bank has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present items that would be reclassified to the income statement in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

- *IAS 19, Employee Benefits*

  The revised IAS 19 'Employee Benefits' affects mostly the accounting for defined benefit pension obligations and the corresponding plan assets. First of all, the actuarial gains and losses are no more part of the income statement, but must be recognised in other comprehensive income, which is a component of the equity. DHB Bank mentions this other comprehensive income item, the defined benefit obligation reserve. The deferral of actuarial gains and losses through the 'corridor approach' is no longer used. As a related consequence, deferred actuarial gains and losses are no longer recognised in the income statement. Furthermore, the amendments require the expected return on plan assets to be based on the discount rate of the defined benefit obligation, which was already applied. The amendments also introduce a number of other changes and extended disclosure requirements. The implementation of the amendments to IAS 19 results in the recognition of accumulated actuarial gains and losses in equity as at 1 January 2013. As a result, the recognition of actuarial gains and losses in equity will create volatility in equity going forward. As of January 1, 2014 the pension plan will change to a retirement age of 67, which is actually 65.

  IAS 19 has been applied retrospectively, by which DHB Bank has restated its reported results throughout the comparative periods presented and reported the cumulative effect as at 1 January 2012 and as at 31 December 2012 as follows:

	Deferred tax assets	**Deferred tax liabilities**	**Defined benefit obligation**	**Retained earnings**	**Net profit**
Balance as reported at January 1, 2012	–	–	–	–	–
Effect of IAS 19	–	18	55	(73)	–
Balance as reported at January 1, 2012	**–**	**18**	**55**	**(73)**	**–**

	Deferred tax assets	**Deferred tax liabilities**	**Defined benefit obligation**	**Retained earnings**	**Net profit**
Balance as reported at December 31, 2012	–	74	–	–	–
Brought forward	–	18	55	(73)	–
Effect of IAS 19	82	–	(246)	–	328
Balance restated at December 31, 2012	**82**	**92**	**(191)**	**(73)**	**328**

3.18 New standards and interpretations not yet adopted

Many new standards, amendments to standards and interpretations are not yet effective, or have not been endorsed by the EU, for the year ended December 31, 2013, and have not been applied in preparing these consolidated financial statements.

- *IFRS10: Consolidated Financial Statements, IFRS 11: Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2014 latest)*

  IFRS 10 introduces a single control model which will apply to all investees to determine the scope of consolidation. IFRS 12 introduces a single disclosure standard for subsidiaries, joint arrangements, associates and structured entities within a comprehensive disclosure standard.

  DHB Bank has reviewed its effect and has concluded that there is no impact from the adoption of these standards.

- *IFRS 9, Financial Instruments*

  IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

  The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalized. DHB Bank started the process of evaluating the potential effect of this standard but is awaiting the finalisation of the limited amendments before the evaluation can be completed.

- *Amendments to IAS 32: Offsetting financial assets and financial liabilities*

  Amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set off and when gross settlement is equivalent to net settlement. The amendments are effective beginning on or after 1 January 2014.

  DHB Bank is not expecting any material impact from the adoption of the amendments.

- *IFRIC 21, Levies*

  IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognizes a liability for a levy when and only when the triggering event specified in the legislation occurs.

4. Balance sheet

4.1 Cash and balances with central bank

	2013	2012
Cash in hand	660	837
Balances with central banks	120,106	118,122
Total	**120,766**	**118,959**

This item includes all legal tender, as well as demand deposits held at the central bank in countries in which DHB Bank is established. Balances with central bank include reserve deposits which are not available in daily operations amounting to 10,062 (2012: 10,394).

DHB Bank continued to maintain relatively high liquidity levels in the form of balances with ECB. These balances are kept for liquidity risk management purposes.

4.2 Financial assets and liabilities held for trading

The following table show the financial assets and liabilities held for trading as of December 31, 2013 and 2012:

	2013		2012	
	Fair value	**Notional**	**Fair value**	**Notional**
Financial assets held for trading				
Forwards	466	8,299	–	–
Currency swaps	19,146	395,642	3,243	253,660
Interest rate swaps	2,403	48,148	534	51,344
Debt securities issued by banks	3,361	3,716	–	–
Total	**25,376**	**455,805**	**3,777**	**305,004**
Financial liabilities held for trading				
Forwards	451	8,299	–	–
Currency swaps	837	66,608	1,129	315,147
Interest rate swaps	874	70,190	7,841	135,129
Credit default swaps	–	–	3,476	20,000
Total	**2,162**	**145,097**	**12,446**	**470,276**

The assets and liabilities held for trading mainly relate to derivatives positions to hedge financial risks, which are not qualifying as hedging instrument in accounting sense. The derivatives held for trading should therefore be assessed on a total portfolio basis and not as stand-alone assets and liability classes.

Currency swaps are mainly used to fund USD and Turkish Lira assets while interest rate swaps are used to hedge interest rate risk positions. Currency forwards are offered to select customers in main currencies whereby the currency risk is fully hedged by offsetting deals with bank counterparties. Furthermore, DHB Bank sold in the past protection using credit default swaps to generate income, and/or bought protection to hedge credit position.

When fair value of derivatives is positive (negative), both fair value and corresponding notional amounts are reported as assets (liabilities). In 2013 the notional amounts of derivatives decreased by 174 million, whereas the fair valuation showed significant movement in favour of DHB Bank. Steady low interest rates, advanced investor sentiment and planned unwinding of long-term swaps lead to lower negative and increased positive replacement values of the swap portfolio.

All gains and losses from change in the fair values of financial instruments held for trading are recognised in the income statement under 'Result on financial transactions'.

4.3 Available for sale financial assets

	2013	2012
Available for sale financial assets		
Debt securities issued by banks	354,239	421,105
Debt securities issued by corporates	14,823	15,091
Government (Euro)bonds	–	13,952
Syndicated bank loans	10,905	–
Subtotal	**379,967**	**450,148**
IBNR allowances for impairment	(157)	(381)
Total	**379,810**	**449,767**

Out of the total 256,708 (2012: 239,329) are kept with DNB, against which 150,000 (2012: 150,000) funding was obtained under the Long Term Refinancing Operations (LTRO) and against which 84,550 (2012: 85,575) was still available as credit line. There are no subordinated available for sale financial assets.

The available for sale financial assets (AFS) developed as follows:

	2013	2012
At January 1	**449,767**	**314,919**
Purchases	324,862	299,844
Sales	(207,929)	(126,310)
Redemptions	(175,000)	(57,431)
FX revaluations	(2,238)	(3,839)
Market value revaluations	(9,876)	22,828
Allowances for impairment	224	(244)
At December 31	**379,810**	**449,767**

4.4 Securities held to maturity

	2013	2012
Securities held to maturity		
Debt securities issued by banks	5,139	37,847
Debt securities issued by corporates	10,132	10,582
Subtotal	**15,271**	**48,429**
Specific allowances for impairment	–	(15)
IBNR allowances for impairment	(5)	(68)
Total	**15,266**	**48,346**

There are no securities held to maturity used for repo transactions (2012: 20,174).
There are no subordinated securities held to maturity in 2013 (2012: 7,628).

The securities held to maturity (HTM) developed as follows:

	2013	2012
At January 1	**48,346**	**57,280**
Purchases	4,942	10,469
Sales	(41)	(7,626)
Redemptions	(37,515)	(11,477)
FX revaluations	(782)	(2,117)
Changes in accrued interest	238	1,308
Allowances for impairment	78	509
At December 31	**15,266**	**48,346**

Within 2013, the small amount of sales from HTM portfolio was related to the bonds which were due to mature in 2013 and which were exposed to timely repayment risk.

As a subsequent event, in the first quarter of 2014, a portion of securities in the HTM portfolio were sold as a proactive response to geo-political developments in Ukraine and Russia; this sale did not cause tainting thanks to its non-recurring aspect.

4.5 Loans and receivables - banks

These are non-derivative exposures to banks classified as 'loans and receivables' and comprise also exposures to central banks, which are not included in the item 'Cash and balances with central banks'.

	2013	2012
Money market placements	9,194	18,531
Other loans and receivables	319,609	395,559
Subtotal	**328,803**	**414,090**
Specific allowances for impairment	(45)	(82)
IBNR allowances for impairment	(166)	(496)
Total	**328,592**	**413,512**

The item 'Loans and receivables - banks' includes pledged funds amounting to 2,561 (2012: 12,063), of which 1,061 (2012: 9,903) serve as collateral for several swap transactions and 1,500 (2012: none) serve as collateral for non-financial transactions.

Placements with 'Other loans and receivables' include the interest-free loan given to the Dutch Central Bank (DNB) in relation to DSB Bank amounting to 8,401 (2012: 9,167).

There are no subordinated loans and receivables granted to banks.

4.6 Loans and receivables - customers

These are non-derivative retail and commercial loans, which are all classified as 'loans and receivables' and the following table shows the specification:

	2013	2012
Retail loans	33,455	31,115
Commercial loans	826,882	731,873
Subtotal	**860,337**	**762,988**
Specific allowances for impairment	(9,910)	(6,872)
IBNR allowances for impairment	(965)	(318)
Total	**849,462**	**755,798**

There are no subordinated loans and receivables granted to customers.

4.7 Derivative financial instruments - Hedge accounting

DHB Bank holds derivative financial instruments for general risk management purposes as at 31 December 2013 and 31 December 2012.

The fair value of derivatives designated as fair value and cash flow hedges are as follows:

	2013			2012		
	Notional	Fair values		Notional	Fair values	
	amounts	Positive	Negative	amounts	Positive	Negative
Interest rate swaps						
Fair value hedges	1,971	1,230	271	50,778	110	1,702
Cash flow hedges	745	571	–	62,283	460	742
Total	**2,716**	**1,801**	**271**	**113,061**	**570**	**2,444**

DHB Bank uses interest rate swaps to hedge the interest rate risk in fair value hedges.

DHB Bank uses plain interest rate and cross currency swaps to hedge future cash flows against interest rate risk and currency risk.

Following schedule indicates the time periods in which the hedged cash flows are expected to occur and when they are expected to affect the income statement:

31 December 2013	Within 1 year	1-5 years	Over 5 years
Cash inflows	3,198	11,314	–
Cash outflows	–	–	–
Total	**3,198**	**11,314**	**–**

During 2013 the equity item 'Cash flow hedge reserve' decreased by 336 (2012: increased by 341) relating to the effective portion of cash flow hedges.

4.8 Property and equipment

The changes in book value of property and equipment in 2013 and 2012 are as follows:

	Buildings	Other fixed assets	Total
Balance at January 1, 2013	**11,378**	**322**	**11,700**
Investments	108	138	**246**
Divestments	–	(5)	**(5)**
Depreciation	(325)	(151)	**(476)**
Revaluation	535	–	**535**
Reversal of impairment	70	–	**70**
Balance at December 31, 2013	**11,766**	**304**	**12,070**
Cost	14,331	8,663	**22,994**
Cumulative depreciation and impairment	(7,381)	(8,359)	**(15,740)**
Cumulative revaluations	4,816	–	**4,816**
Total	**11,766**	**304**	**12,070**

	Buildings	Other fixed assets	Total
Balance at January 1, 2012	**11,698**	**450**	**12,148**
Investments	25	124	**149**
Divestments	–	(6)	**(6)**
Depreciation	(329)	(246)	**(575)**
Revaluation	(172)	–	**(172)**
Reversal of impairment	156	–	**156**
Balance at December 31, 2012	**11,378**	**322**	**11,700**
Cost	14,445	8,572	**23,017**
Cumulative depreciation and impairment	(7,056)	(8,250)	**(15,306)**
Cumulative revaluations	3,989	–	**3,989**
Total	**11,378**	**322**	**11,700**

The real estate consists of office premises located in Rotterdam, the Hague, Düsseldorf, Brussels and Antwerp and are latest appraised separately by independent experts as per December 31, 2013. The total market value of all the premises amounted to 11,766 (2012: 11,378).

The reversal of impairment amounting to 70 (2012: 156) relates to the positive revaluation of our office premises located in Düsseldorf.

DHB Bank does not have any restrictions on title, and property, plant and equipment pledged as security for liabilities (2012: none).

DHB Bank does not have any contractual commitments for the acquisition of property, plant and equipment.

4.9 Intangible assets

The changes in book value of intangibles are as follows:

	2013	2012
Balance at January 1	**51**	**19**
Investments	118	41
Amortization	(28)	(9)
Balance at December 31	**141**	**51**
Cost	4,475	4,357
Cumulative amortization	(4,334)	(4,306)
Total	**141**	**51**

This item mainly includes licences. The investment amounting to 118 relates to licence expenses for banking software.

4.10 Income tax assets

	2013	2012
Current tax assets	–	6,738
Deferred tax assets	198	109
Total	**198**	**6,847**

The current tax assets include receivables due from the tax authorities, which is mainly caused by recognition of unrealized losses with respect to financial instruments and carried back losses. The deferred tax assets are recoverable amounts in future periods in respect of deductible temporary differences and concern depreciation on revaluation of buildings and employee benefits. In the year 2013 the tax receivables of previous years are collected.

The movements in deferred tax assets are as follows in 2013:

	Balance at January 1	Recognized in income statement	Recognized in other comprehensive income	Balance at December 31
Property and equipment – Real estate valuation	27	1	–	28
Employee benefits	82	88	–	170
Total	**109**	**89**	**–**	**198**

4.11 Other assets

	2013	2012
Prepayments	964	1,016
Other receivables	605	536
Total	**1,569**	**1,552**

Assets that due to their nature cannot be classified in specific balance sheet items are presented under 'Other assets'.

4.12 Due to banks

Due to banks comprise amounts owed to banking institutions insofar as not embodied in debts evidenced by certificates.

	2013	2012
Current accounts	2,287	2,744
Time deposits	201,964	202,876
Syndication loan	19,099	–
Other	318	5,839
Total	**223,668**	**211,459**

Majority of the balance represents funds obtained through repo transactions amounting to 152,130 (2012: 151,288). This item also includes pledged deposit amounting to 35,061 (2012: 45,000) which serve as collateral for a bank loan granted by DHB Bank.

4.13 Deposits from customers

Deposits from customers comprise amounts owed to retail and commercial sector.

	2013	2012
Current accounts	34,455	27,527
Saving accounts	689,669	726,832
Time deposits	538,591	579,264
Total	**1,262,715**	**1,333,623**

This item includes pledged deposits amounting to 27,137 (2012: 21,795) which serve as collateral for loans or off-balance sheet credit instruments granted by DHB Bank.

4.14 Provisions

Provisions consist of the following items:

	2013	2012
Employee benefits	680	867
Onerous contracts	697	1,278
Total	**1,377**	**2,145**

Employee benefits

DHB Bank has both defined benefit and defined contribution pension obligations. Please refer to note 3.17 regarding new developments in IAS 19. Expenses related with defined contribution plan are directly recognized under staff cost so no provisions are set aside. DHB Bank sets aside provision for defined benefit plan obligations. Defined benefit plan covers 46 employees of which 15 are still active.

The provisions for employee benefits relate to provisions for the obligations to pay future pensions on the basis of a defined benefit plan. The amounts recognised in the balance sheet are as follows:

	2013	2012
Present value of total defined benefit obligation	5,619	6,396
Fair value of plan assets	(4,939)	(5,529)
Present value of net obligations	**680**	**867**

The pension expense recognized in income statement is calculated as follows:

	2013	2012
Current service cost	(216)	(120)
Interest cost	(212)	(187)
Expected return on plan assets	181	162
Administration cost	(13)	(13)
Net periodic gain/ (cost)	**(260)**	**(158)**

The change in net pension provisions can be summarized as:

	2013	2012
Defined benefit liability at January 1	6,396	3,686
Net periodic actuarial gain/(losses)	(1,172)	2,430
Current service and interest costs	428	307
Benefits paid by the plan	(33)	(27)
Defined benefit liability at December 31	**5,619**	**6,396**

	2013	2012
Fair value of plan assets at January 1	5,529	3,174
Net periodic actuarial gain/(losses)	(857)	2,102
Return on assets	181	162
Costs	(13)	(13)
Contribution benefits	131	131
Benefits paid by the plan	(32)	(27)
Fair value of plan assets at December 31	**4,939**	**5,529**

The calculation assumptions for the year under review are as follows:

	2013	2012
Discount rate at December 31	3.79%	3.21%
Social security increases	1.50%	1.50%
Pension increases active participants	0.00%	0.00%
Pension increases other participants	1.50%	1.50%
Expected return on plan assets	3.79%	3.21%
Collective salary increases	1.50%	1.50%
Individual salary increase average	1.50%	1.50%
Pensionable age	67	65

For the fiscal year the discount rate was increased from 3.21% to 3.79% to reflect the developments on the capital markets. On the other side the expected return on plan assets has also increased from 3.21% to 3.79%. Fluctuation rates are based on the average rates in The Netherlands depending on participant's age.

The plan assets are equal to the fair value of the vested benefit obligation. The vested benefit obligation is insured with an insurance company. According to the contract the investment risk is for the insurance company and not for DHB Bank. Therefore a further disaggregating of the fair value is not necessary. It should be qualified as an insured contract.

According to the pension plan and the Dutch pension law, the insurance company is obliged to fund at least the vested benefit obligation. The vested benefit obligation is insured with an insurance company. Until the renewal date of the insurance contract, the assumptions for the calculation of the contribution are guaranteed. The expected contribution for 2014 is equal to 133.

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate, the pension increase and the average life expectancy. A sensitivity analysis for each of these actuarial assumptions is summarised as follows:

Change in discount rate

	Valuation	Increase 0.5% in assumption	Effect due to increase 0.5% in assumption	Decrease 0.5% in assumption	Effect due to decrease 0.5% in assumption
Defined benefit obligation	5,619	4,895	(12.9%)	6,477	15.3%
Plan assets	4,939	4,316	(12.6%)	5,676	14.9%
Funded status	**680**	**579**	**(14.8%)**	**801**	**17.8%**

Change in pension increase (indexation)

	Valuation	Increase 0.5% in assumption	Effect due to increase 0.5% in assumption	Decrease 0.5% in assumption	Effect due to decrease 0.5% in assumption
Defined benefit obligation	5,619	6,267	11.5%	5,053	(10.1%)
Plan assets	4,939	5,727	16.0%	4,270	(13.6%)
Funded status	**680**	**540**	**(20.5%)**	**783**	**15.1%**

Change in life expectancy

	Valuation	Increase 0.5% in assumption	Effect due to increase 0.5% in assumption	Decrease 0.5% in assumption	Effect due to decrease 0.5% in assumption
Defined benefit obligation	5,619	5,757	2.5%	5,473	(2.6%)
Plan assets	4,939	5,062	2.5%	4,808	(2.6%)
Funded status	**680**	**695**	**2.2%**	**665**	**(2.2%)**

Onerous contracts

Provision for onerous rental contract relates to the rent obligations of closed branch in London. The movements are as follows:

	2013	2012
Opening balance	1,278	989
Addition	9	630
Utilization	(557)	(349)
Exchange rate movement	(33)	8
Closing balance	**697**	**1,278**

4.15 Income tax liabilities

	2013	2012
Current tax liabilities	2,786	7,955
Deferred tax liabilities	2,353	3,354
Total	**5,139**	**11,309**

Current tax liabilities include payables due to tax authorities. In the previous years, the tax effect of negative fair value of financial instruments reserve led to current tax receivables. As the fair value of financial instruments increased in 2012, this resulted in reversing of unrealized losses on the financial instruments. This increased the taxable income and resulted therefore in high current tax liabilities for 2012. In 2013 the current tax liabilities for 2012 is paid and the current tax liabilities for 2013 represents therefore only financial year 2013. It is lower than 2012 because the taxable income for 2013 is lower.

According to our accounting policies all the other comprehensive income items under equity must be presented net of tax effect. If these equity items show positive balance, the tax effect has to be shown under deferred tax liabilities. The deferred tax liabilities is partly released in 2013 mainly because of sale and redemption of available-for-sale financial assets.

The movements in deferred tax liabilities are as follows in 2013:

	Balance at January 1	Recognized in income statement	Recognized in other comprehensive income	Balance at December 31
Property and equipment – Real estate valuation	1,083	(12)	172	1,243
Employee benefits	92	(171)	79	–
Fair value reserve	2,058	–	(957)	1,101
Cash flow hedge reserve	121	–	(112)	9
Total	**3,354**	**(183)**	**(818)**	**2,353**

4.16 Other liabilities

	2013	2012
Accrued expenses	2,894	2,614
Payables to suppliers	355	768
Other payables	3,858	8,182
Total	**7,107**	**11,564**

Other liabilities consist of expense provisions, various payables to the bank's suppliers and other payables that comprise withholding tax and wage tax payables, among others.

4.17 Share capital

Referring to article 67, paragraph 1 of Book 2 of the Netherlands Civil Code, the authorized capital amounts to 227.5 million euro. According to the Articles of Association the shares are subdivided into 500,000 ordinary shares, out of which 250,000 shares have been issued and fully paid up. All of these instruments have a par value of 455 (four hundred fifty five) euro.

4.18 Other reserves

This item consists of defined benefit obligation reserve, cash flow hedge reserve, fair value reserve, revaluation reserve and legal reserve.

Defined benefit obligation reserve
This item relates to actuarial gains or losses on defined benefit pension plans.

Cash flow hedge reserve
This item relates the effective portion of the cumulative net change in the fair value of derivatives used for cash flow hedges.

Fair value reserve
This regards unrealized gains and losses on securities classified as available for sale, excluding impairment losses, until the investment is derecognised or impaired.

5. Income Statement

5.1 Net interest income

	2013	2012
Interest income from:		
Cash and balances with central banks	54	166
Financial assets held for trading	139	5
Available for sale financial assets	12,859	14,172
Securities held to maturity	1,526	2,696
Loans and receivables – banks	9,524	15,144
Loans and receivables – customers	51,701	53,581
Other interest income	36	135
Subtotal	**75,839**	**85,899**
Interest expense from:		
Due to banks	1,626	2,375
Deposits from customers	24,629	33,440
Derivative financial instruments	271	82
Other interest expense	–	31
Subtotal	**26,526**	**35,928**
Total	**49,313**	**49,971**

5.2 Net fee and commission income

	2013	2012
Letter of guarantees	60	97
Letter of credits	231	178
Cash loan	4,402	7,711
Banking services	1,317	1,481
Other fees and commissions	59	84
Subtotal	**6,069**	**9,551**
Fee and commission expense	429	541
Total	**5,640**	**9,010**

5.3 Result on financial transactions

	2013	2012
Results from foreign currency exchange transactions	549	716
Results from securities transactions	7,506	2,628
Results from derivatives transactions	(19,284)	(19,815)
Total	**(11,229)**	**(16,471)**

In this item are included also the amounts transferred from equity to the income statement on the sale of available for sale financial assets.

'Results from derivatives transactions' relate to the entire gains and losses from derivatives which are not qualifying as hedge instruments. Interest expenses on swap transactions are also reported in this item.

5.4 Result on hedge transactions

	2013	2012
Results from hedge transactions	(100)	(548)

'Results from hedge transactions' comprise the gains and losses from hedge accounting transactions.

5.5 Other operating income

	2013	2012
Other operating income	11	20

Other operating income consists of non-recurring income items.

5.6 Staff expenses

	2013	2012
Wages and salaries	8,430	8,760
Pension costs	1,047	816
Other social security costs	1,395	1,268
Other staff costs	321	583
Total	**11,193**	**11,427**

The current number of full-time equivalents in 2013 was 136 (2012: 140)

	2013	2012
In The Netherlands	91	91
Outside The Netherlands	45	49
Total	**136**	**140**

Pension costs consist of payments to a defined contribution plan, for which DHB Bank pays fixed contributions and there is no legal or constructive obligation to pay further contributions. Provisions set aside for defined benefit plan are also included under this item in the income statement. Further reference is made to note 4.14.

The fixed remuneration (including pension costs) of the members of the Managing Board amounted to 634 (2012: 594) and variable remuneration to 150 (2012: 0) in 2013, excluding an expense of 68 (2012: 52) in relation to the crisis tax of 16%.

5.7 Other administrative expenses

	2013	2012
Other administrative expenses	5,319	6,214

Other administrative expenses refer to operational expenses incurred during the year such as communication, travel and maintenance expenses. Major items in other administrative expenses are the communication expenses, external service expenses and maintenance expenses. In 2013 this item also includes released provision amount regarding DSB Bank.

The expenses of the current and former members of the Supervisory Board amounted to 314 (2012: 307) in 2013, of which 250 (2012: 250) relates to the fixed remuneration and 64 (2012: 57) relates to the reimbursements of expenses.

This item also includes the fees for audit services provided by the network of the Group's auditors:

Audit-related fees	**2013**	**2012**
Audit fees related to the annual report	184	168
Tax advisory services	83	66
Total	**267**	**234**

5.8 Net impairment charge

	2013	2012
Available for sale assets	(224)	244
Held to maturity assets	(66)	(135)
Loans and receivables	3,141	348
Property and equipment	(70)	(156)
Total	**2,781**	**301**

5.9 Taxation

The Netherlands

Corporate income tax is levied at the rate of 25% (2012: 25%) on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2013. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies.

Germany

Profit is subject to trade tax, which is calculated based on rate of the local city. Trade tax is not deductible for the calculation of corporate tax at a statutory rate of 25%. The statutory solidarity tax is 5.5% on corporate tax. The effective tax rate is estimated at 31.15%.

Belgium

The effective tax rate is 33.99% in Belgium consisting of basis tax rate of 33% and an additional tax called 'Extra Crise Cotisation' at a rate of 3%.

Reconciliation of effective tax rate	**%**	**2013**	**%**	**2012**
Profit before income tax		23,838		23,456
Income tax using the domestic corporation tax rate	(25.00%)	(5,960)	(25.00%)	(5,782)
Effect of tax rates in foreign jurisdictions	(0.20%)	(47)	2.30%	531
Non-deductible expenses / tax exempt items	0.90%	214	0.01%	2
Other	0.25%	60	(1.43%)	(330)
Total	**(24.05%)**	**(5,733)**	**(24.12%)**	**(5,579)**

Income tax expense recognized in income statement	2013	2012
Current income tax expense	(6,004)	(5,608)
Deferred income tax expense	271	29
Total	**(5,733)**	**(5,579)**

Income tax related to components of other comprehensive income	2013	2012
Revaluation reserve	(171)	39
Defined benefit obligation reserve	(79)	82
Fair value reserve	957	(2,058)
Cash flow hedge reserve	112	(121)
Total	**819**	**(2,058)**

6. Additional Notes

6.1 Commitments and contingent liabilities

In the normal course of business DHB Bank is a party to activities whose risks are not reflected in whole or part in the consolidated financial statements. In response to the needs of its customers, DHB Bank offers various irrevocable commitments and contingent liabilities related to loans. Fees received from these activities are recorded in the income statement when the service is delivered.

Commitments and contingent liabilities include all liabilities arising from transactions in which DHB Bank has provided a guarantee or entered into a commitment to third parties.

Non-credit substitute guarantees comprise letter of guarantees issued by DHB Bank.

Irrevocable letters of credit mainly secure payments to third parties for a customer's foreign and domestic trade transactions in order to finance a shipment of goods.

The contingent liabilities can be broken down into liabilities in respect of:

	2013	2012
Non-credit substitute guarantees	3,501	3,665
Irrevocable letters of credit	5,976	1,777
Irrevocable commitments	–	8,069
Total	**9,477**	**13,511**

The contingent liabilities by concentrations of geographical regions can be specified as follows:

	2013	2012
The Netherlands	3,201	2,107
Turkey	3,085	3,069
Rest of Europe	3,191	8,335
Total	**9,477**	**13,511**

Furthermore, with the nationalisation of SNS REAAL N.V. DHB Bank is required to pay a one-time levy in 2014 according to the bank's market share in retail deposits, as all other Dutch banks.

6.2 Related parties

Parties are considered to be related, if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or if majority of the shares of the parties are owned by the same shareholder. The related parties consist of C group, Halk group, the members of the Supervisory Board and Managing Board of DHB Bank and their relatives. As of year-end 2013, C Group companies consist of Demir Kyrgyz International Bank, C Faktoring A.Ş., C Yatırım Holding A.Ş., HCBG Holding B.V., C International Belgium SA and C International N.V. Halk group companies consist of Türkiye Halk Bankası A.Ş., Halkbank AD Skopje and Halk Finansal Kiralama A.Ş.

During the year, the bank entered into a number of transactions, mainly short term, with related parties in the normal course of business. All of these transactions were carried out at arms-length pricing and within the limits and the regulatory guidelines set by the Dutch Central Bank.

Regarding the total loans to the related parties, 35,061 (2012: 49,345) is granted against cash collaterals and 1,498 (2012: 1,400) against third party promissory notes/cheques equal to the outstanding risks. There are no loans granted against mortgages in 2013 (2012: 14,500).

The outstanding balances with related parties for the year ended December 31, 2013 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Assets				
Available for sale financial assets	10,871	–	–	10,871
Loans and receivables – banks	35,835	10,019	–	45,854
Loans and receivables – customers	–	1,498	–	1,498
Liabilities				
Due to banks	40,186	371	–	40,557
of which received cash collaterals for loans	35,061	–	–	35,061
Deposits from customers	–	836	36	872
of which received cash collaterals for loans	–	–	–	–
Contingent liabilities				
Letter of credits	–	–	–	–
Guarantees	–	3,191	–	3,191

The income and expenses in respect of related parties included in the financial statements for the year 2013 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Interest income	825	715	–	1,540
Interest expense	519	3	1	523
Commission income	273	49	–	322
Commission expense	167	–	–	167

The outstanding balances with related parties for the year ended December 31, 2012 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Assets				
Loans and receivables – banks	46,369	–	–	46,369
Loans and receivables – customers	–	27,269	–	27,269
Liabilities				
Due to banks	46,219	179	–	46,398
of which received cash collaterals for loans	45,339	–	–	45,339
Deposits from customers	4,334	310	48	4,692
of which received cash collaterals for loans	4,006	–	–	4,006
Contingent liabilities				
Letter of credits	–	–	–	–
Guarantees	–	3,335	–	3,335

The income and expenses in respect of related parties included in the financial statements for the year 2012 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Interest income	1,193	2,256	–	3,449
Interest expense	850	14	1	865
Commission income	502	48	–	550
Commission expense	162	–	–	162

6.3 Capital adequacy

The capital adequacy requirements of the Dutch Central Bank (DNB) are based on the guidelines of the European Commission and the Basel Committee for Banking Supervision. The own funds should cover the credit risk of on-balance sheet and off-balance sheet items, the market risk of the trading portfolio and the operational risk. Complementary, DNB requires additional capital for country risk exposure based on the policy rule on the treatment of concentration risk in emerging countries.

DHB Bank's total own funds, the capital ratio and the Tier 1 capital figures according to Basel II Capital Accord as of December 31, 2013 and the previous year are as follows:

	2013		2012	
	Required	Actual	Required	Actual
Total capital	102,793	229,236	105,121	219,543
Total capital ratio	8.00%	17.84%	8.00%	16.71%
Tier 1 capital	51,396	226,373	52,561	216,964
Tier 1 capital ratio	4.00%	17.62%	4.00%	16.51%

If dividend for the year 2013 is distributed as proposed by the Managing Board and adopted by the Supervisory Board and General Meeting of Shareholders, and subsequently depending on the no-objection decision of De Nederlandsche Bank (the Dutch Central Bank), the actual total capital and the actual Tier 1 capital would be 220,184 and 217,321 respectively, while the total capital ratio and Tier 1 capital ratio would be 17.14% and 16.91% respectively.

6.4 Fair value measurement of assets and liabilities

Following IFRS 13, the bank defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. If there is an active market for the asset or liability, the fair value represents the quoted price in that market. A market is considered active if transactions take place with sufficient frequency and volume.

Where a market is not active, and where quoted prices do not exist for a financial instrument, the bank establishes fair value by using quoted prices for similar instruments in terms of risk category and product characteristics, or valuation techniques. The valuation techniques incorporate assumptions that other market participants would consider in setting a price, including assumptions about default rates and interest yield curves. These techniques include present value approaches where present values of future cash flows from the asset are estimated using a risk-adjusted interest rate. In particular, the discount rates include credit spreads derived from prices of debt securities with different rating categories.

The estimated fair value at any particular point in time depends on prevailing circumstances and is not always strictly comparable with the information provided by different financial institutions. The bank regularly performs a review of valuations in light of available pricing evidence and other market data.

Securities belonging to the investment portfolio are stated at market value taking the bid-quotes at year-end from five price contributors that have actively and regularly provided quotes during the relevant trading period.

DHB Bank does not make fair value adjustments to cover the credit risk on derivatives (credit value adjustment – CVA, and debit value adjustment – DVA). The CVA is applied to derivatives with a positive fair value for counterparties without objective evidence of impairment. The DVA is applied to derivatives with a negative fair value to cover the counterparty's credit risk on DHB.

	31 December 2013		**31 December 2012**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets				
Cash with central banks	120,106	120,106	118,122	118,122
Financial assets held for trading	25,376	25,376	3,777	3,777
Available for sale financial assets	379,810	379,810	449,767	449,767
Securities held to maturity	15,266	15,489	48,346	49,141
Loans and receivables – banks	328,592	327,674	413,512	415,874
Loans and receivables – customers	849,462	879,304	755,798	777,444
Derivative financial instruments – hedge accounting	1,801	1,801	570	570
Property and equipment – Buildings	11,766	11,766	11,378	11,378
Total	**1,732,179**	**1,761,326**	**1,801,270**	**1,826,073**
Liabilities				
Due to banks	223,668	223,668	211,459	211,459
Financial liabilities held for trading	2,162	2,162	12,446	12,446
Deposits from customers	1,262,715	1,285,836	1,333,623	1,354,111
Derivative financial instruments – hedge accounting	271	271	2,444	2,444
Total	**1,488,816**	**1,511,937**	**1,559,972**	**1,580,460**

DHB Bank discloses fair values using the following fair value hierarchy that reflects the significance of inputs used in making the measurements.

- *Level 1*: Quoted market price (unadjusted) in an active market for an identical instrument.
- *Level 2*: Valuation techniques based on observable inputs either directly (prices) or indirectly (derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar

instruments; quoted for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- *Level 3*: Valuation techniques based on significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the observable inputs have a significant effect on the instrument's valuation. The bank has designated controls and processes for the determination of the fair value of its financial assets and liabilities. When unobservable inputs are used, management may determine a range of possible valuations based upon differing stress scenarios to determine the sensitivity associated with the valuation. As a final step, the bank considers the need for further adjustments to the calculated price to reflect assumptions that market participants would make.

In the case of DHB Bank, level 3 valuation is applied to buildings, which is carried out at least once per year by certified external appraisals based on the rental value capitalization method.

Under this method, the rental value is determined by comparing the supply and/or effected transactions of similar properties, and is based on market conditions (supply and demand), economic conditions (interest, inflation, etc), location (environment, facilities and developments) and the property's quality (structural features, state of repair and possibilities for use). The capitalization factor depends on market-compliant net return demand, which in turn depends on certain aspects described before, such as market conditions, location and the property itself.

The valuation also takes into account the potential vacancy, letting costs, costs of maintenance, modifications or refurbishment, transfer tax and notarial charges.

Fair value hierarchy for financial instruments as at 31 December 2013

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	–	25,376	–	**25,376**
Available for sale financial assets	379,810	–	–	**379,810**
Derivative financial instruments – hedge accounting	–	1,801	–	**1,801**
Property and equipment – Buildings	–	–	11,766	**11,766**
Financial liabilities				
Financial liabilities held for trading	–	2,162	–	**2,162**
Derivative financial instruments – hedge accounting	–	271	–	**271**

Fair value hierarchy for financial instruments as at 31 December 2012

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	–	3,777	–	**3,777**
Available for sale financial assets	449,767	–	–	**449,767**
Derivative financial instruments – hedge accounting	–	570	–	**570**
Property and equipment – Buildings	–	–	11,378	**11,378**
Financial liabilities				
Financial liabilities held for trading	–	12,446	–	**12,446**
Derivative financial instruments – hedge accounting	–	2,444	–	**2,444**

For the reconciliation of fair value measurements in the Level 3 financial assets, please refer to note 4.8.

6.5 Subsequent events

In view of the geo-political developments in Ukraine and Russia DHB Bank has taken proactive measures. As a consequence, in the first quarter of 2014, DHB Bank sold EUR 71.5 million from AFS portfolio and EUR 14.7 million from HTM portfolio. Further reference is made to note 4.4.

7. Risk Management

Effective risk and capital management is fundamental to the bank's business and plays a crucial role in enabling management to operate successfully in a changing environment. Exposure to risk is inherent in providing financial services, and DHB Bank assumes a variety of risks in its ordinary business activities.

The bank's organisation-wide risk management approach is supported by its organizational structure, policies and procedures as well as methods for assessing and managing risks. Furthermore, the risk management framework is supported by a strong risk culture at all levels. The maintenance of risk awareness in the organization is regarded as an essential component for DHB Bank's business strategies. Accordingly, ongoing seminars are held to ensure that Risk Management staff is adequately trained. In particular, credit risk related training is offered to employees within the risk management on a regular basis.

DHB Bank's ability to define risks is regarded as a key competency. The measurement models and techniques employed are continually subject to assessment for appropriateness and reliability. For those risk types that are difficult to quantify, the bank places greater emphasis on qualitative risk factors and on the assessment of activities to gauge the overall level of risks to ensure that they are within the approved risk appetite. Risk factors for new offered or modified products are systemically identified using a new products process triggered by the unit owning the product. All related front and back office units and Risk Management evaluate the product specifications and assess the risk level of the product in all aspects before launch date. Risks identified are measured and included in the overall monitoring framework.

In below sections DHB Bank's risk position is presented in detail. Given figures are according to amortised cost, net of allowances of impairment.

Risk types and their management

Credit risk

Credit risk is the risk of encountering losses associated with an obligor's inability or unwillingness to fulfil its obligations towards DHB Bank. Losses associated with credit risk include either the actual default on repayment or a loss of value in financial assets caused by the decrease in the obligor's credit quality. Credit risk stems from various forms of lending to customers, but also from counterparty, settlement and country risk.

The bank's credit management covers the whole lending process, from loan application, assessment, processing, and monitoring up to credit portfolio management, and is based on guidelines and policies set forth by the Managing Board. DHB Bank places an emphasis on building long-term relationship with its customers on the basis of an understanding of customers' individual financial situation and general market environment.

The bank ensures that credit quality is not compromised for growth, and for this purpose applies separate limits for all the lending activities in accordance with the credit approval procedures. All loan decisions are made by the Credit Committee. The loans above a certain level are subject to further review by the SBCC or full SB, which may suggest amendments to or withdrawal of the respective proposals, or decide to veto these. As for retail credits, the acceptance criteria are drawn up and reviewed separately under the approval authority granted by the Managing Board.

The bank dedicates considerable resources to controlling credit risk effectively. Operating under a sound credit administration, measurement, monitoring and reporting process, DHB Bank strives to maintain appropriate control over credit risk at portfolio, obligor group and individual facility levels. Credit monitoring is carried out at individual borrower level by the Credit Analysis and Risk Management Department, which conducts credit reviews and reports to the Credit Committee on a regular basis. Credit risk assessment at the portfolio level is also conducted periodically by the Risk Management Department, which reports directly to the Managing Board.

The Credit Committee receives the following regular reports for the purpose of identifying, measuring, monitoring and controlling the bank's credit risks:

- Evaluation of credit requests;
- Review of the quality of debtors relative to facilities provided;
- Analysis of country risks and economic sectors;
- Measurement of concentration on a sectoral and geographical basis;
- Large customer group exposures;
- Impaired assets and impairment allowances.

Credit risk may also arise due to derivative transactions. The bank enters into derivative contracts primarily to hedge FX, interest rate and credit risks positions. Positive market values on derivative contracts imply a counterparty risk, which the bank actively manages through netting agreements, as well as collateral agreements with derivative counterparties, which are reputable international banks.

The bank has been working on the implementation of an enhanced internal rating system during 2012-2013. Finalization of this project is expected within first half of 2014. The new system will support related units to manage credit portfolio as well as individual risks based on determined guidelines and incorporate available public and private information in an advanced way in risk decisions to be taken.

Credit exposure

The bank's credit exposure is calculated on the basis of on-and-off balance sheet items that carry credit risk. Within the total credit exposure, items subject to credit risk are related to lending activities that form part of the bank's core banking business. On the other hand, exposure items subject to counterparty risk form part of the bank's derivatives, including hedging activities.

The following table shows the credit risk for the various components of the balance sheet:

	2013	**2012**
Cash with central banks	120,106	118,122
Financial assets held for trading	25,376	3,777
Available for sale financial assets	375,640	441,027
Securities held to maturity	15,266	48,346
Loans and receivables – banks	328,592	413,512
Loans and receivables – customers	849,392	755,598
Derivative financial instruments – hedge accounting	1,801	570
Total on-balance sheet items	**1,716,173**	**1,780,952**
Contingent liabilities L/G	3,501	3,665
Contingent liabilities CDS	–	15,000
Contingent liabilities L/C	5,976	1,777
Irrevocable commitments	–	8,069
Total off-balance sheet items	**9,477**	**28,511**
Total credit risk	**1,725,650**	**1,809,463**

Following the de-risking strategy DHB Bank has unwounded the CDS position and closed irrevocable commitments in 2013.

The amounts stated in the table represent the maximum accounting loss, net of allowances, which would be recognised on the balance sheet date if all counterparties failed completely to perform as contracted, and if any collateral or security proved to be of no value.

Collateral and other credit enhancement

Mitigating risks in the credit portfolio is a key element of the bank's credit policies. Important means of risk mitigation are collaterals and guarantees received. The bank determines the amount and type of collateral that a customer may be required to provide as security to the bank. Collaterals are valued and obtained prior to the disbursement of the approved loans. As a general rule, the lower the perceived creditworthiness of a borrower, the more collateral the customer will be required to provide. The bank regularly reassesses the value of the collateral. In 2013 the volume of uncollateralized exposure decreased by 232 million.

The following table shows the credit risk by types of collateral:

	Cash with central banks	Financial assets held for trading	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Derivatives financial instruments – hedge accounting	Contingent liabilities L/G, CDS	Contingent liabilities L/C	Irrevocable commit-ments	Total 2013
Securities guaranteed by govern-ments	–	–	2,000	–	–	–	–	–	–	–	2,000
Loans guaranteed by banks	–	–	–	–	35,061	–	–	–	–	–	35,061
Loans guaranteed by mortgage	–	–	–	–	–	78,669	–	55	1,677	–	80,401
Loans guaranteed by cash collateral	–	–	–	–	–	25,073	–	219	–	–	25,292
Loans guaranteed by third parties	–	–	–	–	–	334,987	–	3,227	4,299	–	342,513
Others/unsecured	120,106	25,376	373,640	15,266	293,531	410,663	1,801	–	–	–	1,240,383
Total	**120,106**	**25,376**	**375,640**	**15,266**	**328,592**	**849,392**	**1,801**	**3,501**	**5,976**	**–**	**1,725,650**

	Cash with central banks	Financial assets held for trading	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Derivatives financial instruments – hedge accounting	Contingent liabilities L/G, CDS	Contingent liabilities L/C	Irrevocable commit-ments	Total 2012
Securities guaranteed by govern-ments	–	–	2,086	–	–	–	–	–	–	–	2,086
Loans guaranteed by banks	–	–	5,000	–	–	–	–	–	–	–	5,000
Loans guaranteed by mortgage	–	–	–	–	–	81,825	–	109	–	–	81,934
Loans guaranteed by cash collateral	–	–	–	–	–	20,108	–	234	–	–	20,342
Loans guaranteed by third parties	–	–	–	–	–	221,096	–	3,322	1,777	–	226,195
Others/unsecured	118,122	3,777	433,941	48,346	413,512	432,569	570	15,000	–	8,069	1,473,906
Total	**118,122**	**3,777**	**441,027**	**48,346**	**413,512**	**755,598**	**570**	**18,665**	**1,777**	**8,069**	**1,809,463**

Credit risk concentration

Concentrations of credit risk (either on- or off-balance sheet) arise when exposures share similar characteristics due to which their ability to meet contractual obligations is likely to be affected in a similar way by changes in economic or other factors. The bank manages its portfolio especially for individual countries by determining the credit risk appetite and limit for each country on the basis of total exposure, country risk and outlook. Both limits and utilization at the obligor and the portfolio levels are monitored and reviewed periodically.

In line with the strategic realignment targets the bank continues to reduce its exposure to developing countries. Nevertheless, DHB Bank's largest exposure remains to banks and companies in Turkey. As of year end 2013 DHB Bank further reduced its exposure to Turkey compared to 2012 by around 68 million and the exposure to Russia by 65 million. Loans and receivables to banks reduced by 85 million whereas loans and receivables to customers increased by 95 million compared to previous financial year.

In the following table, exposures are split by important exposure classes and main geographical areas, based on where the credit risk is referable, according to the ultimate ownership criterion:

	Cash with central banks	Financial assets held for trading	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Derivatives financial instruments – hedge accounting	Commit-ments and contingent liabilities	Total 2013	%
Turkey	–	3,755	31,788	524	170,652	529,781	–	3,085	739,585	42.9%
The Netherlands[i]	120,008	1,490	47,844	–	14,954	21,281	–	3,201	208,778	12.1%
Russia[ii]	–	–	77,866	14,742	60,037	33,339	–	–	185,984	10.8%
United States of America	–	4,737	109,062	–	141	–	–	–	113,940	6.6%
United Kingdom	–	7,300	43,361	–	2,843	15,925	1,530	–	70,959	4.1%
Germany	87	6,101	–	–	10,283	32,020	271	–	48,762	2.8%
Azerbaijan	–	–	5,965	–	19,230	16,129	–	–	41,324	2.4%
Republic of Kosovo	–	–	–	–	3,001	30,212	–	–	33,213	1.9%
Egypt	–	466	–	–	–	32,677	–	–	33,143	1.9%
Multilateral Development Banks	–	–	1,700	–	30,780	–	–	–	32,480	1.9%
Italy	–	–	23,850	–	–	4,500	–	–	28,350	1.6%
Macedonia	–	–	–	–	10,019	15,119	–	–	25,138	1.5%
Sweden	–	–	–	–	–	20,439	–	–	20,439	1.2%
Belgium	11	–	–	–	13	18,738	–	–	18,762	1.1%
France	–	544	13,560	–	301	2,506	–	–	16,911	1.0%
Romania	–	–	–	–	–	16,899	–	–	16,899	1.0%
Spain	–	–	15,510	–	–	–	–	–	15,510	0.9%
Others	–	983	5,134	–	6,338	59,827	–	3,191	75,473	4.4%
Total	**120,106**	**25,376**	**375,640**	**15,266**	**328,592**	**849,392**	**1,801**	**9,477**	**1,725,650**	**100.0%**

Country exposures are managed through internal limits set by the Supervisory Board at consolidated levels, on which the monitoring process is based.

	Cash with central banks	Financial assets held for trading	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Derivatives financial instruments – hedge accounting	Commit-ments and contingent liabilities	Total 2012	%
Turkey	–	–	58,738	3,702	188,995	553,057	–	3,069	807,561	44.6%
Russia	–	–	114,517	21,633	79,772	34,876	–	–	250,798	13.9%
The Netherlands[i]	117,687	780	33,077	17,635	40,361	16,194	–	2,107	227,841	12.6%
United States of America	–	552	95,565	–	592	–	–	–	96,709	5.3%
United Kingdom	–	1,584	36,817	–	7,533	18,734	545	–	65,213	3.6%
Multilateral Development Banks	–	–	1,839	–	51,129	–	–	–	52,968	2.9%
Italy	–	–	27,735	–	–	–	–	15,000	42,735	2.4%
Hungary	–	–	5,731	–	10,017	17,099	–	–	32,847	1.8%
Spain	–	–	26,315	–	–	–	–	–	26,315	1.5%
Azerbaijan	–	–	6,249	–	7,729	10,260	–	–	24,238	1.3%
Belgium	2	–	–	–	2,283	15,502	–	3,335	21,122	1.2%
Sweden	–	–	–	–	–	20,443	–	–	20,443	1.1%
Germany	433	296	–	–	3,143	12,640	25	–	16,537	0.9%
Ukraine	–	–	5,041	–	11,398	–	–	–	16,439	0.9%
Macedonia	–	–	–	–	–	14,759	–	–	14,759	0.8%
France	–	395	8,094	–	2	3,508	–	–	11,999	0.7%
Austria	–	–	497	–	10,072	–	–	–	10,569	0.6%
Others	–	170	20,812	5,376	486	38,526	–	5,000	70,370	3.9%
Total	**118,122**	**3,777**	**441,027**	**48,346**	**413,512**	**755,598**	**570**	**28,511**	**1,809,463**	**100.0%**

i Balances with ECB are classified in The Netherlands.

ii As of end-March 2014, exposure to Russia decreased to EUR 84 million.

In the following table, loans and receivables and the off-balance sheet exposures to non bank customers are split by economic sectors.

	2013		2012	
Sectors	**On-balance**	**Off-balance**	**On-balance**	**Off-balance**
Financial institutions and insurance	332,505	–	334,048	–
Construction and infrastructure	99,034	–	111,892	–
Metals	52,095	–	47,433	–
Energy	46,748	–	26,078	–
Transportation	36,578	–	17,099	–
Textile, leather and allied products	32,922	19	28,011	24
Holding and other investment offices	32,787	–	23,625	–
International trade	22,253	6,013	4,830	–
Automotive	25,316	–	13,471	–
Tourism	22,738	160	3,400	164
Chemical products	21,123	–	–	–
Oil & gas	17,359	–	22,700	5,000
Corporate individuals	11,030	3,191	16,169	3,335
Media and advertising	14,073	–	2,585	–
Communications and post	10,189	–	14,482	3,069
Food, beverages & tobacco	9,299	–	16,635	–
Agricultural products	6,786	–	4,079	–
Plastics	6,464	–	13,627	1,777
Services	5,604	4	–	–
Real estate	5,189	–	11,055	–
Retail	4,934	–	4,098	6
Paper	4,350	–	4,045	–
Petroleum Refining & Other Related Industries	2,665	–	4,975	–
Others	4,771	48	7,336	94
Total	**826,812**	**9,435**	**731,673**	**13,469**
Private individuals / self- employed	33,455	42	31,115	42
Total	**860,267**	**9,477**	**762,788**	**13,511**
Allowances for impairment	(10,875)	–	(7,190)	–
Total loans and receivables - customers	**849,392**	**9,477**	**755,598**	**13,511**

In line with the requirements of DNB, the bank has no exposure to any single counterparty exceeding the legal lending limit.

Credit quality of financial assets

An indication of the overall credit quality of the bank's financial assets can be derived from the table below, which shows exposures that are neither past due nor impaired, past due but not impaired, impaired loans and respective provisions.

	2013	**2012**
Neither past due nor impaired	1,713,141	1,808,907
Past due but not impaired	620	91
Impaired	23,137	8,697
Allowances	(11,248)	(8,232)
Total	**1,725,650**	**1,809,463**

The credit quality of the portfolio of financial assets by external rating is presented in the following table:

	2013	2012
Investment grade	773,270	839,167
Non-investment grade	121,067	305,608
Unrated	831,313	664,688
Total	**1,725,650**	**1,809,463**

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, which reflects the probability of default by an obligor. The borrower rating is based on quantitative factors including financial performance related to accounts and ratios, as well as qualitative factors related to business performance of the borrower and sector evaluation. There are sub-models for companies and banks based on their sectors and countries of activity, respectively.

The assessment and administration of past due and impaired loans, write-offs and specific provisions fall under the responsibilities of the Credit Analysis and Risk Management Department and the Credit Committee.

The credit policy requires an exposure to be transferred immediately to the past due obligation category if the principal or interest of this exposure is not paid.

The table below shows the analysis of the financial assets that are past due but not impaired.

Ageing of financial assets that are past due but not impaired	**2013**	**2012**
Past due up to 30 days	124	80
Past due 31 - 60 days	27	5
Past due 61 - 90 days	19	5
Past due over 90 days	450	1
Total	**620**	**91**

When deemed necessary, loans are also classified as impaired as soon as there is doubt about the borrower's ability to meet its future payment obligations to the bank in accordance with the original contractual terms.

Provisions for loan losses are set aside for estimated losses on outstanding loans for which there is any doubt about the borrower's capacity to repay the principal and/or interest, and 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 pre-defined model for retail loans. Allowances for impaired wholesale loans are determined according to the prospects for recovery of the respective loans and by taking into account the related collaterals.

In addition, the bank also sets aside provisions to cover potential loan losses on a collective basis based on an incurred but not reported (IBNR) loss method. For the purpose of calculating the IBNR loss, individually assessed loans and receivables for which no evidence of loss has been specifically identified on an individual basis are grouped together according to similar risk characteristics, taking into account credit rating, exposure class, industry and geographical location.

The method involves the use of statistically assessed historical information. The historical loss experience is adjusted based on current observable information to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The method also takes into account the estimated period between an impairment event occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan. The loss identification periods vary across exposure and ratings and are based on actual experience.

The methodology and the assumptions used in calculating impairment losses are reviewed on an annual basis in the light of differences between loss estimates and actual loss experience.

The movements of the specific allowances for impairment for the year 2013 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	–	15	82	6,872	6,969
Addition	–	–	–	4,533	4,533
Release	–	(3)	(34)	(631)	(668)
Write-off	–	(11)	–	(456)	(467)
Exchange rate movement	–	(1)	(3)	(409)	(413)
Closing balance	**–**	**–**	**45**	**9,909**	**9,954**

The movements of the IBNR allowances for impairment for the year 2013 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	381	68	496	318	1,263
Addition	–	–	–	647	647
Release	(224)	(63)	(330)	–	(617)
Closing balance	**157**	**5**	**166**	**965**	**1,293**

The movements of the specific allowances for impairment for the year 2012 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	15,584	7,383	–	6,998	29,965
Addition	–	15	82	208	305
Release	–	(131)	–	(220)	(351)
Write-off	(15,584)	(7,241)	–	(120)	(22,945)
Exchange rate movement	–	(11)	–	6	(5)
Closing balance	**–**	**15**	**82**	**6,872**	**6,969**

The movements of the IBNR allowances for impairment for the year 2012 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	137	85	445	97	764
Addition	244	–	51	221	516
Release	–	(17)	–	–	(17)
Closing balance	**381**	**68**	**496**	**318**	**1,263**

The balance of total specific allowances for impaired assets increased from 7 million in 2012 to 10 million in 2013. Although provisions for loan losses are considered adequate, the use of different methods and assumptions could produce different provisions for loan losses, and amendments may be required in the future as a consequence of changes in the expected loss, the value of collateral and other economic events.

Provisions against a particular impaired loan may be released where there is improvement in the quality of the loan. The bank's write-off decisions are determined on a case-by-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.

Loans with renegotiated items are loans that have been restructured due to deterioration on the borrower's financial position and where DHB Bank has made concessions that it would not otherwise consider.

Liquidity risk

Regulatory requirements and expectations

In its liquidity risk management, the bank has taken into consideration the 2011 DNB Liquidity Regulation, the Basel III migration plan as well as the Decree on Prudential Rules under the Wft ("Policy Rule") on Internal Liquidity Adequacy Assessment Process (ILAAP) entered into force on 1 July 2011. The Policy Rule has been translated into the DNB Supervision Manual for ILAAP ("Manual") in July 2011.

The Manual describes principles for the ILAAP based on all relevant EBA (European Banking Authority) and BCBS (Basel Committee on Banking Supervision) documents on liquidity risk management. Compliance will be gauged against these EBA and BCBS papers. The evaluation of DHB Bank's ILAAP by DNB is part of the Supervisory Review and Evaluation Process (SREP).

The Basel Committee introduced the 30-day liquidity coverage ratio (LCR) to ensure short term resilience against liquidity disturbances and the net stable funding ratio (NSFR) to address longer-term structural liquidity disparities. The proposals are implemented through the capital requirement directive (CRD IV) for European banks with a transition phase till 2019. DHB Bank's liquidity ratios are already higher than the minimum requirements.

Within its ILAAP, the bank has set its short-term liquidity risk appetite in terms of the LCR target and has additionally set an internal target for a minimum survival period of 3 months based on an internally developed cash flow risk framework. The internal survival horizon metric is composed of liquidity buffer and funding gap risk and includes expected behavioural cash flows from contingent liquidity drivers under bank-specific and market-wide stress scenarios with limited mitigation activities.

Governance and management of 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 risk is identified and evaluated in the bank through a combination of top-down and bottom-up risk assessment processes. The key top-down assessment process for liquidity risk is conducted as part of the quarterly bank-wide risk assessment, which is reflected in the risk assessment reports submitted also to the Supervisory Board Risk & Audit Committee. The top-down process focuses on broad risk drivers affecting liquidity risks and a forward-looking view of perceived threats over a longer horizon. The top-down approach is therefore closely linked with the ICAAP under Pillar 2 of the Capital Requirement Directive (CRD).

In both ALCO and the Risk Management Committee (RMC) meetings, top-down and bottom-up views of risk come together through a process of upward reporting of, and management response to, identified and emerging risks. This ensures that the bank's view of liquidity risk remains sensitive to emerging trends and common themes. Once a week, the ALCO Committee monitors liquidity trends, tracks historical and prospective on- and off-balance sheet liquidity obligations, and identifies and measures internal and external liquidity warning signals to allow the early detection of liquidity issues.

The Treasury Department is responsible for pursuing the bank's liquidity strategy set by the ALCO, for managing the liquidity risk of the bank, and for compliance with the bank's liquidity risk limits set by the Board. Along with the Treasury Department, the Risk Management Department develops the liquidity risk management frameworks, which consist of governance, policies and methodologies as well as guidelines for pricing the liquidity risk.

Liquidity risk management covers both short-term liquidity risk and long-term structural liquidity risk. With its stable customer deposit base and balanced composition of saving and time deposits, combined with relatively low average tenors of its banking assets, the bank has a healthy structural liquidity risk profile.

In order to manage short-term funding positions, the bank measures the funding gap risk, which expresses the expected maximum accumulated need for raising liquidity in the course of the next 12 months. Cash flows from both on-balance sheet and off-balance sheet items are included. Funding gap risk is measured and limited for each currency and as a total figure for all currencies combined. To ensure funding in situations where the bank is in urgent need of cash and when the normal funding sources do not suffice, the bank holds a minimum liquidity buffer. The liquidity buffer largely consists of central bank eligible high-grade liquid securities that can be sold or used as collateral in funding operations.

The following table provides an overview that slots the balance sheet of the bank into maturity buckets based on the remaining contractual maturity periods of the principals, as well as the expected interest cash flows. In this respect, with a conservative approach, the total amount of savings accounts is placed in the on-demand maturity bucket even though they traditionally demonstrated a stable pattern. In a similar approach, financial assets available for sale are placed in maturity buckets according to their respective maturities even though they are readily available as source of liquidity.

December 31, 2013	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 year	Undefined*	Total
Assets							
Cash and balances with central banks	110,704	–	–	–	–	10,062	120,766
Financial assets held for trading	–	17,819	2,853	4,704	–	–	25,376
Available for sale financial assets	–	17,209	45,293	317,308	–	–	379,810
Securities held to maturity	–	–	524	14,742	–	–	15,266
Loans and receivables - banks	3,178	89,007	152,994	81,612	1,801	–	328,592
Loans and receivables - customers	10,751	383,325	104,252	298,593	52,541	–	849,462
Derivative financial instruments – hedge accounting	–	–	166	1,635	–	–	1,801
Property and equipment	–	–	–	–	–	12,070	12,070
Intangible assets	–	–	–	–	–	141	141
Current tax assets	–	–	–	–	–	–	–
Deferred tax assets	–	–	–	–	–	198	198
Other assets	–	–	–	–	–	1,569	1,569
Total assets	**124,633**	**507,360**	**306,082**	**718,594**	**54,342**	**24,040**	**1,735,051**
Liabilities							
Due to banks	2,287	47,564	19,417	154,400	–	–	223,668
Financial liabilities held for trading	–	1,295	652	215	–	–	2,162
Deposits from customers	724,125	114,121	210,135	213,821	513	–	1,262,715
Derivative financial instruments – hedge accounting	–	–	202	69	–	–	271
Provisions	–	–	1,377	–	–	–	1,377
Current tax liabilities	–	–	–	–	–	2,786	2,786
Deferred tax liabilities	–	–	–	–	–	2,353	2,353
Other liabilities	–	–	–	–	–	7,107	7,107
Total liabilities	**726,412**	**162,980**	**231,783**	**368,505**	**513**	**12,246**	**1,502,439**
Net liquidity gap	(601,779)	344,380	74,299	350,089	53,829	11,794	220,818
Net liquidity cumulative gap	(601,779)	(257,399)	(183,100)	166,989	220,818	220,818	

* Undefined items are not taken into account in the liquidity gap.

The immediately available liquidity of DHB Bank consisting of cash and the ECB eligible securities valued after the ECB haircuts as of year-end 2013 was 211 million, representing 12.1% of the balance sheet size. As an additional liquidity buffer, the bank has also a contingent liquidity agreement with Halkbank for a total amount of 100 million.

December 31, 2012	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 year	Undefined*	Total
Assets							
Cash and balances with central banks	108,565	–	–	–	–	10,394	118,959
Financial assets held for trading	–	2,411	1,016	350	–	–	3,777
Available for sale financial assets	–	90,957	28,364	318,171	12,275	–	449,767
Securities held to maturity	–	–	26,961	21,358	27	–	48,346
Loans and receivables - banks	3,466	41,907	271,028	92,745	4,366	–	413,512
Loans and receivables - customers	10,654	311,302	152,311	247,150	34,381	–	755,798
Derivative financial instruments – hedge accounting	–	25	62	483	–	–	570
Property and equipment	–	–	–	–	–	11,700	11,700
Intangible assets	–	–	–	–	–	51	51
Current tax assets	–	–	–	–	–	6,738	6,738
Deferred tax assets	–	–	–	–	–	109	109
Other assets	–	–	–	–	–	1,552	1,552
Total assets	**122,685**	**446,602**	**479,742**	**680,257**	**51,049**	**30,544**	**1,810,879**
Liabilities							
Due to banks	2,744	51,588	5,839	151,288	–	–	211,459
Financial liabilities held for trading	–	1,368	1,901	6,245	2,932	–	12,446
Deposits from customers	754,360	170,760	228,205	180,230	68	–	1,333,623
Derivative financial instruments – hedge accounting	–	–	647	1,797	–	–	2,444
Provisions	–	–	2,145	–	–	–	2,145
Current tax liabilities	–	–	–	–	–	7,955	7,955
Deferred tax liabilities	–	–	–	–	–	3,354	3,354
Other liabilities	–	–	–	–	–	11,564	11,564
Total liabilities	**757,104**	**223,716**	**238,737**	**339,560**	**3,000**	**22,873**	**1,584,990**
Net liquidity gap	(634,419)	222,886	241,005	340,697	48,049	7,671	218,218
Net liquidity cumulative gap	(634,419)	(411,533)	(170,528)	170,169	218,218	218,218	

* Undefined items are not taken into account in the liquidity gap.

Market risk

Market risk is the exposure to an adverse impact on the market value of portfolios and financial instruments caused by changes in market prices and rates. The level of DHB Bank's trading activity is very low. Any trading positions that might be taken involve relatively simple products and partially arise from servicing customers. The bank also takes on market risk as part of its treasury management that supports the day-to-day management of liquidity.

In consultation with the Treasury Department, the Risk Management Department is responsible for updating the market risk policies and limits framework, and carries out active risk monitoring. The Risk Management Department also seeks to recommend efficient risk/return parameters, to reduce volatility in the operating performance, and presents the bank's market risk profile to the management. The bank makes use of a combination of risks, earnings and regulatory parameters to manage market risk. The market risk appetite statements for the trading book are defined in terms of Value at Risk (VaR) and maximum tolerated loss within a quarter.

Price risk

Price risk arises from positions in trading books that may lead to a potential decline in net income (i.e. economic sensitivity) due to adverse changes in market rates. This risk position is quantified using various metrics, both statistical and non-statistical.

The bank's primary statistical risk measure, Value-at-Risk (VaR), estimates the potential loss from adverse market moves in an ordinary market environment and provides a consistent cross-business measure of risk profiles. For internal management purposes, DHB Bank evaluates the market risk of the positions it holds using different VaR methods, i.e. historical simulation, the exponentially weighted moving average (EWMA) and the 'Monte-Carlo Simulation'. The VaR approach is not applied to determine the solvency requirement for market risk but forms an integral part of the bank's risk management framework.

The bank sets VaR limits for total market risk, which are then divided into limits allocated to foreign exchange and other price risks.

As of December 31, 2013, the following table reports the VaR of the bank's FX net open position based on historical simulation for a confidence level of 99% and a 10 days holding period.

VaR of FX position	2013	2012
Max	(71)	(162)
Min	(4)	(65)
Average	(20)	(92)
End of year	(4)	(66)

VaR is a risk measure that has limitations. It quantifies potential losses under the assumption of normal market conditions. The model's shortcomings are especially material during exceptional market developments; therefore, to counter-balance this weakness, non-statistical tools are applied to control risk, including net open position and stop-loss limits. The bank also implements back testing to monitor the effectiveness of the VaR model in practice and carries out regular stress testing to evaluate the financial impact of a variety of exceptional market scenarios.

Interest rate risk

Interest rate risk is related to changes in the fair value or the future cash flows of interest-bearing financial instruments resulting from changes in the market rates of interest. The bank is exposed to interest rate risk when there are differences between amounts or interest rates in the interest earning assets and interest bearing liabilities within specified re-pricing bands. Using scenarios, duration indicators and the economic capital concept, a balance is struck between the interest rate risk and the current and future net interest income. This is achieved by active management of the assets and liabilities and the use of hedging instruments.

To evaluate interest rate risk from an earnings perspective, the bank uses scenario analyses involving various shifts in market rates in relevant currencies. Assuming a constant balance sheet position and an instantaneous upward 1% parallel movement in market rates, the sensitivity of the net interest earnings over a time period of one year is shown in the following table for the year ending December 31, 2013 and December 31, 2012 respectively:

	Within year 2013			End of year 2013
Sensitivity 1 year earning	Min	Max	Average	
100 bps instantaneous increase	222	1,128	613	882

	Within year 2012			End of year 2012
Sensitivity 1 year earning	Min	Max	Average	
100 bps instantaneous increase	570	2,331	1,263	1,095

The scenarios assume pro-forma interest rate shocks and do not take any account of the possible effects of an active response on the part of the bank to avoid the downside effects of the shifts, or the response on the part of customers to interest rate movements.

Apart from the scenario-based analysis, the bank also estimates the effects of interest rate movements on the economic value of equity. The sensitivity of the economic value of equity using an upward movement of 100 basis points, and ignoring all option elements, is presented in the following table for the year ending December 31, 2013 and December 31, 2012 respectively.

	Within year 2013			End of year 2013
Sensitivity of economic value of equity to interest rate movements	Min	Max	Average	
100 bps instantaneous increase	(2,529)	(602)	(1,571)	(1,024)

	Within year 2012			End of year 2011
Sensitivity of economic value of equity to interest rate movements	Min	Max	Average	
100 bps instantaneous increase	(2,143)	805	(1,144)	(1,511)

Currency risk

Foreign currency risk is the risk of changes in the fair value or the future cash flows of financial instruments resulting from changes in foreign currency exchange rates. The bank is exposed to currency risk, particularly to changes between EUR, USD and TRY rates. While currency risk is almost fully avoided through FX swap transactions, open positions are monitored and reviewed by the Asset & Liability Management Committee, so that action can be taken where necessary. Considering the derivative transactions, the open currency positions are at insignificant levels as of 31 December, 2013. The management sets the limits for such positions according to the net foreign currency position rules determined by the Dutch Central Bank (DNB).

December 31, 2013	EUR	USD	TRY	GBP	CHF	Others	Total
Cash and balances with central banks	120,739	27	–	–	–	–	120,766
Financial assets held for trading	21,316	578	3,361	121	–	–	25,376
Available for sale financial assets	260,854	110,003	8,953	–	–	–	379,810
Securities held to maturity	10,651	4,615	–	–	–	–	15,266
Loans and receivables - banks	286,499	41,728	155	40	163	7	328,592
Loans and receivables - customers	460,399	95,852	287,540	5,671	–	–	849,462
Derivative financial instruments – hedge accounting	1,396	405	–	–	–	–	1,801
Property and equipment	12,070	–	–	–	–	–	12,070
Intangible assets	141	–	–	–	–	–	141
Current tax assets	–	–	–	–	–	–	–
Deferred tax assets	198	–	–	–	–	–	198
Other assets	1,272	–	295	2	–	–	1,569
Total assets	**1,175,535**	**253,208**	**300,304**	**5,834**	**163**	**7**	**1,735,051**
Due to banks	214,160	9,147	1	174	186	–	223,668
Financial liabilities held for trading	863	884	296	119	–	–	2,162
Deposits from customers	1,246,424	15,642	592	57	–	–	1,262,715
Derivative financial instruments – hedge accounting	271	–	–	–	–	–	271
Provisions	1,377	–	–	–	–	–	1,377
Current tax liabilities	2,786	–	–	–	–	–	2,786
Deferred tax liabilities	2,353	–	–	–	–	–	2,353
Other liabilities	6,720	381	5	–	1	–	7,107
Total non-equity liabilities	**1,474,954**	**26,054**	**894**	**350**	**187**	**–**	**1,502,439**
Net gap	(299,419)	227,154	299,410	5,484	(24)	7	232,612
Net open currency position after FX and interest rate swaps	(84)	42	40	19	(24)	7	

December 31, 2012	EUR	USD	TRY	GBP	CHF	Others	Total
Cash and balances with central banks	118,959	–	–	–	–	–	118,959
Financial assets held for trading	3,777	–	–	–	–	–	3,777
Available for sale financial assets	257,866	141,907	49,994	–	–	–	449,767
Securities held to maturity	29,183	19,163	–	–	–	–	48,346
Loans and receivables - banks	350,481	62,505	388	79	13	46	413,512
Loans and receivables - customers	381,630	100,371	271,048	2,749	–	–	755,798
Derivative financial instruments – hedge accounting	460	110	–	–	–	–	570
Property and equipment	11,700	–	–	–	–	–	11,700
Intangible assets	51	–	–	–	–	–	51
Current tax assets	6,738	–	–	–	–	–	6,738
Deferred tax assets	109	–	–	–	–	–	109
Other assets	1,552	–	–	–	–	–	1,552
Total assets	**1,162,506**	**324,056**	**321,430**	**2,828**	**13**	**46**	**1,810,879**
Due to banks	200,759	6,282	4,249	157	12	–	211,459
Financial liabilities held for trading	3,480	8,025	940	1	–	–	12,446
Deposits from customers	1,306,618	26,301	669	35	–	–	1,333,623
Derivative financial instruments – hedge accounting	1,593	851	–	–	–	–	2,444
Provisions	2,145	–	–	–	–	–	2,145
Current tax liabilities	7,955	–	–	–	–	–	7,955
Deferred tax liabilities	3,354	–	–	–	–	–	3,354
Other liabilities	10,488	968	108	–	–	–	11,564
Total non-equity liabilities	**1,536,392**	**42,427**	**5,966**	**193**	**12**	**–**	**1,584,990**
Net gap	(373,886)	281,629	315,464	2,635	1	46	225,889
Net open currency position after FX and interest rate swaps	(1,114)	1,037	38	(7)	–	46	

Operational risk

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.

DHB Bank pays the utmost attention to mitigating operational risk by maintaining a system of comprehensive internal policies and clear control procedures. The organizational framework of the bank, the segregation of duties between involved units, and independent control mechanisms are designed to provide a sound and well-controlled operational environment. An active business continuity plan is in place. It focuses on IT-related risks in the management of operational risk and ensures a continuous workflow under probable disruptions.

As part of the continuous efforts to improve its operational risk management, the bank continued its Operational Risk & Control Assessment Program in 2013. The bank's operational risk management process involves a structured approach based on a risk and self-assessment control methodology. The goal of the ongoing self-assessment process is for each business unit to identify the key operational risks specific to its environment and evaluate the degree to which it maintains appropriate controls. Action plans are developed for identified issues, enabling the bank to improve its existing control measures and implement new measures where necessary.

Legal, compliance 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. Legal risks are managed centrally by the Legal Affairs unit. External legal advisors are also consulted where necessary. In addition, the Compliance Officer of the bank has a proactive role in this respect, aiming at reducing the compliance risk, and eventual reputation risk.

The reputation risk management framework is embedded in the policy and governance structure of the bank. Attention to reputation has always been a key aspect of the bank's practices, and maintenance of the bank's reputation is regarded as a responsibility of all staff members. 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 to the Compliance Officer where applicable. In addition to the Compliance Officer, the Internal Audit Department also evaluates integrity issues during its regular and specific audits.

Company Financial Statements

Annual Report

for the year ended

December 31, 2013

Rotterdam, The Netherlands

Company Statement Of Financial Position

(in thousands of EUR)	**Notes**	**2013**	**2012**
ASSETS			
Cash and balances with central banks		120,766	118,959
Financial assets held for trading		25,376	3,777
Available for sale financial assets		379,810	449,767
Securities held to maturity		15,266	48,346
Loans and receivables – banks		328,592	413,512
Loans and receivables – customers		848,667	755,243
Derivative financial instruments – hedge accounting		1,801	570
Investments	1	853	639
Property and equipment		12,070	11,700
Intangible assets		141	51
Current tax assets		–	6,738
Deferred tax assets		198	109
Other assets		1,568	1,530
Total assets		**1,735,108**	**1,810,941**
LIABILITIES			
Due to banks		223,668	211,459
Financial liabilities held for trading		2,162	12,446
Deposits from customers		1,262,830	1,333,740
Derivative financial instruments – hedge accounting		271	2,444
Provisions		1,377	2,145
Current tax liabilities		2,733	7,911
Deferred tax liabilities		2,353	3,354
Other liabilities		7,102	11,553
Total liabilities		**1,502,496**	**1,585,052**
EQUITY	**2**		
Share capital		113,750	113,750
Retained earnings		94,520	85,337
Other reserves		6,237	8,925
Net profit		18,105	17,877
Total equity		**232,612**	**225,889**
Total equity and liabilities		**1,735,108**	**1,810,941**
Commitments and contingent liabilities		9,477	13,511

Company Income Statement

(in thousands of EUR)	**2013**	**2012**
Net income of the parent company	17,891	17,721
Net income participating interests after taxes	214	156
Net income	**18,105**	**17,877**

Notes To The Company Financial Statements

Summary of significant accounting policies

Basis of preparation

The company financial statements of Demir-Halk Bank (Nederland) N.V. have been prepared in accordance with accounting principles in The Netherlands as embodied in Part 9 of Book 2 of the Netherlands Civil Code. Based on article 362, paragraph 8, Part 9 of Book 2 of the Netherlands Civil Code, the valuation principles applied are based on International Financial Reporting Standards (IFRS), as used for the preparation of the consolidated financial statements of the bank.

The financial statements of the subsidiaries are prepared for the same reporting year as the bank, using consistent accounting policies.

The principles of valuation and determination of results stated in connection with the consolidated balance sheet and income statement are also applicable to the company balance sheet and income statement with the exception of investments in group companies which are initially recognised at cost.

1 Investments

Investments of DHB Bank in subsidiaries are stated at its net asset value, determined on the basis of EU-IFRS. Participating interests in group companies consist of Best CreditLine B.V. and Stichting DHB Bewaarfonds.

	2013	**2012**
Participating interests in group companies		
Development:		
Opening balance	639	429
Capital investment	–	79
Capital divestment	–	(25)
Net profit subsidiaries	214	156
Closing balance	**853**	**639**

DHB Bank guarantees all liabilities of Best CreditLine B.V. and Stichting DHB Bewaarfonds by giving a 403 declaration.

2 Equity

Share capital

Referring to article 67, paragraph 1 of Book 2 of the Dutch Civil Code, the authorized capital amounts to 227.5 million euro. According to the Articles of Association the shares are subdivided into 500,000 ordinary shares, out of which 250,000 shares have been issued and fully paid up. All of these instruments have a par value of 455 (four hundred fifty five) euro.

Legal reserve

Legal reserve comprises the reserves set aside to comply with legal requirements.

Defined benefit obligation reserve

This item relates to actuarial gains or losses on defined benefit pension plans.

Revaluation reserve

Revaluation reserve comprises the differences between the carrying amount and the fair value of property in use by the bank determined by independent appraisers. This reserve is set aside on a net basis. The depreciation of the revaluation reserve is presented in this item as well.

Cash flow hedge reserve

This item relates to the effective portion of the cumulative net change in the fair value of derivatives used for cash flow hedges.

Fair value reserve

In this component gains and losses arising from a change in the fair value of available for sale assets are recognised, net of taxes. When the relevant assets are sold, impaired or otherwise disposed of, the related cumulative gain or loss recognised in equity is transferred to the income statement.

All above-mentioned reserves are non-distributable reserves of the Company pursuant to the provisions of Part 9, Book 2, of the Netherlands Civil Code. For the movements in equity, reference is made to the consolidated statement of changes in equity.

Rotterdam, April 11, 2014

Supervisory Board:
Hanno W. E. Riedlin
İ. Hasan Akçakayalıoğlu
Theodoor J. Bark
Hans J.Ph. Risch
Dr. Nurzahit Keskin
Henk Sliedrecht
Mohamed Shafik Gabr
Süleyman Kalkan

Managing Board:
Kayhan Acardağ
Steven Prins
Okan Balköse

Other information

Profit appropriation

The profit appropriation has been proposed in conformity with article 22 of the Articles of Association, which states:

1. The company may make distributions to the shareholders and other persons entitled to the distributable profits only to the extent that the company's shareholders' equity exceeds the paid-up and called-up part of the company's capital, plus the reserves which must be maintained under the law.

2. The profits evidenced by the profit and loss accounts adopted by the general meeting of shareholders shall be at the disposal of the general meeting of shareholders.

3. The management may resolve to distribute an interim dividend against the dividend to be expected in respect of the financial year concerned, if the requirement of paragraph 1 has been met and this is evidenced by an interim net equity statement, showing the position of the own equity on, at the earliest, the first day of the third month prior to the month in which the resolution to make a distribution is announced.

4. There shall be no distribution of profits in favor of the company on the shares of depositary receipts issued therefore which the company has acquired in its own capital.

5. In computing the distribution of profits, the shares or depositary receipts issued therefore on which no distribution shall be made in favor of the company in pursuance of the provisions of paragraph 4 above, shall be disregarded.

6. The right to receive dividend shall be precluded by the lapse of five years, to be calculated from the day on which such a distribution became payable.

Prior to approval by the General Meeting of Shareholders, the Board proposes that the net profit of 18,105 be distributed as follows:

Dividend 50%	9,052.5
Addition to the 'retained earnings'	9,052.5
	18,105.0

Independent Auditor's Report

To the Supervisory Board and Shareholders of Demir-Halk Bank (Nederland) N.V.

Report on the financial statements

We have audited the accompanying financial statements 2013 of Demir-Halk Bank (Nederland) N.V., Rotterdam. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2013, the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of comprehensive income, and consolidated cash flow statement for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at 31 December 2013, the company income statement for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the managing board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Demir-Halk Bank (Nederland) N.V. as at 31 December 2013 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Demir-Halk Bank (Nederland) N.V. as at 31 December 2013 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the report of the managing board , to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the report of the managing board , to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, April 11, 2014

KPMG Accountants N.V.
E.D.H. Vinke-Smits RA

Implementation of the Dutch Banking Code at DHB Bank

STIPULATION	NOTES & EXPLANATIONS

1 Compliance With The Code

1 The Banking Code uses the "comply or explain" principle, which means that banks shall apply the principles of the Banking Code. The application of the principles depends in part of the activities and other specific characteristics of the bank (and of the group if the bank is part of a group). There are differences in many areas between the banks that are covered by the Code. For example, they have different corporate governance structures, operate in different markets or submarkets and may have a national or international focus. Departures from the Code, if substantiated, can therefore be justified.	*Details about DHB Bank's implementation of the Dutch banking code are presented below*

2 Supervisory Board

2.1 Composition and expertise

2.1.1 The supervisory board shall be composed in such a way that it is able to perform its tasks properly. Complementarity, a collegial board, independence and diversity are preconditions for the supervisory board to perform its tasks properly.	*DHB Bank (the bank) drew up profiles for the Supervisory Board (SB) members and chairman, as articulated in the SB Policy. Composed of members with diverse backgrounds, expertise, experiences, cultures and social sensitivity, the SB has a collegial working structure, and as per the bank's Articles of Association (AoA), each member is entitled to cast one vote. Half of the SB members, including the chairman, are independent, as laid down also in the AoA of the bank. Resolutions have to be taken by absolute majority, and should be supported by at least one independent member; in case of a tie vote, the chairman decides. The brief CVs of the SB members are presented under the section "Governing Bodies" of this annual report.*
2.1.2 The supervisory board shall have a sufficient number of members to properly perform its function, including in its committees. The appropriate number of members depends on the nature, size and complexity of the bank.	*The SB is composed of eight members, a number considered adequate by the General Meeting of Shareholders when taking into account the business scope, size and complexity of the bank. The SB has five sub-committees, each composed of two to four members from its ranks, of which at least one member is independent. These committees are: Risk and Audit Committee (RAC), Remuneration and Compensation Committee (RCC), Related Party Transactions Committee (RPTC), Supervisory Board Credit Committee (SBCC) and Nomination Committee (NC). The respective members possess the relevant competence and experience necessary for the efficient functioning of these sub-committees*

STIPULATION	NOTES & EXPLANATIONS
2.1.3 The members of the supervisory board shall have thorough knowledge of the bank's functions in society and of the interests of all parties involved in the bank. The supervisory board shall carefully consider the interests of all parties involved in the bank, such as the bank's clients, its shareholders and its employees.	*Taking into account the geographical coverage of the bank, several members are familiar with the socio-economic and political culture and the social environment of the bank's main markets, thus contributing further to the fulfilment of the duties and responsibilities of the SB and to the public functions of the bank. In fulfilling its responsibilities, the SB considers the balanced interests of all the stakeholders and the duty of care towards clients as a guiding principle and a particular attention point, as also stipulated in the SB Policy.*
2.1.4 Each member of the supervisory board shall be capable of assessing the main aspects of the bank's overall policy in order to form a balanced and independent opinion about the basic risks involved. Each member of the supervisory board shall also possess the specific expertise needed to perform his or her role in the supervisory board. To this end, whenever a vacancy arises on the supervisory board, an individual profile shall be drawn up for the new member of the board.	*Based on their particular backgrounds and expertise, the SB members are equipped to express a balanced and independent opinion for assessing the bank's overall policy and the surrounding risks. Composed of members with diverse backgrounds, the SB collectively possesses knowledge and experience on a broad range of relevant subjects, including risk management, internal control, compliance, audit, commercial banking, credits, Dutch legislation, accounting principles and financial reporting. As per the SB Policy, "Whenever a vacancy arises in the SB, a Nomination Committee, consisting of a minimum of two SB members, will be appointed by the SB. The Nomination Committee, after drawing up an individual profile for the new member and considering the required qualifications and expertise as mentioned below in the chapter 'Profile for Supervisory Board Members', will search for appropriate candidates for the vacant position. The resulting candidates of the search process will be proposed to the General Meeting of Shareholders for appointment". Following vacancies arising in 2010, 2011 and 2013, this principle was applied when three new SB members were appointed in the financial year 2011, and one new member in the financial year 2013.*
2.1.5 As part of the process to fill the vacancy of chairman of the supervisory board, an individual profile shall be drawn up that also focuses on the bank's requirements in terms of expertise and experience in relation to the financial sector and familiarity with socio-economic and political culture and the environment of the bank's main markets.	*Please refer to the explanations under 2.1.4. Furthermore, the SB Policy includes specific stipulations for the profiles of SB members and the Chairman.*
2.1.6 Each member of the supervisory board – the chairman in particular – shall be sufficiently available and contactable to properly perform his or her tasks in the supervisory board and the supervisory board's committees.	*Three SB members reside in Turkey and the others in the Netherlands for the most part. The SB convenes regularly throughout the year, on average once a month either by way of teleconference or meeting. SB members devote appropriate time and attention to their responsibilities, and for extraordinary subjects that are not part of regular agenda items, direct contacts exist among the SB members themselves and between the SB and the Managing Board members.*
2.1.7 Each member of the supervisory board shall receive suitable compensation for the amount of time that he or she spends on the supervisory board activities. This compensation shall not depend on the bank's results.	*As per the SB Policy "Each member of the SB shall receive suitable compensation for the time spent. The remuneration of the SB members is a fixed amount and determined in the General Meeting of Shareholders and is not dependent on results of the Bank". The remuneration of the SB members is disclosed in the annual reports of DHB Bank, including this one, in the Financial Statements part.*
2.1.8 The chairman of the supervisory board shall organise a programme of lifelong learning, with the aim of maintaining the expertise of the supervisory board directors at the required standard and improving their expertise where necessary. The learning programme shall cover relevant developments at the bank and in the financial sector, corporate governance in general and in the financial sector in particular, the duty of care towards the client, integrity, risk management, financial reporting and audits. Every member of the supervisory board shall take part in the programme and meet the requirements of lifelong learning.	*DHB Bank has in place a lifelong learning policy that describes the necessary qualifications for the members of the SB – and the MB – and the methods by which their knowledge base will be maintained to fulfil their respective responsibilities via lifelong learning sessions. Throughout the year, all the MB and SB members in office take part in lifelong learning sessions relating to governance, and to the developments in the bank and the banking sector. More information about these sessions is disclosed in the 'Report of The Supervisory Board' and 'Report of the Managing Board' section of the annual reports of DHB Bank, including this one.*

STIPULATION	NOTES & EXPLANATIONS
2.1.9	
The assessment of the effectiveness of the lifelong learning programme referred to in principle 2.1.8 shall be part of annual evaluation by the supervisory board.	*As per the SB Policy "The SB members will annually provide the chairman of the SB with a self-evaluation in writing of their performance as a SB member of the Bank. The assessment of the effectiveness of the lifelong learning shall be part of this self-evaluation." A similar stipulation is present in the "Lifelong Learning Policy" as well. "Each SB member shall be able to express his views confidentially during the reviews". The respective evaluation has been completed for the financial year 2011 in 2012 via closed sessions, and last in 2013 as explained in the following item.*
2.1.10	
In addition to the supervisory board's annual self-evaluation, the functioning of the supervisory board shall be evaluated under independent supervision once every three years. The involvement of each member of the supervisory board, the culture within the supervisory board and the relationship between the supervisory board and the executive board shall be part of this evaluation.	*As per the SB Policy "The performance of SB members shall be assessed under independent external supervision once every three years". Based on the members' self-assessment and individual interviews conducted by a professor who is an expert on corporate governance as facilitator, the independent evaluation of the SB took place in the third quarter of 2013. The outcome of this evaluation was discussed among the members with the facilitator in a closed session. The SB is of the opinion that this evaluation further cemented the already constructive working principles of the Board by providing an additional open and congenial discussion platform, with a view to constantly adapting to the continuously changing banking environment.*

2.2 Tasks and working methods

2.2.1	
As part of its supervisory tasks, the supervisory board shall pay special attention to the bank's risk management. All discussions about risk management shall be prepared by a risk committee or a similar committee, which committee shall be appointed by the supervisory board from its ranks for this purpose.	*Oversight over the bank's risk management and audit function is part of the core responsibilities of the SB. The Risk and Audit Committee (RAC), whose purpose it is to assist the SB in fulfilling this task, constitutes a sub-committee of the SB. It is composed of four members who are experts in the field. The RAC meets periodically, analyses the bank's risk profile and assesses at a strategic level whether capital allocation and liquidity impact are in line with the approved risk appetite. The RAC also advises the SB regarding the manner in which the principles of the Dutch Banking Code are applied, among other subjects. The Head of Internal Audit has a direct reporting line to the chairman of the RAC, with whom the Head of Financial Control may also communicate directly for exceptional cases.*
2.2.2	
Both the risk committee and the audit committee shall be subject to specific requirements as regards competency and experience. For example, a number of members of the risk committee must have sound knowledge of the financial aspects of risk management or the experience needed to make a thorough assessment of risks. A number of members of the audit committee must have sound knowledge of financial reporting and internal control systems and audits or the experience needed to thoroughly supervise these areas.	*As per the SB Policy and RAC Policy, the RAC members should – and do – possess sound knowledge of the financial aspects of risk management; experience in identifying and thoroughly assessing the risks involved in the bank's activities; sound knowledge of accounting principles, financial reporting and IFRS; knowledge of international auditing standards; and experience in the internal control, compliance and audit areas or in managing these processes. The Chairman of the RAC is a certified public auditor and registered at the NBA.*

3

Executive Board

3.1 Composition and expertise

3.1.1	
The executive board shall be composed in such a way that it is able to perform its tasks properly. Complementarity, a collegial board and diversity are preconditions for the executive board to perform its task properly.	*The Executive Board of DHB Bank (named Managing Board – MB – at DHB Bank) consists of three members since the end of 2013 (two members in the period 2010-2013), with different but complementary and long-term backgrounds in the banking sector. All the deliberations, strategic planning and day-to-day management of the MB are conducted on a collegial basis, resulting in unanimous resolutions. Adhering to these guiding principles, the MB frequently consults the senior management of the bank as well, and a majority of the resolutions are taken following discussions and deliberations at various bank committee meetings. Apart from such daily meetings, the MB also convenes at least once a month to discuss the generic agenda items. The brief CVs of the MB members are presented in the section "Governing Bodies" of this annual report.*

STIPULATION	NOTES & EXPLANATIONS
3.1.2	
Each member of the executive board shall possess a thorough knowledge of the financial sector in general and the banking sector in particular, thorough knowledge of the bank's functions in society and of the interests of all parties involved in the bank, thorough knowledge so that he or she is able to assess and determine the main aspects of the bank's overall policy and then form a balanced and independent opinion about the risks involved.	*Members of the MB possess between 20 and 30-plus years of experience in various banking fields. Safeguarding the continuity of the bank and balancing the interests of all the stakeholders, including the bank's clients, are the major principles guiding the decisions of the MB. To this end, the MB ensures a balanced assessment of the commercial interests of the bank and the risks to be taken, taking into account the approved risk appetite of the bank.*
3.1.3	
The chairman of the executive board shall organise a programme of lifelong learning, with the aim of maintaining the expertise of the executive board directors at the required standard and improving their expertise where necessary. The learning programme shall cover relevant developments at the bank and in the financial sector, corporate governance in general and in the financial sector in particular, the duty of care towards the client, integrity, risk management, financial reporting and audits.	*DHB Bank has in place a lifelong learning policy that describes the necessary qualifications for the members of the MB – and the SB – and the methods by which their knowledge base will be maintained to fulfil their respective responsibilities via lifelong learning sessions. Throughout the year, all the MB and SB members in office take part in lifelong learning sessions relating to governance, and to the developments in the bank and the banking sector. More information about these sessions is disclosed in the "Report of The Supervisory Board" and "Report of the Managing Board" sections of the annual reports of DHB Bank, including this one.*
3.1.4	
Every member of the executive board shall take part in the programme referred to in 3.1.3 and meet the requirements of lifelong learning. They have to satisfy this condition to sit on the executive board. The SB shall ascertain whether the members of the executive board continue to fulfil the expertise requirements developed by the De Nederlandsche Bank (the Dutch Central Bank).	*Together with the SB, the MB members attended lifelong learning sessions, which have been organized since 2011. Please refer to explanations under 3.1.4. The SB is of the opinion (as reported in the 'Report of the Supervisory Board' section of this annual report) that these sessions were effective for the members of the MB for continuing to fulfil the expertise requirements developed by De Nederlandsche Bank (the Dutch Central Bank, DNB) in the exercise of their functions, complementing their professional background and experience.*
3.1.5	
Each year, the bank shall indicate in its annual report in what manner it implemented principles 3.1.3 and 3.1.4.	*Please refer to the explanations under 3.1.3.*
3.1.6	
Taking into account the risk appetite approved by the supervisory board, the executive board shall ensure a balanced assessment between the commercial interests of the bank and the risks to be taken.	*Please refer to the explanations under 3.1.2 and 3.1.7.*
3.1.7	
Within the executive board one member shall be responsible for preparing the decision-making with regard to risk management. This member of the executive board shall be involved in a timely manner, in the preparation of decisions that are of material significance for the bank as regards the risk profile, especially where these decisions may result in a departure from the risk appetite approved by the supervisory board. Risk management shall also include a focus on the interests of financial stability and on the impact systemic risk could have on the risk profile of the bank.	*While being jointly responsible for the management of DHB Bank, the members of the MB have separate primary responsibilities. In this framework, the MB member whose primary responsibilities include, among others, the commercial activities of the bank, is not directly involved in risk management. The utmost care is jointly taken not to deviate from the risk appetite statement, which was largely achieved in 2013 and slight deviations were tackled if/when occurred. The continuity of DHB Bank is the core driver behind risk management. Going beyond the production and review of detailed management information system reports, risk management is a continuous process handled via the different committees of the bank, some of which are Asset / Liability Committee, Credit Committee, Organization and Control Committee, and Risk Management Committee.*

STIPULATION	NOTES & EXPLANATIONS
3.1.8	
The member of the executive board who is responsible for preparing the decision-making with regard to risk management may combine his or her function with other focus areas, on the condition that he or she does not bear any individual commercial responsibility for the commercial task areas and operates independently from those areas.	*Please refer to the explanations under 3.1.7.*

3.2 Tasks and working methods

3.2.1	
In all of its actions, the bank's executive board shall ensure that it carefully considers the interests of all of the parties involved in the bank, such as the bank's clients, its shareholders and its employees. These considerations shall take into account the continuity of the bank, the environment in society in which the bank operates and legislation, regulations and codes that apply to the bank.	*The MB strictly adheres to these principles in all its deliberations, decisions and actions, which are also stipulated in the MB Policy. Furthermore, the bank has in place, among other policies, a "Corporate Social Responsibility Policy" that covers the bank's adherence to the principles of social responsibility in all the decisions made and in all the activities undertaken, and a "Client First Policy" intended as a guideline for the management and staff in decision-making and client interaction, so as to put the client's best interest first. These principles are followed both in text and spirit by the bank.*
3.2.2	
Maintaining a continued focus on its client's interests is a necessary precondition for the continuity of the bank. Without prejudice to the principle formulated in 3.2.1, the executive board shall see to it that the duty of care to the client is embedded in the bank's culture.	*Please refer to the explanations under 3.2.1. Additionally, the "Client First Policy" also sets out the principles regarding product development and review, human resources policy and corporate culture, complaint procedures, and communication/transparency with clients. This last principle in particular is given special attention by the bank in all its relations and dealings with its clients. DHB Bank has placed a client care statement on its website, which is available via the below link on its investors page, and on its respective sites in Belgium, Germany and the Netherlands in local language(s).* *https://www.dhbbank.com/Portal/EN/Products/7857.aspx*
3.2.3	
The members of the executive board shall perform their tasks in a meticulous, expert and fair manner, taking into account the applicable laws, codes of conduct and regulations. Each member of the executive board shall sign a moral and ethical conduct declaration. A declaration has been included in the explanatory notes to this code. This declaration is a model declaration, which means that each bank can supplement it as it deems appropriate.	*The members of the MB do perform their tasks in a meticulous, expert and fair manner, taking into account the applicable laws, codes of conduct and regulations. All the members of the MB have signed a moral and ethical conduct declaration, which is placed on the website of the bank, and which is also available via the below link:* *https://www.dhbbank.com/Portal/EN/Products/7857.aspx*
3.2.4	
The executive board shall ensure that the declaration referred to in principle 3.2.3 is translated into principles that form guidelines for the behaviour of all of the bank's employees. The content of these principles shall be expressly pointed out to every new employee of the bank when he or she joins the bank by inserting a reference to these principles in the new employee's contract of employment. Every new employee shall be required to comply with these principles.	*All the members of the MB have signed the moral and ethical conduct declaration, as mentioned above. The Code of Conduct, as present in the bank's Staff Handbook, is applicable to all the employees of DHB Bank as a guideline for their actions. It has been updated following the signing of the aforementioned declaration. Furthermore, for the purpose of strengthening DHB Bank's corporate culture, the Staff Handbook has been updated to address more clearly the seven elements of an ethical culture, including the values of balancing interests, balanced actions, consistent actions, openness for discussion, leading by example, feasibility and transparency. All employees are required to comply with all the stipulations in the Code of Conduct, and those newly joining the bank are required to state their adherence to these rules in writing. Contracts of the new employees also include reference to the principles set forth in the Staff Handbook.*

STIPULATION	NOTES & EXPLANATIONS

4

Risk Management

4.1

The executive board – and primarily the chairman of the executive board – shall be responsible for adopting, implementing, monitoring and, where necessary, adjusting the bank's overall risk policy. The executive board shall propose the risk appetite to the supervisory board for approval at least once a year. Any material changes to the risk appetite in the interim shall also require the supervisory board's approval.

The MB is responsible for adopting, implementing, monitoring and, where necessary, adjusting the bank's overall risk policy, as is also more extensively set out in the MB Policy. The MB each year proposes the bank's risk appetite statement, which comprises quantitative and qualitative dimensions, to the SB via initial discussions at the Risk and Audit Committee (RAC). The 2012 risk appetite statement of DHB Bank was proposed by the MB and approved following deliberations by the SB in its meeting dated 16 December 2011, while the 2013 risk appetite statement, largely based on the previous year, was approved by the SB in its meeting dated 14 December 2012. Similarly, the 2014 risk appetite statement was approved by the SB in its meeting dated 13 December 2013.

4.2

The supervisory board shall supervise the risk policy pursued by the executive board. As part of their supervision, the supervisory board shall discuss the bank's risk profile and assess whether capital allocation and liquidity impact in the general sense are in line with the approved risk appetite. In the performance of this supervisory role, the supervisory board shall be advised by the risk committee formed from the ranks of the supervisory board for this purpose.

The SB exercises its oversight of risk management principally through the Risk and Audit Committee (RAC), whose members are elected among the SB members. The RAC meets periodically, analyses the bank's risk profile and assesses at a strategic level whether capital allocation and liquidity impact are in line with the approved risk appetite. Through planning and assessments conducted and reports prepared by Risk Management Department, Internal Audit Department (IAD) and Compliance and Internal Control (CIC), RAC is also responsible for the oversight of policies and processes by which risk assessment and management are undertaken within the governance structure, all in the framework of the bank's approved risk appetite statement.

4.3

The supervisory board shall assess periodically at the strategic level whether the commercial activities in the general sense are appropriate in the context of the bank's risk appetite. The executive board shall provide the supervisory board with the relevant information for this assessment in such a way that the supervisory board is able to form a sound opinion.

Please refer to the explanations under 4.2. Furthermore, through periodical SB meetings regularly attended by the MB members, direct communication lines between the SB and MB members, and periodical management information reports – or ad hoc reports, depending on the topic – relayed to the SB, the MB systematically provides the SB with relevant information for its assessment in such a way that the SB is equipped to form a sound opinion.

4.4

The executive board shall ensure that risk management is arranged adequately so that the executive board is aware in good time of any material risks run by the bank so that these risks can be managed properly. The executive board shall take any decisions that are of material significance for the risk profile, the capital allocation or the liquidity impact.

The continuity of DHB Bank is the core driver behind risk management. Going beyond the production and review of detailed management information system reports, risk management is a continuous process handled via the different committees of the bank, some of which are Asset / Liability Committee, Credit Committee, Organization and Control Committee, Risk and Capital Management Committee, among other organizations. The MB members are also members of these committees. Decisions that are of material significance for the risk profile, the capital allocation or the liquidity impact are always taken by the MB.

4.5

Every bank shall have a Product Approval Process. The executive board shall organise the product approval process and shall be responsible for the process working properly. Products that go through the product approval process at the bank shall not be launched on the market or distributed without careful consideration of the risks by the bank's risk manager and a careful assessment of any other relevant factors, including the duty of care towards the client. Based on an annual risk analysis, the in-house auditor shall check whether the product approval process has been designed properly, is present and is working effectively and shall then inform the executive board and the relevant supervisory board committee (risk committee or similar committee) about the results.

In 2011, in keeping with the requirements of the Client First Principle, DHB Bank improved its Product Approval Procedure with more focus on the duty of care towards clients, among other issues. The updated procedure is designed to provide a reasonable assurance that risks possibly generated by the product are identified, that risk mitigating measures are decided upon and implemented, and that the technical implementation of the product in DHB Bank's systems is prepared, thus contributing to risk management as well as to client care duties. In the process, all the relevant departments' inputs are taken into consideration before offering the planned product to potential clients. The Internal Audit Department (IAD) at the time reviewed whether the Product Approval Process had been designed properly, and is responsible for checking whether the procedure works effectively in practice. All new products being launched are subject to the new procedure. As a matter of policy, the IAD reports all its findings to the MB and to the RAC.

5

Audits

5.1

The executive board shall ensure that a systematic audit is conducted of the management of the risks related to the bank's business activities.

DHB Bank has in place an Internal Audit Policy (IAP) that describes the purpose, function, authorities, responsibilities and the organization of the Internal Audit Department (IAD). As per the IAP, the MB ensures that a systemic audit is always conducted in relation to the risks associated with DHB Bank's activities.

5.2

Each bank shall have its own, internal auditor who shall occupy an independent position within the bank. The head of the internal audit team shall present a report to the chairman of the executive board and shall report to the chairman of the audit committee.

DHB Bank has its own IAD, which has an independent position within the bank. Registered by the Dutch Auditor's Institute NBA, the bank's Head of Internal Audit has a direct reporting line to the Chairman of the Risk and Audit Committee (RAC) in addition to the MB. This further strengthens his independence. He presents his reports and findings accordingly.

5.3

The internal auditor shall have the task of assessing whether the internal control measures have been designed properly, are present and are working effectively. This assessment shall include the quality and effectiveness of the system of governance, risk management and the bank's control procedures. The internal auditor shall report the findings to the executive board and the audit committee.

Among its many responsibilities, the IAD has the task to assess every year whether the internal control measures have been designed properly, and whether they are present and working effectively. This assessment includes the quality and effectiveness of the system of governance, risk management and the bank's control processes. The IAD reports its findings to the MB and to the RAC. RAC meetings are also attended by the Compliance Officer as well as by DHB Bank's external auditors KPMG Accountants N.V.

5.4

The internal auditor, the external auditor and the supervisory board's risk committee and/or audit committee shall consult periodically, including as regards the risk analysis and the audit plan of both the internal auditor and the external auditor.

The periodical meetings of the RAC, whose members have sound knowledge and/or experience of the financial aspects of risk management and/or of audit and internal control systems, are also attended by the MB members, by the Head of Internal Audit, by the Head of Risk Management Department, by the Compliance Officer and by a representative of the bank's external auditor, KPMG Accountants N.V. Apart from financial reporting, internal audit, internal control systems and risk management policies and practices, other subjects regularly reviewed include credit risk, corporate governance and its applications, compliance, as well as the assessment of the bank's risk appetite and its risk profile vis-à-vis the respective risk appetite.

5.5

As part of the general audit assignment for the financial statements, the external auditor shall produce a report for the executive board and the supervisory board which shall contain the external auditor's findings concerning the quality and effectiveness of the system of governance, risk management and the bank's control procedures.

As stipulated in the RAC Policy, and as part of their general audit assignment for the financial statements, the external auditor KPMG Accountants N.V. annually prepares a report for the MB and SB that contains their findings concerning the quality and effectiveness of the system of governance, risk management, financial position and results, and the bank's control procedures, among others. The external auditor also performed a validation on the bank's corporate governance and compliance system, and released its related assurance report on the design and implementation in July 2011.

5.6

The internal auditor shall take the initiative in arranging talks with De Nederlandsche Bank and the external auditor at least once a year to discuss each other's risk analysis and findings and each other's audit plan at an early stage.

The Head of Internal Audit has the responsibility of arranging talks with De Nederlandsche Bank (DNB) and the external auditor at least once a year, to discuss each other's risk analysis and findings and each other's audit plan at an early stage. In the tripartite meeting of 2013 attended by the representatives of De Nederlandsche Bank (the Dutch Central Bank, DNB), KPMG Accountants N.V. and the Internal Audit Department discussed various aspects of reporting, internal audit and risk management in relation to DHB Bank.

STIPULATION	NOTES & EXPLANATIONS

6

Remuneration Policy

6.1 Basis

6.1.1

The bank shall implement a meticulous, restrained and long-term remuneration policy that is in line with its strategy and risk appetite, objectives and values, taking into account the long-term interests of the bank, the relevant international context and wider societal acceptance. The supervisory board and the executive board shall take this basis into account when performing their tasks in relation to the remuneration policy.

Designed by the SB, DHB Bank's current Remuneration Policy was ultimately approved by the General Meeting of Shareholders (GMS) in April 2011, and further developed in 2012. It is composed of 4 sub-policies that have separate stipulations for the members of the MB, for the members of senior staff in general, for senior staff engaged in risk management and control functions, and for the staff members. The body overseeing the remuneration of the MB members is the GMS with the recommendation of the SB. With the prior approval of the SB, the MB decides on the remuneration for the senior staff in general and those senior staff engaged in risk management and control functions. The MB is authorized to independently arrange the remuneration of the other staff members.

6.2 Governance

6.2.1

The supervisory board shall be responsible for the implementation and evaluation of the remuneration policy adopted with regard to the members of the executive board. The supervisory board also approves the remuneration policy for the senior management and oversees its implementation by the executive board. Additionally, the supervisory board approves the principles of the remuneration policy for other bank employees. The bank's remuneration policy shall also comprise the policy on awarding retention, exit and welcome packages.

The body overseeing the remuneration of the MB members is the GMS with the recommendation of the SB. With the prior approval of the SB, the MB decides on the remuneration for the senior staff in general and those senior staff engaged in risk management and control functions. The MB is authorized to independently arrange the remuneration of the other staff members. The bank's remuneration policy comprises stipulations on awarding retention and welcome packages, while exits are conducted in line with the laws in force.

6.2.2

The supervisory board shall annually discuss the highest variable incomes at the bank. The supervisory board shall ensure that the executive board assesses whether variable incomes are consistent with the remuneration policy adopted by the bank, and in particular whether they comply with the principles set out in this section. Furthermore, the supervisory board shall discuss material retention, exit and welcome packages, assess whether they are consistent with the remuneration policy adopted by the bank and ensure that these packages are not excessive.

The Remuneration and Compensation Committee, a sub-committee of the SB, and the SB discuss at least once a year the respective stipulations of the Code.

6.3 Remuneration of members of the executive board

6.3.1

The total income of a member of the executive board shall be in reasonable proportion to the remuneration policy adopted by the bank. At the time when his or her total income is decided, it shall be slightly below the median level for comparable positions in the relevant markets both inside and outside the financial sector. The relevant international context shall be a major factor.

When the new Managing Board members have been appointed in 2013, the salary proposal have been benchmarked against national and international standards and resulted consequently in a salary level that meets the requirements of the Banking Code.

STIPULATION	NOTES & EXPLANATIONS
6.3.2	
In the event of dismissal, remuneration may not exceed one year's salary (the 'fixed' remuneration component). If the maximum of one year's salary would be manifestly unreasonable for an executive member who is dismissed during his or her first term of office, such board member shall be eligible for severance pay not exceeding twice the annual salary.	*As per the bank's Remuneration Policy, for the members of the MB, a severance payment may not exceed the amount of one year's fixed remuneration. If, in the opinion of the GMS and the SB, this maximum would be manifestly unreasonable for a member of the MB who is dismissed during the first term of appointment, this member may solely on the recommendation of the SB be eligible for a higher severance payment, not exceeding twice the yearly fixed remuneration.*
6.3.3	
When variable remuneration is awarded to the executive board, the long-term component shall be taken into account as well as profitability and/or continuity of the bank and a material part of the variable remuneration shall be conditional and shall not be paid until at least three years have passed.	*As per the bank's Remuneration Policy "The variable remuneration of the members of the MB is linked to predefined, assessable and influence-able criteria, taking into account the performance of the member of the MB concerned and the results of the Bank as a whole. The most important expectations regarding the performance of the members of the MB are sustainable long-term financial strength of the Bank, sustainable earnings at levels of return expected by the SB and application of sound Risk Management practices, including – but not limited to – the avoidance of unnecessary reputational risk, rather than increasing short-term profits. A substantial portion, and in any event at least 40% of the variable remuneration has to be conditional and deferred over a period of at least three years which is consistent with the business cycle, the nature of the business, its risks and the activities of the member of the MB concerned".*
6.3.4	
Shares granted to executive board members without financial consideration shall be retained for a period of at least five years or until at least the end of the employment, if this period is shorter. If options are granted, they shall, in any event, not be exercised in the first three years after the date of which they were awarded.	*This is not applicable at DHB Bank on the grounds that it is not listed company and the fact that the bank does not have a policy and/or corporate culture of granting shares to the members of the MB and or other employees.*

6.4 Variable remuneration

6.4.1	
The allocation of variable remuneration shall be related to the bank's long-term objectives.	*Please refer to the explanations under 6.3.3. Additionally, as per the Remuneration Policy, the assessment of the performance of the MB will be set in a three-year framework in order to ensure that the assessment process is based on long-term performance. In this context, in the annual general meeting of shareholders in 2014, a decision has been taken to distribute variable remuneration to the members of the Managing Board.*
6.4.2	
Every bank shall set a maximum ratio of variable remuneration to fixed salary that is appropriate for the bank in question. The variable remuneration per annum of members of the executive board shall not exceed 100% of the member's fixed income.	*The total variable remuneration for any member of the MB or senior staff will never exceed 100% of the total yearly fixed remuneration of the member concerned (50% for senior staff members engaged in a risk management or control function).*
6.4.3	
Variable remuneration shall be based on the performances of the individual, his part of the business and the performance of the bank as a whole according to pre-determined and assessable performance criteria. In addition to financial performance criteria, non-financial performance criteria shall also make up a significant portion of the assessment of the individual. Performance criteria shall be defined in terms that are as objective as possible in the bank's remuneration policy.	*The Remuneration Policy covers the granting of variable remuneration on performance criteria based on both financial and non-financial criteria; non-financial performance criteria make up a significant portion of the assessment of the individual.*

STIPULATION	NOTES & EXPLANATIONS
6.4.4 When performances are assessed based on the pre-determined performance criteria, financial performances shall be adjusted to allow for estimated risks and capital costs.	*All types of current and future risks and the cost of the capital and the liquidity required are components of the performance assessment as per the Remuneration Policy of DHB Bank.*
6.4.5 In exceptional circumstances – for example, if application of the pre-determined performance criteria would result in undesired variable remuneration for a member of the executive board – the supervisory board shall have the discretionary power to adjust the variable remuneration if, in its opinion, this remuneration would have unfair or unintended effects.	*As per the bank's Remuneration Policy "In determining the amount of the variable remuneration, the GMS shall take into account to which extent the objectives as referred to in 7.2 (the article stipulating requirements and criteria for variable remuneration) of the MB Policy have been achieved. In extraordinary circumstances the GMS is authorized to adjust the variable remuneration solely on the recommendation of the SB if, in the opinion of the GMS and the SB, this remuneration would have unfair and/or unintended effects".*
6.4.6 The supervisory board shall be authorised to reclaim variable remuneration allocated to a member of the executive board based on inaccurate data (whether or not the inaccurate data is financial in nature).	*DHB Bank's Remuneration Policy includes a claw-back clause that allows the bank not to pay or to reclaim variable remuneration awarded based on incorrect and/or inaccurate data or in case there are certain extraordinary circumstances.*

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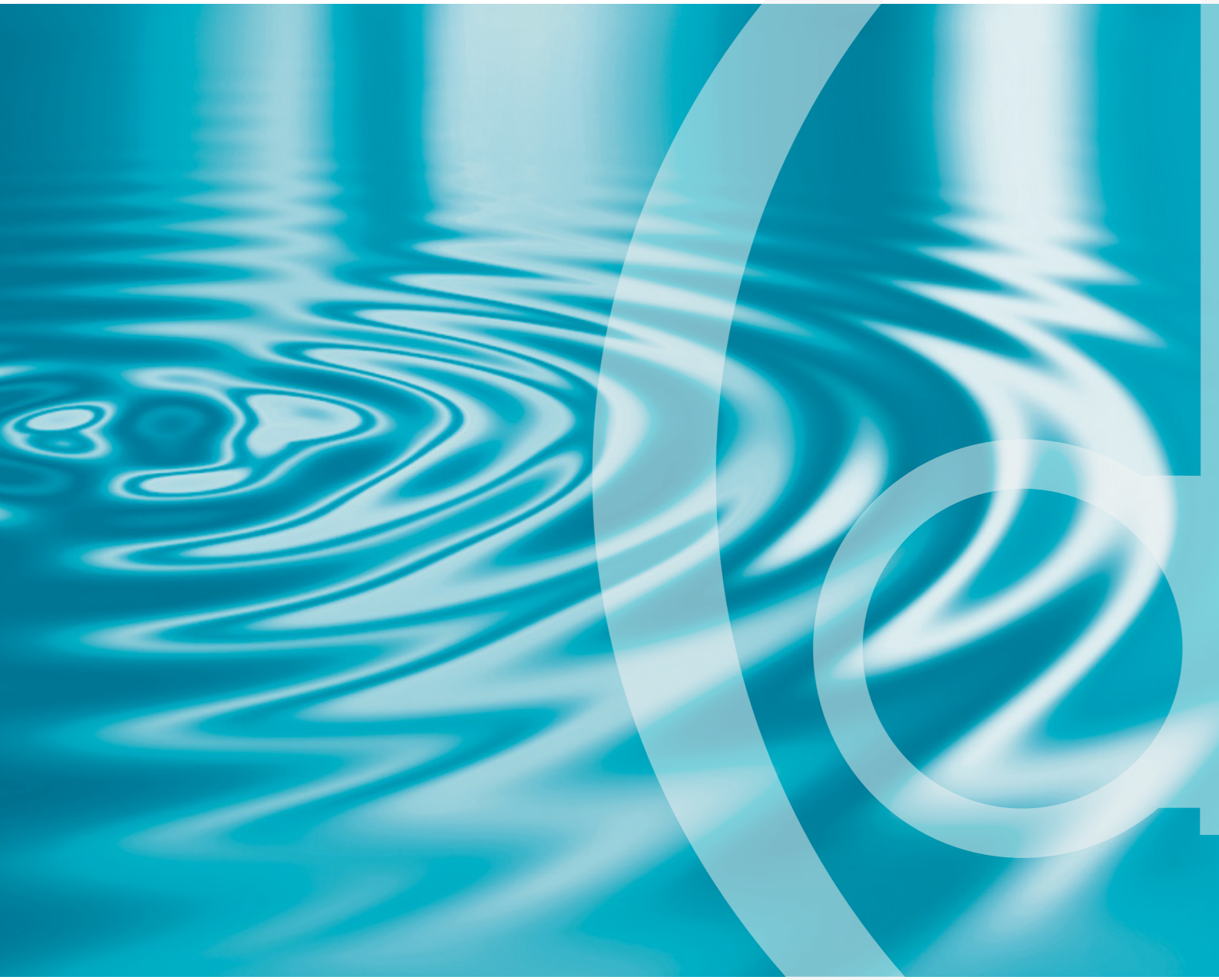

DHB Bank

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