Annual Report **2023**

DHB BANK

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DHB BANK

About DHB Bank

OUTLINE

Founded in 1992, DHB Bank N.V. operates as a commercial bank under Dutch law, with its headquarters situated in Rotterdam. The bank conducts its business across locations in the Netherlands, Germany, Belgium, and Istanbul. DHB Bank N.V. stands as a self-sufficient and well-established organization, equipped with all essential functions to independently carry out its operations, supported by a dedicated staff of 130 professionals.

As of year-end 2023, the bank had an asset size of EUR 1,815 million and equity amounting to EUR 246 million. A comprehensive overview of the bank's business activities is presented in the 'DHB Bank Overview' section of this annual report.

DHB Bank is owned by HCBG Holding B.V. (70%) and by Türkiye Halk Bankası A.Ş. (30%). It features a well-defined two-tier management structure. The governance is facilitated through the Managing Board under the supervision of the Supervisory Board. Their reports are presented after this outline.

HCBG Holding B.V. (HCBG), primarily functioning as a financial holding company, is entirely owned by Dr Halit Cıngıllıoğlu. Beyond its ownership in DHB Bank, HCBG holds a 40.7% stake in Access Financial Services IFN S.A. in Romania and a 7.5% interest in Demir Kyrgyz International Bank O.J.S.C.

Türkiye Halk Bankası A.Ş. (Halkbank), with around EUR 80 billion in balance sheet size, is one of the largest banks by assets in Türkiye; its main shareholder is the Turkish Sovereign Wealth Fund with a 91.5% stake, while 8.5% is free float, and with a negligible percentage held by minority shareholders. Recognized as the foremost financial institution for SME financing in Türkiye, Halkbank remains steadfast in its mission to actively contribute to the country's economic development. Halkbank possesses various subsidiaries and affiliated companies in Türkiye, mainly in the financial sector, as well as other bank subsidiaries in North Macedonia and Serbia and an affiliate bank in Hungary.

In 2023, DHB Bank pursued its operational objectives and is confident that it generated value for all its stakeholders while continuing to uphold its commitment to both economic and social responsibilities.

FINANCIAL HIGHLIGHTS	2023 (EUR 000)	2022 (EUR 000)
Total assets	1,815,534	1,722,666
Loans and receivables – banks	78,414	58,121
Loans and receivables – customers	1,212,921	1,137,949
Due to banks	93,908	208,660
Deposits from customers	1,460,898	1,264,270
Total equity	245,622	229,543
Net interest income	59,861	41,302
Net profit	18,929	10,907
Non-performing exposures (NPE) ratio	2.88%	2.21%
Solvency ratio*	18.06%	18.88%
Number of employees	130	128
Number of locations	7	7

* *The solvency ratios exclude the foreseeable dividend amounts for the respective years.*

Report of the **Supervisory Board**

Report of the Supervisory Board

We are pleased to introduce the report of the Supervisory Board (SB/the Board) along with the consolidated and company financial statements of DHB Bank for the fiscal year ending on 31 December 2023.

These consolidated financial statements were prepared by the Managing Board (MB) and have been audited by Deloitte Accountants B.V. The external auditors' unqualified opinion and report are attached to the annual accounts.

1. PROPOSALS TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS

We propose to the annual General Meeting of Shareholders (GMS) to adopt the consolidated financial statements for 2023 and to adopt the proposal for the appropriation of the financial result, i.e., 50% distribution of the net profit as dividend and 50% retention of net profit in the equity (of which the interim portion was already retained in the equity).

In relation to the calendar year 2023, we also propose to the GMS to discharge the Managing Board from liability with respect to its management of the bank's activities pursuant to Article 23, clause "d" of the Articles of Association (AoA) of the bank. Similarly, pursuant to Article 23, clause "e" of the AoA, we propose to the GMS to discharge the Supervisory Board from liability with respect to its supervision of the bank's activities[1].

2. OVERVIEW

The Supervisory Board (SB) has consistently monitored the political, financial, and economic developments within the bank's markets as well as the bank's overall exposures and investment profile, considering factors such as size, borrower segments, and geographical coverage.

In terms of risk absorption capacity, DHB Bank has consistently maintained a robust capital buffer that aligns with international standards, positioning it well to navigate unexpected crises. The bank's resilient position is further fortified by a stable retail deposit base, complemented by liquid assets and a relatively short average duration of the loan portfolio. This strategic combination enables DHB Bank to withstand potential liquidity pressures in the market, even under plausible stress scenarios. The bank's risk resilience is substantiated by its internal processes, namely the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). The Supervisory Review and Evaluation Process (SREP) conducted in the 2023 cycle by DNB supervisors has resulted in the establishment of capital requirements tailored to the bank's operations and the distribution of its assets. DHB Bank comfortably meets these requirements. This meticulous approach ensures that DHB Bank is well-positioned to meet regulatory standards and effectively manage risks associated with its diverse portfolio.

The SB members interacted with DNB delegates in their annual meeting in 2023 to discuss regulatory and financial matters in relation to DHB Bank.

In 2023, the SB and its committees continued to closely monitor compliance with regulatory requirements.

DHB Bank succeeded in maintaining its sound business profile, with high level of liquidity and strong capital adequacy, with clear guidance and working principles to focus on asset quality rather than higher profitability.

In conclusion, the SB assesses the bank's performance and end-result in 2023 as highly satisfactory.

The Supervisory Board expresses its appreciation for the Management's prudence in ensuring sound operations and active risk management within DHB Bank.

[1] *The recommendation and proposals of the SB were unanimously approved by the annual General Meeting of Shareholders on 22 May 2024.*

Strategy & Activities

In the past years, the MB had developed and implemented certain measures to further streamline the bank's organizational structure and reduce its cost base. These measures yielded positive results without affecting the business model of the bank and its risk appetite, and helped maintain the bank's profitability when the negative yield environment was reversed starting mid-2022 despite increasing direct and indirect regulatory costs.

On the other hand, given the rapidly changing environment and to have a fresh view on the bank's business model, a strategy review has been initiated with a third-party facilitator, which was finalized in H1 2023. In summary, the SB endorsed the MB's proposed direction of investing in and growing the bank's core business with slight increase in the balance sheet, maintaining focus on corporate loans and gradually diversifying into some niche areas that fit the risk appetite and core capabilities of the bank.

The SB is committed to maintaining cautious oversight over the bank's activities, adhering to robust risk parameters. This oversight encompasses ensuring strong solvency and liquidity levels, in compliance with all regulatory requirements, in alignment with the approved 2024 risk appetite statement and with the bank's operating environment.

In monitoring the overall environment, the SB will remain vigilant to potential impacts on the bank stemming from developments in various areas, such as AI, digitization, environment and climate risks, geopolitical factors, and supply chain constraints The SB is dedicated to staying abreast of these dynamic factors, recognizing their potential influence on the bank's operations, risk landscape, and strategic outlook. This proactive approach ensures that the SB is well-positioned to assess and respond to evolving trends in the financial and business environment.

Material impact is not expected on the bank in relation to the geopolitical environment. Regarding the economic and financial environment, the SB will closely monitor the bank's portfolio concerning possible downwards scenarios.

Environmental, Social and Governance Risks

A noteworthy focus is the management of Environmental, Social, and Governance (ESG) risks, a subject that the Supervisory Board welcomes. The SB has been closely monitoring the bank's initiatives in measuring and monitoring climate and environmental risks within the broader framework of an ESG agenda. This proactive approach reflects the SB's commitment to overseeing emerging risks and aligning the bank's practices with evolving ESG standards.

The bank has formed a specialized cross-departmental project group committed to advancing these objectives. The SB is pleased to note the significant progress made by the bank in this area, as highlighted in the Report of the Managing Board.

Related Party Transactions

The very limited number of transactions with the related parties have been in line with the relevant policies and procedures.

Self-Assessment

Please refer to the section 'Supervisory Board' under Corporate Governance for details on this subject.

Remuneration

The Remuneration Policy – stipulating criteria according to many financial and non-financial objectives, all reflecting the bank's long-term strategies and risk policy - and Bonus Plan of the bank are based on the applicable regulations, and amongst others, include stipulations concerning fixed and variable remuneration, with claw back and deferral payment rules. Please refer to section 'Remuneration' under 'Corporate Governance' for more disclosures in this respect.

Lifelong Learning

DHB Bank has in place a policy covering the framework and implementation of lifelong learning, which is a permanent agenda item of the chairman and SB members. As part of the Lifelong Learning Program 2023, all the SB members in office – and the MB members – took part in learning sessions organized during the year under review. In the sessions that were facilitated mostly by external consultants, the subjects covered were: Anti-Money Laundering/ Counter-Terrorism Financing/ Compliance, Art Finance, Security Awareness/ Cybercrime, and Artificial Intelligence.

The SB (and MB) considered these sessions valuable for enhancing the expertise of their members.

The SB is of the opinion that these learning sessions, combined with their professional background and experience, also helped the SB and the MB members to continue fulfilling the expertise requirements developed by DNB in the exercise of their functions.

3. SHAREHOLDERS, MANAGEMENT, STAFF, CLIENTS AND PARTNERS

We are very appreciative of our shareholders' continued commitment towards the bank since its establishment and particularly during the past years' globally volatile environment. Dr Halit Cıngıllıoğlu as the ultimate beneficiary owner of HCBG Holding B.V. and Türkiye Halk Bankası A.Ş. as our valued shareholders, have continued to support DHB Bank in the reporting period under review. The SB's open and constructive dialogue with the shareholders will continue in 2024 concerning the bank's strategic activities, in the interests of all stakeholders.

We would like to reiterate our appreciation to Mr Kayhan Acardağ who left his MB member position on 10 May 2023 due to his retirement after serving more than 30 years with DHB Bank, and our congratulations to Ms Ayşe Çıngıl who replaced him the same day.

We express our appreciation for the dedication of DHB Bank's management and staff in ensuring a continued sound operational set-up in a year of change and thank them for their overall performance during the year under review in the continued challenging economic and regulatory environment.

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

Rotterdam, 22 May 2024

Frederik-Jan Umbgrove *(Chairman)*

Nesrin Koçu-de Groot

Maarten Klessens

Onur Bilgin

Ariel Hasson

Kemal Has Cıngıllıoğlu

Report of the **Managing Board**

DHB BANK

Report of the **Managing Board**

1.2023 HIGHLIGHTS

Geopolitics

DHB Bank does not have direct exposures to war zones or to regions experiencing geopolitical tensions. Accordingly, there was no material impact in this respect.

Economic and Financial Environment

The jumping energy prices triggered by the Russia-Ukraine war with significant impact on inflation rates globally, among others, additionally drove major central banks, including the ECB, to increase their policy rates swiftly and substantially. This, in turn, was naturally replicated in the yields of all the assets classes in DHB Bank's portfolio. The bank was able to increase its asset yields higher than the increase of the cost of retail deposits, which contributed to DHB Bank's robust performance in 2023.

Regulations & Supervision

The bank developed an Improvement Plan in 2022 in view of DNB OSI Report on Information Technology & Data Quality, which was agreed upon by the supervisors without additional requirements, and it was completed by the end of May in 2023. According to this plan, the bank progressed as per the timeline determined by the bank and consented on by DNB along the defined improvement measures, which enhanced the organization's IT and data quality infrastructure.

DNB conducted an investigation into DHB Bank's Compliance with Wwft in 2023, and the Management appreciates receiving the positive view of the supervisors on the bank's respective set-up. In addition, DNB observed that DHB Bank has made significant progress in improving its compliance with the Wwft and relevant standards and that the bank has in recent years de-risked some of its activities. DNB also pointed out a few improvement areas for DHB Bank, which were acknowledged by the bank, and the necessary actions and improvement have been implemented.

DNB also conducted a quick scan on credit risk in the beginning of 2023. DNB's report includes an overview of improvements made by the bank following the Credit Risk OSI in 2020, as well as further steps that are expected to ensure compliance with DNB's expectations. A respective improvement plan was developed by the bank in this respect.

DHB Bank completed its annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) in the first quarter of 2023 by extending their coverage, including possible pandemic-related adverse developments, the bank's operational readiness and resilience under stressed circumstances, focus on identifying measures that could help the bank to handle the current challenges in various risk areas. As a result of the supervisory review and evaluation process (SREP) in the 2023 cycle, the bank adopted certain adjustments in its capital requirements in relation to its operations and the geographical distribution of its assets. The ICAAP and ILAAP cycle was completed and submitted in the first quarter to DNB. DNB informed that as a consequence of applying the principle of proportionality in the scope, frequency and intensity of supervisory engagement and dialogue with an institution, DNB does not intend to carry out a SREP in 2024 for DHB Bank.

DHB Bank is in compliance with all the regulatory capital adequacy ratios as well as with the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). Considering the economic environment, DHB Bank continued to maintain a high liquidity level in the form of cash balances and ECB eligible securities.

A change in regulatory requirement relates to the Policy Rule on Maximizing the Deposits and Exposures Ratio under the Act on Financial Supervision (the Business Model Policy Rule), which is revoked as from January 2023 and replaced by new ratios limiting exposures to sub-investment grade countries. DHB Bank fully adheres to this new regulation.

ESG

Since the establishment of a cross-functional team under the name "Project Genesis" in February 2022, DHB Bank has made significant progress in its endeavours to raise its maturity level with respect to the management of ESG risks. Within a well-established governance structure and with clear-cut responsibilities, a few of the achievements, among others, are:

- Development of Genesis ESG Tool and Questionnaires.
- Completion of (initial) materiality assessments on various risk categories (credit, operational, market, liquidity, business model and strategic risks) and double materiality assessment.
- Devising sector specific ESG strategies, which include the credit granting criteria and KPIs and KRIs to be monitored as building blocks of our overall credit risk strategy.
- Mapping of C&E risks to existing financial and non-financial risks.
- Inclusion and revision of climate risk metrics in the Risk Appetite Statement.
- Publication of periodical ESG newsletters and workshops to raise awareness/ keep awareness fresh bank wide.
- Increasing the expert knowledge base of team members through the attainment of GARP SCR certificates.
- Assignment of 1st LoD Sustainability Officer, mainly responsible for engagement with clients, granular data-gathering activities and first-line C&E risk assessments.

CSRD –ESRS gap analyses and necessary preparatory work will continue to be timely ready before the due 2026 deadline (based on 2025 data) as the bank is in the process of actively preparing its infrastructure.

The bank will continue its respective endeavours to reach the desired maturity level within 2024, and with subsequent refinements going forward as necessary.

Extensive details about quantitative and qualitative disclosures on this subject can be accessed under the sub-section 'Risk Governance and Management' of the 'Corporate Governance' part of this annual report.

Dividend

Thanks to its robust financial standing, the bank had been distributing 100% net profit for several years in the past as dividend to its shareholders. In the financial year 2022, to support growth, 50% of net profits started being distributed, as decided by the shareholders following a proposal from the MB and after obtaining positive advice from the SB.

As in 2022, the MB proposed 50% dividend distribution and 50% retention in the equity of the 2023 net profit, which the SB endorsed and on which the shareholders agreed.

Organization and Operations

DHB Bank has a centralized organizational and operational structure (the bank's organizational overview is presented under the section DHB Bank Overview of this annual report). 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 units abroad focus mainly on deposit collection (in Germany), retail loans (in Belgium) and on corporate customer relations (in Türkiye) and carry out local legal, compliance and liaison functions, among others.

Major developments at DHB Bank in 2023 from organizational and operational perspectives are presented below.

- **Statutory Name Change**

  It has been decided to change the statutory name from Demir-Halk Bank (Nederland) N.V. to DHB Bank N.V. On this occasion, the bank's logo has also been refreshed.

  This change is a reflection of the aim to manifest more clearly the international character of the bank's activities and did not cause a change in the business model and in the services that are offered.

- **New Website**

  DHB Bank revamped its website to have a more dynamic and contemporary style.

- **IT Organization**

  In order to meet the growing need for technological, customer-oriented solutions, certain organizational changes have been implemented in IT.

The recently formed new IT Management Team at the bank, has been entrusted with the task of formulating and implementing all technical and technological aspects of the bank's IT strategy. This initiative aims to ensure that DHB Bank stays aligned with rapidly evolving advancements in the field.

- Digital Platforms

  Digitalization projects towards retail customers were completed in the first quarter 2023 in the Netherlands and Germany for online customer identification and online contract signing related to deposit collections.

- IT and Compliance

  DHB Bank has made further quality enhancements to its IT systems to support the bank in its responsibilities arising from the Anti Money Laundering and Anti-Terrorism Financing Act (Wwft).

  In 2023, DHB Bank continued to consistently apply its existing principles in relation to customer acceptance criteria and transaction monitoring.

2. FINANCIAL OVERVIEW

Strategy & Business

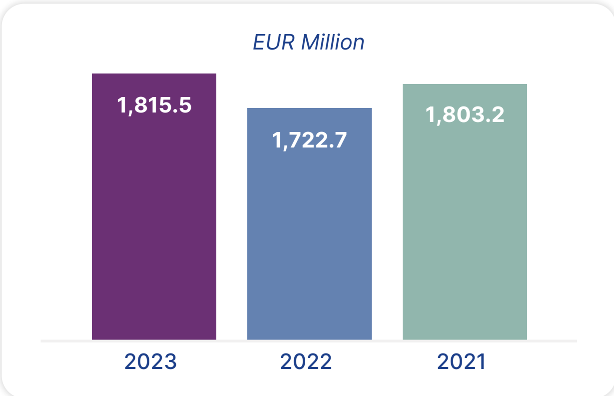
Long-term value creation rather than short-term profit is the foundation of DHB Bank's strategy, based on a business model of mainly retail funding and wholesale asset generation with a relatively small retail loan portfolio.

The SB and MB have been in consensus to maintain DHB Bank's core business model in the short to medium term with gradual steps for further diversification. This stance also has the support of both of the bank's shareholders.

On the other hand, to have a fresh look to the bank's overall business model, a comprehensive strategy review was concluded in the first half of 2023 with external consultants with the participation of/ interviews with some stakeholders; the review comprised an in-depth analysis of multiple elements related to banking. It comprised areas such as clients, products and services, channels, geographies, growth vectors, financial aspects, environment, bank-specific elements, capabilities, and competencies etc. In conclusion, the MB's proposed direction of investing in and growing the bank's core business with slight increase in the balance sheet with main focus on corporate loans and gradual steps for further diversification into some niche areas was endorsed by the SB and shareholders.

The MB would like to reiterate its appreciation for the SB's valuable guidance with respect to the bank's long-term strategy and for its shareholders' support in this respect.

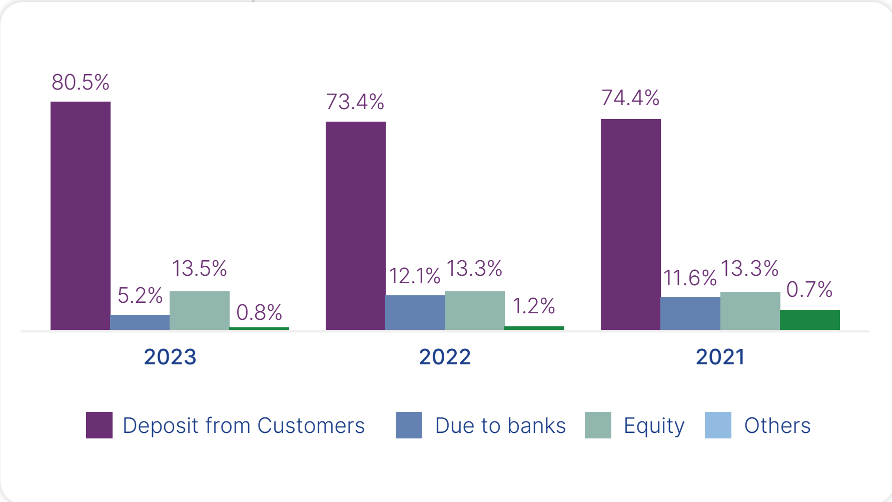
Statement of Financial Position



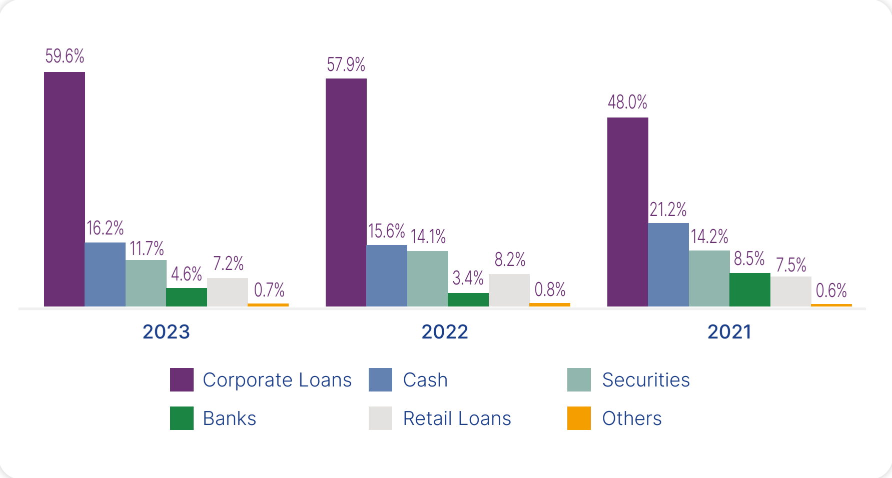
DHB Bank stands as a small-sized bank in the Dutch banking sector. It is capable of swiftly adapting to changes in the economic and financial environment. This advantage is combined with a straightforward business model based on traditional banking. The EU-IFRS financial statements of DHB Bank are prepared on a consolidated basis, incorporating also DHB Financial Services BV, the bank's 100% subsidiary, whose financial contributions are negligible in consolidation.

Liabilities

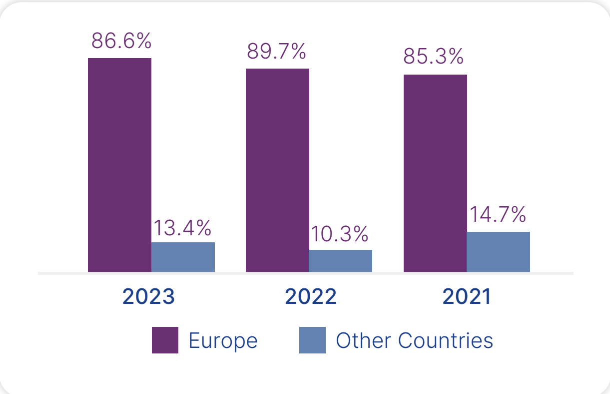
- External liabilities consist chiefly of sticky retail deposits with a loyal customer base. Retail deposits are set to remain the primary funding source of the bank in the future. DHB Bank ranks at the mid-range of the market spectrum concerning offered deposit rates, with occasional deviations depending on asset and liability management preferences.
- Retail deposits are collected via the Internet and call centres in Germany (around 70% of the total) and the Netherlands.
- Time deposits over total deposits were 50.4% as of 31 December 2023.
- As of 31 December 2023, 96% of retail deposits were under the coverage of the Dutch Deposits Guarantee Scheme.
- Due to Banks primarily consists of funds obtained from the European Central Bank (ECB) under the Targeted Longer-Term Refinancing Operations (TLTRO), which were fully repaid in March 2024.
- The bank's own funds have traditionally been at a very comfortable level (with 18.06% solvency ratio as of year-end 2023) according to international standards, indicating a strong loss absorption capacity and low leverage. The bank's total capital ratio is equal to the Core Tier 1 capital ratio.
- Because of its straightforward business model and its robust equity base, the bank does not make use of hybrid capital instruments.
- DHB Bank applies the standardized approach for credit risk under Pillar 1 according to the Basel II Capital Accord. The capital adequacy assessment under Pillar 2 is regularly updated and taken into account in solvency calculations under ICAAP.
- The Other Liabilities consist of items such as financial liabilities held for trading, derivative financial instruments designated for hedge accounting, various provisions, accrued expenses, payables to suppliers, premium payables etc.



Assets



- Aside cash, DHB Bank's primary interest-earning assets corresponds to 83% of the total assets, of which corporate loans ranked first in terms of both nominal and yield-wise contribution to the revenues. Corporate loans consist mainly of transaction financing and structured loans, and to a lesser extent art finance and Schuldschein loans.
- As of 31 December 2023, securities portfolio consisted of entirely investment grade and ECB eligible assets (and predominantly investment grade and ECB eligible in previous years).
- Retail loans are fully insured by a renowned A-rated insurance company.
- Bank loans are mostly generated for making use of the bank's excess liquidity in the form of short-term money market transactions or syndications.
- DHB Bank traditionally maintains robust cash (including liquid securities) as a precaution against possible deterioration in the environment.



Geographical Distribution of Assets

- The bank's anchorage has been in Europe for quite some time. The bank's assets consist of exposures to a diverse type of customers in a multitude of countries in the area in the form of cash, securities, corporate loans, exposures to internationally operating banks, and fully insured retail loans. Exposures to other countries include countries such as Türkiye, UAE, and USA with strong credit enhancements. The bank has also expanded its portfolio of renewable energy projects in the last years.

Statement of Profit or Loss

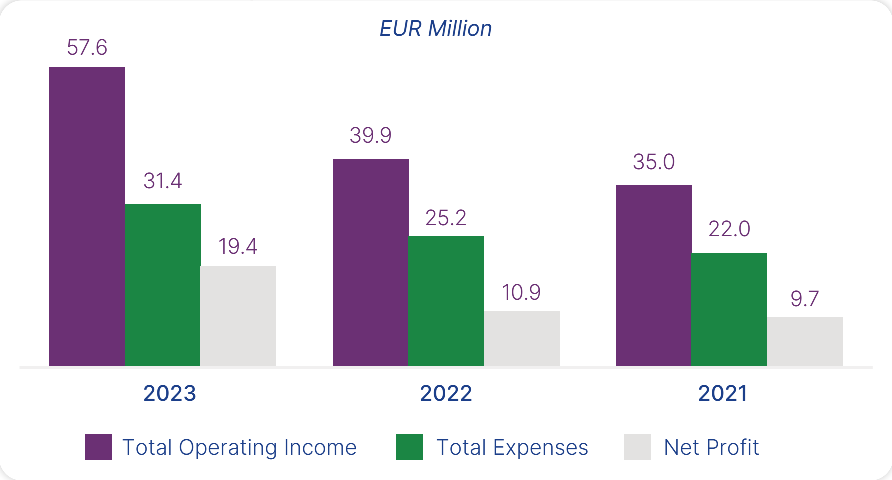
Detailed information regarding various risk factors such as credit risk or market risks that might affect the earnings of the bank, and their management and hedging is presented in the consolidated financial statements part and corporate governance part of this annual report.

- DHB Bank's earnings model is straightforward: the overwhelming revenue driver is net interest income, whose main contributor is corporate loans.
- The jump in net interest income is the result of ECB adjusting its policy rates gradually since mid-2023 on the face of economic developments, coupled with less increase in retail funding costs and higher margins in the corporate segment, thanks to bigger share of floating rate loans in the portfolio, and the relatively shorter maturity of fixed rate loans.
- As an indication of the bank's good interest rate risk management practices, DHB Bank always reported net interest income (gross interest income minus net interest income) throughout its lifetime.
- The majority of administrative expenses continued to be staff expenses, representing 64% as of 31 December 2023, which remained consistent with 2022 and more or less the previous years. DGS contributions

and regulatory & supervisory expenses were the relatively highest cost expenses of other administrative expenses.

- The increase in impairment charges is caused mainly by stage migration.

Management is pleased to report improvement in the result of 2023, partly thanks to improved yields and a more realistic spread between funding costs and asset yields.



Key Indicators

Some of the key indicators related to DHB Bank's last three years' performance were as follows:

	2023	2022	2021
Capital Adequacy*	18.06%	18.88%	19.49%
Cost to Income	44.9%	60.3%	62.9%
NPE	2.88%	2.21%	3.04%
Net Interest Margin	3.23%	2.16%	2.05%
Net ROE	7.97%	4.6%	4.0%

** According to CRR*

- DHB Bank has always reported healthy capital adequacy ratios reflecting the bank's considerably low leverage in terms of risk weighted assets and its high loss absorption capacity.
- Low leverage was also demonstrated in nominal terms, with the bank's total equity (which consists of only common equity tier 1 capital) over total assets being 13.5% in 2023, almost the same as in 2022.
- Management regards the 2023 NPE ratio as reasonable and close to EU financial sector average - and the coverage ratio of 42.6% as adequate in view of the related collaterals and projected cash flows.
- Improvement is achieved in cost to income ratio thanks to higher interest income, which more than compensated higher total expenses.

Management is also pleased to report an increasing trend in the bank's net return on shareholders' equity levels.

3. EXPECTATIONS

Management assesses the bank's business model as able to adapt to the possible adverse developments in the markets, with a proven track record. Management is also confident that the bank has a robust operational and organizational framework and strong governance to ensure a sustained commercial performance and solid risk management going forward.

Parallel to mainly the reduction of inflation in the Eurozone, ECB is giving signals of cutting its policy rates around H2 2024, which will have a reverse effect in both asset yields and funding costs, but again with the reduction in yields expected to lag behind the reduction in deposit rates. Hence, adverse impact is not anticipated in the bank's performance from economic and financial angles.

The bank is on track in implementing its initiatives with respect to DORA (Digital Operational Resilience Act) and will timely become fully compliant with the provisions of this act that will enter into force in January 2025.

Concerning the assets, slight expansion in corporate lending and balance sheet is anticipated. The intention is to increase the share of fixed rate corporate loans considering that the interest rates peaked in 2023, and with the expectation that the central banks will start reducing the interest rates in the second half of 2024. The bank aims to increase the share of retail loans, whose total is still a relatively small portion of interest-earning assets.

Despite the continued pressure on the cost side from the regulatory compliance front, Management aims to reach 8.5% of return on average equity with the help of targeted growth mainly in corporate loans.

Regarding bank and corporate exposures, increase in NPE ratio is not anticipated – neither eventually any real loss – and accordingly the bank's overall impairment charge is also expected to remain low in comparison to 2023 thanks to pro-active risk management and monitoring practices of the bank, which were further strengthened considering economic conditions. Borrowers will continue to be selected among those with high credit standings, resilient sectors, while strict credit underwriting processes will be maintained with additional credit enhancements where needed. Management will not compromise on its rigorous risk monitoring processes.

In terms of geographical coverage in lending, the bank will continue to focus on Europe, which has become its primary market over the decade. Sectoral diversification and identification of resilient sectors are considered as critical for the lending activities.

Retail deposits – collected from Germany and the Netherlands – will continue to be the main funding source of the bank's operations, with no wholesale funding projected. The retail deposit base – and its share in total liabilities – is planned to remain stable.

Liquidity and capital management will continue to be carried out in the context of ILAAP and ICAAP. Due to its strong capital base and highly liquid balance sheet, DHB Bank does not expect any adverse developments in this area. Thanks also to the presence of a Recovery Plan, Management does not expect the viability of the bank to be affected by a possible severe crisis, whether bank specific or systemic. The Recovery Plan, ILAAP and ICAAP will continue to be maintained annually in dialogue with DNB.

With an efficient in-house IT system, DHB Bank made major investments for digitalization of retail customer relations and office automation. Software development efforts will be directed at further improving the 'customer journey', both for retail savings and the consumer loan segments, as well as business efficiency and effectiveness, with particular attention to enhancing reporting capabilities in line with the changing regulatory requirements and market standards. R&D investments will be considered along the necessities.

DHB Bank will continue its activities on a stand-alone basis with recourse to outsourcing when needed. Management will continue to pay utmost attention to maintaining a controlled and sound operating environment, including in its relations with its outsourcing partners.

Systematic Integrity Risk Assessment (SIRA), CDD (customer due diligence), TM (transactions monitoring) and reporting will continue to be at the forefront of compliance while the knowledge of staff will be kept up to date with trainings. DHB Bank will make further adjustments, if necessary, in response to any updates in the regulatory requirements and supervisory guidelines.

AI began to influence our world through several innovations and efficiency in many domains. In light of this, the Management has been exploring the areas where there might be a meaningful feasibility of integrating AI-driven tools and practices into the bank's processes and services (also considering the economies of scale principle), leveraging their potentials in a balanced manner while assessing and prudently managing possible risks.

The bank's overall low risk appetite will be maintained.

As a result of Management's strategic stance, a balance sheet size around EUR 1.8 billion is projected for 2024, with an asset and liability composition similar to 2023 with strong capital and adequate liquidity levels.

4. MANAGING BOARD COMPOSITION

After a career of 30 years with DHB Bank and having joined the bank from the days the bank was founded, Mr Kayhan Acardağ left his MB member position on 10 May 2023 due to his retirement. We would like to express our sincere appreciation to Mr Acardağ for the contributions and cooperation during his term of office.

On the same day our colleague Ms Ayşe Çıngıl succeeded Mr. Acardağ. Having been with DHB Bank for three decades, of which the last decade as Assistant General Manager overseeing the credit departments, she made a flying start, actively supporting and enhancing the full breadth of operations of DHB Bank.

5. STAFF AND CLIENTS AND PARTNERS

A characteristic of DHB Bank is the fact that an overwhelming majority of the employees and senior management have been serving the bank for many years. This has brought about a collegial relationship, which helps the bank functioning smoothly and adapting to changes swiftly.

In view of enhancements in credit processes and compliance requirements as well as on commercial and technological grounds, new staff members continued being recruited in 2023, closing the year with 130 staff.

Throughout the year, facilitated by internal or external trainers, many staff members participated in joint trainings and workshops in the bank, and some attended external courses related to their business lines. Particular attention continued to be given to trainings on compliance with regulatory requirements, including integrity risk, which is repeated annually to all staff.

The bank's staff performance appraisals are conducted by their direct managers annually based on a set of guidelines.

We extend our heartfelt appreciation to the management team and staff of our bank. Their contributions and dedication have been instrumental in ensuring the success of DHB Bank's and the uninterrupted functioning of its activities and operations.

A special thanks also goes to our valuable clients and partners who chose to work with us..

6. SHAREHOLDERS AND SUPERVISORY BOARD

We are profoundly grateful for the solid commitment and confidence demonstrated since the inception of DHB Bank by our valuable shareholders HCBG Holding - with Dr Halit Cıngıllıoğlu as the ultimate beneficiary owner - and Halkbank.

Our sincere appreciation extends to the members of our Supervisory Board, whose open communication and supportive approach in fulfilling their oversight function have consistently provided valuable insights to the Managing Board.

7. FUTURE

Having celebrated three decades behind us in 2023, we trust that we will continue together on a successful path, sustain profitability in 2024 and beyond, and further strengthen the bank's franchise to deliver added value to our clients and all other stakeholders in the years to come.

Going forward, aside safeguarding the interests of our primary stakeholders, we will place special attention towards fostering a sustainable environment in every aspect of our operations and business strategy by integrating eco-friendly practices and by also financing renewable resources.

8. CONFORMITY STATEMENT

The Managing Board is required to prepare the Annual Accounts and the Annual Report of DHB Bank for each financial year in accordance with applicable Dutch law and those International Financial Reporting Standards ('IFRS') that were endorsed by the European Union.

In this context, the Managing Board is responsible for maintaining proper accounting records, for safeguarding assets and for taking reasonable steps to prevent and detect fraud and other irregularities. It is responsible for selecting suitable accounting policies and applying them on a consistent basis, making judgements and estimates that are prudent and reasonable. It is also responsible for establishing and maintaining internal procedures which ensure that all major financial information is known to the Managing Board, so that the timeliness, completeness and correctness of the external financial reporting are assured.

As required by section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act, each of the signatories hereby confirms that to the best of his knowledge:

- DHB Bank 2023 Annual Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of DHB Bank as a whole and
- DHB Bank 2023 Annual Report gives a true and fair view of the position at the balance sheet date, the development and performance of the business during the financial year 2023 of DHB Bank, together with a description of the principal risks DHB Bank is being confronted with.

Rotterdam, 22 May 2024

Okan Balköse
Managing Director, Chairman of the Managing Board

Steven Prins
Managing Director

Ayşe Çıngıl
Managing Director
(since 10 May 2023)

DHB BANK **Overview**

DHB BANK Overview

1. BUSINESS OVERVIEW

General Information

Starting its operations in 1992 with EUR 8.1 million (equivalent of NLG 17.8 million) in equity, the bank grew over the years – both with profit retention and occasional capital injections – to become a full-fledged commercial bank with an equity of EUR 246 million and asset size of approximately EUR 1.8 billion at the end of 2023. During this time span, the bank has, not once, 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 (with low turnover and long tenure of managers and staff members) to continue, now and in the 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 has locations in four countries:

- The Netherlands: The Head Office is in Rotterdam, whose primary functions are wholesale asset generation, deposit collection, credit decisions, treasury activities, compliance, internal audit, risk management and IT services.
- Germany: The country management is in Dusseldorf, and its sole function is deposit collection - aside own operational, reporting and compliance functions.
- Belgium: With the country management in Brussels (and three units in Antwerp, Charleroi and Liege), its sole function is granting retail loans - aside own operational, reporting and compliance functions.
- Türkiye: The bank representative office in Türkiye is in charge of marketing, customer relations, credit analysis and legal counselling.

Business Model

DHB Bank's activities are anchored in traditional commercial banking, based primarily on funding by retail deposits (and some wholesale funding) and wholesale asset generation (with a relatively small retail loan portfolio). DHB Bank's business model and revenue stream are fully based on traditional banking transactions, and there is no reliance on any kind of speculative income. The bank tries to minimize market risk by avoiding FX positions or interest rate positions, and derivative transactions are mainly undertaken for hedging purposes. Mindful of its mission and vision statements, the bank conducts its activities within the executive authority and responsibility of the Managing Board (MB), under the supervision of the Supervisory Board (SB), so that the ideas behind these statements permeate all the departments and functions of the organization.

Our Clients

The bank's clients are vital partners from a continuity perspective as well as from the perspective of corporate social responsibility. Although DHB Bank takes into account the interests of all its customers ranging from individuals to corporates and financial institutions, it 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 activities on a fair and open basis as laid down in its 'Client First Policy', including all dealings with corporates and financial institutions.

Sources of Profit and Profit Prospects

Central to DHB Bank's sources of profit is net margin between interest paid for retail deposits (and wholesale funds to a lesser extent) and interest collected from loans/securities. Net commission income and result from financial transactions (other than the costs of swap transactions, which are essentially considered funding costs) have only a limited contribution to the bank's bottom line. DHB Bank does not conduct investment and private banking activities.

Overall, the bank's activities deliver a positive net interest spread, though a portion of its assets consists of ECB eligible securities with very low yields, which will mature in due course.

DHB Bank does not expect significant fluctuations in its recurring revenue base in 2024 given the current regulatory, economic, and financial environment.

Competition and Stakeholder Perspective

DHB Bank has demonstrated that it has the foundation and infrastructure to continue as a viable institution. The bank has a solid capital foundation and a sticky retail deposit base that has proved to be stable; a large portion of the bank's customers have remained loyal even during severe crisis situations in the financial markets. As for revenue generation activities, the strategic alignment that it implemented over the past decade has ensured a more clear-cut and refined business model with a more precise definition of the target customer base (particularly corporate customers) that are expected to remain with the bank thanks to established relationships with them and to the quality of the offered services.

Against this background and taking into consideration the size of the bank, competition is not expected to significantly affect the bank's customer base on the deposit side. On the asset side competition is being felt, since the customers of DHB Bank are highly creditworthy corporates targeted by competitors in search for quality; this is dealt with through relationship management and high-quality customer services.

The shareholders (HCBG Holding B.V. and Türkiye Halk Bankası A.Ş.) have continuously demonstrated their strong commitment to DHB Bank since its establishment in 1992, in the early years in the form of cash injections into the capital, later with high – and occasionally full – profit retention.

Nature of the Organization

The bank is small, and the complexity of its operations is limited. In evaluating the fit between strategy and required competencies and resources, DHB Bank's financial standing, human resources, IT applications and overall infrastructure are suitable for conducting its activities. The bank possesses an established organizational structure built around its governing bodies, including the General Meeting of Shareholders (GMS), SB and MB as well as the SB committees and bank committees. Transactions initiated by front offices are processed by the loans and operations departments, while the overall risk management and compliance applications, reporting and IT support services, among others, are conducted by other dedicated departments and functions. All activities are guided by the checks and balances principle within the three-line of defence system.

Risk Management & Scenario Analyses

DHB Bank uses standard management tools for regular risks such as market risks. The bank's risk management is built on the bank's risk appetite statement and embodied in the internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP). These comprehensive processes also cover a combination of various system-wide, bank-specific, hybrid, progressive and fast-developing crisis scenario analyses dealing with possible adverse conditions. The assessments of these scenarios reveal that the bank can withstand severe external or bank-specific developments for reasonably long periods.

The bank's Recovery Plan identifies recovery options that are available to counter on its own a near-default scenario; and assesses whether the nature of the options is sufficiently robust, extraordinary, and varied to manage a wide range of shocks of different forms.

2. ORGANIZATIONAL OVERVIEW

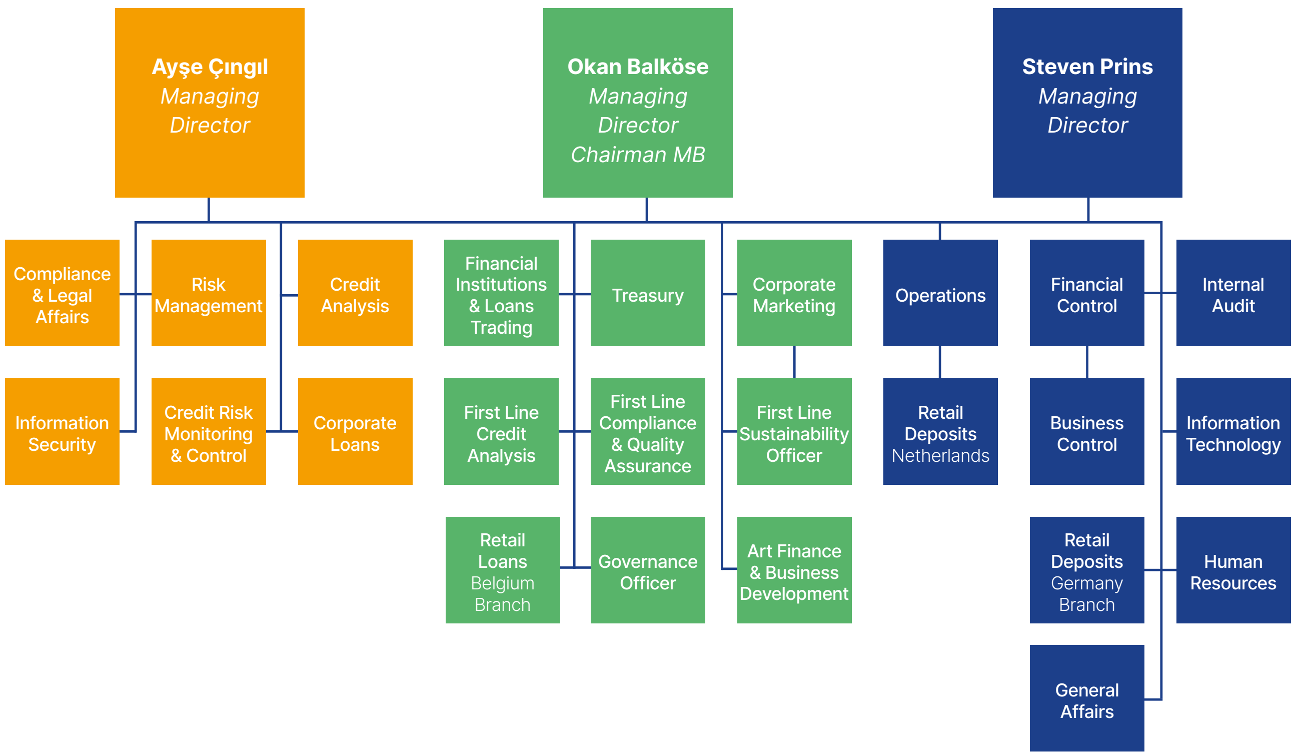
DHB Bank is organized mainly around the three lines of business generating wholesale revenue: Corporate Marketing, Financial Institutions and Loans Trading and Treasury (Front Offices). Additionally, to a lesser extent the bank conducts consumer lending activities via its Belgium Branch on a fully insured basis.

The bank's Credit Committee has the authority to establish credit limits up to a certain amount, above which the advice of Advisory Committee on Credits (and SB committee) is sought. Loans are granted to target customers – corporates and banks well as to sovereign entities in a geography covering primarily Europe.

All the bank's operations are founded on the principles of checks and balances in the broader framework of three lines of defence. Transactions are processed by the different sections of the Operations Department, while functions such as the overall risk management and compliance applications, reporting and IT support services, are carried out by the bank's staff departments.

Business **Overview**

The bank's organization chart depicts the three lines of defence segregation of DHB Bank's operational set-up, where the roles of the MB members are arranged according to a full segregation of 1st line, 2nd line, and 3rd line of defence as primary roles.



The Managing Board reports to the Supervisory Board and has joint responsibility for the management of DHB Bank. The organization chart above represents the broad primary areas of responsibility of the Managing Directors.

The sections and functions under the country managements in Germany, Belgium and the representative office in Türkiye are in direct contact with the related departments at the Head Office in relation to their usual course of business.

Corporate **Governance**

Corporate **Governance**

1.INTRODUCTION

The corporate governance of DHB Bank is set up in view of the requirements of Financial Supervision Act (Wft) and other applicable laws and regulations in the Netherlands and in the EU in general, Capital Requirements Directive IV ("CRD IV") as well as the Dutch Banking Code that have been implemented in Dutch legislation. In addition to the legal requirements, DHB Bank follows the EBA Guidelines on Internal Governance (EBA/GL/2021/05 - 2 July 2021), and voluntarily adheres to the Dutch Corporate Governance Code to the extent applicable.

The bank's governance framework is built on the below pillars:

- Governing Bodies and Organizational Structure
- Control Units
- Human Resources Management
- Risk Culture and Business Conduct
- Main Processes and Mechanisms
- Relations with Stakeholders
- Governance Documentation

These pillars are embedded in the bank's corporate culture and supported and substantiated by various policies, procedures, measures, and practices, some of which are briefly described in the further below sub-sections.

The bank is committed to continuously enhancing its corporate governance and compliance structure in line with related developments in these fields.

DHB Bank puts particular emphasis on transparency and accountability, on effective risk management, on accurate disclosure of information and effective communication, on a clear, balanced and adequate division of tasks and a strong, well-defined system of management as part of its corporate governance culture. These are all fuelled by the bank's policies and procedures.

Within the bank's organization, the Compliance and Legal Affairs plays an important role in corporate governance practices, while the Internal Audit Department assesses whether internal control measures have been designed properly, are present and are working effectively to assure the quality and effectiveness of the system of governance. The Governance Officer oversees and/or facilitates applications related to corporate governance.

The independence of the compliance, risk management and internal audit functions at DHB Bank is ensured thanks to the direct access of the related managers to the RAC and to the Chairman of the SB.

2. MANAGING BOARD

Composition and Responsibilities

The Managing Board (MB) consists of three members with extensive knowledge and expertise in the banking sector. All the members have long-term, different but complementary banking backgrounds.

The MB is responsible for the day-to-day management of the bank, for the development and implementation of policies and long-term strategy, risk management and internal governance, for the fulfilment of the bank's obligations towards regulatory bodies, and for representing the bank. Furthermore, the MB sees it as an important responsibility to ensure the integrity of the bank's accounting and financial reporting systems, and not to compromise on the financial and operational controls of the bank, including compliance with the relevant laws and regulations. The MB's authority stems from the respective stipulations of DHB Bank's Articles of Association.

The MB is autonomous in the performance of its duties, notwithstanding the supervisory role of the SB. The MB keeps the SB informed – via regular and/or special reports and during SB meetings, to enable it to perform its duties. The MB always seeks the opinion of the SB on important subjects.

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 inherent risks, 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. 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, which are listed further below. In addition, apart from regularly discussing subjects related to the day-to-day management of the bank regularly on a weekly basis (or ad-hoc basis, when needed), the MB regularly meets once a week to consider, deliberate and take decisions on subjects by adhering to a predetermined generic agenda. Each MB member has one vote, and, in practice, almost all MB resolutions are taken on a unanimous basis.

While being jointly responsible for the management of DHB Bank, the members of the MB have separate primary responsibilities. Thus, the MB member whose responsibilities are primarily related to commercial activities of the bank does not have primary responsibility in risk monitoring and control and is involved in risk management mainly through specific committees; this applies analogously to the member who is primarily responsible for risk management, aside the member in charge of the third line of defence. In terms of organization and administration, there are clear reporting lines concerning each member's primary responsibilities.

Monitoring the operation of the internal risk management and control systems is a permanent agenda item for the MB. All material control measures relating to strategic, operational, compliance and reporting risks are areas of attention that are discussed during the MB meetings - and during bank committees when relevant. Attention is given to observed weaknesses, irregularities, and findings from the Internal Audit Department, which presents its audit results to the MB and the RAC, as well as from the external auditor or, occasionally, the observations of DNB. The bank's set-up ensures that any flaws in the effectiveness of the internal risk management and control systems or any observations with an impact on the risk profile of the company are included in the reports.

Utmost care is taken jointly not to deviate from the risk appetite statement even in volatile financial and economic environments. Temporary or potential deviations, if any, are generally discussed by the related committees, including the Risk and Audit Committee (RAC) of the Supervisory Board, to ensure the alignment of the risk profile and risk appetite of the bank.

Principles

The working guidelines of the MB are centred around the below principles, all in the framework of the bank's approved risk appetite:

✓ Full compliance with regulatory and supervisory requirements

✓ Sound capital position

✓ Good asset quality

✓ High liquidity

✓ Rigorous risk management

✓ Strong governance

✓ Diversified geographical and customer coverage

Secondary Positions of Managing Board Members

Okan Balköse and Ayşe Çıngıl do not have any position in another corporation either as a Supervisory Board member or as a Managing Board member. Steven Prins has the following positions in the below non-commercial institutions:

- Het Beraad, an NVB Committee for Board Members of Smaller and Foreign Banks, Member
- Take Back Your Privacy Foundation, Member of the Executive Board
- Gentlemen's Club d'Art, Chairman
- Stichting Jits Bakker Collectie, Board Member - Treasurer

In practice, there are no cases of a conflict of interest in the MB resolutions and management activities or of any appearance of such a conflict.

Information on the Members of the Managing Board

Mr Okan Balköse
Managing Director, Chairman of the Managing Board

Born in Türkiye in 1970, Mr. Balköse graduated from Bilkent University, Department of Industrial Engineering in 1991, and received his master's 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 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 and became Chairman of the Managing Board in 2022.

Mr Steven W. Prins
Managing Director

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.

Ms Ayşe Çıngıl
Managing Director (Since 10 May 2023)

Born in 1972 in Türkiye, Ms Çıngıl holds a BA in Political Science and International Relations from Boğazici University, Türkiye (1994) and an MBA from NIMBAS, Graduate School of Management, the Netherlands (2000).

She started working in DHB Bank in 1996 and served in managerial positions in corporate marketing and credit risk management fields. Between 2007- 2023, she served as the Assistant General Manager responsible for credit risk departments. Since 2022, she is also managing the ESG project in the bank.

Ms Cingil joined the Managing Board of DHB Bank in May 2023.

3. BANK COMMITTEES

Going beyond the preparation and review of detailed management information system reports, the MB carries out risk management and ensures an overall controlled environment through a continuous process handled via different committees of the bank where most of the relevant decisions are reached. At least one MB member is a member or the chair of these committees (except (Information) Security Assessment and Response Team), and in some cases all the three are members. The other members of the committees are senior managers of the bank relevant to the committee's mission.

The bank committees are: Asset and Liability Management Committee, Complaint Committee, Compliance Committee, Credit Committee, Information Technology and Information Systems Steering Committee, Liquidity Crisis Management Committee, Outsourcing Committee, Risk Management Committee, (Information) Security Assessment and Response Team, Special Asset Management Committee.

4. SUPERVISORY BOARD

Composition and Responsibilities

The Supervisory Board (SB) of DHB Bank is composed of six members. In alignment with the Articles of Association, half of the members, including the chairman, are independent. In meetings of the Supervisory Board each member is entitled to cast one vote. In case of a tied vote, the chairman of the SB shall decide.

The SB is responsible for the supervision of the policy of the MB, for the supervision of the general course of affairs and risk management, and for assessing and approving the strategies and budget proposed by the MB. These responsibilities and authorities of the SB are defined in the Supervisory Board Policy. This policy also covers other aspects related to the supervision of the bank and in particular to the collective responsibility of the SB members. It is updated from time to time as needed. In addition, credit proposals by the Credit Committee of the bank – for amounts above its own authority level – require non-binding advice from the SB's Advisory Committee on Credits.

The SB considers the benefit of all DHB Bank's stakeholders its guiding principle and oversees that the bank creates added value by providing appropriate services to its clients. The regulations that were introduced in the banking sector over the past decade continued to require great effort on the part of the MB and the SB so as to align the bank's activities accordingly, and to keep the stakeholders informed timely and comprehensively. In this context, the overriding responsibility of the SB is to find a just and reasonable balance between the interests of all stakeholders while putting the clients' interest first. It has always been the foremost goal of this bank to service its clientele well.

Supervisory Board Committees and Composition

The SB conducts its activities either with all its members or via its 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 and their members are presented below.

Principles

The SB and/or its committees regularly convene at least every three months in the fulfilment of their duties, mostly in person or occasionally via teleconference. In its supervision, deliberations and decisions, the Board puts particular emphasis on risk management, corporate governance, the financial performance of the bank, regulatory requirements and market developments. In awareness of its duty of care towards clients and of the bank's responsibility towards society, the SB aims to maintain a healthy and fair balance between all stakeholders' interests while keeping a low risk profile and conducting its duties within the boundaries set by the laws and regulations. If there are important changes in the regulatory environment, with implications for the business model of the bank, the SB and MB jointly or separately organize informative meetings with the shareholders both to provide them with more timely updates - beyond the annual general meetings of shareholders - and to have their opinions and support on the strategic direction and business model of DHB Bank.

Risk Management, Audit and Internal Control Systems

The effectiveness of DHB Bank's internal risk management and control systems is an important area of interest for the Board. The primary function of the Risk and Audit Committee (RAC), whose members have sound knowledge of and experience in risk management, audit and internal control, is to monitor the effectiveness of the related systems.

The periodic meetings of the RAC are also attended by the MB members, by the heads of the Internal Audit, Compliance and Legal Affairs, Credits, Risk Management and Information Security departments as well as the representatives of DHB Bank's external auditors, Deloitte Accountants B.V. Although not required, SB members who are not members of the RAC also routinely participate in RAC meetings as observers; this practice ensures that all the members are adequately informed on all the risk related subjects of the bank and thus facilitates decision making on risk management matters.

Subjects regularly reviewed during RAC meetings are financial reporting, matters related to internal audit findings and recommendations, internal control systems and risk appetite, risk management policies and practices, regulatory correspondence, credit portfolio risk reports, corporate governance and its applications, compliance, the assessment of the bank's risk appetite and its risk profile in various risk dimensions, financial control and information security as well as possible incident reports. The external auditors' periodic reports also constitute an agenda item of the RAC, as does following up on the recommendations of the internal and external auditors.

	Advisory Committee on Credits	Nomination & Remuneration Committee	Related Party Transactions Committee	Risk & Audit Committee
Frederik-Jan Umbgrove		√ chair	√	√
Nesrin Koçu-de Groot				√
Maarten Klessens	√chair		√chair	
Onur Bilgin	√	√		
Ariel Hasson		√		√chair
Kemal Cıngıllıoğlu	√	√		

The risk appetite of the bank as proposed by the MB and approved by the SB covers various risk dimensions including capital adequacy, liquidity, credit risks and concentration, climate risk, market risks, operational risk, IT and information security, integrity, and reputation risk, as well as compliance with regulations. For each risk type, the risk appetite is aligned with DHB Bank's business model and strategy, and with its respective expertise and experience. Risk appetite statements have been continually adapted to bank-specific and general regulatory requirements and to the developments in the environment.

The independent organizational position of the Risk Management Department, Compliance and Legal Affairs and Internal Audit Department, which all have direct access to the RAC, also ensures effective control in the respective fields and supports these departments' independence.

Secondary Positions of Supervisory Board Members

According to regulations in the Netherlands (related articles of 'Wet Bestuur en Toezicht', i.e., 'Act on Management and Supervision'), in addition to their present functions, supervisory board members are allowed to hold a certain maximum number of positions in (other) institutions qualified as 'large'. The SB members of DHB Bank comply with this regulation, allocating sufficient time for the fulfilment of their responsibilities in the bank.

Self-Assessment

The SB members annually make a self-assessment of their performance in relation to their functions in the bank. The scope of this evaluation is comprehensive, including the involvement and contribution of each member, their cultural fit, their self-development, the effectiveness of the lifelong learning, and the relationship between the Supervisory Board and the Managing Board and the pursuit of the bank's interests.

In addition to these self-evaluations, according to the Supervisory Board Policy, the functioning of the SB is evaluated under independent supervision once every three years. Based on the members' self-assessments and individual interviews conducted with an external party expert on corporate governance as a facilitator, the independent evaluation of the SB took place in the first quarter of 2024. This time, the MB was also subject to a team scan. The outcome of this evaluation which was discussed in March 2024 as a cross-team insight session, was positive overall, and was discussed in detail among the SB and MB members with the facilitator.

The SB is of the opinion that these evaluations strengthen the cooperation within the Board and help the members adapt to the continually changing banking environment by providing an additional open and congenial discussion platform.

Information on the Members of the Supervisory Board

Mr Frederik-Jan Umbgrove
Chairman

Born in 1961 in the Netherlands, Mr Umbgrove holds a master's degree in Trade Law and a Certificate in Civil Law, both from Leiden University, and an MBA from INSEAD.

Since 1986 he has held several specialist and executive positions and responsibilities at ABN Amro Bank, both at the head office and at the international offices/subsidiaries of this bank in various business areas.

In 2008, Mr Umbgrove joined the Royal Bank of Scotland Group as Chief Credit Officer CEEMEA for this bank's Global Markets Division. He served as Chief Risk Officer and Member of the Managing Board of Amsterdam Trade Bank NV between 2010 and 2013 and as Group Risk Officer of Alfa Bank Group Holding between 2011 and 2013. He continued to work as an advisor on several projects in the financial world in the period 2014-2017, and since April 2018, he has been a non-executive member of the Board of Directors of Alpha Bank A.E. in Greece. In December 2019, Mr. Umbgrove joined the Supervisory Board of Lloyd's Bank GmbH in Germany as independent member, of which he is the Chairman of the SB Risk & Audit Committee.

On 12 April 2016, Mr Umbgrove joined the Supervisory Board of DHB Bank as independent member of the Supervisory Board. Subsequently, he was elected chair or member of other Supervisory Board committees. In May 2018, he became the chairman of DHB Bank's Supervisory Board following the retirement of his predecessor.

Ms Nesrin Koçu-de Groot

Born in 1977 in Ankara, Türkiye, Mrs Kocu-de Groot graduated from Middle East Technical University, Ankara, Department of Economics. She has followed several leadership programmes at London Business School and Rotterdam School of Management.

She held various roles in the Financial Planning and Control Department and in the Risk Management Department of Demirbank TAŞ, Istanbul that she joined in August 1999. Between September 2001 and February 2006, she led the Financial Control and Risk Management

Department of Yapi Kredi Bank (Nederland) NV. Later, she was the statutory auditor of C Faktoring AŞ, Istanbul and Bank Pozitif AŞ, Istanbul until March 2013. She also served many years in the past as member of the Board of Directors of C Faktoring AŞ. and member of the Board of Directors and Audit Committee of Demir Kyrgyz International Bank between the years 2006-2021.

Mrs Kocu-de Groot joined the Supervisory Board of DHB Bank in April 2015 as member related to HCBG Holding B.V., of which she is the Chief Financial Officer.

Mr Maarten Klessens

Born in 1958, Mr Klessens holds a degree in Business Economics from Erasmus University and a postgraduate in Financial Economics from TIAS Tilburg University. He has followed several leadership programmes at Michigan University, IMD, Insead and IoD.

Mr Klessens started his career in 1984 with Unilever after which he moved to ABN. During his 22-year career at ABN AMRO, Mr Klessens has held a number of positions, including Relationship Management, Risk and Structured Finance. He was member of the Group Risk committee of ABN AMRO. Following ABN AMRO, Mr Klessens moved to a Financial Advisory firm where he advised on financial (re-) structurings and solutions.

In 2011 he joined RBS Group where he became Deputy Head of Global Country Risk being responsible for country appetite setting and exposure management across the RBS Group and covering the macro-economic and political analysis of countries. During these years there was special attention given to the financial stress in the Eurozone periphery and recommendations for the board to mitigate exposures. In this position he was an alternate member of the RBS Group Risk committee.

Mr Klessens is member of the Supervisory Boards of NatWest Markets NV since 2015 (currently vice-chairman of the SB, and chair of Audit Committee), and Chair of SB of AltFin BV since early 2022.

He joined the SB of DHB Bank in June 2017 as independent member.

Mr Onur Bilgin

Born in 1981 in Ankara, Türkiye Mr Bilgin graduated from Ankara University, Department of Business Administration.

He began his professional career in 2006 as Assistant Specialist in Credit and Project Appraisal Department of Halkbank. In 2007, he started to work in International Banking and Structured Finance Department within the same institution. He held various positions in IFI Loans Division of International Banking Department during his term between 2007 and 2018. Since August 2018 to 15 August 2019, he served as Head of International Banking and Structured Finance Department in Halkbank. Since 15 August 2019 he has been serving as Head of International Banking and Financial Institutions Department within the same institution.

Mr Bilgin joined the Supervisory Board of DHB Bank on 17 January 2019 as member related to Türkiye Halk Bankası A.Ş.

Mr Ariel Hasson

Born in 1973 in Israel, Ariel Hasson holds an MBA with Distinction from the Kellogg School of Management in Northwestern University, Illinois and a B.A., magna cum laude, in Economics and in Management from the Tel Aviv University.

Mr. Hasson was the CEO of Kardan NV until 2020, a dual listed company in the Euronext Amsterdam and the Tel Aviv Stock Exchange. Mr Hasson served as the CEO of Kardan Group as well as the Chairman of several of the group's subsidiaries. Prior to assuming the group CEO position, he headed the Financial Services arm of the group with several retail and SME banking focused subsidiaries in CEE countries. Mr. Hasson had previously served as an Executive Vice President with Bank Hapoalim and Head of the Emerging Markets banking. Mr Hasson also served as the Chief Advisor to the President and CEO of Bank Hapoalim.

Before joining Bank Hapoalim, Mr. Hasson had worked with the Boston Consulting Group (BCG) in the US. He advised Fortune 500 companies on various strategic projects. Aside his position at DHB Bank, Mr Hasson is the chairman of the Supervisory Board & Managing Director of TBI Bank Group.

Mr. Hasson joined the Supervisory Board of DHB Bank as independent member on 17 May 2019.

Mr Kemal Has Cıngıllıoğlu

Born in Atlanta, USA in April 1985, Mr Cıngıllıoğlu holds a Bachelor of Arts degree in Economics from Boston University and a Postgraduate Degree in History of Art and Art World Practice from University of Glasgow (Christie's Education), awarded with Merit.

He has extensive experience both in the financial and non-financial sectors. He has worked in various different departments of banks, factoring and leasing companies - as an intern from early ages. He has been exposed to various businesses through the family office he manages in London, specializing in art investments.

Mr Cıngıllıoğlu is the Managing Director of Cingilli Collection, London, Director of HCBG Holding BV, Amsterdam, a member of C Technology LLC's Board of Directors, an advisory board member of Christie's Auction House, and Member of the Board of Directors of Imsa Mesrubat Sanayi A.S.

Mr Cıngıllıoğlu joined the Supervisory Board of DHB Bank in January 2020 as member related to HCBG Holding B.V.

5. DIVERSITY AND INCLUSIVENESS

DHB Bank pays importance to diversity in terms of human differences, including but not limited to race, ethnicity, gender, sexual orientation, age, social class, religion, nationality, and political opinion. The bank also values inclusiveness, namely the quality of including many different types of people and treating them all fairly and equally, to ensure that people with different backgrounds feel comfortable working at the bank.

Gender diversity objectives are also being considered not only at the staff level but also at the time of appointment and reappointment of the members of the Management Board and the Supervisory Board, as demonstrated with the latest change in the Managing Board composition.

6. BANKERS' OATH

As per the rules that were introduced the previous decade in a bid to improve confidence in the financial sector, since 2014 SB and MB members of Dutch banks and insurers have had to pledge an oath to put their clients' interests first, and to observe a number of other principles. Since 2016, this oath has become mandatory for all Employees of the banking sector.

All the present SB and MB members as well as all DHB Bank employees took that pledge and signed the bankers' oath. Employees who joined DHB Bank in 2023 also took this oath within 3 months of joining the bank.

7. CLIENTS FIRST

Clients are at the centre of DHB Bank's activities. They are perceived as vital partners from the perspectives of business continuity and 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 its 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, in the interest of both parties. DHB Bank has always been committed to these principles.

DHB Bank takes into account the interests of all its customers ranging from individuals to corporates and financial institutions. The bank conducts all its 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 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 supported by clear, understandable, and open communication. The bank puts the client's best interest first beyond a traditional customer care approach, 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.

8. POLICIES AND PROCEDURES

The bank's corporate governance structure is concretized with a wide range of policies, procedures and documents, some of which are: Articles of Association, Supervisory Board Policy, Managing Board Policy, Internal Audit Charter, Policy on Conflict of Interest, Corporate Social Responsibility and Sustainability, Clients First Policy, Complaint Procedure, Product Approval and Review Procedure, Customer Due Diligence Policy and Procedure, Remuneration Policy, Information Security Policy, Business Continuity Policy, Lifelong Learning Policy, Compliance Policy, Credit Decision-Making Framework, Integrity Risks Policy, Dividend Policy and the like.

To ensure up-to-date practices in the bank's operations and activities, policies and procedures are placed on a periodic review schedule under the coordination of the Governance Officer.

9. RISK GOVERNANCE AND MANAGEMENT

DHB Bank manages risk 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, the MB 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 as required to effectively manage the respective risks, thus forming the first line of defence in the bank's triple-layered risk management setup.

The Risk Management Department (RMD) and the Compliance and Legal Affairs and Credit Departments form the second line of defence, together with the Information Security Department, which functions independently from the IT Department. They support the business units in their decision-making but have sufficient independence and countervailing power to avoid risk concentrations.

In the risk governance, the Risk Management Department (RMD), Compliance and Legal Affairs, and Credit Departments form the second line of defence, and the Information Security Department (ISD) play pivotal roles. These departments' second line of defence function is crucial for maintaining the integrity and stability of an organization's operations. While they provide essential support to business units, aiding in informed decision-making, their independent status is equally vital. This independence ensures that they effectively exercise countervailing power, preventing the aggregation of risks that could jeopardize the organization. Their collaborative yet independent functions underscore the importance of a well-structured risk management framework, which is indispensable for the sustainable growth and resilience of any business in a dynamic market environment.

The Internal Audit Department (IAD) as the third line of defence oversees and assesses the functioning and effectiveness of the first two lines.

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 and Audit Committee (RAC). Supported by assessments and various reports prepared by the Internal Audit Department (IAD), the Risk Management Department (RMD), the Compliance and Legal Affairs and the credit departments, the RAC is responsible for the oversight of policies and processes by which risk assessment and management are carried out within the governance structure. 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, and reporting to the MB, the Risk Management Committee (RMC) oversees both financial and non-financial risks on an aggregate, bank-wide level while specialized committees focus on specific risk areas such as credit risk, liquidity risk and market risk. All committees support the MB 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.

DHB Bank enhanced its Systematic Integrity Risk Analysis process by further identifying risks that are specific to DHB Bank and to assess applicable controls in conducting business activities.

With this general approach, the bank maintained its strong governance structure in 2023.

Fraud Risk

DHB Bank is aware that internal- and external fraud risk is a serious risk in its banking operation. In order to avoid fraud taking place, multiple control measures are put in place throughout the bank. Important factor herein is the staff of the bank, which plays an important role in detecting and recognizing fraud in many processes. Multiple initiatives are ongoing to increase the awareness further (a.o. via training by IT security and Compliance Dept's), supported by a positive tone-at-the-top emphasizing the importance of the topic.

Both internal- and external fraud are taken up as integrity risks that are assessed in the bank's SIRA, in which the existing control measures were assessed to be sufficient and to bring the identified risks within the appetite of the bank. In the annual SIRA cycle 2024 new fraud types will be taken up, such as identity fraud and CEO fraud. The latter were already discussed in the annual Compliance training by the Compliance dept. which was held in March 2024.

General measures taken in DHB Bank are the use of system-enforced at least 4-eyes principle in almost all of the client- and bank related processes, system enforced segregation of duties and system access. In addition, DHB's own developed IT system called Matrix is set-up in such a way, that almost all, if not all, transactions or actions are being logged in the system (and can thus be checked). Also, DHB has a strict approach towards the hiring of new staff and screening thereof before the staff is being allowed in the systems of the bank. Furthermore, within DHB Bank there are multiple departments handling fraud risks (a.o. RMD (Internal Control Unit (ICU)) and Compliance & Legal Affairs), of which the ICU is even conducting daily checks in Matrix. These departments work with systemized controls (and with system supported measures) on the further minimalization of the fraud risk within the bank.

Finally, DHB Bank has a strong and robust IT framework in place to protect the bank's IT infrastructure against outside and internal fraud threats.

Operational Risk

The bank's regular Operational Risk and Control Self-Assessment (ORCA) aims to effectively manage operational risks. It is a systematic process of identifying and assessing risks and determining the effectiveness of controls. ORCA is conducted by the risk owners, that is, each department assesses operational risks relevant to their function. Each risk dimension is then challenged by the Risk Management Department (and by the Information Security Officer for IT risks) before the risk registers are finalized.

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 adequately absorb all residual risks under usual business conditions and plausible stress scenarios, and to meet the bank's business objectives in full compliance with the regulatory requirements.

For European banks, new capital, and liquidity requirements, as formulated by the Basel Committee in the form of the Basel III accord, are being implemented through the Capital Requirement Regulation (CRR) and the Capital Requirement Directive (CRD IV). The revised Capital Requirements Directive and Regulation (CRR2 and CRDV) which entered into force starting from June 2021 refine and continue to implement Basel III in the EU by making important amendments in a number of areas including market risk, counterparty credit risk, leverage ratio, liquidity, as well as reporting and disclosure requirements. The bank keeps itself up to date on new regulatory proposals to be able to adjust to new regulations in due time. The capital adequacy figures presented in this report follow these guidelines.

The bank benefits from ongoing efforts to satisfy higher regulatory and supervisory standards not only with respect to capital management through its periodic internal capital adequacy assessment process (ICAAP), but also in relation to liquidity management through its internal liquidity adequacy assessment process (ILAAP).

The bank's recovery plan - updated annually - defines recovery options that are available to counter a near-default scenario. It assesses in detail whether the nature of the options is sufficiently robust, credible, and varied to manage a wide range of shocks of different forms.

ICAAP, ILAAP, recovery plan and risk management practices separately and jointly point to the strong financial position of DHB Bank, which was also verified in real life by the bank weathering unscathed the severe crises – both local and global – that it was exposed to since its establishment.

Risk and Capital Management Disclosure

The CRD V contains certain minimum disclosure requirements regarding risk and capital management in line with the Pillar 3 rules. Its goal is to encourage market discipline in disclosure in order to allow stakeholders to assess the bank's standing in terms of capital resources, capital adequacy, liquidity, overall risk profile, and risk management practices.

DHB Bank publishes its disclosures on its website. The next Pillar 3 disclosure will be available during the first half of 2024 based on 31 December 2023 figures

Additional Disclosures

- **Risk Appetite and Key Risks**

As part of risk management, DHB Bank formulates its risk appetite that is documented and updated regularly. Defining, monitoring, and adjusting risk appetite is considered the foundation of an effective risk management. The bank's risk appetite outlines the level and nature of risks that it is willing to accept to pursue its strategy on behalf of shareholders, commensurate with its risk management capacity and philosophy. Risk appetite also sets the boundaries for the acceptable risk profile.

DHB Bank's risk appetite covers the following dimensions, which are considered the key risks faced by the bank: Capital adequacy, strategy and profitability, credit risk, credit concentration (country, sector and obligor), climate risk, liquidity risk, FX risk, market risk, interest rate risk in the banking book, operational risk, IT, Information Security, Outsourcing, Data Quality, Integrity and Reputation, Legal and Regulatory, Compliance and Customer Complaints. For relevant cases, there are subsets with quantitative targets and/or benchmarks, and for each dimension, the risk appetite is separately determined between low, medium or high levels.

Out of a total of 18 primary risk dimensions in 2023, the bank's risk appetite was determined as "low" for 12 and "medium" for 6.

Risk Appetite	Risk Dimension
Low	*Capital Adequacy, Strategy and Profitability, Liquidity, FX Risk, Market Risk, Operational Risk, Information Security, Outsourcing, Data Quality, Legal and Regulatory, Compliance, Customer Complaints*
Medium	*Credit, Credit Concentration (Country, Sector and Obligor), Climate Risk, Interest Rate Risk in the Banking Book, Information Technology, Integrity and Reputation*

As per assessments conducted periodically by the independent Risk Management Department and reported to the management and the Risk and Audit Committee of the Supervisory Board, it was established that these risk appetite levels were mostly complied with during 2023. In cases where the actual risk profile tended to deviate from the risk appetite, the management takes the necessary measures to return the risk profile to the level specified in the approved risk appetite in the related areas in due course and in consultation with the supervisory authorities, where needed. Within capital planning, capital is allocated for an overwhelming majority of the risk dimensions indicated above for an amount commensurate with their exposure/ risk levels.

- **Monitoring, Assessment & Control Measures**

DHB Bank controls risk through its established and proven risk management framework, which proved its maturity and efficiency by enabling the bank to weather unscathed several regional and global crises that it was exposed to since its establishment, most recently, the 2008 global crisis, and the following crisis in the Eurozone and the turbulence in Türkiye since 2018. In all its activities, the bank places great emphasis on avoiding targeting short-term profits by disregarding long-term risk.

For all the risk parameters, there are monitoring or assessment frameworks in place. Credit risk, for example, is monitored at the Credit Committee through various reports (on watch list loans and NPLs), including quarterly credit portfolio risk reports, prepared by the credit departments, and through the monthly MIS Reports prepared by the Financial Control Department. These reports provide comprehensive information on the composition and quality of the various portfolios, permitting management to assess accurately the level of credit risk that the bank has incurred through its various activities and to determine whether the bank's performance is meeting the credit risk strategy.

Periodic risk assessment reports prepared by the Risk Management Department cover the subject on a high level, comparing the status quo to the risk appetite statement. Similarly, market risk and interest rate risk (as well as liquidity risk) are managed daily by the Treasury Department, and monitored weekly and monthly through the ALCO meetings and the MIS Reports which include information on Interest Rate Risk (Economic Value of Equity and Earning-at-Risk), on Asset and Liability Maturity Schedule, on VaR of Open Trading Position, on Liquidity Stress Tests, on regulatory liquidity measures and liquidity stress indicators from recovery plan etc.

DHB Bank's liquidity and funding plan are based on policy statements resulting in various liquidity risk measures, limits, and organizational procedures. The bank's liquidity risk management includes stress testing and a contingency plan. Stress testing is defined as the evaluation of potential effects on a bank's liquidity situation under a set of exceptional but plausible events. The stress testing framework also includes survival horizon metrics and has set the limit at seven months for minimum survival under idiosyncratic, market-wide and hybrid stress scenarios without access to market funding. During 2023 DHB Bank continued to focus on prudent liquidity risk management, so as to maintain a diversified and strong funding base. DHB Bank had access to all the relevant financial markets and was able to actively carry out the necessary tests as described in the bank's funding plan.

DHB Bank being a commercial bank, credit risk is the constant risk dimension present in its activities. Accordingly, DHB Bank has in place very rigorous credit underwriting and monitoring policies and practices that allow controlling this risk. Apart from allocating ample capital for its credit exposures, the bank also uses collateralization for credit enhancement. In addition, the bank stringently avoids entering uncharted (market) territories for increasing short-term profits at the expense of incurring high credit risks. Depending on market developments, in order to determine and control various aspects of credit risk and take actions, if necessary, the bank conducts special analyses and reports concerning its portfolio. Some of the portfolio level analyses performed in 2023 were impact analysis related to heightened geopolitical risks and supply chain problems as well as climate related physical and transition risk materiality assessments.

DHB Bank is subject to country risk due to its international operations. Since the bank's establishment, Türkiye had been the primary country of interest for DHB Bank thanks to the organization's in-depth knowledge and experience in the country. As a matter of principle, the bank works with highly creditworthy, top tier internationally operating Turkish corporates and banks having high financial standing and reputation while obtaining collaterals for some exposures. As a further risk mitigating factor, the bank sets aside additional capital to alleviate country risk. Furthermore, the bank has considerably decreased its exposure to Türkiye, to less than 5% (after cash collaterals) in 2023 and does not aim to exceed this level. DHB Bank strives to maintain its focus on investment-grade countries and Europe (except non-investment grade European countries) where it has its highest exposure. Insurance is occasionally procured from reliable counterparts to either mitigate risks or open room in the availabilities of limits to companies.

- **Expected impact on financials/results if risks or uncertainties were to materialize**

The viability of the bank is ensured through ICAAP and ILAAP, which cover various and plausible stress scenarios in relation to uncertainties – such as credit risk, liquidity risk, market shocks etc. - for which countermeasures are in place. In addition, the Bank's Recovery Plan contains measures to be implemented should any of several DHB-specific or industry-wide different risk scenarios materialize, and thus it provides an important backstop for DHB Bank's risk management.

- **Risks and uncertainties that had a significant impact during the past financial year, and the consequences thereof.**

The deteriorating economic outlook with an extra pressure on energy-intensive sectors is a significant risk factor in the financial sector. Refinancing problems with higher financing cost and lower economic output might create additional stress on the credit quality of banks' corporate loan books. While the crisis so far has not had a material impact on payment obligations of borrowers to which DHB Bank has direct exposure, the bank continued to monitor the exposures in vulnerable sectors through quarterly portfolio risk reports to undertake timely measures when deemed necessary.

DHB Bank continues to evaluate any proposed modification of loan facilities including but not limited to proposed renewal of limits, extension of existing loans and loan restructuring/rescheduling as well as annual reviews of term loan facilities in accordance with its applicable policies and procedures for credit risk assessment. Simultaneously, the unlikeliness to pay (UTP) indicators, early warning indicators/watch lists (EW/WL) indicators and forbearance measures are tested according to the applicable EBA guidelines.

Worsening economic outlook with possible impacts of high inflation and geopolitical disputes in Ukraine and Gaza strip and related uncertainties as well as the unforeseen disruptions in the banking sector will be the major risk factors in upcoming period. Management will therefore continue to steer the bank cautiously. Regarding bank and corporate exposures, DHB Bank's overall asset quality is expected to remain healthy thanks to the pro-active lending and monitoring practices of the bank, which were further strengthened as required. Borrowers will continue to be selected among those with high credit standings, and strict credit underwriting processes will be maintained with additional credit enhancements where needed. Management will not compromise on rigorous risk monitoring processes. Even after considering the implications of the crisis from the perspectives of solvency, liquidity, operational risk, credit risk, market risk and loan loss provisioning, the bank did not face any significant challenges in 2023. The bank will continue to operate in prudent manner in this uncertain macroeconomic environment, closely monitoring and proactively managing its capital and liquidity position.

- **Improvements concerning DHB Bank's risk management system**

For the past few years, DHB Bank has been continuously improving its risk management system and framework. Apart from the distinct classification of the three lines of defence model, several new reports have been developed, risk management practices have been more clearly defined, and the committees' roles, attention points and functions in relation to various risks have been enhanced. Noteworthy progress was made with the stress test methodology and the contingency plan within the context of ILAAP, ICAAP and Recovery Plan. The bank continued its efforts to improve the Risk Appetite Statement (RAS) for 2023, by updating the risk sub-dimensions based on the Bank's business strategy, along with mapping to risk levels for each individual risk sub-dimensions to facilitate better monitoring, and by improvement in documentation of rationale for risk appetite limits, escalation process for breaches in limits and the action for risk mitigation.

The bank's credit risk management framework is refined and strengthened following DNB's report in this respect.

DHB Bank will closely follow potential developments in relation to risk management, both from regulatory sources and from market practices, and will embed these in its risk management organization and culture.

Climate Risk Disclosures

Climate risk is a pervasive, systemic risk that affects all asset classes, industries, and economies. It demands attention as the physical consequences of global warming and the transition to a low-carbon economy will manifest at varying levels in all climate scenarios. Financial institutions need to recognize the importance of understanding and addressing climate risks in their existing portfolio and operations, as well as transactions in the pipeline and for future investments in a general sense.

The ECB's Guide on climate-related and environmental risks[2] outlines the supervisory expectations for how climate and environmental risks (C&E risks) may be embedded in all relevant bank practices, from a bank's risk management framework to its governance structure, risk appetite, business model and strategy, as well as its reporting and disclosures. Also, several other publications, such as the EBA's report on 'Management and supervision of ESG risks for credit institutions and investment firms'[3] and DNB's Guide to managing climate and environmental risks[4] highlighting the importance of integrating C&E risks into the overall risk management and strategy of an institution are considered by the bank. However, across the industry, climate change risk management is still evolving, given significant uncertainties about climate change, challenges in reaching comprehensive market data, and the need for common market practices in the measurement and monitoring of climate change risks. The banking industry is attempting to improve its climate change risk management, which is reflected by an increasing number of publications on the topic, such as the ECB's Good practices for climate-related and environmental risk management[5] published in November 2022.

The growing focus on climate risk is also further amplified by the implementation of the European Union's Corporate Sustainability Reporting Directive (CSRD). The CSRD mandates comprehensive sustainability reporting by a broader range of companies. This will significantly increase the demand for robust climate risk management practices as companies strive to meet these new disclosure requirements. Effectively managing climate risk will not only mitigate financial risks for our bank but also position us as a valuable partner for clients navigating this evolving regulatory landscape.

In order to accomplish the development of robust approaches to managing and disclosing C&E risks, the bank initially worked with a consultancy firm on climate change risk and performed several workshops to analyse the situation (as is) and the future state (to be) of the bank with regards to the broader sustainability topic and specifically climate risk. This step is followed by forming a cross-functional team under the name "Project Genesis" in mid-February 2022, which aims to carry out the development and adoption of rules and principles regarding C&E risks in the bank, within the context of a broader environmental, social and governance ("ESG") agenda. The project covers supervisory expectations related to business models, strategy, governance, risk appetite, risk management and disclosure. The project team has started its actions with a detailed gap analysis between the bank's existing practices and the expectations listed in ECB's 'Guide on climate-related and environmental risks' and prepared an action plan list to meet the expectations. With the important milestones achieved by the project team within the course of 2022 and 2023, the bank will continue to make progress in meeting the regulatory and supervisory expectations.

- **Governance and Strategy**

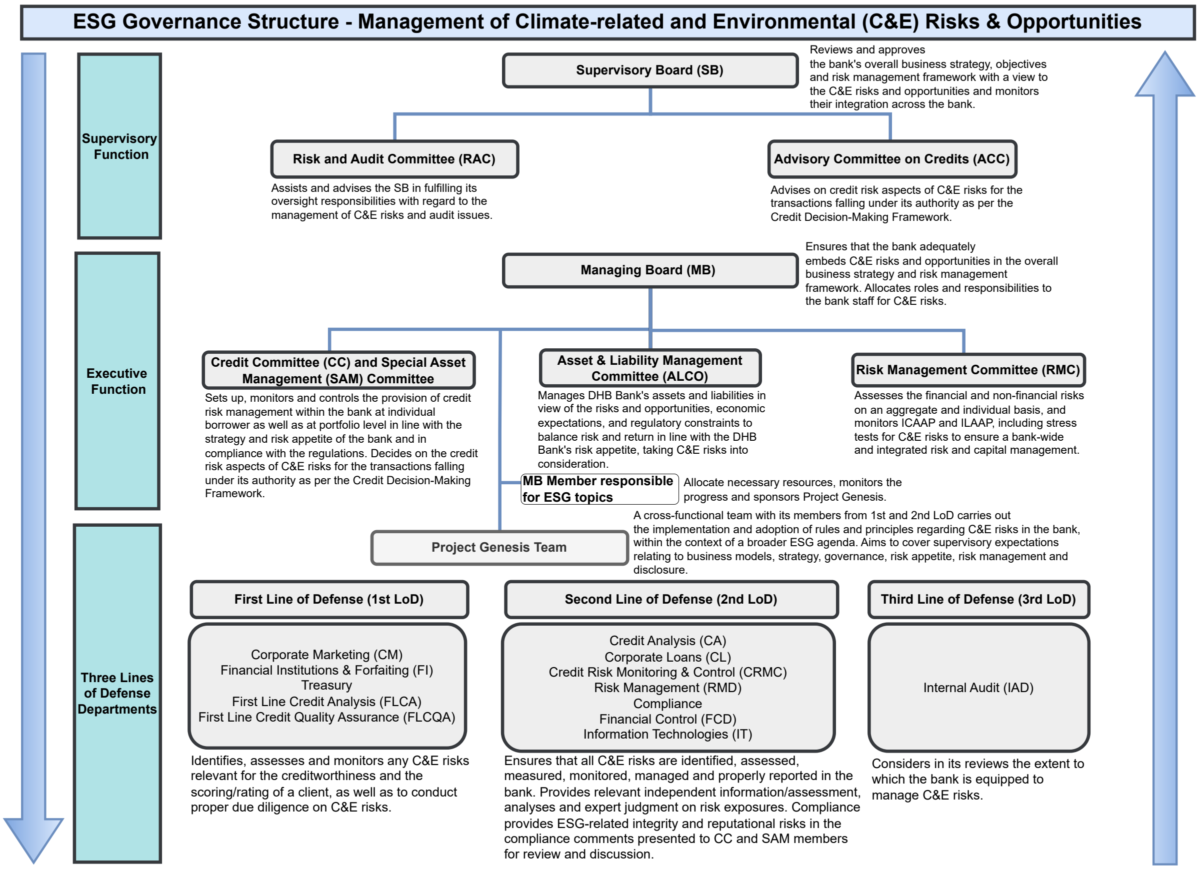
The bank acknowledges the importance of integrating C&E risks into its overall governance and strategy. In this respect, the bank has completed the development of the governance arrangements document for the management of C&E risks and conducted a business environment assessment in line with the supervisory expectations. In addition to these actions, the general roles and responsibilities of the three lines of defense departments are also defined as per the governance arrangements document.

In its governance arrangements document, the bank defines the C&E governance model to reflect an integrated governance structure that allows the involvement of the supervisory and executive governing bodies as well as the three lines of defense departments in the process and steering on both the opportunities and risks stemming from climate change in the business strategy and risk appetite. The model is depicted as follows to define a clear distinction between the lines, ensure accountability, develop a common understanding and meet regulatory expectations.

In addition to the governance document, the main functions, as well as specific roles and responsibilities of the three lines of defense departments, are further detailed in a separate document dedicated to this purpose, covering the credit, business model/strategic, market, liquidity, operational risk management as well as client onboarding/ESG due diligence, client assessment and engagement cycle, scenario analysis and stress testing and disclosure processes.

As an essential step for integrating C&E risks into the bank's overall governance and strategy, the bank has also

2. https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.202011finalguideonclimate-relatedandenvironmentalrisks~58213f6564.en.pdf
3. https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf
4. https://www.dnb.nl/media/devh2uet/76226_dnb_ia_klimaat-en-milieurisico-s-sectoren-2023_eng_web.pdf
5. https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.thematicreviewcercompendiumgoodpractices112022~b474fb8ed0.en.pdf



conducted a business environment assessment in the third quarter of 2022 to identify potential C&E risks and opportunities as well as their impact areas and transmission channels and develop further guidance for the bank's business model and strategy with respect to these risks and opportunities. In this assessment, the bank's business environment is scanned with a view of the prevailing economic and financial environment, main financial highlights, potential impact areas, and assessment scopes of C&E risks. Moreover, geographies, sectors, products, and services vulnerable to C&E risks, mapping of these risks to financial and non-financial risks with severity and time-horizon together with potential C&E opportunities that are also identified within this assessment. The identified risks and opportunities have been used as input for the materiality assessments performed to assess the possible impact of C&E risks on different risk types.

Another important step for this integration into the bank's strategy is that the bank has also started developing sector-specific ESG strategies for vulnerable and critical sectors. The first sector-specific ESG strategy document is developed for the shipping sector during Q4 2023, followed by the completion of the ESG strategy for project finance and renewable energy sectors during Q1 2024, and others will follow within the course of 2024. The strategy documents consist of the sector-specific methodology to assess exposures in terms of their vulnerabilities to ESG risks, determination of KPIs/KRIs and development of the strategy and ESG criteria. Sector-specific ESG strategies will continue to be developed and refined in light of market developments.

As the final step, an overarching credit risk strategy by benefiting from the performed scenario assessments, materiality assessments, sector/product-specific ESG strategies, determined KPIs and KRIs to take into account during the loan origination/review stages is in progress for completion in the second half of 2024. In parallel, the development of ESG Framework to incorporate the identified C&E risks, opportunities (financial and non-financial) underlying methodologies, and their mapping, as well as to embed all the underlying documents, roles, responsibilities, methodologies, guidelines, etc., so far in one framework document will be completed.

Furthermore, to increase awareness and add value to the bank's ESG integration journey, the bank has also made progress with the issuance of ESG newsletters inside the organization and organizing internal ESG workshops. The first ESG newsletter was issued in Q1 2023 and continued on a quarterly basis, with the latest issuance in October 2023. The newsletters inform the stakeholders about key ESG definitions/terminology, regulatory developments, information on "Project Genesis", samples from the portfolio, good customer practices, and relevant ESG topics. On the other hand, the ESG workshops with knowledge-sharing purposes with the whole organization have also continued to be performed with three workshops during 2023. A wide range of ESG topics are covered under these workshops, such as climate change risk, sustainability, climate policy, culture, governance, sustainability disclosures, Fit for 55, green and sustainable finance, climate risk measurement and management, and climate models and scenario analysis. The newsletter and workshops are planned to be continued on a regular basis.

- **Risk Assessment and Management**

Assessing the materiality of identified C&E risk drivers and integrating these risks into risk management is another crucial step for developing a robust ESG framework. In this respect, the bank has managed to make significant process with developments such as the creation of Genesis ESG Tool and Questionnaires for more granular assessment of the corporate portfolio, re-designing of environment impact sections of credit report, credit decisions templates and enhancement of credit risk culture documents, improvements on existing climate risk metrics under Risk Appetite Statement and performing materiality assessments of C&E risks for credit, market, liquidity, operational risk including business continuity, reputational and liability risks, and business model and strategic risk dimensions. In addition to the materiality assessments on risk dimensions, the bank also performed a double materiality assessment during Q3 2023, which will be further refined in light of CSRD expectations.

Development of Genesis ESG Tool and Questionnaire to achieve a granular assessment

The lack of available quality data is one of the main challenges financial institutions face when improving their climate risk management framework. The same challenge is also valid for the bank, so an Excel-based tool (Genesis ESG Tool) was developed for the scorecard methodology to be used for granular assessment of physical and transition risks and classify the borrowers in the corporate portfolio as per their ESG risks. In parallel with the development of this tool, the bank has also configured a questionnaire (Genesis ESG Questionnaire) to gather and evidence corporate credit customers' ESG-related inputs that will also feed Genesis ESG Tool.

In this tool, physical and transition risk assessments work with a combination of automated scores derived from external databases[6] to the extent possible based on the country, province, and sectors. The automated scores are accompanied by customer-specific information derived from the ESG Questionnaire and reviewed by the bank's staff. The questionnaire covers general and sector-specific questions for specific sectors such as shipping, real estate, and construction. Information/input by customers is intended to help understand their ESG management strategies and feed the Genesis ESG tool to assign a final ESG score. Finally, scores are determined through the overlay section with the underlying rationale in case of upgrades and downgrades in line with the pre-determined ranges for related risk indicators. The bank has completed the process of retrieving responses to the questionnaire for its corporate portfolio during 2023. This input has been utilized to reach the final scores, which are derived after taking the overlay section into account for each risk driver. The materiality assessment of C&E risks for credit risk has been revised in light of the final scores. C&E risk drivers covered under physical and transition risks of the tool are droughts / extreme heat, floods/sea level rises, storms/ hurricanes, biodiversity loss/land use change and water stress for physical risks, and policy/regulation, technology, market sentiment, water / waste-water management, and waste and pollution for transition risks.

In addition to the developments toward a more granular climate risk assessment on the borrower level, the bank has also developed a separate ESG Report template for ESG risk assessments of its customers. This report, prepared by 1st LoD Sustainability Officer (SO), serves as a source document for other departments, i.e., CM and FLCA, CA, Compliance. It includes ESG info and data associated with the obligors via GET, publicly available sources, customer visits/calls/investor calls, and any other external sources at the loan origination phase as well as reviews throughout the lifecycle.

6. *Water Risk Filter (WRF) published by World Wildlife Fund (WWF), ThinkHazard Platform by the Global Facility for Disaster Reduction and Recovery, Moody's Heat Map*

1st LoD reports include the assessment of the borrower's exposure to ESG factors based on the ESG report prepared by the 1st LoD Sustainability Officer, together with other available credible sources if needed. Direct and indirect transmission channels of the ESG risk drivers to credit risks are addressed, and possible impacts on financials and repayment capacity of the obligors are assessed in consideration with the terms and conditions of the loan the preparedness level of the obligors. 2nd LoD, in line with their independent review role, provides its view and challenges, if any, in the 2nd LoD Report. Compliance Department, based on this ESG Report, provides its assessment on ESG-related risks, primarily being, integrity and reputational risks, in the compliance comment.

Climate-related and Environmental Risks Materiality Assessments

As referred to under the Governance and Strategy section above, geographies, sectors, products, and services vulnerable to C&E risks, mapping of these risks to financial and non-financial risks with severity and time-horizon together with potential C&E opportunities are identified with performed business environment assessment in Q3 2022. These identified risks create a basis for evaluating their materiality on other risk dimensions, namely credit, liquidity, market, and operational, including business continuity, reputational and liability risks, and business model and strategic risks.

In this regard, the bank has performed materiality assessments in 2023 to identify material C&E risks that need to be managed and included in climate risk scenario analyses, stress testing, and C&E risks-related disclosures.

As one of the bank's most critical risks, given its share in total assets, the initial focus for materiality assessment has been on loans and advances to the bank's corporate portfolio, hence credit risk. In this regard, the bank has refined the credit risk materiality assessment in Q1 2024, mainly based on the final scores of Genesis ESG Tool as per Q4 2023 exposure figures. In addition to the scores derived from Genesis ESG Tool, the other components of this assessment were an analysis of the bank's reliance on income from carbon-intensive sectors, a climate risk stress test, and scenario analysis results. The starting point for the income dependency on carbon-intensive sectors analysis is ECB's Climate Risk Stress Test 2022 (CST 2022)[7], in which 23 carbon-intensive sub-sectors are identified with their NACE codes and institutions' income is evaluated based on their dependence on these sectors. Using a materiality threshold and materiality impact scoring methodology unique to the bank, the bank has performed the materiality assessment on credit risk and incorporated identified risk drivers into its climate risk scenario analysis and stress testing framework.

From the market risk perspective, since the bank has no trading portfolio – meaning no equity or commodity-related exposure – it's exposed to limited market risk through its bond positions, which are classified as FVOCI and HTM and monitored at fair value or amortized cost, respectively. Although the valuation changes of HTM bond positions don't have any impact on the bank's own funds or income statement, as long as the liquidation of positions is not required, the materiality assessment also covers these positions in addition to FVOCI bond positions for prudent risk management. In this regard, the materiality assessment on market risk was performed using the ESG risk rating classifications of corporate and bank issuers provided by well-known third-party ESG rating agencies. For the sovereign issuers of the HTM bond portfolio, the bank classifies the countries based on their ranking in Notre Dame University Global Adaptation Index (ND-GAIN)[8] and use this classification in its assessment methodology.

From the liquidity risk perspective, ESG risk variables can impact contractual cash flow structure and liquidity buffers by directly or indirectly affecting a financial institution's capacity to collect its lending or raise liquidity through market operations. In order to assess the materiality of direct transmission of C&E risks into liquidity risk, the bank based its methodology on the total retail deposit amount for which the depositor is a resident in an area with 'High Flood Risk' classification[9] and the impact of a potential deposit run-off from these depositors on the bank's liquidity position. In indirect ways, the bank makes use of its C&E risk materiality assessments for other risk dimensions, namely credit, market, business continuity, reputational and litigation risks, to evaluate the potential impact on its liquidity buffer.

From the operational risk perspective, physical hazards can affect banks directly based on perceptions of business continuity. Furthermore, climate-related lawsuits targeting banks could set precedents and spur banks to accelerate their carbon-neutrality strategies

7. https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.climate_stress_test_report.20220708~2e3cc0999f.en.pdf
8. Rankings // Notre Dame Global Adaptation Initiative // University of Notre Dame (nd.edu)
9. For this classification, the flood risk scenario input from ECB's Climate Risk Stress Test (CST) 2022 which classifies European countries with NUTS3 level breakdown based on their vulnerability for flood risk.

and their phase-out of fossil fuel financing. The main consequences of losing climate-related litigation are likely to be reputational, while the immediate financial impact is likely to be more easily absorbable. In this regard, the bank performed its operational risk materiality assessments under 3 dimensions: reputational, litigation and business continuity risks.

Under these three materiality assessments performed separately, the bank employed a methodology which involves the identification of risk drivers from different dimensions, such as risks originating from customer activities, risks stemming from the bank's internal operations, damage to physical assets and business disruption and systems failures. Within these dimensions, diverse drivers are identified based on a combination of prevalent market practices and the specific characteristics of the bank. The materiality of these drivers is evaluated based on the severity (scope, scale, and remediation of potential dimensions) and likelihood perspectives and material drivers are identified. Identified drivers are also considered indirect transmission channels to other risk types like liquidity risk.

From a business model and strategic risk perspective, the business strategy is an institution's principal tool for positioning itself within its business environment in order to generate acceptable returns in line with its risk appetite, and C&E risks may directly impact the effectiveness of institutions' existing and future strategies. In this regard, the bank's assessment to identify the materiality of the C&E risks focuses on four components with different identification and assessment channels: Key sectors/ business activities of the customers (using their income share for the bank, their transition risk scores from Genesis ESG Tool and applicability of EU Carbon Border Adjustment Mechanism), geographical areas of the customers' place of establishment and operations (using their physical risk scores from Genesis ESG Tool, the classification based on the ranking in the ND-GAIN Country Index), products/ services provided to customers (using the likelihood of observing the impacts of C&E risks) and other essential C&E risk drivers (using the drivers identified using the Institutional Banking (identification) Module of the United Nations Finance Initiative (UNEP-FI) Tool for Banks). Identified material sectors, geographies, and products are used as an input for other materiality assessments and climate risk stress test and scenario analyses and will be treated more diligently while formulating C&E risk-related strategies of the bank.

Furthermore, the bank also completed its first double materiality assessment during Q3 2023, which will be further refined during 2024 considering the expectations approaching CSRD regulation. In this assessment, the material matters/topics as per the outcome of materiality assessments conducted for credit (refined), liquidity, market, operational, reputational & liability and business model & strategic risk categories are considered under financial materiality aspect, while negative impact areas are derived as per the guidance and methodology of the UNEP-FI Tool performed on the corporate exposures. Notably, these materiality assessments focus on the financial materiality (outside-in) which may arise from the impact of C&E risks on DHB Bank's economic and financial activities throughout its corporate credit customers, issuers of bond positions, its liquidity position, or its reputation.

The C&E risk drivers identified under materiality assessments have been incorporated into the bank's climate risk scenario analysis and stress testing analysis in ICAAP to the extent possible, which focuses on both transition and physical risks and estimates the impact on its portfolio over short, medium, and longer-term horizon. In addition, the bank also includes the potential impact of climate-related and environmental risks in its general stress testing framework by incorporating defaults and credit downgrades of clients in vulnerable sectors and geographies. The materiality assessments will be performed on a regular basis and the outputs of these assessments will be translated into the bank's business strategy and model in the upcoming period.

Climate Risk Metrics Reflected in the Risk Appetite Statement

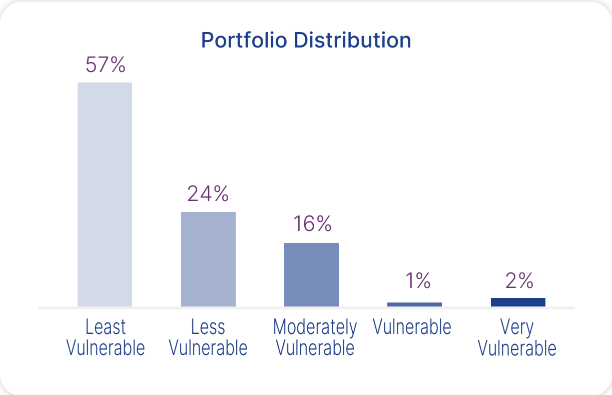
The climate risk dimension had been incorporated into the Risk Appetite Statement, considering the importance of integrating these risks into its lending strategy within the governance structure of managing credit risk. Although the metrics monitored under the climate risk dimension were used to be only sector-level and geography-level metrics, the bank has also incorporated customer-level metrics as retrieving customer-level data challenge is tackled by the development of Genesis ESG Tool and Questionnaire and reaching substantial coverage on the corporate portfolio for detailed assessment on customer-level through Genesis ESG Tool.

Risk Management Department is involved in identifying and measuring the climate related risks that the bank faces and suggests to the Management various techniques to quantify and regularly monitor the portfolio. In this context, the bank has incorporated three metrics for the climate risk dimension, one for the portfolio's physical risk, one for the transition risk vulnerabilities and another one covering customer-level overall ESG vulnerabilities.

- **Physical risk in Risk Appetite Statement**

For the physical risk vulnerability, the bank makes use of the vulnerability index developed by ND-GAIN to measure climate risks at the portfolio level. This index comprises two key dimensions of adaptation: vulnerability and readiness. While the vulnerability dimension measures a country's exposure, sensitivity, and capacity to adapt to the adverse effects of climate change considering six life-supporting sectors – food, water, health, ecosystem service, human habitat, and infrastructure, readiness dimension measures a country's ability to leverage investments and convert them to adaptation actions. Based on the year-end 2023 portfolio, the bank's exposures to countries by 'vulnerability' classification are summarized in the below diagram:

Figure 11 - Exposures to Countries by Climate Risk Vulnerability Classification



According to the above distribution, the portfolio level vulnerability score as of year-end 2023 was as 1.68 (Least Vulnerable), based on the weighted average calculation.

- **Transition risk in Risk Appetite Statement**

The "Guide on climate-related and environmental risks" from ECB[10] defines transition risk as "financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy." In view of this, DHB Bank attempts to link the climate risk in the portfolio with the carbon emission on a sector basis. Since the client emissions data is not readily available, the bank relies on sectoral carbon emissions data from Eurostat[11] on the NACE code level as a preliminary analysis. The bank performed the analysis based on the following 2 metrics:

i. <u>Total exposures to high emissions sectors</u>

For total exposure to high emissions sectors, the sectors are identified on a sub-sector level to the extent possible using the emission account data[12]. Identified high-emission sectors are

- A Agriculture, forestry and fishing
  - A01 - Crop and animal production, hunting and related service activities
- C Manufacturing
  - C19 - Manufacture of coke and refined petroleum products
  - C20 - Manufacture of other non-metallic mineral products
  - C23 - Manufacture of basic metals
  - C24 - Manufacture of chemicals and chemical products
- D Electricity, gas, steam and air conditioning supply[13]
- E Water supply; sewerage, waste management and remediation activities
  - E37 – E39 - Sewerage, waste management, remediation activities
- H Transportation and storage
  - H49 - Land transport and transport via pipelines
  - H50 - Water transport
  - H51 - Air transport

Identified high-emission sectors are together responsible for more than 80% of the total carbon emissions. The appetite level is set at "Medium", meaning that the bank aims to maintain the exposure to high-emission sectors below 25% of total portfolio. Based on YE-2023 portfolio, DHB Bank's exposure to such high emissions sectors is close to 15.8% of total credit exposures.

10. *https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.202011finalguideonclimate-relatedandenvironmentalrisks~58213f6564.en.pdf*
11. *https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=env_ac_ainah_r2&lang=en*
12. *The sectors are classified based on NACE Codes which are also used in EuroStat database. The main sectors are 21 sectors identified with the first letter of NACE Code, also referred as Level 1 in the database. The sub-sectors refer to distinguished components of the main sectors and identified with the letter and following numbers, also referred as Level 2 in the database. The emission data is not available on sub-sector level for some of the main sectors, most importantly "D - Electricity, gas, steam and air conditioning supply".*
13. *Due to the lack of sub-sector level emission data, all exposures for which NACE code starts with D except renewable energy exposures are considered.*

Corporate **Governance**

ii. Portfolio emission intensity index

The Portfolio Emission Intensity Index is a metric calculated on a quarterly basis as a sign of the bank's commitment to monitor its carbon footprint closely. The methodology applied in this measurement is aligned with the 'The Global GHG Accounting and Reporting Standard' established by the Partnership for Carbon Accounting Financials (PCAF) to the extent possible.

The approach to calculating financed emissions revolves around two key pillars: the attribution factor, which signifies our share of exposure in the borrower's total financing, and the emissions generated by the borrower. These calculations vary across six asset classes relevant to our operations: Business Loans (to private companies and listed companies separately), Corporate Bonds, Project Finance, Commercial Real Estate, and Sovereign bonds. In essence, there are three primary options for calculating financed emissions: Option 1: reported emissions, Option 2: physical activity-based emissions, Option 3: economic activity-based emissions.

The assessment includes all exposures, excluding retail exposures and cash positions. While the sector-level average emission intensities are used for the obligors with missing reported emission, the reported emission figures received from the obligors are utilized in the assessment if available. The index represents an indication of GHG emission gram per euro of the bank's exposure. Based on historical data and current portfolio, the limit is set to 600 for high-risk buckets, meaning that the bank aims to maintain the Portfolio Emission Intensity Index below 600 grams of GHG emission per euro exposure.

iiii.The main improvement achieved during 2023 for monitoring of transition risk under the Risk Appetite Statement is integrating more granular financed emission calculation on the customer level into the calculation of portfolio emission intensity index. Although the bank used to calculate this index based on sector-level exposures and sector-level average intensity figures from EuroStat data, the new approach incorporates the reported emission figures received from the obligors, where available, and attribution factor on customer-level for more precise financed emission calculation.

DHB Bank will continue to measure and monitor the developments of climate risk as part of its climate risk mitigation strategy. Furthermore, by means of "Project Genesis", the bank is dedicated to improving on its management of climate risk following new regulations and supervisory expectations.

- **Overall environmental risk in Risk Appetite Statement**

As referred above, the bank uses Genesis ESG Tool with the inputs from the ESG Questionnaire to perform a highly granular assessment on the borrower level. An assessment using the tool results in an environmental score ranging from 1-Low (None or very limited financial and operational impact on borrower's cash flow) to 4-Very High (Financial and operational impact disrupting borrower's operations and erosion of its cash flow to a large extent) where this score is derived from physical and transition risk scores and overlay assessment. The Genesis ESG Tool assessment is applied only to the corporate portfolio, while the bank benefits from the publicly available climate and environmental risk ratings from third-party rating agencies for the bank and sovereign portfolio. The bank aims to monitor the share of exposures with 'High' and 'Very High' climate and environmental risk rating in its total assets, excluding retail portfolio and cash position. The appetite level is set at "Medium", meaning that the bank aims to maintain this ratio below 30%. The bank continues to improve the engagement with the customers with 'High' and 'Very High' climate and environmental risk rating and closely monitor their credible transition plans. The share of exposures with 'High' and 'Very High' climate and environmental risk rating in total assets, excluding retail portfolio and cash position is around 17% as of YE-2023.

In addition to referred improvements in the current metrics, the bank has reviewed the best practices in the market with respect to the metrics to manage and monitor C&E risks. In this regard, several metrics identified are either not directly applicable to the bank or cannot be accurately computable for now due to a lack of data availability or immature calculation methodologies, which are expected to be within the scope in time.

The EU Taxonomy and Corporate Sustainability Reporting Directive

The EU Taxonomy (Regulation (EU) 2020/852), a classification system establishing a list of environmentally sustainable economic activities, is being implemented in parts, and while non-financial institutions meeting certain criteria will have to report on their EU Taxonomy-alignment in 2023, financial institutions will have to do so in 2024. In this regard, DHB Bank continues to collect information from its non-financial counterparties via ESG questionnaire and monitor their Taxonomy-alignment disclosures in order to continue its engagement with the counterparties covered by the Regulation for the goal of enhanced Taxonomy-alignment monitoring.

In parallel with the introduction of Corporate Sustainability Reporting Directive (Directive (EU) 2022/2464, CSRD), the availability and quality of the data are expected to increase in time, and the bank will further improve and enrich Taxonomy-alignment monitoring and disclosures requirements accordingly.

Financial Control Department is leading and coordinating the CSRD disclosure requirements with the support of the Project Genesis Team. CSRD –ESRS gap analyses and necessary preparatory work will continue to be ready in a timely manner before the due deadlines, corresponding to 2026 for DHB Bank.

In addition, the bank plans to comply with the proposed legislation in the Netherlands, which requires office buildings to have at least a level C energy label as of 2023 and to take this requirement into account while granting any loans backed by commercial mortgages. The bank's own office building, "FIRST Rotterdam" has a BREEAM-Excellent certificate.

DHB Bank will continue to measure and monitor the developments of climate risk as part of its climate risk mitigation strategy. Furthermore, by means of "Project Genesis", DHB Bank will continue to progress in its endeavours to raise its maturity level with respect to the management of ESG risks. The bank is dedicated to improving its ESG alignment and integration journey in light of new regulations and supervisory expectations.

10. REMUNERATION

Through the Nomination and Remuneration Committee, the SB evaluates both the functioning of the MB as a whole and that of the individual MB members, including the achievements of their individual and collective targets.

The remuneration of the MB members, as well as those of senior staff members, including those engaged in risk management and control functions, and other staff members, is determined according to the bank's Remuneration Policy and Bonus Plan.

According to a general rule stipulated in the Bonus Plan, variable remuneration does not exceed the maximum of 20% of the gross yearly fixed salary of an employee and consists of a 50% cash component and a 50% non-cash component. Part of the variable remuneration is granted unconditionally (60%), while the remaining part is granted pro rata over a period of 3 calendar years (deferred). Remuneration also takes into consideration the interests of society at large.

The Remuneration Policy stipulates criteria according to many financial and non-financial objectives, all reflecting the bank's long-term strategies and risk policy. From these objectives, performance targets are derived for staff members throughout the organization.

This policy and plan are based on the applicable regulations and amongst others includes stipulations concerning fixed and variable remuneration, meeting financial and non-financial criteria for being eligible for a variable remuneration, where at least 50% of the variable remuneration is based on non-financial criteria, claw back and deferral payment rules.

Related to the 2023 performance, a total amount of EUR 1,136,704 was granted as variable remuneration to members of the Managing Board, senior staff members and other staff members (as performance surcharge), as approved at the Annual General Meeting of Shareholders (GMS), based on the recommendation of the Supervisory Board, of which the individual amounts of the MB members are determined by the GMS and those of other staff by the MB[14].

None of DHB Bank employees qualifies as high earner, i.e., none have a total annual remuneration above EUR 1 million.

11. DUTCH BANKING CODE

The Dutch Banking Code, a revised version of which was adopted by the Dutch Banking Associations in 2014 as part of the Future Oriented Banking document, is applicable to DHB Bank. The Banking Code can be downloaded from the website of the Dutch Banking Association (www.nvb.nl). Its application to DHB Bank is described in "Implementation of the Dutch Banking Code at DHB Bank", available on the DHB Bank website (https://www.dhbbank.com/compliance-disclosures).

14. *The Managing Directors consider that their remuneration for 2023 was in compliance with the regulatory requirements and in line with the expectation of the stakeholders and the public in general.*

Consolidated Financial Statements

For the Year 2023

DHB BANK

Consolidated Statement of **Financial Position**

As of 31 December *(in thousands of EUR)*	Notes	2023	2022
ASSETS			
Cash and balances with central banks	4.1	294,103	267,982
Financial assets at FVPL	4.2	1,295	2,357
Financial assets at FVOCI	4.3	121,712	138,897
Financial assets at amortized cost			
- Securities at amortized cost	4.4	95,470	105,897
- Loans and advances – banks	4.5	78,414	58,121
- Loans and advances – customers	4.6	1,212,921	1,137,949
Derivative financial instruments – hedge accounting	4.7	1,989	891
Property and equipment	4.8	2,010	2,370
Intangible assets	4.9	351	177
Current tax assets	4.10	242	565
Deferred tax assets	4.10	154	-
Non-current assets held for sale	4.8	-	435
Other assets	4.11	6,873	7,025
Total assets		**1,815,534**	**1,722,666**
LIABILITIES			
Due to banks	4.12	93,908	208,660
Financial liabilities at FVPL	4.2	284	10,717
Deposits from customers	4.13	1,460,898	1,264,270
Derivative financial instruments – hedge accounting	4.7	1,548	-
Provisions	4.14	2,150	1,871
Current tax liabilities	4.15	2,859	7
Deferred tax liabilities	4.15	-	11
Other liabilities	4.16	8,265	7,587
Total liabilities		**1,569,912**	**1,493,123**
EQUITY			
Share capital	4.17	113,750	113,750
Revaluation reserves	4.18	(2,224)	(4,827)
Defined benefit obligation reserve	4.19	(43)	(43)
Retained earnings	4.20	115,210	109,756
Net profit		18,929	10,907
Total equity		**245,622**	**229,543**
Total equity and liabilities		**1,815,534**	**1,722,666**
Commitments and contingent liabilities	6.1	14,552	7,860

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

Consolidated Statement of **Profit or Loss**

For the year ended 31 December

(in thousands of EUR)	**Notes**		**2023**		**2022**
Interest income		91,532		48,604	
Interest expense		(31,671)		(7,302)	
Net interest income	**5.1**		**59,861**		**41,302**
Fee and commission income		914		837	
Fee and commission expense		(151)		(165)	
Net fee and commission income	**5.2**		**763**		**672**
Result on financial transactions, net	5.3		(2,764)		(2,389)
Result on hedge transactions	4.7		18		295
Other operating income	5.4		40		29
Total operating income			**57,918**		**39,909**
Administrative expenses:					
- Staff expenses	5.5	(16,212)		(14,117)	
- Other administrative expenses	5.6	(8,954)		(9,108)	
Total administrative expenses			**(25,166)**		**(23,225)**
Depreciation and amortization			(837)		(858)
Total operating expense			**(26,003)**		**(24,083)**
Operating profit before impairment			**31,915**		**15,826**
Net impairment charge	5.7		(6,499)		(1,118)
Total expense			**(32,502)**		**(25,201)**
Operating profit before tax			**25,416**		**14,708**
Income tax expense	5.8		(6,487)		(3,801)
Net profit attributable to the shareholders			**18,929**		**10,907**

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

Consolidated Statement of **Comprehensive Income**

For the year ended 31 December

(in thousands of EUR)	**Notes**	**2023**	**2022**
Net profit		18,929	10,907
Items that are or may be reclassified to statement of profit or loss			
Cash flow hedge reserve	4.18	(318)	-
Change in fair value of financial assets at FVOCI	4.18	2,921	(4,814)
Realized gains/losses on financial assets at FVOCI reclassified to statement of profit or loss	5.3	-	(43)
Items that will never be reclassified to the statement of profit or loss			
Revaluation reserve-fair value of property	4.18	-	(165)
Re-measurement of defined benefit obligation reserve	4.19	-	-
Other comprehensive income		**2,603**	**(5,022)**
Total comprehensive income for the year		**21,532**	**5,885**

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

Consolidated Statement of **Changes in Equity**

(in thousands of EUR)

	Share capital (Note 4.17)	Revaluation reserve*	Fair value reserve*	Cash flow hedge reserve*	Defined benefit obligation reserve	Retained earnings	Net profit	Total
Balance at 1 January 2023	**113,750**	**-**	**(4,827)**	**-**	**(43)**	**109,756**	**10,907**	**229,543**
Change in revaluation reserve (Note 4.18)	-	-	-	-	-	-	-	-
Change in fair value reserve (Note 4.18)	-	-	2,921	-	-	-	-	2,921
Change in cash flow hedge reserve (Note 4.18)	-	-	-	(318)	-	-	-	(318)
Net profit for the year	-	-	-	-	-	-	18,929	18,929
Total comprehensive income	**-**	**-**	**2,921**	**(318)**	**-**	**-**	**18,929**	**21,532**
Transactions with owners, recorded directly in equity								
Transfer to / from retained earnings	-	-	-	-	-	10,907	(10,907)	-
Dividends paid (Note 5.9)	-	-	-	-	-	(5,453)	-	(5,453)
At 31 December 2023	**113,750**	**-**	**(1,906)**	**(318)**	**(43)**	**115,210**	**18,929**	**245,622**

* *The revaluation reserve, fair value reserve and cash flow hedge reserve are part of the revaluation reserves caption presented in the consolidated statement of financial position.*

(in thousands of EUR)

	Share capital (Note 4.17)	Revaluation reserve*	Fair value reserve*	Cash flow hedge reserve*	Defined benefit obligation reserve	Retained earnings	Net profit	Total
Balance at 1 January 2023	**113,750**	**165**	**30**	**-**	**(43)**	**116,779**	**9,736**	**240,417**
Change in revaluation reserve (Note 4.18)	-	-	-	-	-	-	-	-
Change in fair value reserve (Note 4.18)	-	-	(4,857)	-	-	-	-	(4,857)
Change in cash flow hedge reserve (Note 4.18)	-	-	-	-	-	-	-	-
Net profit for the year	-	-	-	-	-	-	10,907	10,907
Total comprehensive income	**-**	**-**	**(4,857)**	**-**	**-**	**-**	**10,907**	**6,050**
Transactions with owners, recorded directly in equity								
Transfer to / from retained earnings	-	(165)	-	-	-	9,901	(9,736)	-
Dividends paid (Note 5.9)	-	-	-	-	-	(16,924)	-	(16,924)
At 31 December 2023	**113,750**	**-**	**(4,827)**	**-**	**(43)**	**109,756**	**10,907**	**229,543**

* *The revaluation reserve, fair value reserve and cash flow hedge reserve are part of the revaluation reserves caption presented in the consolidated statement of financial position.*

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

Consolidated Statement of **Cash Flows**

As of 31 December *(in thousands of EUR)*	Notes	2023	2022
Cash flows from operating activities			
Net profit for the period		18,929	10,907
Adjustments for non-cash items included in profit:			
Depreciation for property and equipment	4.8	759	725
Amortization for intangible assets	4.9	78	133
Unrealized gains		793	(872)
Net impairment charge	5.7	6,499	1,118
Provisions	4.14	295	(78)
Income tax expense	5.8	6,487	3,801
Changes in operating assets:			
Financial assets at FVPL	4.2	337	(681)
Loans and advances – banks	4.5	(20,300)	11,269
Loans and advances – customers	4.6	(81,539)	(139,103)
Derivative financial instruments – hedge accounting	4.7	(1,098)	(390)
Income tax assets	4.10	169	(220)
Other assets	4.11	152	(1,093)
Changes in operating liabilities:			
Due to banks	4.12	(114,752)	(572)
Deposits from customers	4.13	196,628	(76,644)
Financial liabilities at FVPL	4.2	(10,433)	6,620
Derivative financial liabilities – hedge accounting	4.7	1,230	-
Income tax liabilities	4.15	1,213	(1,720)
Other liabilities	4.16	1,162	1,962
Income tax paid		(4,859)	(2,681)
Net cash (used in)/from operating activities		**1,750**	**(187,519)**
Cash flows from investing activities			
Additions to securities at amortized cost	4.4	(977)	(65,094)
Additions to financial assets at FVOCI	4.3	(22,807)	(20,922)
Disposals and redemptions of securities at amortized cost	4.4	11,418	432
Disposals and redemptions of financial assets at FVOCI	4.3	42,905	174,672
Investments in property and equipment	4.8	(399)	(304)
Investments in intangible assets	4.9	(252)	(49)
Disposal of property and equipment	4.8	435	18
Net cash from/(used in) investing activities		**30,323**	**88,753**
Cash flows from financing activities			
Dividends paid	5.9	(5,453)	(16,924)
Lease payment		(499)	(417)
Net cash used in financing activities		**(5,952)**	**(17,341)**
Net (decrease)/increase in cash and cash equivalents		26,121	(116,107)
Cash and balances with central banks at 1 January		267,982	384,089
Cash and balances with central banks at 31 December	**4.1**	**294,103**	**267,982**
Operational cash flows from interest			
Interest received		89,755	47,469
Interest paid		(23,082)	(7,131)

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

Notes to the **Consolidated Financial Statements**

Notes to the Financial Statements

1.CORPORATE INFORMATION

DHB Bank N.V. is a public limited company incorporated and domiciled in the Netherlands. Its registered office is at Weena 780 3014 DA Rotterdam, Netherlands.

The shareholders are HCBG Holding B.V. of Amsterdam, which owns 70% and Türkiye Halk Bankası A.Ş. of Ankara, which owns 30%. The ultimate parent company of DHB Bank is HCBG Holding B.V.

DHB Bank has a 100% stake in DHB Financial Services B.V. -hereafter referred to as DHB FS- a company incorporated on 5 January 2021 in Belgium.

The financial position of the bank is to a considerable extent related to the economic developments in Türkiye and the European Economic Area on the asset side, and the Netherlands, Belgium and Germany on the liabilities side. The consolidated financial statements reflect the Management's best assessment of the financial position of the bank with respect to these developments.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The consolidated financial statements of DHB Bank and its subsidiary as detailed in the note 3.1 have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU IFRS) and in accordance with Part 9 of Book 2 of the Dutch Civil Code. The bank is registered in Rotterdam, the Netherlands (Chamber of Commerce number 24199853).

The consolidated financial statements for the year ended 31 December 2023 were prepared by the Managing Board and authorized for issue in accordance with a resolution of the Supervisory Board on 22 May 2024. The General Meeting of Shareholders may decide not to adopt the annual accounts but may not amend these.

2.2 Basis of measurement

The consolidated financial statements are prepared on a historical cost basis, except for financial assets at FVOCI, financial assets at FVPL and financial liabilities held for trading (including derivative transactions), derivative financial instruments-hedge accounting, property in use by the bank which are measured at fair value which are measured at book value or lower fair value less costs to sell. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortized cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The consolidated financial statements are prepared under the going concern assumption.

2.3 Functional and presentation currency

The consolidated financial statements are presented in Euros (EUR), which is the functional currency of DHB Bank.

All amounts are stated in thousands of EUR, unless otherwise stated.

3. MATERIAL ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities, income, and expenses of DHB Bank and its subsidiary. This note provides a list of the material accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

Subsidiaries

Subsidiary is an entity controlled by DHB Bank. The Company 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. DHB Bank reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Company having power over an investee.

The financial statements of subsidiary 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.

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.

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 statement of financial position date. All differences are presented in the statement of profit or loss. 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.

3.3 Significant accounting estimates

The preparation of consolidated 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, further explained in section 3.4.2 and 6.4
- determination of impairment losses on loans and advances, loan commitments and financial guarantee contracts, further explained in section 3.7
- determination of deferred tax assets and liabilities, further explained in section 3.16
- determination of fair value for financial assets at FVOCI, further explained in section 3.4.2
- determination of defined benefit plan, further explained in section 3.14.

These items are explained in related sections.

3.4 Financial instruments – recognition and subsequent measurement

3.4.1 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 plus/less transaction costs, except in the case of financial assets and financial liabilities recorded at FVPL. Transaction costs of financial assets at FVPL are recorded in profit or loss.

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

3.4.2 Classification and measurement of financial instruments

Financial instruments are either 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 interest. The amortization is included in the statement of profit or loss under 'Interest

Notes to the **Consolidated Financial Statements**

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 at the measurement date. 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.

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.

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 consistent 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

3.4.2.1 Classification and measurement of financial instruments

Classification and measurement of financial assets are dependent on two criteria: business model and type of contractual cash flows of these assets (through the SPPI test). Both criteria are used to determine whether the financial assets are accounted for at amortized cost, at fair value with adjustments recognized at other comprehensive income (FVOCI), or in profit or loss (FVPL).

The combination of these two criteria (business model and the SPPI test) result in the composition of financial assets measured at amortized cost and at fair value.

Business model assessment:

Business model	How business is evaluated and reported and risk are managed	Measurement
HTC: Hold-to-collect (if passed SPPI test and fair value option is not applied)	The objective of the business model is to hold asset to collect contractual cash flows.	Amortized cost
HTCS: Hold to collect and sell (if passed SPPI test and fair value option is not applied), applicable for debt instruments	Both collecting contractual cash flows and sales are integral to achieving the objective of the business model.	Financial assets at FVOCI
Other business models (including held for trading)	The business model is neither hold-to-collect nor hold to collect and sell.	Financial assets at FVPL

Sales or expected sales of financial assets may be consistent with hold-to-collect business models if those sales are incidental to the business model (e.g. sales due to increase in credit risk, infrequent sales (significant), frequent sales (insignificant individually or in aggregate) or sales close to maturity). The bank reclassifies financial assets only when its business model of those assets changes.

Solely payment of principal and interest ('SPPI') assessment:

The contractual terms are tested for assessment of HCTS and FVOCI business models at initial recognition. The SPPI test covers interest rate and currency, contract features, prepayment, extension (additionally performance linked features for loans) analyses for the detailed SPPI assessment. 'Modification of cash flows' under IFRS 9 is reviewed considering deferral, cancellation, prepayment, and extension conditions in the contracts. Modified time value of money assessment is performed through reasonable scenarios according to benchmark test.

Time value of money, credit risk, basic lending risks, holding costs for a period of time and profit margin (which is consistent with a basic lending agreement) are considered as interest. Additionally, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not bifurcated under IFRS 9.

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

a. Financial assets and liabilities at FVPL

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 and other assets that do not qualify for FVOCI and amortized cost. At initial measurement financial assets and liabilities FVPL are recorded in the statement of financial position at fair value and are subsequently measured also at fair value with changes being realized in the statement of profit or loss under the item 'Result on financial transactions'. The positions with a positive fair value after re-measurement are recorded under the item 'Financial assets at FVPL' whereas the positions with a negative fair value after re-measurement are recorded under the item 'Financial liabilities at FVPL'.

b. Amortized cost

Loans and advances

Loans and advances at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The objective of the DHB Banks's business model is to hold asset to collect contractual cash flows. At initial measurement this category is recorded in the statement of financial position at fair value (including transaction costs) and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. Losses arising from impairment are recognized in the statement of profit or loss under 'Net impairment charge' and disclosed in the movement table under loans and advances.

Securities

Investments under this category 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 (including transaction costs), these investments are subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. Losses arising from impairment are recognized in the statement of profit or loss under 'Net impairment charge'.

c. Financial assets at FVOCI

Financial assets at FVOCI are non-derivative assets which represent a HTCS business model and where the assets' cash flows met SPPI test.

Financial assets at FVOCI consist of interest-bearing securities and syndicated bank loans. DHB Bank has the intention to hold these assets and to sell them in response to needs for liquidity or changes in interest rates, exchange rates.

At initial measurement these are recorded in the statement of financial position at fair value including directly attributable transactions costs and are subsequently measured also at fair value. Unrealized gains and losses are recognized net of taxes through other comprehensive income under the item 'Fair value reserve' until the investment is sold or has matured. Interest income is calculated using the effective interest rate method and recognized in the statement of profit or loss under 'Interest income'.

Notes to the **Consolidated Financial Statements**

Movements in the carrying amount are recognized at other comprehensive income, except for impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in the statement of profit or loss. When the financial asset is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of profit or loss under 'Result on financial transactions'.

d. Other financial liabilities

These are non-derivative financial liabilities ('Due to banks' and 'Deposits from customers'). At initial measurement this category is recorded in the statement of financial position at fair value (including transaction costs) and is subsequently measured at amortized cost.

3.5 Derecognition of financial assets and liabilities

Financial assets

DHB Bank derecognizes a financial asset when:

- substantially all the risks and rewards of the asset, or the control of the asset were transferred;
- 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.

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 recognized 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.

Where an existing financial asset is replaced by another to the same borrower on substantially different terms (10% difference), or the terms of an existing asset are substantially modified, such an exchange or modification is treated as a derecognition of the original asset and the recognition of a new asset, and the difference between the carrying amount and the consideration received is recognized in the statement of profit or loss.

When the modification does not result in the derecognition of that financial asset, a modification gain or loss is recognized in profit or loss for the difference between the carrying amount and the recalculated gross carrying amount of the financial asset (present value of the modified contractual cash flows that are discounted at the revised effective interest rate).

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms (10% difference), 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 between the carrying amounts and the consideration paid is recognized in the statement of profit or loss.

3.6 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. These are disclosed in more detail in the Offsetting Financial Assets and financial liabilities section "6.5".

3.7 Impairment of financial assets

IFRS 9 impairments apply to financial assets at amortized cost and financial assets at FVOCI; lease receivables, financial guarantee contracts and contract assets under IFRS 15. ECL is recognized in profit or loss before a loss event has occurred and applies to the entire portfolio under IFRS 9.

DHB Bank has partnered with an external consulting firm to develop and implement the loan loss calculation module that is based on standardized software from that consulting firm. This module includes an expected credit loss model that is tailored towards DHB Bank's loan portfolio characteristics and enables automated calculation of the impairments using transaction data from DHB Bank's source systems.

DHB Bank recognizes an ECL for the following financial instruments:

- Financial assets at FVOCI
- Financial assets at amortized cost
  - Securities at amortized cost
  - Loans and advances – banks
  - Loans and advances – customers
- Financial guarantee contracts and loan commitments

Impairment stages

The expected credit losses are grouped into the following stages:

- Stage 1: The expected credit losses stemming from possible defaults in the next twelve month period is recognized for the financial instruments without a significant increase in credit risk. Interest income is recognized by applying the effective interest rate on gross carrying amount.
- Stage 2: Lifetime expected credit loss ('Lifetime ECL') is recognized for the financial instruments with significantly increased credit risk. Interest income is recognized by applying the effective interest rate on gross carrying amount.
- Stage 3: Lifetime ECL is recognized for the credit-impaired financial instruments. Interest income for credit impaired instruments is recognized by applying the effective interest rate on net carrying amount instead of gross carrying amount.

Financial instruments classified as low credit risk

DHB Bank classifies these financial assets as low credit risk instruments:

- ECB eligible securities
- Risk of financial institutions located in countries with minimum BBB- rating (external or internal)

Low credit risk instruments exist in financial assets at FVOCI and securities at amortized cost. Lifetime ECL is not calculated for financial instruments classified as low credit risk.

Definition of default and credit impaired financial assets

DHB Bank considers a default to have occurred when one or more of the following events has/have taken place:

a) The obligor fails to pay in time the interest and/or instalments of principal and/or any other due financial obligation to DHB Bank within the cure period stipulated which is not longer than 90 days.

b) The obligor is considered to be unlikely to meet its contractual obligations to DHB Bank, the parent undertaking or any of its subsidiaries in full, without recourse by DHB Bank to actions such as realizing security.

Exposures are classified as defaulted and accordingly non-performing based on DHB Bank's assessment for each obligor in terms of debt service capacity due to unlikely to pay (UTP) events.

A financial asset is qualified as non-performing for the entire amount, not taking into account any available collateral, if it is in default status as a result of the default triggers. Furthermore, non-performing classification will be in place if a performing forborne exposure in a probation period receives an additional forbearance measure or becomes more than 30 days past due or is still in overdue status following the cure period of at least 12 months.

A non-performing financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured within IFRS framework.

DHB Bank considers the following exposures as non-performing:

- all defaulted exposures
- a performing forborne exposure in a probation period that was classified as non-performing at the time of the latest forbearance measure or as a consequence of entering the forbearance status and on which an additional forbearance measure is imposed; or

- a performing forborne exposure in a probation period that was classified as non-performing at the time of the latest forbearance measure or as a consequence of entering the forbearance status and becomes more than 30 days past due.

Exposures, which are defaulted, and credit impaired in accordance with IFRS framework, are considered as non-performing exposures.

Watch-list exposures

DHB Bank uses early warning indicators (EWIs) for timely detection of increased credit risk in its portfolio. On identifying a triggered EWI event which may lead to further assessment and more frequent monitoring, DHB Bank considers placing exposures on Watch-List based on the delay in debt repayments, potential weaknesses in the financial standing of the obligors, difficulties in the repayment capacities or cash flows and other relevant potential factors which will create repayment problems.

Forborne exposures

A forborne asset is any contract which has been entered into with an obligor which is in or about to face financial difficulty, and which has been refinanced or modified on terms and conditions that DHB Bank would not have accepted (concession) if the obligor had been financially healthy. Forbearance measures consist of concessions (favourable terms) towards obligors facing or about to face difficulties in meeting its financial commitments with the intention of bringing them back within their repayment capacity. Within this context, forborne exposures relates to the restructured exposures against which forbearance measures have been extended.

The calculation of ECLs

In order to determine ECLs DHB Bank will utilise Probability of Default (PD) x Loss Given Default (LGD) x Exposure at Default (EAD) models for Stage 1 and Stage 2 exposures in the scope. This effectively calculates an ECL for each future period, which is then discounted back to reporting date and summed. PD is the likelihood of a borrower defaulting on its financial obligation (as default and credit impaired), either over the next 12 months or remaining lifetime of the obligation. EAD is defined as total amount to be owed at the time of the default, either over the next 12 months or remaining lifetime of the obligation. LGD is the banks expectation on extent of the loss on a defaulted exposure. LGD varies by availability and type of the collateral. LGD is expressed as a percentage unit and indicates the loss if the default occurs over the next 12 months or remaining lifetime of the obligation. The bank calculates impairment under four segments: banks, corporates, sovereign and retail portfolios. Retail portfolio is followed under insured, uninsured and mortgage sub-portfolios. DHB Bank does not group any portfolio of assets for collective ECL calculation.

Time horizon applied in ECL calculation for overdraft loans is defined according to the Bank`s applied contractual period. Currently, internal rating model enables credit analysts' judgment in Credit Risk to be fed into the final rating. Rating buckets used in ECL loss calculation is determined according to DHB's portfolio distribution and internal rating scale.

The estimation of Credit Conversion Factors (CCF) are existing, standardized and widely accepted regulatory Basel values which are already applied by the bank and valid under IFRS 9. The LGDs are determined based on factors which impact the recoveries made post default. These vary by product type. For secured products, LGDs are mainly based on collateral type and value

Incorporation of forward looking information

Forecasts of multiple future economic conditions (macroeconomic scenarios) are incorporated into the ECL models as probability weighted in order to determine the eventual expected credit losses. The scenarios depend on historical data of the forward-looking indicators. DHB Bank utilises three macroeconomic scenarios for Stage 1 and Stage 2 financial assets, which are also used in stress testing, in the ECL model: a baseline scenario, a baseline minus and a baseline plus.

For Stage 3-credit impaired financial assets, the Bank uses scenario analyses, including forward looking information and weighted by judgment of credit risk department and the management, which are also probability weighted.

Expected unemployment rate and GDP are forward-looking indicators incorporated in the ECL model.

Considering the bank's portfolio, country distribution and business expectations as well as statistical significance, DHB Bank use weighted average of GDP growth of Türkiye and European Union for corporate exposures, GDP growth of European Union for bank and sovereign exposures, unemployment rate for retail (Belgium for insured and Eurozone for uninsured portfolio and mortgage) segments. These are the most significant assumptions affecting the ECL allowance. The key inputs to the model are historical portfolio defaults along with credit quality changes, and macroeconomic forecasts for the related independent variables i.e. EU Real GDP growth, TR Real GDP growth, Belgium unemployment, Eurozone unemployment. The calculation for ECL is performed at a facility level using facility level characteristics like exposure, related PD, etc. For constructing the forward-looking model, a correlation analysis is performed to identify the macro-economic factors which should be used as independent variables, based on statistical significance.

The bank continues to monitor the macroeconomic forecasts and updates the ECL model variables on quarterly basis.

Write-off

DHB Bank may decide to write-off all or parts of a full provisioned exposure when debts are considered non-collectible, or their continuation as bankable assets is not warranted. Classifying exposures as such is a final decisive step along a continuation of assets of progressively lesser quality and eventual provisioning. At the point of determination that a full provisioned asset is a total loss and when all recovery options are exhausted, it is written off and removed from the statement of financial position. Such exposures are written off after all the necessary procedures have been completed and the amount of the loss has been determined. 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 recognized in the statement of profit or loss.

Stage determination criteria

Main risk indicators of staging methodology are internal ratings, watch list/NPE decisions, and modifications. In order to allocate financial instruments in scope between the categories 12-month ECL (Stage 1), Lifetime ECL non-credit impaired (Stage 2) and Lifetime ECL credit-impaired (Stage 3) a framework of qualitative and quantitative factors have been developed.

Internal rating:

Internal rating model is used for determining credit risk of the obligors based on their financial and business performance. In the model, there are quantitative and qualitative sections for which data related to financial and business performance of obligors are introduced. The model aggregates an overall score based on weighted scores of quantitative and qualitative sections depending on their potential influence on obligor's credit worthiness. As a last step, overall score is converted to internal rating based on pre-determined mapping of scores and ratings.

In order to allocate financial instruments between Stages 1 and 2, the Bank use criteria that are currently applied in the credit process, such as days past due status.

For exposures originated before 1 January 2016, PD comparison for the staging assessment is between the first available assigned PD after 1 January 2016 and at the reporting date. For exposures originated after 1 January 2016, PD on origination date will be compared with reporting date.

Additionally, as long as the exposure is not considered as default (or derecognized) and modifications in the exposure is not related to commercial reasons, a financial instrument should be transferred to Stage 2 if it meets one of the following criteria:

1. Past due: Exposures that are more than 30 days but less than 90 days past due at the reporting date.
2. Internal rating change: Internal rating downgrade of the obligor(s) to lower bucket at the reporting date compared to internal rating on the origination date.
3. Watch list and performing forborne exposure classifications.

Stage 2 exposures are transferred to Stage 1 if one or more of the following criteria is/are fulfilled;

a) Removal from watch-list classification.
b) Internal rating upgrade to same/higher bucket at the reporting date compared to internal rating on the origination date and there are no other signs of expected deterioration.
c) Removal from performing forborne classification following the cure periods in line with the criteria defined in the internal policy.

Stage 3 exposures are only transferred to Stage 2 when the following minimum conditions for reclassification to a non-defaulted status are met:

a) No trigger of default continues to apply to a previously defaulted exposure, where at least 3 consecutive months have passed since the moment that the conditions of default cease to be met. During the 3 months period, the behaviour and financial situation of the obligor are taken into account. After a 3-month period, if DHB Bank still considers that the obligor is unlikely to pay its obligations in full without recourse to realising security, the exposures will continue to be classified as defaulted until the improvement of the credit quality is factual and permanent.
b) For distressed restructuring cases (where the relevant forbearance measures are likely to result in a

diminished financial obligation);

1) At least 12 consecutive months pass during which no default conditions are met, counting from the latest of:
   (a) when concessions where extended,
   (b) when the default was recorded,
   (c) when any grace period in the restructured payment schedule ended and,
2) During which a material payment (equivalent to what was previously past due or written off) has been made by the obligor and,
3) During which payments have been made regularly according to the restructured payment schedule and,
4) There are no past due credit obligations related to the restructured payment schedule.

Additionally, the exposures may be considered to have ceased being non-performing forbearance if:

(a) extension of forbearance does not lead to the recognition of impairment or default,
(b) 1 year has passed since the forbearance measures were extended,
(c) there is no, following the forbearance measures, any past-due amount or concerns regarding the full repayment of the exposure according to the post forbearance conditions. The absence of concerns has to be determined after an analysis of the debtor's financial situation.

Stage 3: Stage 3 consists of exposures transferred from Stage 1 and Stage 2 due to the below–mentioned default triggers.

The criteria for allocating a financial exposure to Stage 3 are fully aligned with the criteria for assigning a defaulted/non-performing status.

The bank considers a default to have occurred when one or more of the following events has/have taken place:

a) The obligor fails to pay in time the interest and/or instalments of principal and/or any other due financial obligation to the bank within the cure period stipulated, which is no longer than 90 days.

b) The obligor is considered unlikely to meet its contractual obligations to the bank, the parent undertaking or any of its subsidiaries in full without recourse by the bank to actions such as realizing security.

Exposures are classified as defaulted and accordingly non-performing based on the assessment for each obligor in terms of debt service capacity due to Unlikely To Pay (UTP) events.

Recognition of impairment

ECL for financial assets at amortized cost is deducted from the gross carrying amount of the assets. For financial assets at FVOCI, ECL is recognized under other comprehensive income. ECL for commitments and contingent liabilities is recognized in provisions at the statement of financial position. Impairment losses are presented at statement of profit or loss.

3.8 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.

3.9 Repurchase transactions

Securities sold subject to repurchase agreements ('repos') are recorded in the statement of financial position in the items Financial assets at FVOCI (based on the business model) or Financial assets at amortized cost (based on the business model). The repurchase 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 statement of financial position item 'Due to banks'.

3.10 Property and equipment

Property in use by the bank is stated at fair value, being the market value, at the statement of financial position 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 statement of profit or loss.

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

Depreciation is recognized in the statement of profit or loss 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	50 years
• Rebuilding cost real estate	10 years

Items of equipment 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 recognized in the statement of profit or loss on a straight-line basis over their estimated useful lives as follows:

• Leasehold improvements	Over the term of respective leases or 10 years
• Right-of-use assets	3 - 10 years
• Furniture and fixtures	5 years
• Vehicles	5 years
• Office equipment and IT hardware	3 years

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 derecognized. Gains and losses on derecognition of the asset are determined by comparing proceeds with carrying amount and are recognized in the statement of profit or loss under 'Other operating income' in the year the asset is derecognized.

DHB Bank assesses the non-financial assets carried at cost or 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 recognized 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 recognized. In such a case, the carrying amount of the asset is increased to its recoverable amount.

3.11 Leases

DHB Bank assesses whether the contract is, or contains, a lease, by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

DHB Bank accounts for each lease components within the contract as a lease separately from non-lease components of the contract.

Non-cancellable period of a lease is determined as the lease term, together with periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option.

Initial measurement of the lease liability

DHB Bank measures the lease liability initially at the present value of the lease payments that are not paid at that date. Lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, DHB Bank uses its incremental borrowing rate. The Bank has taken into account in the determination of the incremental borrowing rate, the condition as follows; by what rate would the Bank pay to borrow money to purchase the type of asset being leased also considering the asset, location and the lease term (yield curve).

For the variable lease payments that depend on consumer price index, the future lease payments are measured using the index as of the commencement date.

Subsequent measurement of the lease liability

DHB Bank measures the lease liability subsequently by:

- increasing the carrying amount to reflect interest on the lease liability,
- reducing the carrying amount to reflect the lease payments made and,
- re-measuring the carrying amount to reflect any reassessment or lease modifications, such change in interest rate or the variable lease payment amounts.

Initial measurement of the right-of-use asset

DHB Bank measures the right-of-use asset initially at cost. Cost of right-of-use asset comprises the amount of the initial measurement of the lease liability and if any, the initial direct costs incurred by the Bank.

Subsequent measurement of the right-of-use asset

DHB Bank measures the right-of-use asset subsequently applying a cost model. To apply a cost model, the Bank measures the right-of-use asset at cost less any accumulated depreciation. The right-of-use asset is depreciated over the period of the lease using the straight-line method and adjusted for any re-measurement of the lease liability.

Expenses related to short-term leases with a lease term of less than 12 months and leases of low-value assets are recognized on a straight-line basis in the statement of profit or loss, as permitted by the standard.

Right-of-use assets are presented as part of property and equipment, while the lease liabilities are presented as part of other liabilities. Depreciation of the right-of-use assets is presented in depreciation and amortization expense, and the interest on lease liabilities is included in interest expense under the statement of profit or loss.

DHB Bank elects not to apply the requirements in paragraphs to short-term leases and leases for which the underlying asset is of low value. Short-term lease is defined as a lease that, at the commencement date, has a lease term of 12 months or less as per defined terms in IFRS 16. The Bank elects not to apply to leases for which the lease term ends within 12 months of the date of initial application (1 January 2019). In this case, the Bank will account for those leases in the same way as short-term leases. The Bank recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

3.12 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 mainly consist of provisions for variable remuneration and ECL calculated for financial guarantee contracts.

Variable remuneration

In 2014, DHB Bank adopted a variable remuneration plan that is comprised of direct cash component (50%) and stock-based cash component (50%). Variable remuneration is granted to key executives upon meeting the terms and conditions laid down in the respective plan.

Part of the variable remuneration is required to be granted unconditionally (60%) and the remaining part (40%) is granted pro rata over a period of 3 calendar years (deferred) following the year of the grant of the variable remuneration.

Cash payment includes an immediate payment (60% of the total direct cash component) and three equal instalments to be paid in succeeding three years.

The stock-based cash component is in the form of financial instruments called stock derivative rights (SDRs) whose value is derived from the value of the DHB Bank's net asset value. The stock-based cash component is also granted unconditionally (60%) and the remaining part (40%) is granted pro rata over a period of 3 calendar years (deferred). Furthermore, SDRs (whether deferred or unconditional) are subject to a retention period of 1 year after granting.

Vesting and exercise of the variable remuneration plan is subject to the fulfilment of certain performance conditions and the decision of the Annual General Shareholders' Meeting based on the recommendation of the Supervisory Board.

Variable remunerations are recognized as a staff expense over the vesting period with a corresponding rise in liability, which is recorded under 'Provisions'. The value of the liability is re-measured at each statement of financial position date considering the accounting value of equity, and its adjustment is recognized in the statement of profit or loss under item 'Staff expenses'.

Other

This item relates to allowances for IFRS 9 expected credit loss for financial guarantee contracts.

3.13 Defined benefit plan – minimum guarantee

DHB Bank has a pension plan in place for its employee's. This plan is fully insured with a third party and therefore this pension plan is treated as a defined contribution plan for DHB Bank's accounting, except for the pension plan related to DHB Bank staff in Belgium.

Due to a specific legislation change in Belgium whereby the bank needs to guarantee a minimum return to its employees, the part of DHB Bank's pension plan that is applicable to its Belgian employees is therefore treated as a defined benefit plan as of 2016.

The net defined benefit liability related to DHB Bank's Belgium Branch as recognized in the statement of financial position is the present value of the defined benefit obligation at the statement of financial position date less the fair value of the plan assets. This amount is presented in the statement of financial position as a net amount under provisions. Based on Belgian law DHB Bank will only have an obligation if the insurance company does not cover the minimum return. DHB Bank will not benefit from a situation where the insurance company exceeds the minimum guarantee levels (i.e. it will never be able to report a net defined benefit asset).

Plan assets solely constitute the insurance policy and are measured at fair value at the statement of financial position date. For determining the pension expense, the return on plan assets is determined using a high quality corporate bond rate identical to the discount rate used in determining the defined benefit obligation.

Changes in plan assets that affect shareholders' equity and/or net result, include mainly:

- return on plan assets using a high quality corporate bond rate at the start of the reporting period which are recognized as staff costs in the statement of profit or loss; and
- remeasurements which are recognized in other comprehensive income (equity).

The defined benefit obligation is calculated by an external actuary through actuarial models and calculations using the projected unit credit method. This method considers expected future payments required to settle the obligation resulting from employee service in the current and prior periods, discounted using a high quality corporate bond rate. Inherent in these actuarial models are assumptions including discount rates, rates of increase in future salary and benefit levels, mortality rates, trend rates in health care costs, consumer price index and the expected level of indexation. The assumptions are based on available market data as well as management expectations and are updated regularly. The actuarial assumptions may differ significantly from the actual results due to changes in market conditions, economic and mortality trends, and other assumptions. Any changes in these assumptions could have a significant impact on the defined benefit plan obligation and future pension costs.

Changes in the defined benefit obligation that affect shareholders' equity and/or net result, include mainly:

- service cost which are recognized as staff costs in the statement of profit or loss;
- interest expenses using a high quality corporate bond rate at the start of the period which are recognized as staff costs in the statement of profit or loss; and
- remeasurements which are recognized in other comprehensive income (equity).

Remeasurements recognized in other comprehensive income are not recycled to profit or loss. Any past service cost relating to a plan amendment is recognized in the statement of profit or loss in the period of the plan amendment. Gains and losses on curtailments and settlements are recognized in the statement of profit or loss when the curtailment or settlement occurs.

3.14 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 statement of financial position date.

Deferred income tax

Deferred income tax is created, 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. Deferred income tax is not created for permanent differences for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor tax profit.

Deferred tax assets are recognized 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 recognized 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 reporting date and reduced to the extent that it is no longer probable that sufficient tax profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future tax 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 reporting date.

Current tax and deferred tax relating to items recognized directly in equity are not recognized in the statement of profit or loss.

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.

3.15 Recognition of income and expenses

Revenue is recognized 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 recognized:

a) Interest income and expense

Interest income or expense for financial instruments is recorded at the effective interest rate measured at amortized cost. Effective interest 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 interest (except future credit losses). If a financial instrument is written down as a result of an impairment loss, the interest income is thereafter recognized using the rate of interest use to discount the future cash flows for the purpose of measuring the impairment loss. For assets measured at amortized cost, this interest rate would be the original effective interest rate and for financial assets at FVOCI financial assets it would be the new effective interest rate computed based on the fair value at the date of impairment.

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

b) Fee and commission income

DDHB Bank applies IFRS 15 for recognition of revenue from contracts with customers, of which are composed of fee and commission income. After contracts and their performance obligations are identified, revenue is recognized as an amount that reflects the consideration to which the bank is entitled to in exchange for transferring services to customers. The transaction price is allocated to each performance obligation. Revenue is measured at the fair value of the consideration received, taking into account discounts and rebates. Revenue is recognized when a promised service is transferred to the customer. Fees and commission income are either recognized over time or at a point in time.

Over time: DHB Bank earns fees and commission income from various services provided to customers. Fees and commissions against services over a period of time relate to services on an ongoing basis and are recognized over time. These fees include account maintenance fees and financial analysis fee which are accounted under banking services.

At a point in time: Banking services which include fees for money transfers and other banking transaction services, cash loan commissions which are not considered part of the effective interest of the related financial instrument, letter of guarantees and letter of credits are recognized at a point in time.

c) Result on financial transactions

Result on financial transactions comprises the following items:

Foreign currency exchange transactions
Differences on foreign currency exchange transactions are recognized under 'Result on financial transactions'.

Securities held for trading
(Un)realized gains and losses regarding securities held for trading are recognized under 'Result on financial transactions'.

Financial assets at FVOCI
Gains and losses arising from disposals of financial assets at FVOCI are recognized 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 recognized under 'Result on financial transactions'. (Un) realized gains and losses on option trading transactions are included under 'Result on financial transactions'.

Further reference is made in section 3.4 Financial instruments – recognition and subsequent measurement.

3.16 Equity components

Legal reserve

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

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.

Fair value reserve

This reserve encompasses the unrealized gains and losses on securities classified as FVOCI excluding impairment losses, until the investment is derecognized or impaired, net of taxes, together with changes in the fair value of the hedged items attributable to the hedged risks. When the relevant assets are sold, impaired or otherwise disposed of, the related cumulative gain or loss recognized in equity is transferred to the statement of profit or loss.

Cash flow hedge reserve

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

3.17 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 advances, 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.

3.18 Changes in IFRS-EU

The following amendments to standards are effective, were endorsed and adopted by the EU for annual periods beginning on or after 1 January 2023.

IFRS 17 Insurance contracts

IFRS 17 replaces the standard of IFRS 4 Insurance Contracts. The original effective date of IFRS 17 was 1 January 2021, but in June 2020 the IASB published an Amendment confirming 1 January 2023 as the new effective date.

These standards and amendments do not have impact on DHB Bank.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

These standards and amendments do not have material impact on DHB Bank.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021)

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

These standards and amendments do not have material impact on DHB Bank.

Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021)

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

These standards and amendments do not have material impact on DHB Bank.

Amendments to IAS 12 Income Taxes International Tax Reform Pillar Two Model Rules
The amendments introduce a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

These standards and amendments do not have impact on DHB Bank.

3.19 Main changes in IFRS-EU applicable after 2023

The EU has no main changes on standards applicable after 2023.

3.20 Other changes in IFRS-EU applicable after 2023

At the date of authorization of these consolidated financial statements, the following standards and interpretations have been issued however are not yet effective and/or have not yet been adopted by the EU and have not yet been adopted by DHB Bank.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. DHB Bank is currently assessing the impact of this standard.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current
The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2024, with early application permitted. These standards and amendments do not have material impact on DHB Bank.

Amendments to IAS 1 Presentation of Financial Statements Non-current Liabilities with Covenants
The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date. These standards and amendments do not have material impact on DHB Bank.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures Supplier Finance Arrangements
The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk. DHB Bank is currently assessing the impact of this standard.

Amendment to IFRS 16 Leases - Lease Liability in a Sale and Leaseback
The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date. These standards and amendments do not have material impact on DHB Bank.

4. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

4.1 Cash and balances with central banks

	2023	2022
Balances with central banks	294,103	267,982
Total	**294,103**	**267,982**

This item includes all legal tender and demand deposits held at the central bank in countries in which DHB Bank is established. Balances with the central bank include reserve deposits that are not available in daily operations, amounting to 11,536 (2022: 9,484).

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

4.2 Financial assets & financial liabilities at FVPL

DHB Bank holds derivative financial instruments for general risk management purposes (used for economic hedges) as of 31 December 2023 and 2022. The positions with a positive/negative fair value after re-measurement are recorded under the items 'Financial assets at FVPL' and 'Financial liabilities at FVPL'.

The following table shows the financial assets at FVPL as of 31 December 2023 and 2022:

	2023		2022	
	Fair value	Notional	Fair value	Notional
Financial assets at FVPL				
Currency swaps	1	9,794	194	30,700
Interest rate swaps	617	8,300	843	9,324
Cross currency swaps	677	26,969	1,320	155,662
Total	**1,295**	**45,063**	**2,357**	**195,686**

The financial assets at FVPL relate to derivatives positions to hedge financial risks, which do not qualify for hedge accounting.

Currency swaps are mainly used to fund US Dollar, Turkish Lira and Hungarian Forint assets while interest rate swaps and cross currency swaps are used to hedge interest rate risk and foreign currency risk positions related to US Dollar and Turkish Lira. Currency forwards are offered to select customers in main currencies whereby the currency risk is fully hedged by offsetting deals with bank counterparties.

All gains and losses from change in the fair values of financial assets at FVPL are recognized in the statement of profit or loss under 'Result on financial transactions'.

The following table shows the financial liabilities at FVPL as of 31 December 2023 and 2022:

	2023		2022	
	Fair value	Notional	Fair value	Notional
Financial liabilities at FVPL				
Currency swaps	35	9,858	645	31,222
Interest rate swaps	-	8,300	8	9,324
Cross currency swaps	249	26,330	10,064	164,119
Total	**284**	**44,488**	**10,717**	**204,665**

These liabilities relate to derivatives positions to hedge financial risks, which do not qualify for hedge accounting.

4.3 Financial assets at FVOCI

	2023	2022
Debt securities issued by banks	96,331	106,514
Debt securities issued by corporates	17,295	28,561
Government (Eurobonds)	3,110	3,822
Loans and advances to banks	4,976	-
Total	**121,712**	**138,897**

From financial assets under this category, 113,967 (2022: 138,897) is under custody with DNB and serves as a pool of ECB eligible securities that can be used to obtain funding from the ECB, of which 60,228 (2022: 135,436) is blocked as a pledge for total funding amounting to 55,029 (2022: 125,112) as obtained from the ECB under the (Targeted) Long Term Refinancing Operations (TLTRO).

The pledged transactions under the TLTRO are conducted in accordance with the general terms and conditions of the ECB. Further details can be found in paragraph 4.12.

There are no subordinated securities at FVOCI (2022: none).

Financial assets at FVOCI developed as follows:

	2023	2022
At 1 January	**138,897**	**297,499**
Purchases	22,798	20,927
Sales	(7,382)	(13,592)
Redemptions	(35,903)	(163,875)
FX revaluations and accrued interests	952	(924)
Market value revaluations	2,350	(1,138)
At 31 December	**121,712**	**138,897**

4.4 Securities at amortized cost

	2023	2022
Government (Eurobonds)	59,822	60,354
Debt securities issued by banks	24,591	28,532
Debt securities issued by corporates	11,059	17,026
Subtotal	**95,472**	**105,912**
ECL allowances	(2)	(15)
Total	**95,470**	**105,897**

From the securities at amortized cost 95,470 (2022: 102,959) is under custody with DNB and serves as a pool of ECB eligible securities that can be used to obtain funding from the ECB. From this 14,396 (2022: 75,601) is blocked as a pledge and the remaining of the total ECB eligible at amortized cost securities is freely available amounting to 81,074 (2022: 27,358).

There are no subordinated securities at amortized cost.

Notes to the **Consolidated Financial Statements**

The securities at amortized cost developed as follows:

	2023	2022
At 1 January	**105,897**	**41,249**
Purchases	977	65,094
Disposals	(10,853)	-
Changes in accrued interest and (dis)agio	(564)	(432)
ECL allowances	13	(14)
At 31 December	**95,470**	**105,897**

4.5 Loans and advances – banks (amortized cost)

These are non-derivative exposures to banks classified as 'loans and advances' and comprising exposures to central banks, which are not included in the item 'Cash and balances with central banks.' Bank loans that have a business model of HCTS are measured at FVOCI, and therefore these positions are reported under section 4.3.

	2023	2022
Money market placements	60,791	49,043
Other loans and advances	17,679	9,127
Subtotal	**78,470**	**58,170**
ECL allowances	(56)	(49)
Total	**78,414**	**58,121**

The item 'Loans and advances – banks' includes pledged funds amounting to 1,003 (2022: 11,016). Of this amount, 1,003 (2022: 11,016) serves as collateral for several swap transactions, while none (2022: none) serves as collateral for non-financial transactions. The pledged fund transactions for swap transactions are conducted under terms based on the applicable ISDA Collateral Guidelines and CSA terms.

4.6 Loans and advances – customers (amortized cost)

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

	2023	2022
Retail loans	131,211	140,729
Commercial loans	1,096,503	1,005,565
Subtotal	**1,227,714**	**1,146,294**
ECL allowances	(2,988)	(4,002)
Individual loan impairment allowances	(11,805)	(4,343)
Total	**1,212,921**	**1,137,949**

From the loans and advances - customers at amortized cost 43,974 (2022: 26,076) is under custody with DNB and serves as a pool of ECB eligible loans that can be used to obtain funding from the ECB. The total amount of 43,974 (2022: 26,076) is blocked as a pledge and is not freely available.

4.7 Hedge accounting

Accounting policy for hedge accounting

Derivatives held for asset-liability risk management purposes include all derivative assets and liabilities that are not classified as assets at FVPL and liabilities at FVPL.

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.

IFRS 9 allows entities to continue with the hedge accounting under IAS 39 after 31 December 2017. DHB Bank decided to continue applying IAS 39 for hedge accounting in their entirety and not to apply the EU carve-out. The bank implemented revised hedge accounting disclosures as required by IFRS 7 'Financial Instruments: Disclosures'.

Fair value hedges

As part of wider risk management of the bank as set out in Note 7, the bank's strategy is to apply fair value hedge accounting to keep its risks arising from interest rate and foreign currency sensitivities within limits.

DHB Bank manages the interest rate risk arising from fixed-rate loans and advances – customers by entering interest rate swaps as hedging instruments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the statement of profit or loss under 'results on fair value hedges', together with fair value adjustments to the hedged item attributable to the hedged risk. Dollar offset method is used comparing the change in fair value or cash flows of the hedging instrument with the change in fair value or cash flows of the hedged item attributable to the hedged risk.

Fair value hedge ineffectiveness within the 80% - 125% bandwidth is recognized in the statement of profit or loss under 'results on fair value hedges' through the actual hedge adjustment. Ineffectiveness outside the 80% - 125% bandwidth is recognized by not posting a hedge adjustment to the hedged item. In this case, the hedge relationship is terminated, and it is re-designated at the beginning of the next period if expected to be highly effective prospectively.

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, amortized through the statement of profit or loss under 'result on fair value hedges' over the remaining term of the hedged item or recognized directly when the hedged item is derecognized. For non-interest-bearing instruments, the cumulative adjustment of the hedged item is recognized in profit or loss when the hedged item is derecognized.

The main sources of hedge ineffectiveness in fair value can arise from:

- difference in discount rates used for discounting,
- difference in the fixed rate of the swap and the loan rate.

Cash flow hedge

Cash flow hedging is applied to hedge the variability arising on expected future cash flows due to foreign currency risk arising from foreign currency denominated assets with floating interest rates. As foreign exchange rates fluctuate, the future cash flows in local currency on these instruments also fluctuate. DHB Bank uses float-float cross-currency swaps to hedge the risk of such cash flow fluctuations.

In order to replicate the hedge relation and track its effectiveness, the bank creates a hypothetical proxy swap that copies the financial characteristics of the hedged item. While testing the effectiveness of the hedge relation, the present value changes in hedging and proxy swaps are differentiated by its interest rate and FX risk components. Since the aim of cash flow hedge is to hedge the FX risk, the effectiveness test is carried out through comparing the present value changes due to FX risk, with the same effectiveness bandwidth as fair value hedges (80% - 125%). The effective portion of the gain or loss on the hedging instrument that are designated and qualify as cash flow hedges are recognised in other comprehensive income under the item 'cash flow hedge reserve'. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. The main source of hedge ineffectiveness in cash flow hedge may arise from difference in foreign currency denominated notional amounts between hedging instrument and hedged item. Since the difference in value changes between hedging instrument and hedged item due to unmatched notional amounts are recognised as ineffectiveness under profit or loss and hedging instrument and hedging item have the same underlying benchmark rates, the lesser of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the expected future cash flows on the hedged item from the inception date is applied for the amount recognized under other comprehensive income. Amounts accumulated in equity are transferred to profit or loss 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 other comprehensive income at that time remains in equity and is reclassified to profit or loss when a hedging instrument is derecognised.

Effect on Consolidated Statement of Financial Position and Consolidated Statement of Profit or Loss

Derivative financial instruments - hedge accounting

DHB Bank holds derivative financial instruments for general risk management purposes as of 31 December 2023 and 2022.

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

	2023			2022		
Derivative financial instruments	**Notional amounts**	**Fair values**		**Notional amounts**	**Fair values**	
		Positive	**Negative**		**Positive**	**Negative**
Interest rate swaps						
Fair value hedges	7,500	531	-	12,500	891	-
Cross currency swaps						
Fair value hedges	104,213	1,458	1,548	-	-	-
Total	**111,713**	**1,989**	**1,548**	**12,500**	**891**	**-**

** Changes in the fair values of the hedging item due to foreign currency movements amount to 3,316 as of December 2023 (2022: none).*

	2023			2022		
Hedged item	**Carrying amount**	**Accumulated FV adjustments**	**Change in values of hedged item**	**Carrying amount**	**Accumulated FV adjustments**	**Change in values of hedged item**
Fair value hedges						
Loans and advances – customers	7,085	(423)	294	11,688	(831)	(732)
Cash flow hedges						
Loans and advances – customers	103,177	-	(3,325)	-	-	-
Total	**110,262**	**(423)**	**(3,031)**	**11,688**	**(831)**	**(732)**

DHB Bank uses interest rate swaps to hedge the interest rate risk in fair value hedges. The average price of the interest rate swaps is -0.42% as of 31 December 2023 (2022: -0.43%). DHB Bank uses plain interest rate and cross currency swaps to hedge future cash flows against interest rate risk and currency risk.

	2023		
	Within 1 year	**1-5 years**	**Over 5 years**
Cash inflows	17,438	67,936	17,132
Cash outflows	-	-	-
Total	**17,438**	**67,936**	**17,132**

Result on hedge transactions

	2023	2022
Result on hedge transactions	18	295
'Result on hedge transactions' comprises the gains and losses from:	**2023**	**2022**
• fair value hedges on the hedging instrument	(346)	695
• fair value hedges on the hedged item	373	(400)
• cash flow hedges (ineffective portion)	(9)	-
Total	**18**	**295**

These results are related to the fair value hedges and ineffective portion from the cash flow hedges. DHB Bank applies fair value hedge accounting to the interest rate risks arising from financial instruments at FVOCI or at amortized costs with fixed interest rates. DHB Bank uses interest rate swaps as a hedging instrument for this purpose while using floating rate cross currency swaps to hedge future cash flows against foreign currency risk for cash flow hedge accounting. There are no amounts having reclassified from the cash flow hedge reserve to profit or loss in 2023 and 2022.

Reconciliation of components of equity

The table below provides a reconciliation by risk category of equity components and an analysis of OCI items resulting from hedge accounting.

Effective portion of changes in fair value	2023	2022
Balance at 1 January	-	-
• Interest rate risk	-	-
• Currency risk	(428)	-
Tax amount	110	-
Total	**(318)**	**-**

4.8 Property and equipment & non-current assets held for sale

The changes in book value of property and equipment in 2023 and 2022 are as follows:

	Buildings	Right-of-use assets	Other fixed assets	Total
Balance at 1 January 2023	**-**	**1,844**	**526**	**2,370**
Investments	-	222	177	399
Divestments	-	-	-	-
Reclassification	-	-	-	-
Depreciation	-	(548)	(211)	(759)
Revaluation	-	-	-	-
Re-measurement	-	-	-	-
Balance at 31 December 2023	**-**	**1,518**	**492**	**2,010**
Cost	-	3,668	2,592	6,260
Cumulative depreciation	-	(2,150)	(2,100)	(4,250)
Cumulative revaluations	-	-	-	-
Total	**-**	**1,518**	**492**	**2,010**

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	Buildings	Right-of-use assets	Other fixed assets	Total
Balance at 1 January 2022	**477**	**2,278**	**520**	**3,275**
Investments	-	65	239	304
Divestments	-	-	(18)	(18)
Reclassification	(466)	-	-	(466)
Depreciation	(11)	(499)	(215)	(725)
Revaluation	-	-	-	-
Re-measurement	-	-	-	-
Balance at 31 December 2022	**-**	**1,844**	**526**	**2,370**
Cost	-	3,487	2,500	5,987
Cumulative depreciation	-	(1,643)	(1,974)	(3,617)
Cumulative revaluations	-	-	-	-
Total	**-**	**1,844**	**526**	**2,370**

The office premise located in Antwerp, which was reclassified to held for sale in 2022, was sold in 2023 with an additional impairment amount of 15 compared to 2022.

DHB Bank does not have any restrictions on title, and property, plant and equipment pledged as security for liabilities (2022: none).

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

The changes in book value of non-current assets held for sale in 2023 and 2022 are as follows:

	Buildings	Other fixed assets	Total
Balance at 1 January 2023	**435**	**-**	**435**
Reclassifications	-	-	-
Divestments	(420)	-	(420)
Impairment	(15)	-	(15)
Balance at 31 December 2023	**-**	**-**	**-**

	Buildings	Other fixed assets	Total
Balance at 1 January 2022	**-**	**-**	**-**
Reclassifications	466	-	466
Divestments	-	-	-
Impairment	(31)	-	(31)
Balance at 31 December 2022	**435**	**-**	**435**

Right-of-use assets	**2023**	**2022**
Office	1,402	1,799
Vehicles	116	45
Balance at 31 December	**1,518**	**1,844**

4.9 Intangible assets

The changes in book value of intangibles are as follows:

	2023	2022
Balance at 1 January	**177**	**261**
Investments	252	49
Amortization	(78)	(133)
Balance at 31 December	**351**	**177**

Cost	4,684	4,923
Cumulative amortization	(4,333)	(4,746)
Total	**351**	**177**

This item mainly includes licenses. The investment amounting to 252 (2022: 49) relates mainly to expenses for banking software. There are no impairments on intangible assets.

4.10 Income tax assets

	2023	2022
Current tax assets	242	565
Deferred tax assets	154	-

The current tax assets include receivables due from the tax authorities. The deferred tax assets are recoverable amounts in future periods in respect of deductible temporary differences.

The movements in deferred tax assets are as follows in 2023 and 2022:

2023	Balance at 1 January	Recognized in income statement	Recognized in other comprehensive income	Balance at 31 December
Employee benefits	-	-	-	-
Cash flow hedge reserve	-	-	110	110
Other	-	44	-	44
Total	**-**	**44**	**110**	**154**

2022	Balance at 1 January	Recognized in income statement	Recognized in other comprehensive income	Balance at 31 December
Employee benefits	10	(10)	-	-
Total	**10**	**(10)**	**-**	**-**

4.11 Other assets

	2023	2022
Prepayments	6,194	6,396
Other receivables	679	629
Total	**6,873**	**7,025**

Assets that due to their nature cannot be classified in specific consolidated statement of financial position items are presented under 'Other assets'.

4.12 Due to banks

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

	2023	2022
Current accounts	-	3
Borrowings	93,908	208,657
Total	**93,908**	**208,660**

The majority of the balance represents funds obtained through participation in the targeted longer-term refinancing operations (TLTRO), a program that aims to stimulate lending to the real economy in the Eurozone. The interest rate on the TLTROs is equal to deposit facility rate on the corresponding maintenance period. As per year-end 2023, DHB Bank holds EUR 90 million (start date 24 March 2021) in funding from the European Central Bank under the fourth and seven series of third targeted longer-term refinancing operations (TLTRO III.7).

In exchange for the funding obtained, securities need to be pledged whereby a certain haircut is taken into account on the valuation of those securities that is based on the type of instrument and the remaining maturity.

The bank does not have pledge on the amounts of due to banks (2022: none).

This statement of financial position item includes pledged deposits amounting to 1,863 (2022: 1,426) which serve as collateral for several swap transactions.

4.13 Deposits from customers

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

	2023	2022
Current accounts	33,870	34,791
Saving accounts	740,071	699,600
Time deposits	686,957	529,879
Total	**1,460,898**	**1,264,270**

This item includes pledged deposits amounting to 36,297 (2022: 40,753) 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:

	2023	2022
Employee benefits	2,121	1,826
Other	29	45
Total	**2,150**	**1,871**

Other balance comprises impairment allowances calculated for financial guarantee contacts.

Employee benefits

Below table shows the movements in provisions for variable remuneration and vitality leave.

	2023	2022
Opening balance	**1,826**	**1,904**
Addition through statement of profit or loss	1,159	986
Utilization	(864)	(1,064)
Release	-	-
Other	-	-
Closing balance	**2,121**	**1,826**

Provisions for employee benefits consist of provisions related to the bank's variable remuneration for an amount of 2,084 (2022: 1,792) with 37 (2022: 34) related to vitality leave.

Provisions related to the bank's variable remuneration plan, consist of deferred variable remuneration granted to Managing Board members and senior staff of the bank. It is assumed that all amounts provisioned for, will gradually become payable within the next 5 years. In line with Dutch regulations, the variable remuneration granted consists of a cash portion (50%) and a portion based on the equity value of the bank (50% as well). The provision related to the latter will be adjusted annually, proportionally with the change in equity value of the bank.

Defined benefit plan

DHB Bank has insured its obligations under the pension plan for its employees. The related insurance premiums are paid and recognized in profit and loss as staff expenses. Due to a change in legislation in 2016 in Belgium, DHB Bank needs to guarantee a minimum return to its employees in the Belgium Branch. DHB Bank needs to recognize a defined benefit liability in relation to this guarantee to cover any deficit that might arise (e.g., due defaulting insurance company) in case the insurance company does not cover the minimum guarantee.

The associated net defined benefit liability that is presented as a provision is as follows:

	2023	2022
Fair value of plan assets	1,149	1,064
Defined benefit obligation	1,149	1,064
Net defined benefit liability	**-**	**-**

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The movement of the net defined benefit liability is as follows:

	2023	2022
Opening balance of plan assets	**1,064**	**974**
Actual return on plan assets	34	31
Employer contribution	49	55
Plan participants' contributions	8	11
Benefits paid	(6)	(7)
Closing balance of plan assets	**1,149**	**1,064**
Opening balance of defined benefit obligation	**1,064**	**1,047**
Service cost	62	53
Interest cost	38	10
Plan participants' contributions	8	11
Actuarial gain/loss	(17)	(50)
Benefits paid	(6)	(7)
Closing balance of defined benefit obligation	**1,149**	**1,064**
Net defined benefit liability	**-**	**-**

For the calculation of the net defined benefit liability, the following assumptions were taken into account:

	2023	2022
Discount rate:	3.65%	3.60%
Expected return on assets:	3.65%	3.60%
Expected rate of salary increases, including inflation:	1.00%	1.00%
Duration:	13.1	14.2
Retirement age:	65	65
Withdrawal rates per age category:	10.00%	10.00%
o 20-29 years:	8.00%	8.00%
o 30-39 years:	6.00%	6.00%
o 40-49 years:	4.00%	4.00%
o 50-54 years:	0.00%	0.00%
o 55-64 years:	0.00%	0.00%

The discount rate and withdrawal rate are considered to be key assumptions by the external actuary. The sensitivity analysis (excluding taxes) of those rates has been determined based on changes of the assumptions occurring at the end of the reporting period that are deemed reasonably possible. The table discloses the financial impact on the defined benefit obligation if discount rate would increase or decrease if all other assumptions were held constant. In practice, this is unlikely to occur, and some changes of the assumptions may be correlated.

		Discount rate		Withdrawal
2023	**Original**	**-0.5%**	**0.5%**	**0%**
Rates	3.65%	3.15%	4.15%	0%
Defined benefit obligation	1,149	1,149	1,149	1,149
Normal cost	52	52	52	52
Fair value of assets	1,149	1,149	1,149	1,149

		Discount rate		Withdrawal
2022	**Original**	**-0.5%**	**0.5%**	**0%**
Rates	3.60%	0.50%	1.50%	0%
Defined benefit obligation	1,064	1,064	1,064	1,064
Normal cost	64	64	64	64
Fair value of assets	1,064	1,064	1,064	1,064

Annual premiums are paid to the insurance company to cover the pension costs in accordance with the insurance contracts. For 2023 the expected contributions are none (2022: none), and the Bank does not have any estimated payments for 2023.

4.15 Income tax liabilities

	2023	2022
Current tax liabilities	2,859	7
Deferred tax liabilities	-	11

Current tax liabilities include payables due to tax authorities.

According to our accounting policies all other comprehensive income items under equity should be presented net of tax effect. If these equity items show a positive balance, the tax effect must be shown under deferred tax liabilities.

The movements in deferred tax liabilities in 2023 and 2022 are as follows:

2023	**Balance at 1 January**	**Recognized in income statement**	**Recognized in other comprehensive income**	**Balance at 31 December**
Property and equipment – real estate valuation	(1)	-	-	(1)
Fair value reserve	-	-	-	-
Other	12	(11)	-	1
Total	**11**	**(11)**	**-**	**-**

2022	**Balance at 1 January**	**Recognized in income statement**	**Recognized in other comprehensive income**	**Balance at 31 December**
Property and equipment – real estate valuation	67	-	(68)	(1)
Fair value reserve	10	-	(10)	-
Other	12	-	-	12
Total	**89**	**-**	**(78)**	**11**

4.16 Other liabilities

	2023	2022
Accrued expenses	1,826	3,808
Lease liabilities	1,357	1,635
Payables to suppliers	115	17
Other payables	4,967	2,127
Total	**8,265**	**7,587**

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

The movements in the lease liabilities in 2023 and 2022 are as follows:

	2023	2022
Opening balance	**1,635**	**2,012**
Additions	221	40
Payments	(499)	(417)
Total	**1,357**	**1,635**

Lease liabilities	2023	2022
Maturity analysis – contractual undiscounted cash flows		
Less than one year	463	449
One to two years	383	435
Three to four years	328	340
Four to five years	121	282
More than five years	89	166
Total undiscounted lease liabilities	**1,384**	**1,672**
Lease liabilities included in the statement of financial position at 31 December		
Current	449	432
Non-current	908	1,203

4.17 Share Capital

The authorized capital amounts to EUR 227.5 million. 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 shares have a par value of EUR 455 (four hundred fifty-five).

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4.18 Revaluation Reserves

The revaluation reserves as presented in the consolidated statement of financial position comprise a revaluation reserve and fair value reserve and cannot be freely distributed as they qualify as legal reserves under Dutch corporate law.

Revaluation reserve

Revaluation reserve is linked to the fair value of property in use by the bank as determined by management based on reports from independent appraisers. The correction related to the depreciation of the assets is taken into account in the revaluation reserve.

Fair value reserve

This reserve encompasses the unrealized gains and losses on securities classified as FVOCI excluding impairment losses, until the investment is derecognized or impaired.

Cash flow hedge reserve

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

4.19 Defined Benefit Obligation Reserve

This item relates to actuarial gains or losses on the defined benefit pension plan for DHB Bank's Belgian employees.

4.20 Retained Earnings

Retained earnings can be freely distributed, except for an amount of 2,437 (2022: 2,410) related to the unrealized positive fair value on derivatives after tax effect that is included in the consolidated statement of profit or loss and to be treated as a legal reserve under Dutch corporate law.

5. CONSOLIDATED STATEMENT OF PROFIT OR LOSS

5.1 Net interest income

Interest income from:	2023	2022
Loans and advances – customers	75,948	42,864
Cash and balances with central banks	10,417	2,862
Loans and advances – banks	3,467	2,642
Securities at amortized cost	329	114
Financial assets at FVOCI	443	63
Derivative financial instruments	928	58
Other interest income	-	1
Interest income	**91,532**	**48,604**
Interest expense from:	**2023**	**2022**
Deposits from customers	25,650	6,063
Due to banks	4,698	1,218
Derivative financial instruments	1,303	-
Lease liabilities	17	20
Other interest expense	3	1
Interest expense	**31,671**	**7,302**
Total	**59,861**	**41,302**

Derivative financial instruments represent the gross amount of interest received and paid, as presented in the table above for hedge accounting on assets and liabilities.

For financial assets or financial liabilities that are not at FVPL, the total interest income amounts to 91,532 (2022: 48,604) and total interest expense amounts to 31,671 (2022: 7,302).

5.2 Net fee and commission income

	2023	2022
Banking services	603	599
Letter of guarantees	223	137
Cash loans	3	7
Other fees and commissions	85	94
Subtotal	**914**	**837**
Fee and commission expense	151	165
Total	**763**	**672**

There is no fee and commission income and expense respectively from derivative financial instruments that are classified as FVPL.

Fee and commission income	2023			2022		
	At a point in time	Over time	Total	At a point in time	Over time	Total
Netherlands	232	284	516	192	198	390
Belgium	391	-	391	443	-	443
Germany	7	-	7	4	-	4
Total	**630**	**284**	**914**	**639**	**198**	**837**

Fee and commission expense	2023	2022
Netherlands	151	165
Germany	-	-
Belgium	-	-
Total	**151**	**165**

5.3 Result on financial transactions

	2023	2022
Results from securities transactions	20	39
Results from derivatives transactions	(2,784)	(2,428)
Total	**(2,764)**	**(2,389)**

'Results from securities transactions' are unrealized fair value gains and losses of debt securities held in FVPL portfolio and realized fair value gains and losses from debt instruments held in FVOCI portfolio. In this item are also included the amounts transferred from equity to the statement of profit or loss on the sale of financial assets at FVOCI.

'Results from derivatives transactions' reflect fair value results (including foreign currency translation results) on FX swap and cross currency swap transactions, which are concluded to positioning for loans and advances in other currencies, mainly USD, TRY, and HUF. The differences between their spot rates and forward rates are amortized daily and recognized through the lifetime of the respective transactions.

Within the results from securities transactions, the following amounts were reclassified from equity to the statement of profit or loss in connection with the sale of securities that were part of the securities portfolio during 2022.

	2023	2022
Gross amounts (as recorded in statement of profit or loss)	-	(59)
Net amounts (as reclassified from equity)	-	(43)

5.4 Other operating income

	2023	2022
Other operating income	40	29
Total	**40**	**29**

Other operating income consists of non-recurring income items.

5.5 Staff expenses

	2023	2022
Wages and salaries	12,336	10,595
Pension costs	1,638	1,322
Other social security costs	1,735	1,435
Other staff costs	503	765
Total	**16,212**	**14,117**

Current number of full-time equivalents in 2023 is 130 (2022: 128).

	2023	2022
In the Netherlands	80	79
Outside the Netherlands	50	49
Total	**130**	**128**

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. Further reference is made to note 4.14.

The Managing Board (key management) compensation is as follows:

Total remuneration	2023	2022
Short-term employee benefits	2,368	1,999
Post-employment benefits	-	104
Total	**2,368**	**2,103**

Included in the short-term employee benefits is a variable remuneration of 337 (2022: 283).

5.6 Other administrative expenses

	2023	2022
Regulation and supervision	3,392	4,754
Logistics and infrastructure	2,129	1,736
Support activities	2,354	1,850
Taxes and others	1,079	768
Total	**8,954**	**9,108**

Other administrative expenses refer to operational expenses incurred during the year. Major items in other administrative expenses are the premiums regarding deposit guarantee scheme, regulatory supervision expenses, IT expenses and communication expenses.

Expenses of the current and former members of the Supervisory Board amounted to 414 (2022: 299) in 2023, of which 357 (2022: 252) relates to the fixed remuneration and 57 (2022: 47) relates to the reimbursements of expenses. Social charges in relation to the Supervisory Board are excluded from this and booked under personnel expenses.

Expenses related to short-term leases and leases of low-value assets are recognized in other administrative expenses and amounted to 21 and 93, respectively (2022: 74 and 8, respectively).

This item also includes the expenses for audit and audit related services of Deloitte Accountants B.V.:

	2023	2022
Audit of consolidated financial statements	362	337
Audit related services	173	147
Total	**535**	**484**

In addition to the audit of the consolidated financial statements Deloitte Accountants B.V. provided the following services: an audit of the regulatory reporting to DNB (Corep/Finrep), review of the interim financial report, assurance of credit claims transferred to DNB as collateral, agreed upon procedures regarding the interest rate risk report and Deposit Guarantee Scheme (DGS) report to DNB as well as the by Belgium law required audit/review of the Belgium Branch and DHB FS.

From 535, 180 was paid in 2023. The remainder is accrued in the consolidated statement of financial position as a liability.

5.7 Net impairment charge

	2023	2022
Loans and advances amortized cost	6,505	1,038
Loans and advances at FVOCI	9	(5)
Financial guarantee contracts	(16)	40
Property and equipment	14	31
Securities	(13)	14
Total	**6,499**	**1,118**

The increase primarily resulted from the transfer to non-performing loans from performing loans and the allocation of individual impairment on these non-performing loans.

5.8 Taxation

The Netherlands

Corporate income tax is levied at the rate of 25.8% (2022: 25.8%) 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 2023. 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 the rate of the local city. Corporate income tax is levied at the rate of 15% and the statutory solidarity tax is 5.5% on corporate tax. The effective tax rate is estimated at 31.76%.

Belgium

The statutory tax rate is 25% in Belgium. The effective tax rate is estimated at 25%.

Reconciliation of effective tax rate	%	2023	%	2022
Profit before income tax		25,416		14,708
Income tax using the domestic corporation tax rate	-25.75%	(6,544)	-25.63%	(3,770)
Effect of tax rates in foreign jurisdictions	-0.02%	(4)	-0.10%	(15)
Non-deductible expenses / tax exempt items	-0.01%	(2)	0.04%	6
Other	0.25%	63	-0.15%	(22)
Total	**-25.52%**	**(6,487)**	**-25.84%**	**(3,801)**

Income tax expense recognized in income statement	2023	2022
Current income tax expense	(6,541)	(3,791)
Deferred income tax expense	54	(10)
Total	**(6,487)**	**(3,801)**

Income tax related to components of other comprehensive income	2023	2022
Revaluation reserve	-	68
Fair value reserve	-	10
Total	**-**	**78**

DHB Bank has no tax losses and tax losses carry forward are not available.

5.9 Dividends

	2023	2022
Dividends proposed*	9,465	5,454
Dividend per ordinary share	0.0379	0.0218

** Dividends proposed includes 50% of the net profit of 2023.*

Dividend distribution is subject to approval by the Supervisory Board and General Meetings of Shareholders and depending on the no-objection decision of DNB as per the Dutch regulations. Dividend policy of DHB Bank is to distribute 50% of the period profit.

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 statement of financial position. 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 statement of profit or loss 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 a commitment to third parties. Commitments and contingent liabilities are initially recognized at fair value.

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 to finance a shipment of goods.

Irrevocable commitments include all irrevocable facilities that may entail credit risk, such as irrevocable credit facilities, liabilities from sale and repurchase agreements with potential repurchase obligations at an agreed price, liabilities on account of underwriting facilities, liabilities from pre-subscriptions, and liabilities for calls regarding the share capital of participating interests of DHB Bank.

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

	2023	2022
Non-credit substitute guarantees	2,552	7,860
Irrevocable commitments	12,000	-
Total	**14,552**	**7,860**

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

	2023	2022
The Netherlands	106	171
Rest of Europe	14,446	7,689
Other	-	-
Total	**14,552**	**7,860**

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 2023, C Group companies consist of Demir Kyrgyz International Bank, C Yatırım Holding A.Ş., C & C Art Holding Limited, HCBG Holding B.V., C Real Estate LLC, Access Financial Services – IFN S.A, C Art Holdings Limited, Cingilli Collection Limited, HC Family Financing Limited, C Kurumsal Danismanlik Ic ve Dis Ticaret A.S, Cingilli Holding AS and Ideal Art (Suisse) SA. Halk Group companies consist of Türkiye Halk Bankası A.Ş., Türkiye Halk Bankası A.Ş. Bahrain branch, Halkbank AD Skopje, Halk Finansal Kiralama A.Ş, Halk Faktoring A.Ş and Halkbank AD Beograd.

During the year, the bank entered several transactions, mainly short term, with related parties in the normal course of business. These normal banking transactions are related to loans and advances, deposits, letter of credits and guarantees. All 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, none of the loans are granted against cash collaterals (2022: none). There are no outstanding risks in 2023 against third party promissory notes/cheques (2022: none).

Further reference is made to note 5.5 for the key management personnel compensation.

The outstanding balances with related parties for the year ended 31 December 2023 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Assets				
Securities at amortized cost	-	-	-	**-**
Loans and advances – banks	106	2,576	-	**2,682**
Loans and advances – customers	-	-	-	**-**
Liabilities				
Due to banks	-	-	-	**-**
of which received cash collaterals for loans	-	-	-	**-**
Deposits from customers	1,832	6,727	51	**8,610**
of which received cash collaterals for loans	-	-	-	**-**
Commitments and contingent liabilities				
Letter of credits	-	-	-	**-**
Guarantees	-	9	-	**9**

The income and expenses in respect of related parties included in the consolidated financial statements for the year 2023 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Interest income	21	322	-	**343**
Interest expense	16	147	-	**163**
Commission income	3	3	-	**6**
Commission expense	5	-	-	**5**

The outstanding balances with related parties for the year ended 31 December 2022 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Assets				
Securities at amortized cost	-	-	-	**-**
Loans and advances – banks	484	7,101	-	**7,585**
Loans and advances – customers	-	-	-	**-**
Liabilities				
Due to banks	-	-	-	**-**
of which received cash collaterals for loans	-	-	-	**-**
Deposits from customers	525	6,453	-	**6,978**
of which received cash collaterals for loans	-	-	-	**-**
Commitments and contingent liabilities				
Letter of credits	-	-	-	**-**
Guarantees	-	19	-	**19**

The income and expenses in respect of related parties included in the financial statements for the year 2022 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Interest income	15	305	-	**320**
Interest expense	-	40	-	**40**
Commission income	2	5	-	**7**
Commission expense	48	-	-	**48**

6.3 Capital adequacy

The bank manages the adequacy of its own funds and adjusts in light of changes in economic conditions and regulatory requirements among others by adjusting the dividend payment to shareholders. The own funds are adequate to cover the credit risk of on-statement of financial position and off-statement of financial position items, market risks, the operational risk and other material risks considered relevant according to the bank's internal capital adequacy assessment process (ICAAP) and the supervisory review and evaluation process (SREP) by DNB. The bank's own funds are solely comprised of Common Equity Tier 1 (CET1) capital which is considered to have the highest loss absorbing capacity to cover unexpected loss.

The bank sets capital adequacy targets and uses the bank's risk appetite along with its actual risk profile and business plans as a basis. Other determining factors are expectations and/or requirements of the stakeholders as well as the position of the bank in the Dutch banking sector. As a consequence, the bank's capital management encompasses both economic and regulatory approach in order to be comprehensive and effective.

CRDIV/CRR standards are in effect as of January 2014. The objective of CRDIV/CRR is to enhance the capital adequacy of the banking industry by making it more responsive to risk. Under CRDIV/CRR banks have the option to choose between various approaches ranging from standardized to advanced methods. DHB Bank applies the standardized approach for credit risk, market risk and operational risk.

DHB Bank's total own funds, the capital ratio/BIS ratio, and the Tier 1 capital figures according to CRDIV/CRR Basel III Capital Accord as of 31 December 2023 and the previous year are as follows:

	2023		**2022**	
	Required	**Actual**	**Required**	**Actual**
Total capital	101,911	230,078	94,808	223,745
Total capital ratio / BIS ratio*	8.00%	18.06%	8.00%	18.88%
CET 1 capital	57,325	230,078	53,329	223,745
CET 1 capital ratio	4.50%	18.06%	4.50%	18.88%
Risk weighted assets		**1,273,889**		**1,185,095**

** 8.00% is the minimum requirement.*

The total capital is based on the expectation that 50% (2022: 50%) of the net profit for the year 2023 is distributed as dividend as proposed by the Managing Board and adopted by the Supervisory Board and General Meetings of Shareholders, and subsequently depending on the no-objection decision of De Nederlandsche Bank (the Dutch Central Bank). If the entire net profit for the year 2023 would be taken into account, the actual total capital would be 239,536 while the total capital ratio / BIS ratio would be 18.80%.

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, or 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 value 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.

FVOCI securities are stated at market value taking the bid-quotes at year-end from price contributors that have actively and regularly provided quotes during the relevant trading period.

DHB Bank makes 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 Bank.

	31 December 2023		31 December 2022	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets				
Financial assets at amortized cost				
-Securities	95,470	91,673	105,897	99,222
-Loans and advances – banks	78,414	78,542	58,121	58,017
-Loans and advances – customers	1,212,921	1,256,302	1,137,949	1,153,675
Total	**1,386,805**	**1,426,517**	**1,301,967**	**1,310,914**
Liabilities				
Deposits from customers	1,460,898	1,480,672	1,264,270	1,273,384
Total	**1,460,898**	**1,480,672**	**1,264,270**	**1,273,384**

Certain financial instruments that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These financial instruments include cash and balances with central banks and due to banks. These financial instruments are not included in the table above.

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.

When valuing the financial assets and liabilities, notably regarding cross-currency interest rate derivatives, observable prices or model inputs are available. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and reduces the uncertainty associated with determining fair values. The principal techniques used to value these instruments are based on discounted cash flows.

The principal inputs to these valuation techniques are:

- Quoted interest rates in the swap and bond markets,
- Foreign currency exchange rates from observable markets both for spot and forward contracts and futures,
- Credit spreads mainly derived from prices of credit default swaps (CDS) or other credit-based instruments, such as debt securities.

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. 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 are carried out at least once per year by 1 or more certified external appraisers based on comparable methodology. For this approach comparable properties which are for sale in the market are identified and the reported sale price has been adjusted using a grid with the following parameters:

- Listing: this includes a negotiation margin of about 10%,
- Location: this varies from -5% up to +5% for comparable properties,
- State of repair: this varies from -10% up to 10% for comparable properties,
- Size: this varies from -5% up to +5% for comparable properties,
- Quality frontage: this varies from -5% up to +5% for comparable properties.

The adjustment of comparable correlates opposite compared to the subject property. For example, if the comparable property has a better location compared to Antwerp office building then adjustment will be negative. After all adjustments are determined, the comparable is weighted and valuation is finalized.

Non-current assets held for sale have been measured at book value or lower fair value less costs to sell on a non-recurring basis, with fair value measurement categorized as level 3 in the fair value hierarchy.

Fair value hierarchy for assets and liabilities measured at fair value

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy.

31 December 2023	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at FVPL	-	1,295	-	1,295
Financial assets at FVOCI	116,736	4,976	-	121,712
Derivative financial instruments – hedge accounting	-	1,989	-	1,989
Property and equipment – building	-	-	-	-
Non-current assets held for sale	-	-	-	-
Total	**116,736**	**8,260**	**-**	**124,996**
Liabilities				
Financial liabilities held for trading	-	284	-	284
Derivative financial instruments – hedge accounting	-	1,548	-	1,548
Total	**-**	**1,832**	**-**	**1,832**

31 December 2022	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at FVPL	-	2,357	-	2,357
Financial assets at FVOCI	138,897	-	-	138,897
Derivative financial instruments – hedge accounting	-	891	-	891
Property and equipment – building	-	-	-	-
Non-current assets held for sale	-	-	435	435
Total	**138,897**	**3,248**	**435**	**142,580**
Liabilities				
Financial liabilities held for trading	-	10,717	-	10,717
Derivative financial instruments – hedge accounting	-	-	-	-
Total	**-**	**10,717**	**-**	**10,717**

There have been no transfers between Level 1, Level 2 and Level 3 during the period.

Fair value hierarchy for assets and liabilities not measured at fair value

The following table shows the fair values of assets and liabilities not measured at fair value and analyses them by the level in the fair value hierarchy. Cash and balances with central banks, and due to banks are not shown as their fair value is indistinguishable from their carrying value.

31 December 2023	Level 1	Level 2	Level 3	Total
Assets				
Securities at amortized cost	91,673	-	-	91,673
Loans and advances – banks	-	78,542	-	78,542
Loans and advances – customers	-	1,256,302	-	1,256,302
Total	**91,673**	**1,334,844**	**-**	**1,426,517**
Liabilities				
Deposits from customers	-	1,480,672	-	1,480,672
Total	**-**	**1,480,672**	**-**	**1,480,672**

31 December 2022	Level 1	Level 2	Level 3	Total
Assets				
Securities at amortized cost	99,222	-	-	99,222
Loans and advances – banks	-	58,017	-	58,017
Loans and advances – customers	-	1,153,675	-	1,153,675
Total	**99,222**	**1,211,692**	**-**	**1,310,914**
Liabilities				
Deposits from customers	-	1,273,384	-	1,273,384
Total	**-**	**1,273,384**	**-**	**1,273,384**

Movements in level 3 non-financial assets measured at fair value

The following table shows a reconciliation of the opening and closing amounts of level 3 non-financial assets which are measured at fair value. Further reference is made to Note 4.8.

	2023	2022
Balance at 1 January	**435**	**477**
Impairment	(15)	(31)
Divestment	(420)	-
Depreciation	-	(11)
Revaluation	-	-
Balance at 31 December	**-**	**435**

As a result of depreciation with an amount of 15 is recognized under “Depreciation and amortization” in the statement of profit or loss.

6.5 Offsetting financial assets and financial liabilities

The bank applies credit risk mitigation techniques that include offsetting financial assets and liabilities, enforcing master netting agreements or similar instruments and collateral management.

Financial assets and liabilities are offset per counterparty and the net amount is reported on the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The bank applies netting in the statement of financial position to derivative contracts with some counterparties for which the services of a central clearing house are used.

Collateral are assets with material value given to the bank as a way to mitigate or reduce credit risk associated with a credit facility or exposure. In addition, under certain predefined conditions, collateral can also provide a reduction in regulatory capital. Collateral is monitored regularly to ensure eligibility and sufficient value. More frequent monitoring is required for all types of collateral in case of considerable value decrease of the collateral, significant market changes or significant decrease of creditworthiness of the counterparty. The bank also regularly uses third-party guarantees (e.g., from insurance companies) to mitigate risks. The credit quality of guarantors is initially assessed and continuously monitored to ensure their value in risk mitigation.

Legally enforceable master netting agreement have provisions that make offsetting exercisable only in the event of default, insolvency, or bankruptcy of DHB Bank or counterparties. For some transactions, DHB Bank uses the ISDA (International Swaps and Derivatives Association) master netting arrangements. The Bank signs the ISDA master agreement together with a credit support annex (CSA) before they trade over the counter derivatives with each other. Eurex Clearing AG (Eurex Clearing) has been granted authorization as a Central Counterparty (CCP) under the European Market Infrastructure Regulation (EMIR) on 10 April 2014 and also gives the right to master netting agreements for some repo transactions.

The table presents the potential effect on DHB Bank's consolidated statement of financial position related to credit risk mitigation.

2023

	Gross amount	Offsetting counterparty position in the consolidated statement of financial position	Net amounts presented in the financial position	Cash collaterals pledged/ received	Financial instruments	Net amount
Financial Assets						
Derivative assets	1,295	-	1,295	(1,863)	-	(568)
Total	**1,295**	**-**	**1,295**	**(1,863)**	**-**	**(568)**
Financial Liabilities						
Derivative liabilities	284	-	284	(1,003)	-	(719)
Repo agreements	92,040	-	92,040	-	(92,040)	-
Total	**92,324**	**-**	**92,324**	**(1,003)**	**(92,040)**	**(719)**

2022

	Gross amount	Offsetting counterparty position in the consolidated statement of financial position	Net amounts presented in the financial position	Cash collaterals pledged/ received	Financial instruments	Net amount
Financial Assets						
Derivative assets	2,357	-	2,357	(1,426)	-	931
Total	**2,357**	**-**	**2,357**	**(1,426)**	**-**	**931**
Financial Liabilities						
Derivative liabilities	10,717	-	10,717	(11,016)	-	(299)
Repo agreements	207,231	-	207,231	-	(207,231)	-
Total	**217,948**	**-**	**217,948**	**(11,016)**	**(207,231)**	**(299)**

6.6 Transfer of financial assets

DHB Bank's financial assets that have been transferred, but do not qualify for derecognition are financial assets at FVOCI and financial assets at amortized cost used in sale and repurchase transactions.

	2023	**2022**
Gross carrying amount	**Sale and repurchase**	**Sale and repurchase**
Transferred assets not qualifying for derecognition		
Financial assets at FVOCI	60,228	135,436
Securities at amortized cost	14,396	75,602
Loans and advances	43,974	26,076
Associated liabilities		
Due to banks	92,040	207,231

DHB Bank has transferred but has not derecognized these assets. The bank has determined that it retains substantially all the risks, including credit risk and market risk, and rewards of these securities and loans, and therefore has not derecognized them.

From the financial assets at FVOCI, securities and loans and advances - customers at amortized cost 209,438 (2022: 241,856) is under custody with DNB and serves as a pool of ECB eligible securities that can be used to obtain funding from the ECB, of which 118,598 (2022: 237,114) is pledged for total funding for an amount of 92,040 (2022: 207,231) as obtained from the ECB under the (Targeted) Long Term Refinancing Operations and none (2022: none) is under custody by other banks and is blocked as a pledge for other short term repo borrowings amounting to none (2022: none). There are 53,739 remaining freely available ECB eligible FVOCI assets (2022: 3,461) and securities at amortized cost of 81,074 (2022: 27,358) is in custody of DNB but freely available and will be pledged to DNB in case DHB Bank wants to draw down more funding from this DNB credit facility. DHB Bank has pledged a total of 43,974 in loans and advances at amortized cost for total funding (2022: 26,076). Additionally, there is no pledge in the form of amounts of due to banks (2022: none).

The pledged transactions with DNB are conducted in accordance with the general terms and conditions of DNB.

6.7 Subsequent events

With a letter dated 21 March 2024, DNB informed that the bankruptcy of DSB Bank N.V. ended with an estate surplus, resulting in a payment to the remaining creditors on 27 March 2024. DHB Bank is among the remaining creditors and, in the past, contributed under the DGS in relation to its share related to the bankruptcy of DSB Bank. Amount determined for DHB Bank based on its share, Euro 2.8 million, was paid on 27 March 2024. The amount has been booked as income in the financial statements of 2024.

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 organization-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.

DHB Bank's ability to define risks is regarded as a key competency. Risks identified are measured and, to the extent possible, addressed in the overall risk management framework.

The measurement models and techniques employed are continually subjected to assessment for appropriateness and reliability. For the 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 products are systemically identified using a new products approval process initiated 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 the launch date.

In the below sections DHB Bank's risk position is presented in detail. Given figures are according to fair value or amortized 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 fulfill 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 based on 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 additionally subject to positive advice from the SBCC or full SB, depending on the respective amount. As for retail credits, the acceptance criteria is 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, sector and country levels by the Credit Analysis Department, which conducts credit reviews and reports to the Credit Committee on a regular basis.

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 sector and geography concentration,
- Exposures to large customer groups,
- Impaired assets and impairment allowances.

Credit risk may also arise due to derivative transactions. The bank enters derivative contracts primarily to hedge 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 an enhanced internal rating system supports related departments to manage portfolio credit risks as well as individual credit risks based on determined guidelines and incorporate available public and private information in an advanced way in risk decisions to be taken.

This internal rating framework has 22 rating classes and continues to rely on a fundamental credit analysis and building blocks capturing qualitative and quantitative risk factors related to borrowers. The model enables DHB Bank to capture and reflect inherent credit risk accurately by customizing sub-models to mirror differing dynamics of various sectors. Country ceilings are in principle applied for all borrowers. Only in exceptional cases, a borrower may be rated above country ceiling provided that certain strict criteria are met. Finally, the rating framework ensures timely updates of sector and country data to enable interim rating actions when necessary.

The Expected Credit Losses (ECL) for these scenarios are combined using varying weights (50% Base, 40% Negative, 10% Positive) to calculate an average ECL. Daily monitoring employs the weighted-average scenario ECL, while monthly provisions for ECL consider outcomes from individual scenarios, with weights determined during model updates based on expert opinion. Given ongoing market uncertainties, the bank assigns higher weight to the Negative scenario (40%) compared to Positive (10%), with Base scenario carrying 50%. This weighting strategy remains unless there's a change in the scenario generation process, subject to Managing Board approval.

This scenario determination process extends to Bank and Sovereign portfolios, as well as the retail portfolio where unemployment projections are used in place of real GDP growth.

Credit exposure

The bank's credit exposure is calculated based on 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.

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The following table shows the credit risk for the various components of the consolidated statement of financial position:

	2023	2022
Cash with central banks	294,103	267,982
Financial assets at FVPL	1,295	2,357
Financial assets at FVOCI	121,712	138,897
Financial assets at amortized cost		
- Securities at amortized cost	95,470	105,897
- Loans and advances – banks	78,414	58,121
- Loans and advances – customers	1,213,344	1,138,780
Derivative financial instruments - hedge accounting	1,989	891
Total on-balance sheet items	**1,806,327**	**1,712,925**
Contingent liabilities L/G	2,552	7,860
Contingent liabilities L/C	-	-
Irrevocable commitments	12,000	-
Total off-balance sheet items	**14,552**	**7,860**
Total credit risk	**1,820,879**	**1,720,785**

The amounts stated in the table represent the maximum accounting loss, net of allowances, 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 is required to provide as a 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 would be required to provide. The bank regularly reassesses the value of the collateral.

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

31 December 2023	**Total credit risk**	Loans guaranteed by sovereigns	Loans guaranteed by banks	Loans guaranteed by mortgage	Loans guaranteed by securities	Loans guaranteed by cash collateral	Loans guaranteed by third parties	**Total collaterals obtained**	Collaterals to total credit risk
Cash with central banks	294,103	-	-	-	-	-	-	-	-
Financial assets at FVPL	1,295	-	-	-	-	-	-	-	-
Financial assets at FVOCI	121,712	5,770	-	-	-	-	-	5,770	5%
Financial assets at amortized cost									
-Securities at amortized cost	95,470	33,462	-	-	-	-	-	33,462	35%
-Loans and advances – banks	78,414	-	-	-	-	-	-	-	-
-Loans and advances – customers	1,213,344	3,758	8,030	250,174	-	38,191	715,373	1,015,526	84%
Derivative financial instruments - hedge accounting	1,989	-	-	-	-	-	-	-	-
Total on balance sheet items	**1,806,327**	**42,990**	**8,030**	**250,174**	**-**	**38,191**	**715,373**	**1,054,758**	**1,806,327**
Contingent liabilities L/G	2,552	-	-	-	-	615	1,937	2,552	100%
Contingent liabilities L/C	-	-	-	-	-	-	-	-	-
Irrevocable commitments	12,000	-	-	-	-	-	12,000	12,000	100%
Total off-balance sheet items	**14,552**	**-**	**-**	**-**	**-**	**615**	**13,937**	**14,552**	**14,552**
Total credit risk	**1,820,879**	**42,990**	**8,030**	**250,174**	**-**	**38,806**	**729,310**	**1,069,310**	**59%**

Significant changes in the quality of collateral due to deterioration or change in policy: none.

31 December 2022	**Total credit risk**	Loans guaranteed by sovereigns	Loans guaranteed by banks	Loans guaranteed by mortgage	Loans guaranteed by securities	Loans guaranteed by cash collateral	Loans guaranteed by third parties	**Total collaterals obtained**	Collaterals to total credit risk
Cash with central banks	267,982	-	-	-	-	-	-	-	-
Financial assets at FVPL	2,357	-	-	-	-	-	-	-	-
Financial assets at FVOCI	138,897	-	-	-	-	-	-	-	-
Financial assets at amortized cost									
-Securities at amortized cost	105,897	33,406	-	-	-	-	-	33,406	32%
-Loans and advances – banks	58,121	-	-	-	-	-	-	-	-
-Loans and advances – customers	1,138,780	6,002	10,152	292,925	-	41,079	542,751	892,909	78%
Derivative financial instruments - hedge accounting	891	-	-	-	-	-	-	-	-
Total on balance sheet items	**1,712,925**	**39,408**	**10,152**	**292,925**	**-**	**41,079**	**542,751**	**926,315**	**54%**
Contingent liabilities L/G	7,860	-	-	-	-	625	7,235	7,860	100%
Contingent liabilities L/C	-	-	-	-	-	-	-	-	-
Total off-balance sheet items	**7,860**	**-**	**-**	**-**	**-**	**625**	**7,235**	**7,860**	**100%**
Total credit risk	**1,720,785**	**39,408**	**10,152**	**292,925**	**-**	**41,704**	**549,986**	**934,175**	**54%**

Significant changes in the quality of collateral due to deterioration or change in policy: none.

Credit risk concentration

Concentrations of credit risk (either on- or off-consolidated statement of financial position) 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.

In light of worsening economic outlook together with the geopolitical uncertainties, Managing Board has decided to keep its cautious approach and decreased the upper limit of its appetite for Türkiye exposure to less than 8% of total assets while realized level of exposures is being far less than this limit. As of December 2023, the total exposure to Türkiye stands at less than 4% of the balance sheet, amounting to EUR 57 million.

Loans and advances to banks increased by EUR 20 million (35%) whereas loans and advances to customers increased by EUR 75 million (7%) compared to the previous financial year. Financial assets at FVOCI decreased by EUR 17 million (12%) whereas securities at amortized cost increased by EUR 10 million (10%) compared to the previous financial year.

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

31 December 2023	Cash with central banks	Financial assets at FVPL	Financial assets at FVOCI	Securities at amortized cost*	Loans and advances - banks*	Loans and advances - customers*	Derivatives financial instruments - hedge accounting	Commitments and contingent liabilities	Total	%
*The Netherlands***	286,103	1	24,837	6,114	20,187	109,950	-	106	447,298	24.60%
Germany	8,000	1,174	15,224	24,550	35,194	196,469	1,989	12,757	295,357	16.20%
Belgium	-	120	2,443	8,191	822	139,606	-	1,180	152,362	8.40%
Romania	-	-	-	-	-	103,511	-	-	103,511	5.70%
France	-	-	37,428	25,172	-	26,383	-	-	88,983	4.90%
Italy	-	-	3,049	-	-	80,315	-	-	83,364	4.60%
United States	-	-	-	-	3,081	57,531	-	-	60,612	3.30%
Malta	-	-	-	-	-	58,604	-	-	58,604	3.20%
Türkiye	-	-	4,976	-	15,195	36,996	-	-	57,167	3.10%
United Kingdom	-	-	-	-	1,357	48,054	-	-	49,411	2.70%
North Macedonia	-	-	-	-	-	39,609	-	-	39,609	2.20%
Spain	-	-	3,892	5,000	-	29,121	-	-	38,013	2.10%
Bulgaria	-	-	-	-	-	36,227	-	-	36,227	2.00%
Marshall Islands	-	-	-	-	-	35,652	-	-	35,652	2.00%
Hungary	-	-	-	-	-	33,364	-	-	33,364	1.80%
Portugal	-	-	3,110	10,725	-	19,056	-	-	32,891	1.80%
Slovenia	-	-	-	-	-	29,222	-	-	29,222	1.60%
Poland	-	-	-	1,023	-	23,754	-	-	24,777	1.40%
Others	-	-	26,753	14,695	2,578	109,920	-	509	154,455	8.40%
Total	**294,103**	**1,295**	**121,712**	**95,470**	**78,414**	**1,213,344**	**1,989**	**14,552**	**1,820,879**	**100%**

* *Financial assets at amortized cost*
** *Balances with ECB amounting to EUR 261 million are classified in the Netherlands.*

31 December 2022	Cash with central banks	Financial assets at FVPL	Financial assets at FVOCI	Securities at amortized cost*	Loans and advances - banks*	Loans and advances - customers*	Derivatives financial instruments - hedge accounting	Commitments and contingent liabilities	Total	%
*The Netherlands***	260,922	388	41,799	11,097	10,026	149,238	-	171	473,641	27.5%
Germany	7,060	1,856	14,651	27,475	37,369	143,264	891	5,990	238,556	13.9%
Belgium	-	113	2,383	8,253	2,766	139,584	-	1,180	154,279	9.0%
France	-	-	43,453	27,228	-	20,266	-	-	90,947	5.3%
Malta	-	-	-	-	-	85,750	-	-	85,750	5.0%
Romania	-	-	-	-	-	73,776	-	-	73,776	4.3%
Italy	-	-	2,997	-	-	66,730	-	-	69,727	4.1%
Bulgaria	-	-	-	-	-	58,431	-	-	58,431	3.4%
Turkey	-	-	-	-	495	47,054	-	-	47,549	2.8%
United Kingdom	-	-	-	-	390	46,204	-	-	46,594	2.7%
Marshall Island	-	-	-	-	-	42,336	-	-	42,336	2.5%
Slovenia	-	-	-	-	-	39,803	-	-	39,803	2.3%
Spain	-	-	3,750	5,000	-	26,546	-	-	35,296	2.1%
United States	-	-	-	-	-	29,055	-	-	29,055	1.7%
Greece	-	-	-	-	-	25,274	-	-	25,274	1.5%
Hungary	-	-	-	-	-	24,004	-	-	24,004	1.4%
Others	-	-	29,864	26,844	7,075	121,465	-	519	185,767	10.5%
Total	**267,982**	**2,357**	**138,897**	**105,897**	**58,121**	**1,138,780**	**891**	**7,860**	**1,720,785**	**100%**

* *Financial assets at amortized cost*
** *Balances with ECB amounting to EUR 336 million are classified in the Netherlands.*

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

	2023		2022	
Sectors	**On-balance**	**Off-balance**	**On-balance**	**Off-balance**
Manufacturing	292,191	13,937	244,120	7,170
Construction	175,854	-	184,415	-
Transport and storage	147,251	-	152,156	-
Financial institutions and insurance	128,610	-	117,737	-
Wholesale and retail trade	103,619	500	84,405	565
Electricity, gas, steam, and air conditioning supply	66,214	-	52,633	-
Real estate activities	49,825	-	35,216	-
Professional, scientific, and technical activities	36,393	-	32,203	-
Administrative and support service activities	24,319	-	30,142	-
Arts, entertainment and recreation	20,341	-	17,947	-
Information and communication	11,926	-	14,374	-
Accommodation and food service activities	11,840	-	13,453	-
Human health services and social work activities	3,510	106	6,524	106
Total	**1,071,893**	**14,543**	**985,325**	**7,841**
Private individuals / self- employed	156,244	9	161,800	19
Total	**1,228,137**	**14,552**	**1,147,125**	**7,860**
ECL allowances	(2,988)	-	(4,002)	-
Individual loan impairment allowances	(11,805)	-	(4,343)	-
Total loans and advances – customers	**1,213,344**	**14,552**	**1,138,780**	**7,860**

Credit quality of financial assets

The bank performs monitoring of the credit portfolio throughout the life cycle of the loan facility. Credits are classified into different categories to optimise monitoring and review of these loans.

One of the credit quality indicators is the extent to which concessions in terms of interests/maturities are given to a borrower that is in (or considered to face) financial difficulties. The goal of providing the forbearance measures in the form of modification of contracts or refinancing is to allow the borrowers to regain its financial health within its means. Forbearance also triggers impairment testing as per the bank's internal policies.

As indicated by the following table, forbearance measures can be applied to a contract that has defaulted on its obligations as well as to a contract that is still performing. The following tables include all existing modifications.

As at 31 December 2023

Summary forbearance – Loans and receivables

	Performing assets			Non-performing assets				
Gross carrying amount	**Modification of the contract**	**Refinancing**	**Total performing forborne assets**	**Modification of the contract**	**Refinancing**	**Total non-performing forborne assets**	**Total forborne assets**	**Forbearance ratio**
1,311,160	27,332	-	27,332	33,425	-	33,425	60,757	4.6%

There are no loss allowances changed from lifetime ECL to 12-month ECL for modified financial assets.

As at 31 December 2022

Summary forbearance – Loans and receivables

	Performing assets			Non-performing assets				
Gross carrying amount	**Modification of the contract**	**Refinancing**	**Total performing forborne assets**	**Modification of the contract**	**Refinancing**	**Total non-performing forborne assets**	**Total forborne assets**	**Forbearance ratio**
1,204,464	20,978	-	20,978	35,565	-	35,565	56,543	4.7%

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

	2023	**2022**
Investment grade	**553,208**	**544,083**
AAA	331,518	305,244
AA+	13,604	10,669
AA	27,738	50,096
AA-	105,532	81,451
A+	10,695	22,870
A	8,972	18,725
A-	28,152	17,699
BBB+	51	15,172
BBB	9,516	17,133
BBB-	17,430	5,024
Non-investment grade	**61,322**	**46,060**
BB+	13,061	20,073
BB	5,001	5,000
BB-	23,089	20,492
B+	-	-
B	-	-
B-	20,171	495
Unrated	**1,206,349**	**1,130,642**
Total	**1,820,879**	**1,720,785**

On top of external ratings DHB Bank also makes its own assessment of the risk that an obligor will default on its financial obligations to the bank. The bank's internal credit rating model reflects the probability of default by an obligor.

There are 7 sub-models for corporates and banks. Points of quantitative and qualitative sections are converted to scores from 0 to 100 by model. These scores are converted into one of 22 rating results from "AAA" to "D". Suffixes "+" or "-" are appended to a rating, except for the highest, "C", "CC", "CCC" and default categories, to indicate the relative position of a credit within the rating class. "AAA" rated obligors possess superior intrinsic financial strength and extremely strong capacity to meet financial commitments. The rating represents the highest credit quality and by itself denotes the lowest expectation of default risk. "D" rated obligors have entered bankruptcy filings, administration, receivership, liquidation, or formal winding-up procedure or which have otherwise ceased business. As the rating of an obligor moves down the scale, it shows gradually decreasing financial strength and repayment capacity.

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

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

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

	2023	**2022**
Investment grade	**910,081**	**778,392**
AAA	350,407	327,809
AA+	13,604	10,669
AA	44,533	50,107
AA-	78,131	71,153
A+	32,592	37,676
A	11,033	25,088
A-	27,437	22,708
BBB+	27,901	20,183
BBB	57,745	55,403
BBB-	266,698	157,596
Non-investment grade	**777,941**	**802,031**
BB+	163,664	161,911
BB	139,675	103,799
BB-	192,857	195,841
B+	60,537	61,702
B	104,414	127,752
B-	77,294	116,671
CCC	-	1,966
DDD	38,356	30,508
DD	-	-
D	1,144	1,881
Unrated	**132,857**	**140,362**
Total	**1,820,879**	**1,720,785**

Notes to the **Consolidated Financial Statements**

	Gross carrying amount as of	Gross carrying amount as of	Allowance as of	Allowance as of	Net Values	Net Values
	31 December 2023	31 December 2022	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Financial assets at FVOCI	**121,712**	**138,897**	**15**	**6**	**121,697**	**138,891**
Stage 1	121,661	138,897	15	6	121,646	138,891
Stage 2	51	-	-	-	51	-
Stage 3	-	-	-	-	-	-
Financial assets at amortized cost-Total	**1,401,656**	**1,310,376**	**14,851**	**8,409**	**1,386,805**	**1,301,967**
- Securities at amortized cost	**95,472**	**105,912**	**2**	**15**	**95,470**	**105,897**
Stage 1	95,472	105,912	2	15	95,470	105,897
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
-Loans and advances – Banks	**78,470**	**58,170**	**56**	**49**	**78,414**	**58,121**
Stage 1	75,771	50,574	55	21	75,716	50,553
Stage 2	2,699	7,596	1	28	2,698	7,568
Stage 3	-	-	-	-	-	-
-Loans and advances - Customers	**1,227,714**	**1,146,294**	**14,793**	**8,345**	**1,212,921**	**1,137,949**
Stage 1	1,070,164	949,551	2,038	2,222	1,068,126	947,329
Stage 2	105,183	158,790	950	1,780	104,233	157,010
Stage 3	52,367	37,953	11,805	4,343	40,562	33,610
Financial guarantee contracts	**14,552**	**7,860**	**28**	**45**	**14,524**	**7,815**
Stage 1	13,795	7,254	23	41	13,772	7,213
Stage 2	757	606	5	4	752	602
Stage 3	-	-	-	-	-	-
Total	**1,537,920**	**1,457,133**	**14,894**	**8,460**	**1,523,026**	**1,448,673**

The distribution of expected credit losses under a range of plausible scenarios (Base, Downside and Upside), along with their respective weights are presented in the following table. The table shows the impact of different scenario outcome on the expected credit losses.

Scenarios 31 December 2023	**Base**	**Downside**	**Upside**
Financial assets at FVOCI	11,691	19,305	9,588
Financial assets at amortized cost	2,611,992	3,799,600	2,214,557
Securities	1,330	3,699	911
Loans and advances	2,610,662	3,795,901	2,213,646
Financial guarantee contracts	24,557	34,353	20,946
Weighting assigned:	0.50	0.40	0.10

Scenarios 31 December 2022	**Base**	**Downside**	**Upside**
Financial assets at FVOCI	5,329	6,391	1,063
Financial assets at amortized cost	3,486,348	5,032,523	3,293,938
Securities	12,082	20,001	10,006
Loans and advances	3,474,266	5,012,522	3,283,933
Financial guarantee contracts	38,816	53,621	35,158
Weighting assigned:	0.50	0.40	0.10

11,805 amounts of ECL based on individual assessments of credit analysts of the bank through different provision allocation scenarios based on cash flow analysis is added to Stage 3 financial assets.

	Financial assets at FVOCI		**Financial assets at amortized cost**			**Financial guarantee contracts**	
Rating grade, **31 December 2023**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**
Investment grade (1 to 10)	3	-	53	-	-	-	-
Non-investment grade (11-18)	12	-	1,953	951	-	23	5
Non-performing grade (19 and higher)	-	-	-	-	11,463	-	-
Retail	-	-	89	-	342	-	-
Total	**15**	**-**	**2,095**	**951**	**11,805**	**23**	**5**

4,343 amounts of ECL based on individual assessments of credit analysts of the bank through different provision allocation scenarios based on cash flow analysis is added to Stage 3 financial assets.

	Financial assets at FVOCI		**Financial assets at amortized cost**			**Financial guarantee contracts**	
Rating grade, **31 December 2022**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**
Investment grade (1 to 10)	6	-	41	-	-	-	-
Non-investment grade (11-18)	-	-	2,175	1,807	-	41	4
Non-performing grade (19 and higher)	-	-	-	-	3,973	-	-
Retail	-	-	42	1	370	-	-
Total	**6**	**-**	**2,258**	**1,808**	**4,343**	**41**	**4**

Purchased or originated financial asset(s) that are credit-impaired on initial recognition: none.

Notes to the **Consolidated Financial Statements**

The movements of the individual allowances for impairments for the year 2023 and 2022 are as follows:

2023	Financial assets at FVOCI	Securities at amortized cost*	Loans and advances - banks*	Loans and advances - customers*	Total
Opening balance	**-**	**-**	**-**	**4,343**	**4,343**
Addition	-	-	-	7,628	7,628
Release	-	-	-	(166)	(166)
Write-off	-	-	-	-	-
Foreign exchange movement	-	-	-	-	-
Closing balance	**-**	**-**	**-**	**11,805**	**11,805**

** Financial assets at amortized cost*

2022	Financial assets at FVOCI	Securities at amortized cost*	Loans and advances - banks*	Loans and advances - customers*	Total
Opening balance	**-**	**-**	**-**	**7,469**	**7,469**
Addition	-	-	-	356	356
Release	-	-	-	(1,991)	(1,991)
Write-off	-	-	-	(1,487)	(1,487)
Foreign exchange movement	-	-	-	(4)	(4)
Closing balance	**-**	**-**	**-**	**4,343**	**4,343**

** Financial assets at amortized cost*

The movements of the collective allowances for impairment for the year 2023 and 2022 are as follows:

2023	Financial assets at FVOCI	Securities at amortized cost*	Loans and advances - banks*	Loans and advances - customers*	Total
Opening balance	**6**	**15**	**49**	**4,002**	**4,072**
Addition	12	1	55	1,346	1,414
Release	(3)	(14)	(47)	(2,338)	(2,402)
Foreign exchange and other movements	-	-	-	(21)	(21)
Closing balance	**15**	**2**	**56**	**2,988**	**3,061**

2022	Financial assets at FVOCI	Securities at amortized cost*	Loans and advances - banks*	Loans and advances - customers*	Total
Opening balance	**11**	**1**	**2**	**1,356**	**1,370**
Addition	2	14	49	3,026	3,091
Release	(7)	-	(1)	(404)	(412)
Foreign exchange and other movements	-	-	(1)	24	23
Closing balance	**6**	**15**	**49**	**4,002**	**4,072**

** Financial assets at amortized cost*

The balance of individual allowances for impaired assets increased from EUR 4,343 million in 2022 to EUR 11,805 million in 2023 which is mainly due to the inflow non-performing loans from performing loans and allocating individual impairment on non-performing loans during the year. Although provisions for estimated 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 for Stage 3 loans. The bank's write-off decisions are determined on a case-by-case basis.

Loan impairment charges and allowances per stage:	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	2,305	1,812	4,343	8,460
Transfer to stage 1	1	(33)	-	(32)
Transfer to stage 2	(241)	189	-	(52)
Transfer to stage 3	(75)	(34)	7,578	7,469
Re-measurements	74	28	16	118
Originated	1,218	108	-	1,326
Matured	(526)	(527)	(20)	(1,073)
Reversal of impairment allowances	(623)	(587)	(104)	(1,314)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Other	-	-	(8)	(8)
Balance at year end	**2,133**	**956**	**11,805**	**14,894**

Financial assets at FVOCI	9	-	-	9
Securities at AC	(13)	-	-	(13)
Loans and advances - banks	33	(27)	-	6
Loans and advances - customers	(20)	(852)	7,369	6,497
Impairment charges / (releases) on loans and advances	**9**	**(879)**	**7,369**	**6,499**

Loan impairment charges and allowances per stage:	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	791	584	7,469	8,844
Transfer to stage 1	-	934	10	944
Transfer to stage 2	(143)	-	-	(143)
Transfer to stage 3	-	1	-	1
Re-measurements	495	314	285	1,094
Originated	1,397	10	-	1,407
Matured	(208)	(17)	(1,818)	(2,043)
Reversal of impairment allowances	(27)	(14)	(116)	(157)
Write-offs	-	-	(1,487)	(1,487)
Recoveries	-	-	-	-
Other	-	-	-	-
Balance at year end	**2,305**	**1,812**	**4,343**	**8,460**

Financial assets at FVOCI	(2)	(3)	-	(5)
Securities at AC	14	-	-	14
Loans and advances - banks	21	26	-	47
Loans and advances - customers	816	1,834	(1,665)	985
Impairment charges / (releases) on loans and advances	**849**	**1,857**	**(1,665)**	**1,041**

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. DHB Bank's liquidity ratios are higher than the minimum requirements set by DNB in its SREP decision 2022.

Within its ILAAP, the bank has set its short-term liquidity risk appetite in terms of the LCR target and has additionally set a target for a minimum survival period of 6 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, market-wide, and hybrid 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 managing the liquidity risk in line with the guidance set by the ALCO and for compliance with the bank's liquidity risk limits determined by the bank. Along with the Treasury Department, the Risk Management Department develops the liquidity risk management framework, which consists 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 statement of financial position of the bank into maturity buckets based on the remaining contractual maturities. 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 at FVOCI sale are placed in maturity buckets according to their respective maturities even though they are readily available as a source of liquidity.

31 December 2023	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Undefined	Total
Assets (undiscounted cash flows)							
Cash and balances with central banks	282,503	94	-	-	-	11,536	294,133
Financial assets at FVOCI	-	16,406	52,227	54,509	-	-	123,142
Financial assets at amortized cost							
-Securities at amortized cost	-	47	18,628	76,779	-	-	95,454
-Loans and advances – banks	8,985	54,741	15,435	-	-	-	79,161
-Loans and advances – customers	-	165,002	341,567	760,600	153,501	-	1,420,670
Other assets	-	-	-	-	-	9,630	9,630
Total assets (excluding derivatives)	**291,488**	**236,290**	**427,857**	**891,888**	**153,501**	**21,166**	**2,022,190**
Liabilities (undiscounted cash flows)							
Due to banks	1	93,908	-	-	-	-	93,909
Deposits from customers	773,733	142,632	289,294	256,731	905	-	1,463,295
Other liabilities	-	-	2,150	-	-	11,124	13,274
Total assets (excluding derivatives)	**773,734**	**236,540**	**291,444**	**256,731**	**905**	**11,124**	**1,570,478**

The immediately available liquidity of DHB Bank consisting of cash and the ECB eligible securities valued after the ECB haircuts as of year-end 2023 was EUR 417 million, representing 23% of the consolidated statement of financial position size.

31 December 2022	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Undefined	Total
Assets (undiscounted cash flows)							
Cash and balances with central banks	258,464	34	-	-	-	9,484	267,982
Financial assets at FVOCI	-	9,077	27,354	102,510	-	-	138,941
Financial assets at amortized cost							
-Securities at amortized cost	-	37	10,696	95,458	-	-	106,191
-Loans and advances – banks	2,927	50,723	2,000	2,729	-	-	58,379
-Loans and advances – customers	5	128,720	336,793	691,583	131,111	-	1,288,212
Other assets	-	-	-	-	-	10,572	10,572
Total assets (excluding derivatives)	**261,396**	**188,591**	**376,843**	**892,280**	**131,111**	**20,056**	**1,870,277**
Liabilities (undiscounted cash flows)							
Due to banks	3	1,427	118,208	89,022	-	-	208,660
Deposits from customers	734,233	100,612	188,306	246,542	938	-	1,270,631
Other liabilities	-	-	1,871	-	-	7,605	9,476
Total assets (excluding derivatives)	**734,236**	**102,039**	**308,385**	**335,564**	**938**	**7,605**	**1,488,767**

The immediately available liquidity of DHB Bank consisting of cash and the ECB eligible securities valued after the ECB haircuts as of year-end 2022 was EUR 289 million, representing 16.8% of the consolidated statement of financial position size.

The following table presents gross settled receivables and payables related to the derivative financial instruments. The amounts disclosed in the table are the contractual undiscounted cash flows at 31 December 2023 and 2022.

31 December 2023	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest rate and cross-currency derivatives					
Derivatives used for trading					
Receivables	8,515	1,279	35,269	-	45,063
Payables	8,552	1,305.74	34,630	-	44,488
Derivatives used for hedging					
Receivables	-	3,969	108,418	-	112,387
Payables	-	4,022	107,708	-	111,730

31 December 2022	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest rate and cross-currency derivatives					
Derivatives used for trading					
Receivables	22,225	63,737	109,724	-	195,686
Payables	23,107	69,022	112,537	-	204,666
Derivatives used for hedging					
Receivables	-	5,000	7,500	-	12,500
Payables	-	5,000	7,500	-	12,500

Market risk

Market risk is the exposure to an adverse impact on the bank's earnings and capital changes in market prices and rates. The bank has a very low risk appetite for market risks that arises either through positions in trading books (financial assets at FVPL and liabilities held for trading) or banking books.

The level of DHB Bank's trading activity is negligible. The bank mainly takes on market risk as part of its treasury management that supports the day-to-day management of liquidity. Any trading positions that might be taken involve relatively simple products and partially arise from servicing customers.

In cooperation with the Treasury Department, the Risk Management Department is responsible for updating the market risk policies and limit 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.

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 and the exponentially weighted moving average (EWMA). 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.

Over the last few years, the bank's market risk in trading book has mainly related to its FX open position, albeit on a small scale.

The following table reports the VaR of the bank's FX net open position based on historical simulation and EWMA for a confidence level of 99.9%- and 10-days holding period.

VaR of FX position	2023	2022
Max	(80)	(171)
Min	(4)	(1)
Average	(36)	(20)
End of year	(80)	(29)

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 counterbalance this weakness, non-statistical tools are applied to control risk, including net open position monitoring 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 in the banking book

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 shock of 2% parallel movement in market rates, the sensitivity of the net interest earnings by main currencies over a time period of one year is shown in the following table for the year ending 31 December 2023. For the year ending 31 December 2023 the sensitivity of the net earnings is presented based on 2% parallel movement in market rates:

Profit or loss sensitivity by major currencies at 31 December 2023

	Interest rate shock of +/- 200 bps	
	200 bps decrease	200 bps increase
EUR	3,197	4,112
USD	(260)	260
Others	8	(8)
Total	**2,945**	**4,364**

Profit or loss sensitivity by major currencies at 31 December 2022

	Interest rate shock of +/- 200 bps	
	200 bps decrease	200 bps increase
EUR	(93)	(1,410)
USD	(227)	227
Others	(10)	10
Total	**(330)**	**(1,173)**

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 value of equity. The following table shows the effect of an instantaneous shock of various parallel movements in market rates for the year ending 31 December 2023 and 2022 respectively.

Fair value sensitivity to interest rate shocks at 31 December 2023 (in bps)	-200	+200
EUR	3,353	(4,002)
USD	26	(67)
Others	9	(17)
Total	**3,388**	**(4,086)**
Equity value (IFRS)	245,622	245,622
Standard 200 bps shock as % of the equity	1.38%	-1.66%

Fair value sensitivity to interest rate shocks at 31 December 2022 (in bps)	-200	+200
EUR	2,730	(5,982)
USD	37	(89)
Others	11	(19)
Total	**2,778**	**(6,090)**
Equity value (IFRS)	229,543	229,543
Standard 200 bps shock as % of the equity	1.21%	-2.65%

The following table provides a maturity calendar of all interest-bearing financial instruments as of 31 December 2023, which is based on remaining days to maturity for fixed rate instruments and next repricing date for floating rate instruments:

31 December 2023	Up to 3 months	3-12 months	1-5 year	Over 5 years	Total
Cash and balances with central banks	294,039	-	-	-	294,039
Financial assets at FVPL	-	-	-	-	-
Financial assets at FVOCI	19,130	46,028	50,447	-	115,605
Financial Assets at amortized cost	-	-	-	-	-
-Securities at amortized cost	-	18,000	76,000	-	94,000
-Loans and advances – banks	53,500	-	-	-	53,500
-Loans and advances – customers	671,668	394,970	136,597	-	1,203,235
Derivative financial instruments – hedge accounting	141,321	16,178	-	-	157,499
Total	**1,179,658**	**475,176**	**263,044**	**-**	**1,917,878**
Due to banks	91,863	-	-	-	91,863
Financial liabilities held for trading	-	-	-	-	-
Deposits from customers	170,259	281,113	228,399	905	680,676
Derivative financial instruments – hedge accounting	137,608	1,736	17,090	-	156,434
Total	**399,730**	**282,849**	**245,489**	**905**	**928,973**
Net Interest Position 2023	779,928	192,327	17,555	(905)	988,905
Net Interest Position 2022	606,321	198,305	122,662	(938)	926,350

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 when necessary. Considering the derivative transactions, the open currency positions are at insignificant levels as of 31 December 2023. The management sets the limits for such positions according to the net foreign currency position rules determined by the Dutch Central Bank (DNB).

31 December 2023	EUR	USD	TRY	GBP	Others	Total
Cash and balances with central banks	294,103	-	-	-	-	294,103
Financial assets at FVPL	1,295	-	-	-	-	1,295
Financial assets at FVOCI	121,712	-	-	-	-	121,712
Financial Assets at amortized cost						
-Securities at amortized cost	95,470	-	-	-	-	95,470
-Loans and advances – banks	69,499	3,895	106	1,357	3,557	78,414
-Loans and advances – customers	1,036,048	171,573	-	3,981	1,319	1,212,921
Derivative financial instruments – hedge accounting	1,989	-	-	-	-	1,989
Property and equipment	2,010	-	-	-	-	2,010
Intangible assets	351	-	-	-	-	351
Current tax assets	242	-	-	-	-	242
Deferred tax assets	154	-	-	-	-	154
Non-current assets held for sale	-	-	-	-	-	-
Other assets	6,861	8	4	-	-	6,873
Total assets	**1,629,734**	**175,476**	**110**	**5,338**	**4,876**	**1,815,534**
Due to banks	93,907	-	1	-	-	93,908
Financial liabilities held for trading	-	252	-	32	-	284
Deposits from customers	1,419,355	37,404	4	580	3,555	1,460,898
Derivative financial instruments – hedge accounting	-	1,548	-	-	-	1,548
Provisions	2,150	-	-	-	-	2,150
Current tax liabilities	2,859	-	-	-	-	2,859
Deferred tax liabilities	-	-	-	-	-	-
Other liabilities	7,091	376	74	723	1	8,265
Total non-equity liabilities	**1,525,362**	**39,580**	**79**	**1,335**	**3,556**	**1,569,912**
Net gap	104,372	135,896	31	4,003	1,320	245,622
Net open currency position after derivatives	(1,547)	1,494	31	8	14	-

31 December 2022	EUR	USD	TRY	GBP	Others	Total
Cash and balances with central banks	267,982	-	-	-	-	267,982
Financial assets at FVPL	2,346	11	-	-	-	2,357
Financial assets at FVOCI	138,897	-	-	-	-	138,897
Financial Assets at amortized cost						
-Securities at amortized cost	105,897	-	-	-	-	105,897
-Loans and advances – banks	55,243	1,883	484	390	112	58,121
-Loans and advances – customers	946,314	182,351	-	2,386	6,898	1,137,949
Derivative financial instruments – hedge accounting	891	-	-	-	-	891
Property and equipment	2,370	-	-	-	-	2,370
Intangible assets	177	-	-	-	-	177
Current tax assets	565	-	-	-	-	565
Deferred tax assets	-	-	-	-	-	-
Non-current assets held for sale	435	-	-	-	-	435
Other assets	7,024	-	1	-	-	7,025
Total assets	**1,528,141**	**184,245**	**485**	**2,776**	**7,010**	**1,722,666**
Due to banks	208,657	-	3	-	-	208,660
Financial liabilities held for trading	653	10,064	-	-	-	10,717
Deposits from customers	1,217,624	44,665	462	1,399	120	1,264,270
Derivative financial instruments – hedge accounting	-	-	-	-	-	-
Provisions	1,871	-	-	-	-	1,871
Current tax liabilities	7	-	-	-	-	7
Deferred tax liabilities	11	-	-	-	-	11
Other liabilities	7,432	154	-	-	1	7,587
Total non-equity liabilities	**1,436,255**	**54,883**	**465**	**1,399**	**121**	**1,493,123**
Net gap	91,886	129,362	20	1,377	6,898	229,543
Net open currency position after derivatives	(239)	10	19	20	190	-

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 plausible disruptions.

As part of the continuous efforts to improve its operational risk management, the bank continued its Operational Risk & Control Assessment Program in 2023. 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, integrity and reputation risk

The reputation and integrity risk management framework are embedded in the policy and governance structure of the bank, with the Managing Board being ultimately responsible. The three lines of defense of DHB's governance framework are used to manage these risks effectively. These three lines of defense principles provide a clear division of activities and define roles and responsibilities for risk management at different levels within DHB.

The front office departments have the primary responsibility for day-to-day reputation and integrity risk management; they form the first line of defense. They are accountable for identifying, recording, reporting, and managing the risks that occur while conducting their activities, including originating loans and taking deposits, within applicable frameworks. They also ensure that the right controls and assessments are in place to mitigate the risks in line with the Risk Appetite.

The second level of control, which embeds amongst other Compliance, Internal Control and Legal, is to make sure risks are properly identified, measured, managed, and reported, if needed. In order to achieve that, they set policies and guidelines, facilitate implementations and operate control frameworks. Regulations continue to broaden and deepen; also, the expectations of our regulators and the society at large are increasing. Compliance assists the first line and Managing Board with handling these challenges. Compliance has an independent reporting line to the Managing Board and the Supervisory Board.

The third level of control is with Internal Audit, with which department Compliance, Legal and Internal control, has an active working relationship.

IBOR Reform

Following the significant changes in financial markets since the global financial crisis, the interbank market is not as active for banks to fund themselves as they used to. The European Commission proposed Benchmarks Regulation in September 2013 in the wake of the manipulation of various benchmarks. As an extension of the regulation, global benchmark rates are undergoing reforms.

Parallel to interest rate benchmarks being reformed as part of a global reform process, a project team was established at the bank under the lead of Treasury to work on complying with and adapting to the upcoming changes. The bank is currently in progress towards timely readiness and targets to reduce LIBOR related exposure as much as possible since June 2023 - cessation date for LIBOR rates – approaches. In this direction, the bank started to use SOFR based cross currency swaps to hedge some long-term maturity risks and SOFR related exposure since 2021.

Financial Instruments currently exposed to IBORs

	31 December 2023		31 December 2022	
	Carrying amount	Of which matures after transition date	Carrying amount	Of which matures after transition date
Assets currently exposed to USD Libor				
Non-derivative financial assets	**10,999**	**10,999**	**17,628**	**17,628**
- Current accounts	-	-	-	-
- Other loans and advances to customers	10,999	10,999	17,628	17,628
- Other non-derivative assets	-	-	-	-
Liabilities currently exposed to USD Libor				
Non-derivative financial liabilities	**-**	**-**	**-**	**-**
- Deposits from customers	-	-	-	-
- Other non-derivative liabilities	-	-	-	-

	31 December 2023		31 December 2022	
	Carrying amount	Of which matures after transition date	Carrying amount	Of which matures after transition date
Derivatives	**-**	**-**	**55,878**	**55,878**

8. PROFIT APPROPRIATION

Prior to approval by the General Meeting of Shareholders, the Board proposes that the net profit of 18,929 be distributed as indicated here below:

Dividend	9,464.5
Addition to the 'retained earnings'	9,464.5
	18,929

Rotterdam, 22 May 2024

Supervisory Board		**Managing Board**
Ariel Hasson	Onur Bilgin	Okan Balköse
Nesrin Koçu de Groot	Frederik-Jan Umbgrove	Steven Prins
Maarten Klessens	Kemal Cıngıllıoğlu	Ayşe Çıngıl

Company Financial Statements

For the Year 2023

Statement of **Financial Position**

As of 31 December

(in thousands of EUR)	**Notes**	**2023**	**2022**
ASSETS			
Cash and balances with central banks	3.1	294,103	267,982
Financial assets at FVPL	3.2	1,295	2,357
Financial assets at FVOCI	3.3	121,712	138,897
Financial assets at amortized cost			
- Securities at amortized cost	3.4	95,470	105,897
- Loans and advances – banks	3.5	78,414	58,121
- Loans and advances – customers	3.6	1,212,921	1,137,949
Derivative financial instruments – hedge accounting	3.7	1,989	891
Investment in subsidiaries	3.12	25	25
Property and equipment	3.8	2,010	2,370
Intangible assets	3.9	351	177
Current tax assets	3.10	240	565
Deferred tax assets	3.10	154	-
Non-current assets held for sale	3.8	-	435
Other assets	3.11	6,791	6,945
Total assets		**1,815,475**	**1,722,611**
LIABILITIES			
Due to banks	3.13	93,908	208,660
Financial liabilities at FVPL	3.2	284	10,717
Deposits from customers	3.14	1,460,898	1,264,270
Derivative financial instruments – hedge accounting	3.7	1,548	-
Provisions	3.15	2,150	1,871
Current tax liabilities	3.16	2,859	-
Deferred tax liabilities	3.16	-	11
Other liabilities	3.17	8,242	7,560
Total liabilities		**1,569,889**	**1,493,089**
EQUITY			
Share capital	3.18	113,750	113,750
Revaluation reserves	3.19	(2,224)	(4,827)
Defined benefit obligation reserve	3.20	(43)	(43)
Retained earnings	3.21	115,188	109,748
Net profit		18,915	10,894
Total equity		**245,586**	**229,522**
Total equity and liabilities		**1,815,475**	**1,722,611**
Commitments and contingent liabilities		14,552	7,860

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

Statement of **Profit or Loss**

For the year ended 31 December

(in thousands of EUR)	Notes		2023		2022
Interest income		91,536		48,605	
Interest expense		(31,671)		(7,302)	
Net interest income	**4.1**		**59,865**		**41,303**
Fee and commission income		598		467	
Fee and commission expense		(151)		(165)	
Net fee and commission income	**4.2**		**447**		**302**
Result on financial transactions, net	4.3		(2,764)		(2,389)
Result on hedge transaction	3.7		18		295
Other operating income	4.4		40		29
Total operating income			**57,606**		**39,540**
Administrative expenses:					
- Staff expenses	4.5	(16,093)		(13,959)	
- Other administrative expenses	4.6	(8,779)		(8,914)	
Total administrative expenses			**(24,872)**		**(22,873)**
Depreciation and amortization			(837)		(858)
Total operating expense			**(25,709)**		**(23,731)**
Operating profit before impairment			**31,897**		**15,809**
Net impairment charge	4.7		(6,499)		(1,118)
Total expense			**(32,208)**		**(24,849)**
Operating profit before tax			**25,398**		**14,691**
Income tax expense	4.8		(6,483)		(3,797)
Net profit attributable to the shareholders of the parent company			**18,915**		**10,894**
Attributable to minority interest [non-controlling interests]			-		-
Attributable to owners of the parent			18,915		10,894

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

Statement of **Comprehensive Income**

For the year ended 31 December

(in thousands of EUR)	**Notes**	**2023**	**2022**
Net profit		18,915	10,894
Items that are or may be reclassified to statement of profit or loss			
Cash flow hedge reserve	3.19	(318)	-
Change in fair value of financial assets at FVOCI	3.19	2,921	(4,814)
Realized gains/losses on financial assets at FVOCI reclassified to statement of profit or loss	4.3	-	(43)
Items that will never be reclassified to the statement of profit or loss			
Revaluation reserve-fair value of property	3.19	-	(165)
Re-measurement of defined benefit obligation reserve	3.20	-	-
Other comprehensive income		**2,603**	**(5,022)**
Total comprehensive income for the year		**21,518**	**5,872**
Attributable to minority interest [non-controlling interest]		-	-
Attributable to owners of the parent		21,518	5,872

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

Statement of **Changes in Equity**

(in thousands of EUR)

	Share capital (Note 4.17)	Revaluation reserve*	Fair value reserve*	Cash flow hedge reserve*	Defined benefit obligation reserve	Retained earnings	Net profit	Total
Balance at 1 January 2023	**113,750**	-	**(4,827)**	**-**	**(43)**	**109,748**	**10,894**	**229,522**
Change in revaluation reserve (Note 3.19)	-	-	-	-	-	-	-	-
Change in fair value reserve (Note 3.19)	-	-	2,921	-	-	-	-	2,921
Change in cash flow hedge reserve (Note 3.19)	-	-	-	(318)	-	-	-	(318)
Net profit for the year	-	-	-	-	-	-	18,915	18,915
Total comprehensive income	**-**	**-**	**2,921**	**(318)**	**-**	**-**	**18,915**	**21,518**
Transactions with owners, recorded directly in equity								
Transfer to / from retained earnings	-	-	-	-	-	10,894	(10,894)	-
Dividends paid (Note 4.9)	-	-	-	-	-	(5,454)	-	(5,454)
At 31 December 2023	**113,750**	**-**	**(1,906)**	**(318)**	**(43)**	**115,188**	**18,915**	**245,586**

* *The revaluation reserve, fair value reserve and cash flow hedge reserves are part of the revaluation reserves caption presented in the statement of financial position.*

(in thousands of EUR)

	Share capital (Note 4.17)	Revaluation reserve*	Fair value reserve*	Cash flow hedge reserve*	Defined benefit obligation reserve	Retained earnings	Net profit	Total
Balance at 1 January 2022	**113,750**	**165**	**30**	**-**	**(43)**	**116,779**	**9,728**	**240,409**
Change in revaluation reserve (Note 3.19)	-	-	-	-	-	-	-	-
Change in fair value reserve (Note 3.19)	-	-	(4,857)	-	-	-	-	(4,857)
Net profit for the year	-	-	-	-	-	-	10,894	10,894
Total comprehensive income	**-**	**-**	**(4,857)**	**-**	**-**	**-**	**10,894**	**6,037**
Transactions with owners, recorded directly in equity								
Transfer to / from retained earnings	-	(165)	-	-	-	9,893	(9,728)	-
Dividends paid (Note 4.9)	-	-	-	-	-	(16,924)	-	(16,924)
At 31 December 2022	**113,750**	**-**	**(4,827)**	**-**	**(43)**	**109,748**	**10,894**	**229,522**

* *The revaluation reserve, fair value reserve and cash flow hedge reserves are part of the revaluation reserves caption presented in the statement of financial position.*

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

Statement of **Cash Flows**

As of 31 December *(in thousands of EUR)*	Notes	2023	2022
Cash flows from operating activities			
Net profit for the period		18,915	10,894
Adjustments for non-cash items included in profit:			
Depreciation for property and equipment	3.8	759	725
Amortization for intangible assets	3.9	78	133
Unrealized gains		793	(872)
Net impairment charge	4.7	6,499	1,118
Provisions	3.15	295	(78)
Income tax expense	4.8	6,483	3,797
Changes in operating assets:			
Financial assets at FVPL	3.2	337	(681)
Loans and advances – banks	3.5	(20,300)	11,269
Loans and advances – customers	3.6	(81,539)	(139,103)
Derivative financial instruments – hedge accounting	3.7	(1,098)	(390)
Income tax assets	3.10	171	(220)
Other assets	3.11	154	(1,074)
Changes in operating liabilities:			
Due to banks	3.13	(114,752)	(572)
Deposits from customers	3.14	196,628	(76,644)
Financial liabilities at FVPL	3.2	(10,433)	6,620
Derivative financial liabilities – hedge accounting	3.7	1,230	-
Income tax liabilities	3.16	1,224	(1,720)
Other liabilities	3.17	1,166	1,960
Income tax paid		(4,859)	(2,681)
Net cash (used in)/from operating activities		**1,751**	**(187,519)**
Cash flows from investing activities			
Additions to securities at amortized cost	3.4	(977)	(65,094)
Additions to financial assets at FVOCI	3.3	(22,807)	(20,922)
Disposals and redemptions of securities at amortized cost	3.4	11,418	432
Disposals and redemptions of financial assets at FVOCI	3.3	42,905	174,672
Investment in associates	3.12	-	-
Investments in property and equipment	3.8	(399)	(304)
Investments in intangible assets	3.9	(252)	(49)
Disposal of property and equipment	3.8	435	18
Net cash from/(used in) investing activities		**30,323**	**88,753**
Cash flows from financing activities			
Dividends paid	4.9	(5,454)	(16,924)
Lease payment		(499)	(417)
Net cash used in financing activities		**(5,953)**	**(17,341)**
Net (decrease)/increase in cash and cash equivalents		26,121	(116,107)
Cash and balances with central banks at 1 January		267,982	384,089
Cash and balances with central banks at 31 December	**4.1**	**294,103**	**267,982**
Operational cash flows from interest			
Interest received		89,755	47,469
Interest paid		(23,082)	(7,131)

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

Notes to the **Financial Statements**

Notes to the Financial Statements

1.CORPORATE INFORMATION

DHB Bank N.V. is a public limited company incorporated and domiciled in the Netherlands. Its registered office is at Weena 780 3014 DA Rotterdam, Netherlands.

The shareholders are HCBG Holding B.V. of Amsterdam, which owns 70% and Türkiye Halk Bankası A.Ş. of Ankara, which owns 30%. The ultimate parent company of DHB Bank is HCBG Holding B.V.

DHB Bank has a 100% stake in DHB Financial Services B.V. -hereafter referred to as DHB FS- a company incorporated on 5 January 2021 in Belgium.

The financial position of the bank is to a considerable extent related to the economic developments in Türkiye and the European Economic Area 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.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The financial statements of DHB Bank have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU IFRS) and in accordance with Part 9 of Book 2 of the Dutch Civil Code. The bank is registered in Rotterdam, the Netherlands (Chamber of Commerce number 24199853).

The financial statements for the year ended 31 December 2023 were prepared by the Managing Board and authorized for issue in accordance with a resolution of the Supervisory Board on 22 May 2024. The General Meeting of Shareholders may decide not to adopt the annual accounts but may not amend these.

The accounting policies that are used in the preparation of these company financial statements are consistent with the accounting policies used in preparation of the Consolidated Financial Statements of the Bank, as set out in those financial statements.

2.2 Basis of measurement

The financial statements are prepared on a historical cost basis, except for financial assets at FVOCI, financial assets at FVPL and financial liabilities held for trading (including derivative transactions), derivative financial instruments-hedge accounting, property in use by the bank which are measured at fair value which are measured at book value or lower fair value less costs to sell. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortized cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The financial statements are prepared under the going concern assumption.

2.3 Functional and presentation currency

The financial statements are presented in Euros (EUR), which is the functional currency of DHB Bank.

All amounts are stated in thousands of EUR, unless otherwise stated.

3. STATEMENT OF FINANCIAL POSITION

3.1 Cash and balances with central banks

	2023	2022
Balances with central banks	294,103	267,982
Total	**294,103**	**267,982**

This item includes all legal tender and demand deposits held at the central bank in countries in which DHB Bank is established. Balances with the central bank include reserve deposits that are not available in daily operations, amounting to 11,536 (2022: 9,484).

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

3.2 Financial assets & financial liabilities at FVPL

DHB Bank holds derivative financial instruments for general risk management purposes (used for economic hedges) as of 31 December 2023 and 2022. The positions with a positive/negative fair value after re-measurement are recorded under the items 'Financial assets at FVPL' and 'Financial liabilities at FVPL'.

The following table shows the financial assets at FVPL as of 31 December 2023 and 2022:

	2023		2022	
	Fair value	Notional	Fair value	Notional
Financial assets at FVPL				
Currency swaps	1	9,794	194	30,700
Interest rate swaps	617	8,300	843	9,324
Cross currency swaps	677	26,969	1,320	155,662
Total	**1,295**	**45,063**	**2,357**	**195,686**

The financial assets at FVPL relate to derivatives positions to hedge financial risks, which do not qualify for hedge accounting.

Currency swaps are mainly used to fund US Dollar, Turkish Lira and Hungarian Forint assets while interest rate swaps and cross currency swaps are used to hedge interest rate risk and foreign currency risk positions related to US Dollar and Turkish Lira. Currency forwards are offered to select customers in main currencies whereby the currency risk is fully hedged by offsetting deals with bank counterparties.

All gains and losses from change in the fair values of financial assets at FVPL are recognized in the statement of profit or loss under 'Result on financial transactions'.

The following table shows the financial liabilities at FVPL as of 31 December 2023 and 2022:

	2023		2022	
	Fair value	Notional	Fair value	Notional
Financial liabilities at FVPL				
Currency swaps	35	9,858	645	31,222
Interest rate swaps	-	8,300	8	9,324
Cross currency swaps	249	26,330	10,064	164,119
Total	**284**	**44,488**	**10,717**	**204,665**

These liabilities relate to derivatives positions to hedge financial risks, which do not qualify for hedge accounting.

3.3 Financial assets at FVOCI

	2023	2022
Debt securities issued by banks	96,331	106,514
Debt securities issued by corporates	17,295	28,561
Government (Eurobonds)	3,110	3,822
Loans and advances to banks	4,976	-
Total	**121,712**	**138,897**

From financial assets under this category, 113,967 (2022: 138,897) is under custody with DNB and serves as a pool of ECB eligible securities that can be used to obtain funding from the ECB, of which 60,228 (2022: 135,436) is blocked as a pledge for total funding amounting to 55,029 (2022: 125,112) as obtained from the ECB under the (Targeted) Long Term Refinancing Operations (TLTRO).

The pledged transactions under the TLTRO are conducted in accordance with the general terms and conditions of the ECB. Further details can be found in paragraph 3.13.

There are no subordinated securities at FVOCI (2022: none).

Financial assets at FVOCI developed as follows:

	2023	2022
At 1 January	**138,897**	**297,499**
Purchases	22,798	20,927
Sales	(7,382)	(13,592)
Redemptions	(35,903)	(163,875)
FX revaluations and accrued interests	952	(924)
Market value revaluations	2,350	(1,138)
At 31 December	**121,712**	**138,897**

3.4 Securities at amortized cost

	2023	2022
Government (Eurobonds)	59,822	60,354
Debt securities issued by banks	24,591	28,532
Debt securities issued by corporates	11,059	17,026
Subtotal	**95,472**	**105,912**
Impairment allowances	(2)	(15)
Total	**95,470**	**105,897**

From the securities at amortized cost 95,470 (2022: 102,959) is under custody with DNB and serves as a pool of ECB eligible securities that can be used to obtain funding from the ECB. From this, 14,396 (2022: 75,601) is blocked as a pledge and the remaining of the total ECB eligible at amortized cost securities is freely available amounting to 81,074 (2022: 27,358).

There are no subordinated securities at amortized cost.

Notes to the **Financial Statements**

The securities at amortized cost developed as follows:

	2023	2022
At 1 January	**105,897**	**41,249**
Purchases	977	65,094
Disposals	(10,853)	-
Changes in accrued interest and (dis)agio	(564)	(432)
Impairment reversal/charges	13	(14)
At 31 December	**95,470**	**105,897**

3.5 Loans and advances – banks (amortized cost)

These are non-derivative exposures to banks classified as 'loans and advances' and also comprising exposures to central banks, which are not included in the item 'Cash and balances with central banks.' Bank loans that have a business model of HCTS are measured at FVOCI, and therefore these positions are reported under section 3.3.

	2023	2022
Money market placements	60,791	49,043
Other loans and advances	17,679	9,127
Subtotal	**78,470**	**58,170**
Impairment allowances	(56)	(49)
Total	**78,414**	**58,121**

The item 'Loans and advances – banks' includes pledged funds amounting to 1,003 (2022: 11,016). Of this amount, 1,003 (2022: 11,016) serves as collateral for several swap transactions, while none (2022: none) serves as collateral for non-financial transactions. The pledged fund transactions for swap transactions are conducted under terms based on the applicable ISDA Collateral Guidelines and CSA terms.

3.6 Loans and advances – customers (amortized cost)

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

	2023	2022
Retail loans	131,211	140,729
Commercial loans	1,096,503	1,005,565
Subtotal	**1,227,714**	**1,146,294**
Collective loan impairment allowances	(2,988)	(4,002)
Individual loan impairment allowances	(11,805)	(4,343)
Total	**1,212,921**	**1,137,949**

From the loans and advances - customers at amortized cost 43,974 (2022: 26,076) is under custody with DNB and serves as a pool of ECB eligible loans that can be used to obtain funding from the ECB. The total amount of 43,974 (2022: 26,076) is blocked as a pledge and is not freely available.

3.7 Hedge accounting

Accounting policy for hedge accounting

Derivatives held for asset-liability risk management purposes include all derivative assets and liabilities that are not classified as assets at FVPL and liabilities at FVPL.

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.

IFRS 9 allows entities to continue with the hedge accounting under IAS 39 after 31 December 2017. DHB Bank decided to continue applying IAS 39 for hedge accounting in their entirety and not to apply the EU carve-out. The bank implemented revised hedge accounting disclosures as required by IFRS 7 'Financial Instruments: Disclosures'.

Fair value hedges

As part of wider risk management of the bank as set out in Note 7, the bank's strategy is to apply fair value hedge accounting to keep its risks arising from interest rate and foreign currency sensitivities within limits.

DHB Bank manages the interest rate risk arising from fixed-rate loans and advances – customers by entering into interest rate swaps as hedging instruments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the statement of profit or loss under 'results on fair value hedges', together with fair value adjustments to the hedged item attributable to the hedged risk. Dollar offset method is used comparing the change in fair value or cash flows of the hedging instrument with the change in fair value or cash flows of the hedged item attributable to the hedged risk.

Fair value hedge ineffectiveness within the 80% - 125% bandwidth is recognized in the statement of profit or loss under 'results on fair value hedges' through the actual hedge adjustment. Ineffectiveness outside the 80% - 125% bandwidth is recognized by not posting a hedge adjustment to the hedged item. In this case, the hedge relationship is terminated, and it is re-designated at the beginning of the next period if expected to be highly effective prospectively.

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, amortized through the statement of profit or loss under 'result on fair value hedges' over the remaining term of the hedged item or recognized directly when the hedged item is derecognized. For non-interest-bearing instruments, the cumulative adjustment of the hedged item is recognized in profit or loss when the hedged item is derecognized.

The main sources of hedge ineffectiveness in fair value can arise from:

- difference in discount rates used for discounting,
- difference in the fixed rate of the swap and the loan rate.

Cash flow hedge

Cash flow hedging is applied to hedge the variability arising on expected future cash flows due to foreign currency risk arising from foreign currency denominated assets with floating interest rates. As foreign exchange rates fluctuate, the future cash flows in local currency on these instruments also fluctuate. DHB Bank uses float-float cross-currency swaps to hedge the risk of such cash flow fluctuations.

In order to replicate the hedge relation and track its effectiveness, the bank creates a hypothetical proxy swap that copies the financial characteristics of the hedged item. While testing the effectiveness of the hedge relation, the present value changes in hedging and proxy swaps are differentiated by its interest rate and FX risk components. Since the aim of cash flow hedge is to hedge the FX risk, the effectiveness test is carried out through comparing the present value changes due to FX risk, with the same effectiveness bandwidth as fair value hedges (80% - 125%). The effective portion of the gain or loss on the hedging instrument that are designated and qualify as cash flow hedges are recognised in other comprehensive income under the item 'cash flow hedge reserve'. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. The main source of hedge ineffectiveness in cash flow hedge may arise from difference in foreign currency denominated notional amounts between hedging instrument and hedged item. Since the difference in value changes between hedging instrument and hedged item due to unmatched notional amounts are recognised as ineffectiveness under profit or loss and hedging instrument and hedging item have the same underlying benchmark rates, the lesser of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the expected future cash flows on the hedged item from the inception date is applied for the amount recognized under other comprehensive income. Amounts accumulated in equity are transferred to profit or loss 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 other comprehensive income at that the amount remains in equity and is reclassified to profit or loss when a hedging instrument is derecognised.

Effect on Statement of Financial Position and Statement of Profit or Loss

Derivative financial instruments - hedge accounting

DHB Bank holds derivative financial instruments for general risk management purposes as of 31 December 2023 and 2022.

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

	2023			2022		
Derivative financial instruments – hedging instruments	**Notional amounts**	**Fair values**		**Notional amounts**	**Fair values**	
		Positive	**Negative**		**Positive**	**Negative**
Interest rate swaps						
Fair value hedges	7,500	531	-	12,500	891	-
Cross currency swaps						
Cash flow hedges*	104,213	1,458	1,548	-	-	-
Total	**111,713**	**1,989**	**1,548**	**12,500**	**891**	**-**

* Changes in the fair values of the hedging item due to foreign currency movements amount to 3,316 as of December 2023 (2022: none).

	2023			2022		
Hedged item	**Carrying amount**	**Accumulated FV adjustments**	**Change in values of hedged item**	**Carrying amount**	**Accumulated FV adjustments**	**Change in values of hedged item**
Fair value hedges						
Loans and advances – customers	7,085	(423)	294	11,688	(831)	(732)
Cash flow hedges						
Loans and advances – customers	103,177	-	(3,325)	-	-	-
Total	**110,263**	**(423)**	**(3,031)**	**11,688**	**(831)**	**(732)**

DHB Bank uses interest rate swaps to hedge the interest rate risk in fair value hedges. The average price of the interest rate swaps is – 0.42 as of 31 December 2023 (2022: -0.43%). DHB Bank uses plain interest rate and cross currency swaps to hedge future cash flows against interest rate risk and currency risk.

	2023		
	Within 1 year	**1-5 years**	**Over 5 years**
Cash inflows	17,438	67,936	17,132
Cash outflows	-	-	-
Total	**17,438**	**67,936**	**17,132**

Result on hedge transactions

	2023	2022
Result on hedge transactions	18	295
'Result on hedge accounting transactions' comprises the gains and losses from:	**2023**	**2022**
• fair value hedges on the hedging instrument	(346)	695
• fair value hedges on the hedged item	373	(400)
• cash flow hedges (ineffective portion)	(9)	-
Total	**18**	**295**

These results are related to the fair value hedges and ineffective portion from the cash flow hedges. DHB Bank applies fair value hedge accounting to the interest rate risks arising from financial instruments at FVOCI or at amortized costs with fixed interest rates. DHB Bank uses interest rate swaps as a hedging instrument for this purpose while using floating rate cross currency swaps to hedge future cash flows against foreign currency risk for cash flow hedge accounting. There are no amounts having reclassified from the cash flow hedge reserve to profit or loss in 2023 and 2022.

Reconciliation of components of equity

The table below provides a reconciliation by risk category of equity components and an analysis of OCI items resulting from hedge accounting.

Effective portion of changes in fair value	2023	2022
Balance at 1 January	-	-
• Interest rate risk	-	-
• Currency risk	(428)	-
Tax amount	110	-
Total	**(318)**	**-**

3.8 Property and equipment & non-current assets held for sale

The changes in book value of property and equipment in 2023 and 2022 are as follows:

	Buildings	Right-of-use assets	Other fixed assets	Total
Balance at 1 January 2023	**-**	**1,844**	**526**	**2,370**
Investments	-	222	177	399
Divestments	-	-	-	-
Reclassification	-	-	-	-
Depreciation	-	(548)	(211)	(759)
Revaluation	-	-	-	-
Re-measurement	-	-	-	-
Balance at 31 December 2023	**-**	**1,518**	**492**	**2,010**
Cost	-	3,668	2,592	6,260
Cumulative depreciation	-	(2,150)	(2,100)	(4,250)
Cumulative revaluations	-	-	-	-
Total	**-**	**1,518**	**492**	**2,010**

Notes to the **Financial Statements**

	Buildings	Right-of-use assets	Other fixed assets	Total
Balance at 1 January 2022	**477**	**2,278**	**520**	**3,275**
Investments	-	65	239	304
Divestments	-	-	(18)	(18)
Reclassification	(466)	-	-	(466)
Depreciation	(11)	(499)	(215)	(725)
Revaluation	-	-	-	-
Re-measurement	-	-	-	-
Balance at 31 December 2022	**-**	**1,844**	**526**	**2,370**
Cost	-	3,487	2,500	5,987
Cumulative depreciation	-	(1,643)	(1,974)	(3,617)
Cumulative revaluations	-	-	-	-
Total	**-**	**1,844**	**526**	**2,370**

The office premise located in Antwerp, which was reclassified to held for sale in 2022, was sold in 2023 with an additional impairment amount of 15 compared to 2022.

DHB Bank does not have any restrictions on title, and property, plant and equipment pledged as security for liabilities (2022: none).

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

The changes in book value of non-current assets held for sale in 2023 and 2022 are as follows:

	Buildings	Other fixed assets	Total
Balance at 1 January 2023	**435**	**-**	**435**
Reclassifications	-	-	-
Divestments	(420)	-	(420)
Impairment	(15)	(15)	(31)
Balance at 31 December 2023	**-**	**-**	**-**

	Buildings	Other fixed assets	Total
Balance at 1 January 2022	**-**	**-**	**-**
Reclassifications	-	-	-
Divestments	466	-	466
Impairment	(31)	-	(31)
Balance at 31 December 2022	**435**	**-**	**435**

Right-of-use assets	**2023**	**2022**
Office	1,402	1,799
Vehicles	116	45
Balance at 31 December	**1,518**	**1,844**

Notes to the **Financial Statements**

3.9 Intangible assets

The changes in book value of intangibles are as follows:

	2023	2022
Balance at 1 January	**177**	**261**
Investments	252	49
Amortization	(78)	(133)
Balance at 31 December	**351**	**177**
Cost	4,684	4,923
Cumulative amortization	(4,333)	(4,746)
Total	**351**	**177**

This item mainly includes licenses. The investment amounting to 252 (2022: 49) relates mainly to expenses for banking software. There are no impairments on intangible assets.

3.10 Income tax assets

	2023	2022
Current tax assets	240	565
Deferred tax assets	154	-

The current tax assets include receivables due from the tax authorities. The deferred tax assets are recoverable amounts in future periods in respect of deductible temporary differences.

The movements in deferred tax assets are as follows in 2023 and 2022:

2023	**Balance at 1 January**	**Recognized in income statement**	**Recognized in other comprehensive income**	**Balance at 31 December**
Employee benefits	-	-	-	-
Cash flow hedge reserve	-	-	110	110
Other	-	44	-	44
Total	**-**	**44**	**110**	**154**

2022	**Balance at 1 January**	**Recognized in income statement**	**Recognized in other comprehensive income**	**Balance at 31 December**
Employee benefits	10	(10)	-	-
Total	**10**	**(10)**	**-**	**-**

3.11 Other assets

	2023	2022
Prepayments	6,194	6,396
Other receivables	597	549
Total	**6,791**	**6,945**

Assets that due to their nature cannot be classified in specific statement of financial position items are presented under 'Other assets'.

3.12 Investment in subsidiaries

Investment in subsidiaries of DHB Bank is stated at cost. DHB Financial Services BV (DHB FS) has been incorporated on 5 January 2021 in Belgium where DHB Bank is the 100% owner.

	2023	2022
Opening balance	**25**	**-**
Capital investment	-	25
Closing balance	**25**	**25**

3.13 Due to banks

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

	2023	2022
Current accounts	-	3
Borrowings	93,908	208,657
Total	**93,908**	**208,660**

The majority of the balance represents funds obtained through participation in the targeted longer-term refinancing operations (TLTRO), a program that aims to stimulate lending to the real economy in the Eurozone. The interest rate on the TLTROs is equal to deposit facility rate on the corresponding maintenance period. As per year-end 2023, DHB Bank holds EUR 90 million (start date 24 March 2021) in funding from the European Central Bank under the fourth and seven series of third targeted longer-term refinancing operations (TLTRO III.7).

In exchange for the funding obtained, securities need to be pledged whereby a certain haircut is taken into account on the valuation of those securities that is based on the type of instrument and the remaining maturity.

The bank does not have pledge on the amounts of due to banks (2022: none).

This statement of financial position item includes pledged deposits amounting to 1,863 (2022: 1,426) which serve as collateral for several swap transactions.

3.14 Deposits from customers

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

	2023	2022
Current accounts	33,870	34,791
Saving accounts	740,071	699,600
Time deposits	686,957	529,879
Total	**1,460,898**	**1,264,270**

This item includes pledged deposits amounting to 36,297 (2022: 40,753) which serve as collateral for loans or off-balance sheet credit instruments granted by DHB Bank.

3.15 Provisions

Provisions consist of the following items:

	2023	2022
Employee benefits	2,121	1,826
Other	29	45
Total	**2,150**	**1,871**

Other balance comprises impairment allowances calculated for financial guarantee contacts.

Employee benefits

Below table shows the movements in provisions for variable remuneration and vitality leave.

	2023	2022
Opening balance	**1,826**	**1,904**
Addition through statement of profit or loss	1,159	986
Utilization	(864)	(1,064)
Release	-	-
Other	-	-
Closing balance	**2,121**	**1,826**

Provisions for employee benefits consist of provisions related to the bank's variable remuneration for an amount of 2,084 (2022: 1,792) with 37 (2022: 34) related to vitality leave.

Provisions related to the bank's variable remuneration plan, consist of deferred variable remuneration granted to Managing Board members and senior staff of the bank. It is assumed that all amounts provisioned for, will gradually become payable within the next 5 years. In line with Dutch regulations, the variable remuneration granted consists of a cash portion (50%) and a portion based on the equity value of the bank (50% as well).

The provision related to the latter will be adjusted annually, proportionally with the change in equity value of the bank.

Defined benefit plan

DHB Bank has insured its obligations under the pension plan for its employees. The related insurance premiums are paid and recognized in profit and loss as staff expenses. Due to a change in legislation in 2016 in Belgium, DHB Bank needs to guarantee a minimum return to its employees in the Belgium Branch. DHB Bank needs to recognize a defined benefit liability in relation to this guarantee to cover any deficit that might arise (e.g., due defaulting insurance company) in case the insurance company does not cover the minimum guarantee.

The associated net defined benefit liability that is presented as a provision is as follows:

	2023	2022
Fair value of plan assets	1,149	1,064
Defined benefit obligation	1,149	1,064
Net defined benefit liability	**-**	**-**

The movement of the net defined benefit liability is as follows:

	2023	2022
Opening balance of plan assets	**1,064**	**974**
Actual return on plan assets	34	31
Employer contribution	49	55
Plan participants' contributions	8	11
Benefits paid	(6)	(7)
Closing balance of plan assets	**1,149**	**1,064**
Opening balance of defined benefit obligation	**1,064**	**1,047**
Service cost	62	53
Interest cost	38	10
Plan participants' contributions	8	11
Actuarial gain/loss	(17)	(50)
Benefits paid	(6)	(7)
Closing balance of defined benefit obligation	**1,149**	**1,064**
Net defined benefit liability	**-**	**-**

For the calculation of the net defined benefit liability, the following assumptions were taken into account:

	2023	2022
Discount rate:	3.65%	3.60%
Expected return on assets:	3.65%	3.60%
Expected rate of salary increases, including inflation:	1.00%	1.00%
Duration:	13.1	14.2
Retirement age:	65	65
Withdrawal rates per age category:	10.00%	10.00%
o 20-29 years:	8.00%	8.00%
o 30-39 years:	6.00%	6.00%
o 40-49 years:	4.00%	4.00%
o 50-54 years:	0.00%	0.00%
o 55-64 years:	0.00%	0.00%

The discount rate and withdrawal rate are considered to be key assumptions by the external actuary. The sensitivity analysis (excluding taxes) of those rates has been determined based on changes of the assumptions occurring at the end of the reporting period that are deemed reasonably possible. The table discloses the financial impact on the defined benefit obligation if discount rate would increase or decrease if all other assumptions were held constant. In practice, this is unlikely to occur, and some changes of the assumptions may be correlated.

		Discount rate		Withdrawal
2023	**Original**	**-0.5%**	**0.5%**	**0%**
Rates	3.65%	3.15%	4.15%	0%
Defined benefit obligation	1,149	1,149	1,149	1,149
Normal cost	52	52	52	52
Fair value of assets	1,149	1,149	1,149	1,149

		Discount rate		Withdrawal
2022	**Original**	**-0.5%**	**0.5%**	**0%**
Rates	3.60%	0.50%	1.50%	0%
Defined benefit obligation	1,064	1,064	1,064	1,064
Normal cost	64	64	64	64
Fair value of assets	1,064	1,064	1,064	1,064

Annual premiums are paid to the insurance company to cover the pension costs in accordance with the insurance contracts. For 2023 the expected contributions are none (2022: none), and the Bank does not have any estimated payments for 2024 (2023: none).

3.16 Income tax liabilities

	2023	2022
Current tax liabilities	2,859	7
Deferred tax liabilities	-	11

Current tax liabilities include payables due to tax authorities.

According to our accounting policies all other comprehensive income items under equity should be presented net of tax effect. If these equity items show a positive balance, the tax effect must be shown under deferred tax liabilities.

The movements in deferred tax liabilities in 2023 and 2022 are as follows:

2023	**Balance at 1 January**	**Recognized in income statement**	**Recognized in other comprehensive income**	**Balance at 31 December**
Property and equipment – real estate valuation	(1)	-	-	(1)
Fair value reserve	-	-	-	-
Other	12	(11)	-	1
Total	**11**	**(11)**	**-**	**-**

Notes to the **Financial Statements**

2022	Balance at 1 January	Recognized in income statement	Recognized in other comprehensive income	Balance at 31 December
Property and equipment – real estate valuation	67	-	(68)	(1)
Fair value reserve	10	-	(10)	-
Other	12	-	-	12
Total	**89**	**-**	**(78)**	**11**

3.17 Other liabilities

	2023	2022
Accrued expenses	1,826	3,808
Lease liabilities	1,357	1,635
Payables to suppliers	115	17
Other payables	4,944	2,100
Total	**8,242**	**7,560**

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

The movements in the lease liabilities in 2023 and 2022 are as follows:

	2023	2022
Opening balance	**1,635**	**2,012**
Additions	221	40
Payments	(499)	(417)
Total	**1,357**	**1,635**

Lease liabilities	**2023**	**2022**
Maturity analysis – contractual undiscounted cash flows		
Less than one year	463	449
One to two years	383	435
Three to four years	328	340
Four to five years	121	282
More than five years	89	166
Total undiscounted lease liabilities	**1,384**	**1,672**

Lease liabilities included in the statement of financial position at 31 December		
Current	449	432
Non-current	908	1,203

3.18 Share Capital

The authorized capital amounts to EUR 227.5 million. 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 these shares have a par value of EUR 455 (four hundred fifty-five).

3.19 Revaluation Reserves

The revaluation reserves as presented in the statement of financial position comprise a revaluation reserve and fair value reserve and cannot be freely distributed as they qualify as legal reserves under Dutch corporate law.

Revaluation reserve

Revaluation reserve is linked to the fair value of property in use by the bank as determined by management based on reports from independent appraisers. The correction related to the depreciation of the assets is taken into account in the revaluation reserve.

Fair value reserve

This reserve encompasses the unrealized gains and losses on securities classified as FVOCI excluding impairment losses, until the investment is derecognized or impaired.

Cash flow hedge reserve

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

3.20 Defined Benefit Obligation Reserve

This item relates to actuarial gains or losses on the defined benefit pension plan for DHB Bank's Belgian employees.

3.21 Retained Earnings

Retained earnings can be freely distributed, except for an amount of 2,437 (2022: 2,436) related to the unrealized positive fair value on derivatives after tax effect that is included in the statement of profit or loss and to be treated as a legal reserve under Dutch corporate law.

4. STATEMENT OF PROFIT OR LOSS

4.1 Net interest income

Interest income from:	**2023**	**2022**
Loans and advances – customers	75,948	42,864
Cash and balances with central banks	10,417	2,862
Loans and advances – banks	3,467	2,642
Securities at amortized cost	329	114
Financial assets at FVOCI	443	63
Derivative financial instruments	928	58
Other interest income	4	2
Interest income	**91,536**	**48,605**
Interest expense from:	**2023**	**2022**
Deposits from customers	25,650	6,063
Due to banks	4,698	1,218
Derivative financial instruments	1,303	-
Lease liabilities	17	20
Other interest expense	3	1
Interest expense	**31,671**	**7,302**
Total	**59,865**	**41,303**

Derivative financial instruments represent the gross amount of interest received and paid, as presented in the table above for hedge accounting on assets and liabilities.

For financial assets or financial liabilities that are not at FVPL, the total interest income amounts to 91,536 (2022: 48,605) and total interest expense amounts to 31,671 (2022: 7,302).

4.2 Net fee and commission income

	2023	**2022**
Banking services	287	229
Letter of guarantees	223	137
Cash loans	3	7
Other fees and commissions	85	94
Subtotal	**598**	**467**
Fee and commission expense	151	165
Total	**447**	**302**

There is no fee and commission income and expense respectively from derivative financial instruments that are classified as FVPL.

Notes to the **Financial Statements**

Fee and commission income	2023			2022		
	At a point in time	Over time	Total	At a point in time	Over time	Total
Netherlands	233	284	517	192	199	391
Belgium	74	-	74	72	-	72
Germany	7	-	7	4	-	4
Total	**314**	**284**	**598**	**268**	**199**	**467**

Fee and commission expense	2023	2022
Netherlands	151	165
Germany	-	-
Belgium	-	-
Total	**151**	**165**

4.3 Result on financial transactions

	2023	2022
Results from securities transactions	20	39
Results from derivatives transactions	(2,784)	(2,428)
Total	**(2,764)**	**(2,389)**

'Results from securities transactions' are unrealized fair value gains and losses of debt securities held in FVPL portfolio and realized fair value gains and losses from debt instruments held in FVOCI portfolio. In this item are also included the amounts transferred from equity to the statement of profit or loss on the sale of financial assets at FVOCI.

'Results from derivatives transactions' reflect fair value results (including foreign currency translation results) on FX swap and cross currency swap transactions, which are concluded to positioning for loans and advances in other currencies, mainly USD, TRY and HUF. The differences between their spot rates and forward rates are amortized daily and recognized through the lifetime of the respective transactions.

Within the results from securities transactions, the following amounts were reclassified from equity to the statement of profit or loss in connection with the sale of securities that were part of the securities portfolio during 2023.

	2023	2022
Gross amounts (as recorded in statement of profit or loss)	-	(59)
Net amounts (as reclassified from equity)	-	(43)

4.4 Other operating income

	2023	2022
Other operating income	40	29
Total	**40**	**29**

Other operating income consists of non-recurring income items.

4.5 Staff expenses

	2023	2022
Wages and salaries	12,232	10,438
Pension costs	1,632	1,322
Other social security costs	1,707	1,435
Other staff costs	522	764
Total	**16,093**	**13,959**

Current number of full-time equivalents in 2023 is 130 (2022: 128).

	2023	2022
In the Netherlands	80	79
Outside the Netherlands	50	49
Total	**130**	**128**

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. Further reference is made to note 3.15.

The Managing Board (key management) compensation is as follows:

Total remuneration	2023	2022
Short-term employee benefits	2,368	1,999
Post-employment benefits	-	104
Total	**2,368**	**2,103**

Included in the short-term employee benefits is a variable remuneration of 337 (2022: 283).

4.6 Other administrative expenses

	2023	2022
Regulation and supervision	3,392	4,754
Logistics and infrastructure	2,129	1,736
Support activities	2,354	1,850
Taxes and others	905	574
Total	**8,779**	**8,914**

Other administrative expenses refer to operational expenses incurred during the year. Major items in other administrative expenses are the premiums regarding deposit guarantee scheme, regulatory supervision expenses, IT expenses and communication expenses.

The expenses of the current and former members of the Supervisory Board amounted to 414 (2022: 299) in 2023, of which 357 (2022: 252) relates to the fixed remuneration and 57 (2022: 47) relates to the reimbursements of expenses. Social charges in relation to the Supervisory Board are excluded from this and booked under personnel expenses.

Expenses related to short-term leases and leases of low-value assets are recognized in other administrative expenses and amounted to 21 and 93, respectively (2022: 74 and 8, respectively).

This item also includes the expenses for audit and audit related services of Deloitte Accountants B.V.:

	2023	2022
Audit of consolidated financial statements	355	337
Audit related services	173	147
Total	**528**	**484**

In addition to the audit of the financial statements Deloitte Accountants B.V. provided the following services: an audit of the regulatory reporting to DNB (Corep/Finrep), review of the interim financial report, assurance on credit claims transferred to DNB a collateral, agreed upon procedures regarding the interest rate risk report and Deposit Guarantee Scheme (DGS) report to DNB as well as the by Belgium law required audit/review of the Belgium Branch.

From 528, 180 was paid in 2023. The remainder is accrued in the statement of financial position as a liability.

4.7 Net impairment charge

	2023	2022
Loans and advances amortized cost	6,505	1,038
Loans and advances at FVOCI	9	(5)
Financial guarantee contracts	(16)	40
Property and equipment	14	31
Securities	(13)	14
Total	**6,499**	**1,118**

The increase primarily resulted from the transfer to non-performing loans from performing loans and the allocation of individual impairment on these non-performing loans.

4.8 Taxation

The Netherlands

Corporate income tax is levied at the rate of 25.8% (2022: 25.8%) 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 2023. 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 the rate of the local city. Corporate income tax is levied at the rate of 15% and the statutory solidarity tax is 5.5% on corporate tax. The effective tax rate is estimated at 31.76%.

Belgium

The statutory tax rate is 25% in Belgium. The effective tax rate is estimated at 25%.

Reconciliation of effective tax rate	%	2023	%	2022
Profit before income tax		25,398		14,691
Income tax using the domestic corporation tax rate	-25.75%	(6,539)	-25.63%	(3,765)
Effect of tax rates in foreign jurisdictions	-0.02%	(4)	-0.10%	(15)
Non-deductible expenses / tax exempt items	-0.01%	(2)	0.04%	6
Other	0.24%	62	-0.15%	(23)
Total	**-25.53%**	**(6,483)**	**-25.84%**	**(3,797)**

Income tax expense recognized in income statement	2023	2022
Current income tax expense	(6,537)	(3,787)
Deferred income tax expense	54	(10)
Total	**(6,483)**	**(3,797)**

Income tax related to components of other comprehensive income	2023	2022
Revaluation reserve	-	68
Fair value reserve	-	10
Total	**-**	**78**

4.9 Dividends

	2023	2022
Dividends proposed*	9,458	5,447
Dividend per ordinary share	0.0378	0.0218

** Dividends proposed includes 50% of the net profit of 2023.*

Dividend distribution is subject to approval by the Supervisory Board and General Meetings of Shareholders and depending on the no-objection decision of DNB as per the Dutch regulations. Dividend policy of DHB Bank is to distribute 50% of the period profit.

5. ADDITIONAL NOTES

5.1 Subsequent events

With a letter dated 21 March 2024, DNB informed that the bankruptcy of DSB Bank N.V. ended with an estate surplus, resulting in a payment to the remaining creditors on 27 March 2024. DHB Bank is among the remaining creditors and, in the past, contributed under the DGS in relation to its share related to the bankruptcy of DSB Bank. Amount determined for DHB Bank based on its share, Euro 2.8 million, was paid on 27 March 2024. The amount has been booked as income in the financial statements of 2024.

Other **Information**

Independent Auditor's Report

To: the shareholders and the Supervisory Board of DHB Bank N.V.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2023 INCLUDED IN THE ANNUAL ACCOUNTS

Our opinion

We have audited the financial statements 2023 of DHB Bank N.V., based in Rotterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of DHB Bank N.V. as at 31 December 2023, and of its result and its cash flows for 2023 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1. The consolidated and company statement of financial position as at 31 December 2023.
2. The following statements for 2023: the consolidated and company statement of profit or loss, the consolidated and company statements of comprehensive income, consolidated and company changes in equity and consolidated and company cash flows.
3. The notes comprising a summary of the material accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of DHB Bank N.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Information in support of our opinion

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion was addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 1,750,000. The materiality is based on 0.75% of Equity. We consider equity to be the most appropriate benchmark given the relative stability of this benchmark over years and the focus of regulators and other stakeholders on this benchmark. We have also considered misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of € 87,500, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

DHB Bank N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of DHB Bank N.V.

Our group audit mainly focused on significant group branches.

We have:

- Performed audit procedures ourselves at DHB Bank N.V. Rotterdam and performed audit procedures at group level on audit areas such as the allowance for expected credit losses, information technology, consolidation, disclosure requirements and regulatory compliance.
- Performed specific audit procedures ourselves for the German branch.
- Used the work of other auditors when auditing the financial information of the Belgian branch.
- Performed review procedures ourselves on the entity DHB Financial Services B.V. that is considered to be a financially insignificant component.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the financial statements.

Audit approach fraud risks

We identified and assessed the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of the entity and its environment and the components of the system of internal control, including the risk assessment process and management's process for responding to the risks of fraud and monitoring the system of internal control and how the Supervisory Board exercises oversight, as well as the outcomes. We refer to section 9 'Risk Governance and Management' of the annual report for the managing boards' risk assessment.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as among others the code of conduct, whistle blower procedures and incident registration. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated whether these factors indicate that a risk of material misstatement due fraud is present.

We identified the following fraud risk and performed the following specific procedures:

- Management override of controls (presumed significant risk)

We evaluated the design and implementation of the financial closing and reporting process. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgement areas and significant accounting estimates as disclosed in the financial statements. We have used data analysis to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Additionally, we performed further procedures including, amongst others, the following:

(i) We incorporated elements of unpredictability in our audit. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

(ii) We considered available information and made enquiries of relevant executives, including Internal Audit, Legal, Compliance and the Supervisory Board.

(iii) We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

(iv) We evaluated whether the selection and application of accounting policies by the group, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting.

(v) We evaluated whether the judgments and decisions made by management in making the accounting estimates included in the financial statements indicate a possible bias that may represent a risk of material misstatement due to fraud. Management insights, estimates and assumptions that might have a major impact on the financial statements are disclosed in note 3.3 of the financial statements. We performed a retrospective review of management judgments and assumptions related to significant accounting estimates, such as the expected credit loss impairment model under IFRS 9 for impairment losses on financial assets, reflected in prior year financial statements.

We rebutted the presumed fraud risk on revenue recognition, as the accounting of interest income and commission income is mainly based on automatically generated accruals in the source system and therefore concern routine transaction not subject to management judgement. These are high volume transactions with a relative low value per transaction.

Our procedures performed did not lead to indications for fraud potentially resulting in material misstatements.

Audit approach compliance with laws and regulations

We assessed the laws and regulations relevant to the Company through discussion with management, Internal Audit, Compliance and the Supervisory Board, reading minutes, communication with regulatory authorities and reports of internal audit. We involved internal compliance specialists as part of this evaluation.

As a result of our risk assessment procedures, and while realizing that the effects from non-compliance could considerably vary, we considered the following laws and regulations: (corporate) tax law, the requirements under the International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code with a direct effect on the financial statements as an integrated part of our audit procedures, to the extent material for the related financial statements.

We obtained sufficient appropriate audit evidence regarding provisions of those laws and regulations generally recognized to have a direct effect on the financial statements.

Apart from these, DHB Bank N.V. is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts and/or disclosures in the financial statements, for instance, through imposing fines or litigation.

Given the nature of DHB Bank N.V.'s business and the complexity of these other laws and regulations, there is a risk of non-compliance with the requirements of such laws and regulations.

Our procedures are more limited with respect to these laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements. Compliance with these laws and regulations may be fundamental to the operating aspects of the business, to DHB Bank N.V.'s ability to continue its business, or to avoid material penalties (e.g., compliance with the terms of operating licenses and permits or compliance with environmental regulations) and therefore non-compliance with such laws and regulations may have a material effect on the financial statements. Our responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements. Our procedures are limited to:

(i) Obtaining an understanding of the legal and regulatory requirements for DHB Bank N.V. and involving internal compliance specialists considering that DHB Bank N.V. is operating in a highly regulated environment.

(ii) Inquiry of the Supervisory Board, the Managing Board and others within DHB Bank N.V. as to whether DHB Bank N.V. is in compliance with such laws and regulations.

(iii) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

(iv) Obtaining an understanding of the processes around transaction monitoring, customer due diligence and sanction screening.

Naturally, we remained alert to indications of (suspected) non-compliance throughout the audit.

Finally, we obtained written representations that all known instances of (suspected) fraud or non-compliance with laws and regulations have been disclosed to us.

Audit approach going concern

Our responsibilities, as well as the responsibilities of the Managing Board and the Supervisory Board, related to going concern under the prevailing standards, are outlined in the "Description of responsibilities regarding the financial statements" section below. In fulfilling our responsibilities, we evaluated management's assessment of DHB Bank N.V.'s ability to continue as a going concern for the next 12 months and considered key regulatory ratios including liquidity and solvency ratios.

The Managing Board has performed its going concern assessment and has not identified any going concern risks. Our main procedures to assess the Managing Board going concern assessment were:

- Considering whether the Managing Board's going concern assessment includes all relevant information of which we are aware of as a result of our audit.

- Inquiring with the Managing Board about its knowledge of going concern risks after the period of the continuity assessment performed by the Managing Board and considering the impact of financial, operational, and other conditions.
- Analysing DHB Bank N.V's financial position as at year-end and compared it to the previous financial year in terms of indicators that could identify going concern risks.
- Inspecting documentation of stress testing of the economic and regulatory capital position performed during the year by management.
- Assessing the duration gap between financial assets and liabilities and reported liquidity ratios to the Dutch Central Bank. In addition, we inspected the most recent internal liquidity adequacy assessment ("ILAAP") prepared by management.
- Assessing the solvency position of DHB Bank N.V. by inspecting the reported capital ratios as imposed by the Capital Requirements Regulation. In addition, we inspected the most recent internal capital adequacy assessment ("ICAAP") prepared by management.
- Inspecting regulatory correspondence to obtain an understanding of DHB Bank N.V. 's capital and liquidity position, that underpins management's assessment of the going concern assumption for financial reporting.
- Obtaining an understanding of economic hedge policy and the overall risk framework of the company.

Based on our procedures performed, we did not identify significant doubts on DHB Bank N.V.'s ability to continue as a going concern for the next 12 months. Our conclusions are based on the audit evidence obtained, and inquiries with the Managing Board, up to the date of our auditor's report.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters

IMPAIRMENT ALLOWANCE FOR LOANS AND ADVANCES TO CUSTOMERS	
DESCRIPTION **DHB Bank N.V. recognizes a loss allowance for expected credit losses ("ECL") on the loans and advances to customers. On 31 December 2023 the loans and advances to customers amounted to EUR 1,227.7 million with an associated impairment allowance for an amount of EUR 14.8 million.** **The ECL of stage 1 and stage 2 loans is calculated collectively. The ECL on the stage 3 loans is calculated individually.** **Because of the inherent uncertainty and risks in several areas when determining the impairment allowance for the loans and advances to customers, the impairment allowance is an important area of judgement and estimates by the Managing Board.** **Due to the high estimation uncertainty on the impairment allowance for loans and advances to customers, we consider this a key audit matter for our audit.** **Furthermore, the ongoing geopolitical tensions might necessitate an additional provision for potential losses.** **DHB Bank N.V.'s disclosures concerning the impairment allowance for loans and advances to customers are included in note 3.7 Impairment of financial assets, note 4.6 Loans and advances - Customers and note 7 Risk Management of the financial statements.**	**How the key audit matter was addressed in the audit** Our procedures included testing the design, implementation and operating effectiveness of the key controls in the loan origination process. We obtained an understanding of the credit monitoring process and the provisioning process within DHB Bank N.V. We evaluated the design and implementation and, where considered appropriate, the operating effectiveness of the controls related to the staging allocation, the ECL model updates and the timely recognition and measurement of the impairment allowances. For the collective impairment allowance, we tested the accuracy of the input data used by management to calculate the expected credit loss. We challenged management's assumptions made around the macro-economic variables and the scenarios and weights applied in the ECL model. In relation to the ongoing geopolitical tensions, we have assessed management's assessment whether any management overlays to the ECL provision are required. We concur with management's assessment that no additional overlays are required given the current provision level. For individually assessed loan impairment allowances, we obtained corroborating and contradictory evidence to substantiate and challenge management's assertions regarding the reasonableness of the accounting estimates and the used assumptions in the individual impairment analysis. For a selection of loan exposures, we assessed whether DHB Bank N.V. correctly applied its provisioning and staging policy and in accordance with the criteria as defined in IFRS 9. Finally, we assessed whether the disclosures are accurate and in compliance with EU-IFRS requirements. ***Our observations*** Our procedures performed on the impairment allowance for loans and advances to customers did not result in any reportable matters.

RELIABILITY AND CONTINUITY OF THE AUTOMATED SYSTEMS	
DESCRIPTION An adequate infrastructure ensures the reliability and continuity of DHB Bank N.V.'s business processes and financial reporting. In addition, the continuity of the operations is highly dependent on the IT-infrastructure as also explained in note 7 Risk Management of the consolidated financial statements. Therefore, we consider reliability and continuity of the automated systems a key audit matter during our audit.	**How the key audit matter was addressed in the audit** We tested the reliability of the automated systems relevant for our audit of the financial statements. Furthermore, we tested the implementation of key controls ensuring that IT systems can be recovered in case disruptions occur. For this purpose, we made use of IT auditors within our audit team. These procedures included testing the design, implementation and operating effectiveness of the relevant general IT and application controls. ***Our observations*** For the purpose of our audit of the financial statements we have no matters to report.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The annual accounts contain other information, in addition to the financial statements and our auditor's report thereon.

- About DHB Bank
- Report of the Supervisory Board
- Report of the Managing board.
- DHB Bank Overview
- Corporate Governance
- Other Information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains all the information regarding the management report and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Managing Board's Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Engagement

We were engaged by the Supervisory Board as auditor of DHB Bank N.V. as of the audit for the year 2019 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit 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.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 22 May 2024

Deloitte Accountants B.V.

Initial for identification purposes:

A. den Hertog

Profit **Appropriation**

The profit appropriation that has been proposed in chapter 8 is made 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 favour 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 favour 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.

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