Annual Report **2014**

Financial Statements of DHB Bank for the Year 2014

DHB Bank

DEMİR-HALK BANK (NEDERLAND) N.V.

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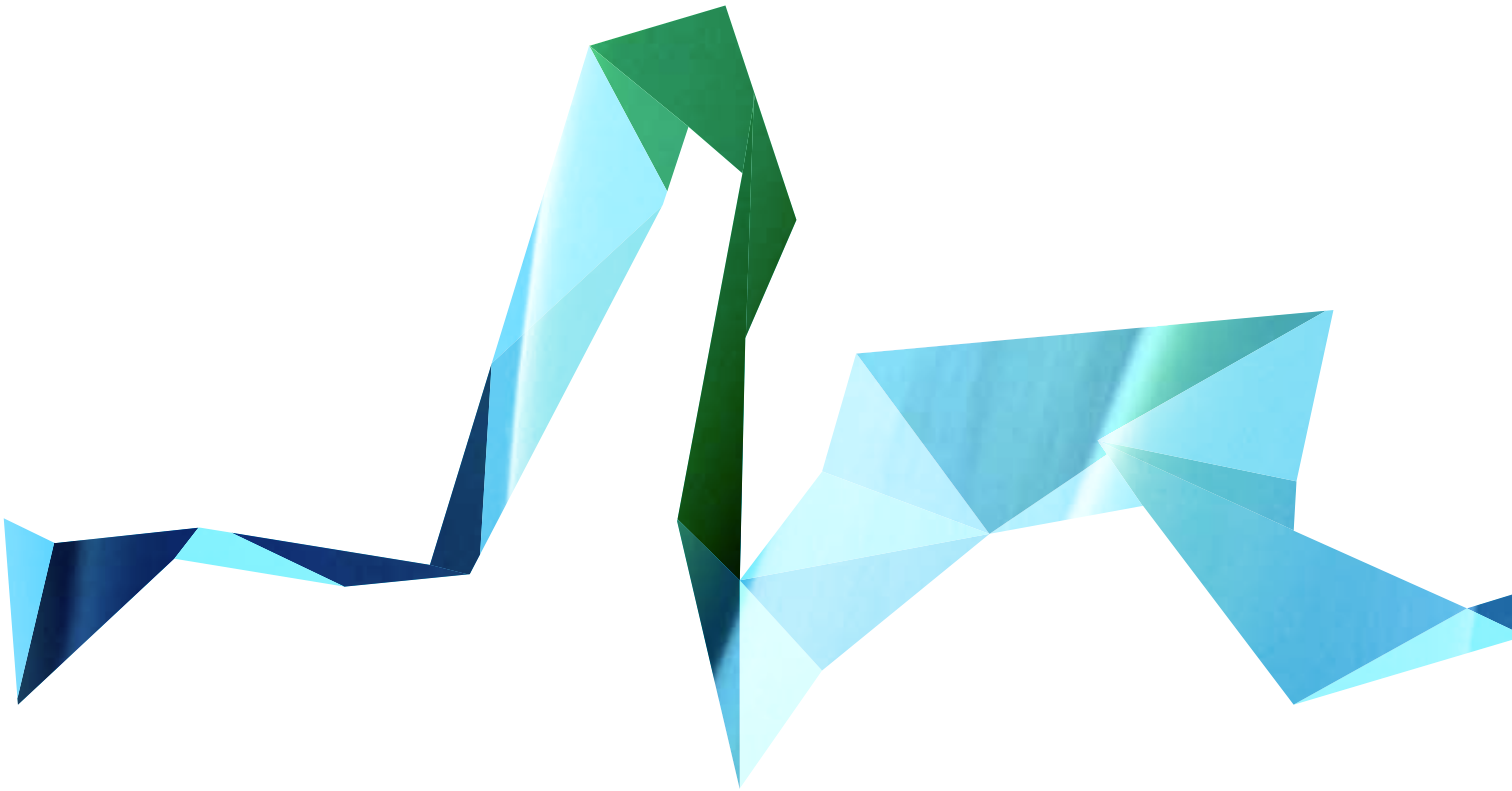

DHB Bank

DEMİR-HALK BANK (NEDERLAND) N.V.

Table of Content

FINANCIAL STATEMENTS FOR THE YEAR 2014

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

COMPANY FINANCIAL STATEMENTS

Bank Profile & Financial Highlights

Demir-Halk Bank (Nederland) N.V. – hereafter referred to as DHB Bank – was established as a commercial bank under Dutch law in 1992. Headquartered in Rotterdam, the bank conducts its activities through locations in the Netherlands, Germany, Belgium, and Istanbul. As of year-end 2014, DHB Bank's balance sheet size was EUR 1,870.6 million and equity EUR 230.4 million.

Mission Statement

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

Vision Statement

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

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

The bank is funding its operations to a large extent via retail deposits collected in the Netherlands, Germany and Belgium. The bank's lending is focused on wholesale placements, mainly in the European Economic Area and Turkey. Credit customers comprise corporates and financial institutions, and, on a smaller scale, retail clients.

DHB Bank's Ba2 global-local currency deposits rating by Moody's Investor Services was reaffirmed in July 2014 with a stable outlook.

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

Consolidated	**2014**	**2013**
	(EUR 000)	(EUR 000)
Total assets	1,870,554	1,733,700
Loans and receivables – banks	415,019	328,146
Loans and receivables – customers	947,687	848,557
Deposits from customers	1,282,823	1,262,715
Total equity	230,429	232,612
Net interest income	54,377	52,372
Net fee and commission income	2,800	2,581
Result on financial transactions*	(18,355)	(11,229)
Net profit	9,372	18,105
Solvency ratio (%)**	16.84	17.14
Number of employees	140	142
Number of locations	7	10

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

** *Based on the expectation that 50% of the net profit for the year 2014 is distributed as dividend.*

Report of the Supervisory Board

We are pleased to present the report of the Supervisory Board (SB / the Board) and the financial statements of DHB Bank for the year ending December 31, 2014.

These financial statements were prepared by the Managing Board (MB), and have been audited by Ernst & Young Accountants LLP. The external auditors' unqualified report is attached to the annual accounts.

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

Proposal to the Annual General Meeting of Shareholders

We propose to the annual General Meeting of Shareholders (GMS) to adopt the financial statements for 2014 and the appropriation of the financial result. Pursuant to Article 23, clause "d" of the Articles of Association (AoA) of the bank, the GMS's approval will discharge the Managing Board from liability with respect to its management of the bank's activities. Similarly, pursuant to Article 23, clause "e" of the AoA, the GMS's approval will discharge the Supervisory Board from liability with respect to its supervision of the bank's activities.

Supervisory Board Composition and Responsibilities

The Board of DHB Bank is composed of eight members. In alignment with the Dutch Corporate Governance Code, half of the members, including the chairman, are independent.

The SB is responsible for the supervision of the policy of the Managing Board, for the supervision of the general course of affairs and risk management, and for assessing and approving the strategies and budget proposed by the Managing Board; these responsibilities and authorities of the SB are defined in the Supervisory Board Policy. This policy covers other aspects as well and is updated from time to time as needed. In addition, credit proposals by the Credit Committee of the bank – for amounts above its own authority level - require advice from the SB or from the Supervisory Board Credit Committee (SBCC).

The overriding responsibility of the SB is trying to find a just and reasonable balance between the interests of all stakeholders while putting the clients' interest first. It has always been the endeavour of this bank to service its clientele well. Our shareholders believed and still believe that good service to the clients over time will propel the bank to prosper. In such environment staff and management can dedicate themselves to their work to create value for all stakeholders.

During the past years the multitude of laws, regulations, rules and directives have made this dedication to the client's interests quite challenging and very often appeared to be working against the ordinary expectations of a client. All these instructions are given by various authorities, not always with the oversight of each and every impact. The SB believes that the new regulations need to be introduced which are comprehensive, complementary (furthermore not contradictory), with comprehensive content and more importantly with proper understanding of their direct/indirect consequences. We believe that this has not always been the case. In policy making and rule development while the authorities aim to satisfy certain public agendas, they should also be sensitive about the possible counter-productive outcome of new regulations, especially the negative consequences of those on clients (the real sector), staff and investors.

Surely, the expectation of the regulators should not be for the banks to blindly complying with rules, but to manage and supervise the operation of a bank in a way which keeps the justifiable interests of the stakeholders as top priority while maintaining a sound and safe financial/operational structure.

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

Supervisory Board Committees

The SB conducts its activities either with all its members or via its sub-committees that are set up for particular fields and that are comprised of members particularly specialized in these fields. Decisions taken in these committees are subsequently submitted to the SB for final approval or for information purposes, depending on the committees' functions and authorities. These committees are:

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

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

Supervisory Board Committees

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

> “The overriding responsibility of the SB is trying to find a just and reasonable balance between the interests of all stakeholders while putting the clients’ interest first.”

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

Supervisory Board Credit Committee (SBCC): The SB has delegated part of its authority to provide advice on credit proposals to the SBCC for amounts and transaction types as stipulated in the bank’s Credit Approval Authorities Principles.

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

The SB, along with its sub-committees, namely the RAC and the RCC, closely monitored compliance with regulatory changes throughout the year, including the changes concerning risk management and reporting as well as remuneration. Overall, the SB and its committees, in close communication with the MB, continued to ensure the full implementation of the Dutch Banking Code in the bank in both text and spirit. The RPTC, consisting of two independent SB members, reviewed, pre-approved or referred to the SB some transactions that the bank intended to conclude with related parties in the ordinary course of business; SB members related to the shareholders did not participate in voting on proposals involving their own shareholders. This working principle, along with other practices and policies, is an important building block for the prevention of conflicts of interest. The SB and SBCC regularly convened to assess and provide advice on the credit proposals of the credit committee of the bank. The NC also convened as required in relation to the scheduled vacancies among the SB members.

Risk Management, Audit and Internal Control Systems

The periodical meetings of the RAC, whose members have sound knowledge and experience of risk management, audit and internal control systems, were attended by the MB members, by the Heads of the Internal Audit, Compliance and Risk Management Departments, and by representatives of the external auditor, EY Accountants LLP, which in 2014 replaced the previous long-time auditor KPMG Accountants N.V., as the rotation of external audit firms became a legal requirement in the Netherlands.

The Chairman of the SB regularly attended these meetings as an observer. Besides financial reporting, internal audit, internal control systems and risk management policies and practices, the other subjects regularly reviewed included the quarterly credit portfolio risk reports, corporate governance and its applications, compliance, as well as the assessment of the bank's risk appetite and its risk profile vis-à-vis the respective risk appetite. The risk appetite statement proposed by the MB and approved by the SB for 2014 covered various risk dimensions including capital adequacy, liquidity, various credit risk types and credit concentration, market risks, operational risk, IT and information security, integrity and reputation risk, as well as compliance with regulations. For each risk type, the risk appetite level is aligned with DHB Bank's business model and with its respective expertise and experience.

The regulator introduced a new risk management requirement in 2013 in the Netherlands, namely the development of a recovery plan. This plan sets out the possible key measures to be taken by a bank in case of a near-default situation – without assuming the availability of publicly funded (emergency) support – in order to emerge from a severe crisis independently and with its core business intact. The RAC and SB reviewed and approved the bank's recovery plan that had been developed by the MB throughout 2013 and early 2014, and are convinced that the measures envisioned therein provide adequate comfort regarding the preparedness of the bank against predictable or unpredictable severe crisis scenarios. In the context of risk management, the bank's risk monitoring and control mechanisms were further improved in 2014. On this subject, the SB values the MB's achievements concerning sound operations and active risk management, and maintains its view that internal risk governance is adequately designed and efficiently working at DHB Bank.

In terms of risk absorption capacity, DHB Bank has an adequate capital buffer by international standards to weather

unexpected local and/or regional crises. A sticky and proven retail deposit base, combined with the bank's performance on other liquidity measures, should enable DHB Bank to withstand possible future liquidity squeezes in the markets. This position is a result of and is supported by the bank's internal capital adequacy assessment process (ICAAP) and its internal liquidity adequacy assessment process (ILAAP), both of which are subject to the supervisory review and evaluation process (SREP).

Corporate Governance

Proper Corporate Governance has always been of great importance to this bank. It was made significantly more explicit and codified in accordance with the many rules and regulations in the past couple of years. We continued to shape and enhance the supervisory and management principles of the bank. All the stipulations of the Dutch Banking Code are fully adopted by DHB Bank. Furthermore, the Board acknowledges that, though the Dutch Corporate Governance Code is not necessarily fully applicable to DHB Bank because it is not a listed company, the bank largely complies with the Code's relevant requirements, including internal risk management, internal audit, corporate governance and compliance. The independent organizational structure of the Internal Audit Department and the Compliance Department, with a direct information line to the RAC, also ensures an effective control in the respective fields. The Chairman of the RAC has periodical one-to-one meetings with the Head of Internal Audit. Regarding compliance with the Dutch Banking Code, detailed information is provided by the MB in the last section of this annual report.

2014 Overview

During 2014, the SB and/or its sub-committees regularly convened at least every month in the fulfilment of its/their duties, either in person or via teleconference. In its supervision, deliberations and decisions, the Board put particular emphasis on risk management, on corporate governance, on the financial performance of the bank, on regulatory requirements, and on market developments. A number of significant Human Resources related issues were addressed or solved. The SB has continued, in particular, to spend ample time on discussing and reviewing the business model, the strategic and long term planning of the bank. This was in response to the requirements of the regulator and in the interests of all stakeholders. In awareness of its duty of care towards clients and of the bank's responsibility towards society, the SB aimed to maintain a healthy and fair balance between all its stakeholders' interests while endeavouring to keep a low risk profile and conducting its

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" During 2014, the SB and/or its sub-committees regularly convened at least every month in the fulfilment of its/their duties... "

duties within the boundaries set by the laws and regulations. In this context, considering a multitude of important changes in the regulatory environment, with implications for the business model of the bank, the SB and MB jointly or separately organized 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.

As part of its working routine, the SB regularly met with the MB. The main matters discussed included the regulatory environment and requirements and other major issues, specifically the bank's business model, strategic planning and budgeting, risk appetite and risk management. In particular, the SB has continued to closely monitor the financial and economic turmoil in the Eurozone as well as developments in Turkey, along with the bank's general exposures and investment profile in terms of size, borrower segments and geographical coverage. A specific attention point in 2014 was the Russia/Ukraine conflict, as a result of which the bank's exposure to Russia was swiftly and massively reduced in the first four months of the year under review. These topics, together with other bank-specific subjects, were covered extensively in the management reports as well as in the reports of the internal and external auditors.

The SB always takes keen interest in the bank's attention to providing added value and appropriate services to the clients. Mounting new rules and regulations, taxes, levies, decrees etc. in the banking sector continued to require a great effort on the part of the Managing Board and the Supervisory Board so as to align these with the justifiable wishes of shareholders and clients, and keep the stakeholders informed timely, comprehensively and appropriately. During 2014, the MB was in dialogue with DNB, also in the context of the central bank's industry-wide thematic examinations on various subjects, like credit portfolio review, IT and information security. Members of the SB were also included in these proceedings where necessary. In this framework, an important regulatory development in the Netherlands is the enactment of the Policy Rule on Maximizing the Deposits and Exposures Ratio under the Act on Financial Supervision (hereafter referred to as New Business Model Policy Rule) in February 2014. The New Business Model Policy Rule, on which more information is provided under the section 'Report of the Managing Board', has implications for the business model of the bank. The strategic path proposed by the MB to fully comply with this new requirement over a certain timeframe was extensively deliberated and approved by the SB. In a nutshell, under the new strategy, which was developed taking into consideration all the stakeholders' interests, DHB Bank

has started to strengthen the assets' local anchorage in the European Economic Area with a view to further expanding its European asset base in time. On this point, it is worthwhile to underline the constructive interaction between the SB and MB in strategy formation. The SB will monitor the implementation of this strategic shift within the bank's stringent risk management framework.

The MB has had three members since end-2013 in a change from the previous two-member structure. This has enabled the MB to be stronger and more capable in the face of an increasingly challenging regulatory and economic environment. The SB appreciates the Managing Board's intensive efforts to further strengthen the bank's position and prospect on all fronts. Increasing commercial activities with sound operations and active risk management, supported by careful policy development and implementation as well as the further enhancement of the bank's organizational structure and processes, have collectively brought about satisfactory results in the bank's overall performance during the year.

In the course of 2015, the SB will continue its strategic oversight concerning the business model and activities of the bank on the basis of sound working risk parameters, including strong solvency and liquidity levels in compliance with the regulatory requirements and in alignment with the approved 2015 risk appetite framework and risk appetite statement.

Self-Evaluation

The SB members annually provide the chairman of the SB with a self-evaluation in writing of their performance as a SB member of the bank. In addition to the annual self-assessment, the functioning of the SB and the performance of its members are assessed under independent external supervision once every three years, most recently in 2013.

In the self-assessment session that was conducted during their meeting in December 2014, the members jointly discussed their self-evaluation that was presented earlier to the chairman on the categories of 'governance, organization and communication', 'products, services and markets within the enterprise's scope of activities', 'sound and controlled operation policies and processes' and 'balanced and consistent decision making'; these categories ensure uniformity with regulatory standards. The involvement and contribution of each member, their cultural and social fit within the SB, their self-development, the effectiveness of the lifelong learning, and the relationship between the Supervisory Board and the Managing Board were among the subjects of this evaluation. The SB reiterated its opinion that this evaluation further cemented

" The SB appreciates the Managing Board's intensive efforts to further strengthen the bank's position and prospect on all fronts. Increasing commercial activities with sound operations and active risk management "

the already constructive working principles of the Board by permanently providing an additional open and congenial discussion platform, with a view to constantly adapting to the continuously changing banking environment.

Lifelong Learning

DHB Bank has in place a policy covering the framework and implementation of lifelong learning, which is a permanent fixture in the agenda of the chairman and SB. All the SB members in office – and the MB members – took part in lifelong learning sessions organized during 2014. In four sessions that were facilitated by external consultants and experts, the subjects covered were:

- Global economic outlook, its impact on the Turkish economy and outlook, and main trends in EEA and outlook Country Risk Analysis in a Risky World.
- European Banking supervision model under the SSM and key developments resulting from CRDIV/CRR (Single Rule Book and SSM, Own Funds, Capital Requirements, Leverage ratio, Liquidity, Pillar I and III reporting).
- Asset quality review and comprehensive assessment ECB, IFRS update and developments 2014, share-based payments (IFRS 2), hedge accounting (IAS 39) and IFRS 9 financial instruments.
- Regulatory Governance: corporate governance (also view of the Dutch Central Bank); suitability and reliability; consequences of the banking oath, in view of the upcoming disciplinary committee, for the liabilities of the MB and the SB; generic duty of care with respect to clients, conflict of interest; changes/attention points in the upcoming new Dutch banking code, and future oriented banking.

The effectiveness of lifelong learning was evaluated during the self-assessment mentioned above; the SB was pleased with the outcome and positive contributions of these sessions, which were considered to be valuable in maintaining and enhancing the expertise of the SB members. Furthermore, the SB is of the opinion that these sessions, combined with their professional background and experience, also helped the members of the MB to continue fulfilling the expertise requirements developed by DNB in the exercise of their functions.

Bankers' Oath

As per the new regulations in a bid to improve confidence in the financial sector, starting 2013 SB members of Dutch banks and insurers had to pledge an oath to put their clients' interests first, and to observe other, similar principles.

The Board welcomes this initiative; all the SB (and MB) members of DHB Bank took that pledge, signed the bankers' oath, and will renew it in 2015 in line with new regulatory guidance by taking this oath in the presence of a fellow SB member or chairman.

Board Members

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

Mr Theo Bark resigned from his position in the Board as from 31 March 2015 in compliance with the SB Policy. We would like to thank him for the valuable inputs and contributions he provided during his tenure in the SB since 9 November 2002.

Stakeholders

Our Shareholders continued to provide us support, maintaining their financial commitments in the bank. We are very appreciative of this attitude. Dialogue with our Shareholders will continue in due regard to the symmetry of information concerning the bank's strategic activities.

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

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

Rotterdam, 10 April 2015

Mr Hanno W. E. Riedlin
Chairman

Mr İ. Hasan Akçakayalıoğlu

Mr Theodoor J. Bark
(until 31-3-2015)

Mr Hans J.Ph. Risch

Dr Nurzahit Keskin

Mr Henk Sliedrecht

Mr M. Shafik Gabr

Mr Süleyman Kalkan

Report of the Managing Board

DHB Bank
Business Overview

Background 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 to become a full-fledged commercial bank with an equity of EUR 230.4 million and asset size of 1,870.6 million at the end of 2014. During this time-span, comparatively short in the general banking context, the bank has successfully, and independently, weathered financially and economically turbulent times, both regional and global. Thus, DHB Bank has established that it possesses the organizational structure, operational infrastructure and human resources to continue, now and in future, on its path in long-term sustainable banking for the benefit of all its stakeholders. The bank's relatively small size, centralized organization, and focused business areas with straightforward products and services are the main factors securing its flexibility in swiftly adapting to changing environments.

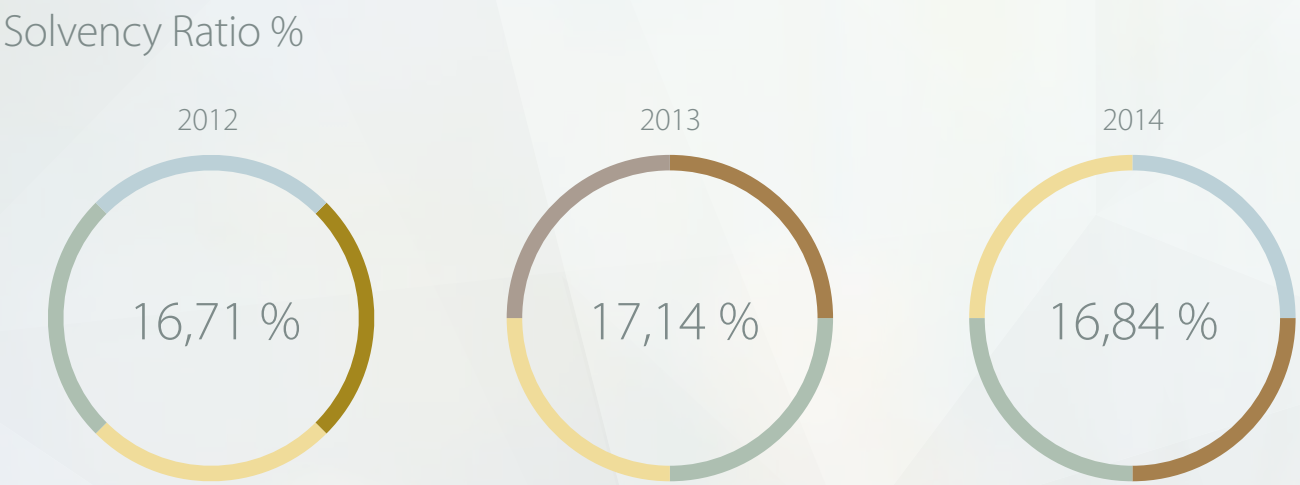
Business Model

DHB Bank's activities are anchored in traditional commercial banking, based mainly on retail funding and wholesale asset generation. The bank conducts its activities through the executive authorities and responsibilities of the MB, under the supervision of the SB, and always in the spirit of its mission statement and vision statement, with a view of bringing both to life throughout the organization.

Retail deposits are collected from Belgium, Germany and the Netherlands via Internet and call center channels, supported by regional main branches in Brussels and Dusseldorf and the head office in Rotterdam.

The bank's wholesale asset generation activities are centralized at the head office in Rotterdam. DHB Bank has a representative office in Istanbul as a direct liaison location for its interests in Turkey. Wholesale asset generation activities comprise primarily placements in the form of corporate loans, bilateral bank loans and syndications, and securities investments. To a lesser extent, DHB Bank also provides consumer loans under insurance. As with the liability side, geographical diversity is an essential feature of DHB Bank's activities on the asset side, and areas covered include primarily the EEA and Turkey. As a niche segment, the bank has also included in its customer portfolio companies outside Turkey – primarily in Europe.

" ...possesses the organizational structure, operational infrastructure and human resources to continue, now and in future, on its path in long-term sustainable banking for the benefit of all its stakeholders... "



Forming the backbone of its activities, clients are perceived by the bank as vital partners from the perspective of business continuity as well as from the perspective of corporate social responsibility. 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, for which it has in place a Client First Policy.

Sources of Profit

DHB Bank's sources of profit are i) net spread between interest paid for retail deposits (and wholesale funds to a lesser extent) and interest received from loans/securities, ii) net commission income and iii) result from financial transactions. DHB Bank does not conduct investment banking activities and neither does it offer advisory/consultancy services.

Although on an overall and weighted average basis the bank's activities deliver a positive net interest spread, a portion of its placements is not profit focused. These concern mostly some high-rated and/or ECB eligible securities; these securities are invested in for liquidity management purposes as well as for regulatory requirements.

In this framework, DHB Bank does not expect significant fluctuations in its recurring revenue base in the short to medium term caused by the economic and financial environment. Based on its strategic endeavors of increasing the weight of non-bank loans in its assets, a slight improvement is expected in the net profit base in the future even under the current - almost zero interest rate – environment, and this, despite continuous tightening as well as stricter capital and liquidity regulations putting additional pressure on the banks' profits.

Competition and Stakeholder Perspective

DHB Bank demonstrated that, thanks to its strategic alignment introduced at the end of 2010 and refined later on different occasions in line with mounting regulatory and economic pressures, it has the basis, foundation and infrastructure to continue as a viable institution. From a funding perspective, the bank possesses a sticky retail deposit base that has proved to be stable, as well as customers that have remained loyal even during the harshest crisis situations. As for revenue generation activities, the afore-mentioned strategic alignment endeavors have ensured a more clear-cut business model with a more defined customer base, particularly of corporate customers that are expected to remain with the bank thanks to established relationships and the quality of services offered. On these grounds, and also taking into consideration the size of the bank, competition is not expected to adversely affect the bank's customer base and activities.

The shareholders, namely HCBG Holding B.V. and Türkiye Halk Bankası A.Ş., have continuously demonstrated their strong commitment to DHB Bank since its establishment in 1992, either in the form of capital injections (in the early times) or high – and occasionally full – profit retention. The bank also has in place a liquidity contingency agreement with Türkiye Halk Bankası A. Ş., an indication of a different kind of support by the latter.

With regards to DNB as another stakeholder of the bank conducting its supervision based on regulations, DHB Bank has demonstrated over the years its flexibility and capability to adapt to the requirements introduced by the regulators, resulting in a strengthened structure for DHB Bank from different angles.

Nature of the Organization

The bank is not large and its operations are not complex. Concerning fit between strategy and required competencies and

resources, DHB Bank's financial standing, human resources, in house-developed IT applications and overall operational infrastructure are considered fit to conduct its activities. The bank possesses an established administrative structure centered around its governing bodies (General Meeting Of Shareholders, SB and MB), the SB committees and the various bank committees (namely Asset & Liability Committee, Credit Committee, Risk Management Committee, Liquidity Crisis Management Committee, Complaint Committee, IT & IS Steering Committee, Information Security Assessment and Response Team, and Crisis Management Committee). Transactions generated by the front offices are processed by the operations department, while the overall risk management and compliance applications, reporting and IT support services, among others, are conducted by separate dedicated departments and functions.

2014 Highlights

During the year under review, DHB Bank's balance sheet size grew slightly, by 8% from EUR 1,733.7 million at the end of 2013 to EUR 1,870.6 million at the end of 2014. The growth was driven primarily by a planned increase in wholesale funds, while a slight increase was also achieved in 'deposits from customers', and the equity marginally declined in the face of 50% dividend distribution in 2014 from the 2013 net profit.

The alignment of DHB Bank's activities in 2014 continued to harness benefits; thanks to an active asset and liability management in keeping with the approved risk appetite, the bank closed the year with a EUR 19.2 million operating profit before impairment and before tax, below the projected amount and below the 2013 figure. This is primarily due to extraordinary and considerable one-off expense items and charges in the year under review, as explained further in the Financial Review section of this report. Accordingly, DHB Bank closed the year with a EUR 9.4 million net profit.

An important development in 2014 was the the enactment of the Policy Rule on Maximizing the Deposits and Exposures Ratio under the Act on Financial Supervision (hereafter referred to as New Business Model Policy Rule) in February 2014, which necessitated refinement in the bank's assets generation and funding activities in the years to come. More detail is presented on this subject in the below sections.

Shareholders

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

HCBG Holding B.V., whose principal business activity is to act as a financial holding company, is 100% owned by Dr. Halit Cıngıllıoğlu. In addition to DHB Bank, the holding has 36.25% shares in Access Financial Services IFN S.A. Romania, 35.4% shares in C International (Nederland) NV and 9.73% shares in C Faktoring A.Ş. in Turkey. In addition to his indirect investment in DHB Bank through HCBG Holding B.V., Dr. Cıngıllıoğlu has a direct interest in Demir Kyrgyz International Bank OJSC as well; that bank's other shareholder is the International Financial Corporation with 7.5% stake.

Halkbank, with nearly EUR 55 billion in balance sheet size, is the sixth largest bank by assets in Turkey; its main shareholder is the Turkish state with a 51.1% stake, while 48.8% is free float, and the remainder is held by other shareholders. Halkbank, which has established itself as the leading bank for financing SMEs in Turkey, continues its mission to contribute to the country's economic development. Halkbank possesses various subsidiaries and affiliated companies in Turkey mainly in the financial sector, as well as another bank subsidiary in Macedonia.

In 2014, the shareholders of DHB Bank have once again demonstrated their support to the bank. In line with their traditional commitment since DHB Bank's establishment in 1992, they decided to retain 50% of the 2013 profit in the equity and distribute 50% as dividend, subsequent to the no-objection decision of DNB as per the Dutch regulations concerning dividend distributions. The MB considers this no-objection decision, which had also been the case in the previous year, as a continued validation of DHB Bank's solid financial standing within a financial and economic environment still underway to reaching stability.

In 2009, Halkbank and DHB Bank had signed a liquidity contingency agreement as a supplementary precaution designed to help DHB Bank to weather any unexpected very severe deterioration in the markets. This agreement allows DHB Bank to rely upon an immediate cash support from Halkbank, and has been last extended in January 2015 for EUR 100 million and for another period of 18 months.

> “ Safeguarding the continuity of the bank and balancing the interests of all the stakeholders, including the bank’s clients, are the major principles guiding the decisions of the Managing Board. ”

Managing Board

MB Composition and Responsibilities

The Managing Board (MB) consists of three members with good standing, extensive knowledge and experience in the banking sector. These three members have different, diverse and long-term but complementary backgrounds; their résumés are presented in this annual report before the financial statements section.

The MB is responsible for the day-to-day management of the bank, for the development and implementation of strategies, risk strategy and internal governance, and for the fulfilment of the bank’s obligations towards regulatory bodies. 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.

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

While being jointly responsible for the management of DHB Bank, the members of the MB have separate primary responsibilities. In this framework, e.g., the MB member whose responsibilities are primarily related to commercial activities of the bank is not directly involved in risk management but through specific committees; the same applies to the members who are primarily responsible for risk management. In terms of organization and administration, there are clear reporting lines concerning each member’s responsibilities.

Utmost care is jointly taken not to deviate from the risk appetite statement; this goal is achieved to a very large extent despite the volatile financial and economic environment. In case of temporary or potential deviations, which were very rare throughout 2014, the related subjects were extensively discussed by the related committees, including the Risk & Audit Committee (RAC) of the Supervisory Board, in order to ensure the alignment of the risk profile and risk appetite of the bank. The continuity of DHB Bank’s activities is the core driver behind risk management. Going beyond the preparation and review of detailed management information system reports, risk management is a continuous process handled via different committees of the bank, some of which are Asset & Liability Committee, Credit Committee, and Risk Management Committee.

Working Guidelines

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

- √ Adherence to regulatory requirements,
- √ Adherence to corporate governance and risk management principles,
- √ Maintenance of a robust capital position with a sufficient buffer by both international and local standards,
- √ Maintenance of adequate liquidity,
- √ Focus on asset quality,
- √ Ensuring sustainable profitability, and,
- √ Upholding the interests of all stakeholders.

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

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

Lifelong Learning

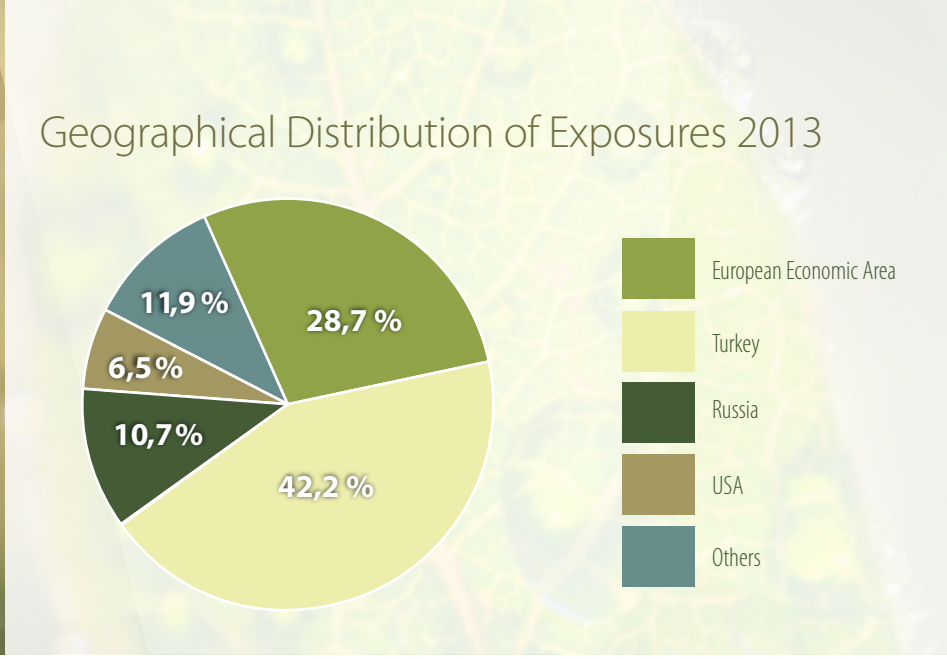
The Chairman of the MB annually prepares a lifelong learning programme for the members of the MB. Together with the SB, the MB members attended lifelong learning sessions organized during 2014. The four sessions that were jointly attended by the SB and MB were.

- Global economic outlook, its impact on the Turkish economy and outlook, and main trends in EEA and outlook Country Risk Analysis in a Risky World.
- European Banking supervision model under the SSM and key developments resulting from CRDIV/CRR (Single Rule Book and SSM, Own Funds, Capital Requirements, Leverage Ratio, Liquidity, Pillar I and III Reporting).
- Asset quality review and comprehensive assessment ECB, IFRS update and developments 2014, share-based payments (IFRS 2), hedge accounting (IAS 39) and IFRS 9 financial instruments.
- Regulatory Governance: corporate governance (also view of the Dutch Central Bank); suitability and reliability; consequences of the banking oath, in view of the upcoming disciplinary committee, for the liabilities of the MB and the SB; generic duty of care with respect to clients, conflict of interest; changes/attention points in the upcoming new Dutch banking code, and future oriented banking.

Additionally, the MB members jointly or separately attended the following seminars, conferences or meetings in the framework of lifelong learning:

- Single Supervisory Mechanism.
- Legal aspects of termination of credit facilities in the Dutch market.
- Single Supervisory Mechanism: Insights from the Asset Quality Review process of the first 7 Dutch institutions in the period April – September 2014 and expected future developments;
  insights into the potential impact of new Dutch remuneration legislation for the FS industry ("Wbfo" and "Rbb 2014"); update on "Fit & Proper" interviews with the Dutch Central Bank; overview project set-up regarding external assessment of the Supervisory Board self-assessment.
- Risk Appetite: overview of emerging best practices and supervisory expectations; specific experiences of embedding a risk appetite framework; how non-financial risks are to be included; compliance perspective.
- European credit trends.

The MB is of the opinion that lifelong learning sessions in 2014 reinforced the already extensive knowledge base of its members for adapting to the continuously changing banking environment.



Remuneration

The remuneration of the MB members – and of senior staff, other senior staff members engaged in risk management and control functions, and staff members - is determined according to the bank's Remuneration Policy. This policy is developed according to the current Dutch regulations in place, including stipulations concerning fixed and variable remuneration, claw back, deferral payment et cetera.

Amendments on the law regarding remuneration for the financial sector (Wet beloningsbeleid financiële ondernemingen/Wbfo) were approved by the Dutch parliament in January 2015, effective as from February 2015. As per these amendments, a bonus cap was introduced in the Netherlands, according to which variable remuneration is prohibited from accounting for more than 20% of fixed remuneration for all employees of all financial institutions (with some exceptions). There are also new provisions for redundancy payments, retention fees, and variable remuneration in case of state support. The bank's remuneration policy will be adapted according to these new stipulations.

Banking Code & Corporate Governance

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

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

Banking Code

DHB Bank has been fully compliant with the Dutch Banking Code. Detailed information pertaining to the implementation of the DBC is presented at the end of this annual report under the title 'Implementation of the Dutch Banking Code at DHB Bank'.

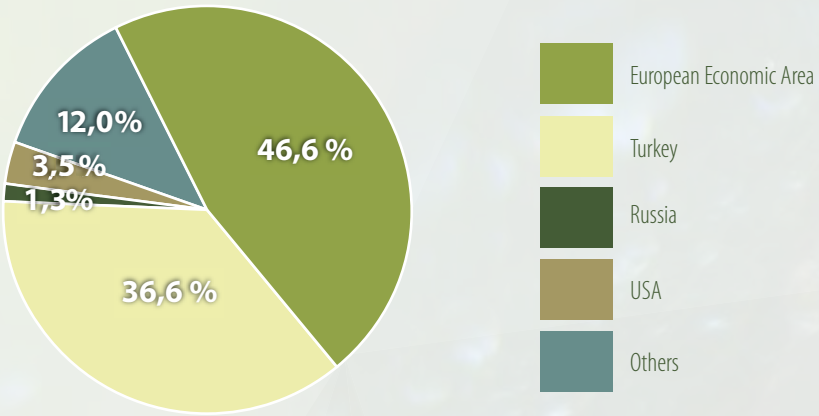
Corporate Governance Principles

In the course of 2014, DHB Bank continued to apply its strong corporate governance guidelines.

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 system of management as part of its corporate governance culture. These are all powered by the bank's policies and procedures.

As DHB Bank is a non-listed company, it is not subject to the Dutch Corporate Governance Code (CGC) per se. Nevertheless, in view of its responsibilities towards all its stakeholders and particularly towards its clients, in line with its economic and financial role, and also as part of corporate social responsibility, the bank strives

Geographical Distribution of Exposures 2014



to keep its corporate governance structure up-to-date by embedding in the whole organization the principles set forth in the CGC, to the extent commensurate with the bank's size, activities and complexity.

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

Some particularities of the bank's corporate governance structure are articulated here below.

- **Articles of Association (AoA)**
  The Articles of Association (AoA) of DHB Bank require that at least 50% of the SB members in office, including the chairman, are independent.

- **Supervisory Board Policy**
  The stipulations of the AoA regarding the composition of the SB are also taken up in the SB Policy. This policy additionally prescribes that any related party transaction takes place at arms' length. It furthermore stipulates that, in the event of the 50% threshold being temporarily breached, the independent members will nevertheless have 50% of the votes in the decision-making.

- **Managing Board Policy**
  The managing board policy comprises stipulations related but not limited to corporate strategy, risk management, internal control, the financial reporting process, audit, and compliance; as well as the consideration of clients' interests and social responsibility.

- **Internal Audit Charter**
  The bank's Internal Audit Charter describes the mission and scope of work, responsibilities, accountability, authority and standards of the Internal Audit Department, and includes stipulations ensuring its independence and objectivity.

- **Conflicts of Interest**
  Prevention of conflicts of interest is among the key elements of corporate governance. So as to ensure controlled and sound business operations, DHB Bank has a Policy on Conflict of Interest as a guideline. This policy covers measures to prevent (appearance of) conflicts of interest and to prevent DHB Bank or its employees from performing acts that are contrary to generally accepted standards and might seriously damage confidence in DHB Bank or in the financial markets. Related principles and procedures are also detailed in the Related Party Transactions Committee Policy, the Related Party Credit Acceptance and Approval Procedure, the Procedure on Financial Services to Employees and Supervisory Board Members, and provisions on promotional gifts as included in the Code of Conduct (Staff Handbook).

- **Social Responsibility**
  DHB Bank's Corporate Social Responsibility Policy covers the bank's adherence to the principles of social responsibility in all the decisions made and in all the activities undertaken. This policy aims to guide the bank in contributing to sustainable development, including the health and welfare of the society.

- **Ethical Values**
  For the purpose of strengthening DHB Bank's corporate culture, the bank's staff handbook is kept updated to address more clearly the seven elements of an ethical culture, including the

values of balancing interests, balanced actions, consistent actions, openness for discussion, leading by example, feasibility and transparency.

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

- **Duty of Care towards Clients**
  DHB Bank has substantiated its existing practices in this respect by adopting a Client First Policy, intended also as a guideline for the management and staff in decision-making and client interaction, so as to put the clients' best interest first. This policy also sets out the principles regarding product development and review, human resources policy and corporate culture, complaint procedures, and communication/transparency with clients. This last principle in particular is given special attention by the bank in all its relations and dealings with its clients. Management sees a client-centered approach as key to the long-term success of the bank and continually strives to make sure it is deeply ingrained in the corporate culture.

- **Complaint Procedure**
  As part of its duty of care towards clients and in application of the client first principles, DHB Bank has in place a complaint procedure, designed to resolve any issue or problem brought forward by the customers. Customers can file their complaints via the bank's website, where they are also informed about their option of contacting local authorities as well.

- **Product Approval**
  In line with the requirements of the client first principle, DHB Bank introduced its Product Approval Procedure with more focus on the duty of care towards clients, among others. The Internal Audit Department is responsible for periodically checking whether the respective procedure works effectively in practice, as they did it in 2014.

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

The independence of the compliance function at DHB Bank is ensured thanks to the direct access of the Compliance Officer to the RAC and to the Chairman of the SB. The Compliance Policy documents the authorities and duties of the Compliance Officer.

In 2014, DHB Bank continued to consistently apply its existing practices in relation to Know Your Customer and customer acceptance criteria.

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

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.

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

The Internal Audit Department (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 & Audit Committee (RAC). Supported by assessments and reports prepared by the Internal Audit Department (IAD), the Risk Management Department (RMD) and the Compliance & Legal Department (CL), 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 bank-wide on an aggregate 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 - as a first line of defence - in their activities within the approved risk limits and tolerance.

The bank pays the utmost attention to the prevention of integrity risk and associated reputation risk. With this approach, the bank maintained its strong governance structure in 2014, as detailed in the preceding section.

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 proposed by the Basel Committee in the form of the Basel III accord, are being implemented through the Capital Requirement Regulation (CRR) and Capital Requirement Directive (CRD IV), which entered into force on 1 January 2014. DHB Bank was prepared in time to implement systems and methods to regularly monitor its compliance with the new rules.

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

In addition, the bank's recovery plan - adopted in early 2014 and updated in early 2015 - defines recovery options that are available to counter a near-default scenario; and assesses in detail whether the nature of the options is sufficiently robust, credible, extraordinary and varied to manage a wide range of shocks of different forms.

ICAAP, ILAAP, recovery plan and risk management practices jointly and separately point to the viability of DHB Bank, which has also been additionally 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 IV contained certain minimum disclosure requirements regarding risk and capital management in line with the Pillar 3 rules. Its goal is to encourage market discipline 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 2015 based on 31 December 2014 figures.

Clients First

Clients are at the centre of DHB Bank's activities. In addition, 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 many customers. So as to rebuild and strengthen this confidence, banks need to ensure that, more than ever, client relationships are developed on a long-term, sustainable basis. This is possible only if banks always have the client's best interest at heart. Accordingly, DHB Bank believes that only if the bank can consistently fulfil clients' real financial needs at fair terms will it be able to maintain their goodwill, resulting in continued business and sustainable profitability, and in the interest of both parties. DHB Bank has always been committed to these principles.

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 in order to prevent reputational risk.

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

In this context, DHB Bank's website is an important communications channel with its clients. To ensure the accessibility and efficiency of this channel, the bank regularly monitors the availability of its website through a third-party service provider. According to the respective availability report for the period 2014, the bank scored an uptime percentage (a measure of the time a computer has been working and available) of 99.92% on average, higher than the minimum industry requirements. DHB Bank has also added in the last quarter of 2014 the monitoring of the availability of its internet banking application NetBanking into the regular monitoring procedure, representing again an above requirement level of 99.72% on average.

Environment

As was the case during the preceding few years, 2014 continued to be marked by extraordinary economic, financial and (geo)political developments as well as new regulatory requirements that had a direct effect on the bank's business and that will stretch to 2015 and beyond, as shortly highlighted below.

Economic & Financial Environment

In the past few years, the world's central banks have implemented a wide array of measures to contain the financial crises unfolding in various areas of the globe, most notably: the FED's massive purchase of long-term treasury bonds (Quantitative Easing - QE), the ECB's long term financing operations and, subsequently, targeted longer term refinancing operations.

These resulted in a vast amount of market liquidity creating a very low interest rate environment, which inevitably put pressure on the profitability of the commercial banks including DHB Bank compared to the pre-crisis period in general. Furthermore, the ECB started to apply negative interest rates for deposits since June 2014, and launched its own open-ended QE program in January 2015 to revitalize the Eurozone economy and to counter deflation. This caused some safe-haven sovereign (relatively short-term) bonds such as German Bunds to be traded at negative spreads; in this context, ECB's 4-year TLTRO cost of 0.15% p.a. is not a financial match to the negative yield of 4-year German bund (as of the writing date of this report). It should be also noted that, in contrast, this low interest rate environment is not fully reflected in retail deposit costs, representing a significant disparity in the general banking sector in the Eurozone.

The announcement by the FED, on the other hand, of its planned exit strategy from QE, initially caused nervousness in emerging markets due to the expected foreign liquidity drainage from their economies.

DHB Bank's interest earning assets carry variable interest rates based on a spread over reference rates or fixed interest rates that are determined according to these – lately extremely low - reference rates. This adverse condition is exacerbated by the fact that, for the past few years, the reduction in deposit interest rates did not match the reduction pace of credit yields and base rates. This is partly due to the advent of Basel III that favors the collection of retail deposits over wholesale funds, as well as the scarcity of the latter because of risk concerns. Coupled with the FED tapering its quantitative easing, the ECB implementing a mix of accommodative monetary policies and the domino effect of risk perception in emerging markets, the afore-mentioned circumstances continue to dictate extreme caution in DHB Bank's asset generation activities. Due to its exposures and further expansion endeavors in the EEA, and its exposures in Turkey, the geo-political, economic and financial developments in these geographies will be diligently monitored by DHB Bank.

These developments point to a long-lasting low interest rate environment, notwithstanding deflation/stagnation risks, coupled with lower asset yields and spreads due to risk aversion and flight to quality.

Since end-2012 Turkey, which remains DHB Bank's relatively most important market albeit on a decreasing scale, has been rated at investment grade level. This upgrade corroborated the country's relatively safe status, which was already evident by record levels of foreign direct investments and low interest rates even before these rating changes. However, towards end-2013 and early 2014, spreads in Turkey started to rise and the currency depreciated, due to political developments combined with the FED deciding to wind down

its stimulus efforts, despite the local and presidential elections of 2014 confirming the country's political stability. From a macro-economic perspective, the main challenge Turkey is facing is its large current account deficit. It has been successfully managed so far, but further challenges might be expected in case geopolitical and social developments have more implications for the country's general finances. Another attention point is the high external indebtedness of the corporate segment of Turkey. Adverse developments in these two areas might also widen the yields. From a risk management perspective, the bank will obviously continue to closely monitor the country and the bank's respective exposures, which are mostly short term. The Turkish parliamentary elections to be held in summer 2015 are not expected to change the political picture of the country.

Geopolitical developments in Ukraine and Russia in the first quarter of 2014 prompted the bank to immediately evaluate its placements in Russia, and it was accordingly decided to swiftly reduce exposures to this country. As a result, the bank's respective exposure was significantly decreased - by 85% - at the end of the first half of 2014 without having incurred a major loss (Ukraine exposure was eliminated before year-end 2013). The bank's remaining minor exposure to Russia will be closely followed, although no significant impact is expected thanks to the high standing of the counterparts concerned.

No major fluctuations and developments are expected regarding other geographies that the bank is active in. The Eurozone, however, will be closely monitored due to developments at the beginning of 2015 in Greece.

To achieve its objectives in a low-yield environment, DHB Bank continued to capitalize on its expertise and experience in particular customer segments and geographies rather than accepting greater risks with higher returns to compensate for the pressure on its profitability. This approach will continue to be the bank's strategic backbone in the future.

Regulatory & Supervisory Environment

During the year under review DNB has continued to conduct system-wide thematic examinations such as reviews of the credit portfolio, new payment methods, IT and information security. DHB Bank's results were generally satisfactory in these examinations; some areas of improvement have been tackled accordingly. In addition, tripartite meetings are organized yearly with DNB, attended by the bank's Internal Audit Department and the external auditors, during which various aspects of reporting, internal audit and risk management are jointly reviewed and discussed.

Throughout the year, DHB Bank was in frequent dialogue with DNB regarding the subject of its business model in the framework of the New Business Model Policy Rule. In a nutshell, the New Policy Rule requires the Dutch banks to comply with a certain ratio between the banks' exposure outside the European Economic Area (EEA) and their deposits under the coverage of the Dutch deposit guarantee scheme, with the required ratio determined in relation to the respective banks' balance sheet size. The MB has prepared - in consultation and dialogue with the DNB - a strategic roadmap to fully comply with this regulation gradually and over a certain timeframe. Accordingly, DHB Bank will continue to shift its lending activities more towards the EEA, thus continuing in a direction that the bank had already started to pursue following the 2008 crisis in the context of its strategic alignment. This strategic path will further strengthen the bank's commercial standing by increasing the diversification in its assets. On the other hand, despite its indirect promotion in the New Business Model Policy Rule, DHB Bank will refrain from being excessively exposed to

wholesale borrowing in its liabilities due to the well-known risks inherent in these funding sources.

In the first half of 2014, DHB Bank has successfully completed its ILAAP and ICAAP processes and updated the figures, and the subsequent Supervisory Review and Evaluation Process (SREP) was conducted and completed by DNB for the year. DHB Bank is in compliance, well ahead of the respective deadlines in 2015-2018, with all the capital adequacy ratios of the Basel III Accord. In compliance with the regulatory liquidity requirements of DNB, DHB Bank continues to maintain relatively high liquidity levels in the form of cash balances with ECB and ECB eligible securities.

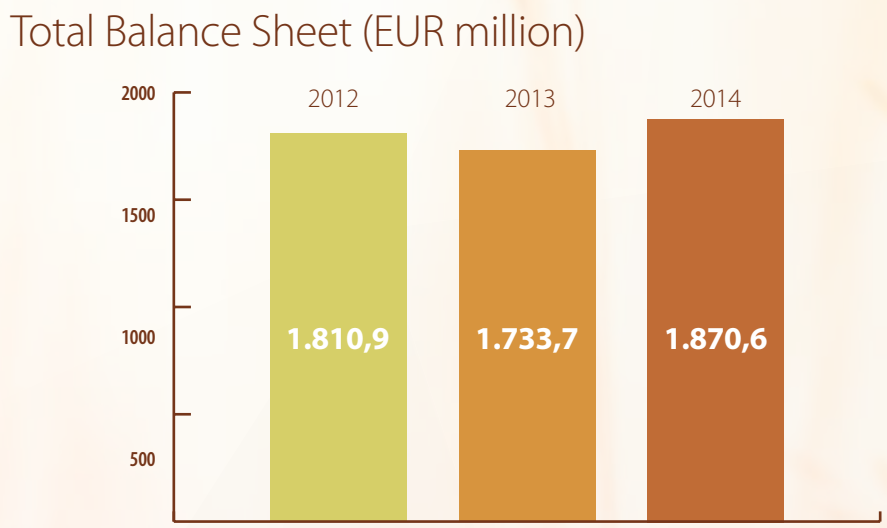
Strategic Alignment and Direction

Due to the regulatory developments mentioned in the section above, particularly concerning the New Business Model Policy Rule, DHB Bank refined its strategic alignment, which had originally begun in 2010, and continued throughout 2014. This process is based on DHB Bank's customary stringent risk assessment, limit establishment and monitoring practices. It involves further reduction of the bank's Turkey exposure and more focus on local anchorage (increase of EEA exposure) over a certain timeframe, a continued shift from exposures to banks towards exposures to non-banks, and exploration of more wholesale funding opportunities in the years to come, depending on market opportunities.

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

In terms of investment profile, the strategic alignment called for geographical diversification. In this context, DHB Bank continued to put more emphasis on corporate clients instead of bank clients, with a particular focus on companies in the EEA and preferably those with links, businesses and trade with companies in Turkey. These efforts bore results, thanks to which exposures to the EEA represent the largest share in the bank's portfolio at the end of 2014. A portion of Turkey exposures is in the form of very short term placements (average 1 month maturity) in local currency that are conducted for liquidity as well as solvency management purposes.

DHB Bank's core strategic direction is towards maintaining recurring profitability in the face of a very challenging market environment (low interest rates and spreads), while not deviating from its prudent risk appetite, and ensuring the viability of its business model and its operations for the benefit of all its stakeholders. In this respect, the MB appreciates the valuable support of the SB concerning the formation of the bank's long-term strategy.



Business Lines

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

Wholesale Business

On the assets side, wholesale banking is the foremost revenue generation source for DHB Bank. This business is conducted by the Corporate Marketing, Financial Institutions & Forfaiting and Treasury departments. The bank continues to redefine its wholesale customer base in keeping with its strategic alignment, as explained earlier. Potential new markets and customers were extensively explored during 2014, and the related credit assessments were carried out by always adhering to the bank's traditionally stringent risk assessment, credit granting and monitoring principles.

In conformity with the bank's business model, the primary clients of the bank in the wholesale segment are corporates, and, to a lesser extent, banks, while sovereign exposures account for only a very small portion of the total. The accent placed on providing finance to companies outside Turkey bore its results; this is a niche segment that the bank had been aiming to develop in order to become a global financing partner, and where it has started to establish a long-term cooperation with certain clients while new ones are also being acquired. DHB Bank engaged in reducing its lending activities to banks as part of its strategic alignment program.

The main product types in the corporate segment of wholesale asset generation will continue to be bilateral or working capital loans, traditional trade finance and project financing. In the financial institutions segment, bank loans, mostly in the form of syndicated facilities and partially bilateral loans, are extended on a selective basis with maturities generally shorter than one year. Thanks to their tradability in secondary markets, depending on market circumstances, syndicated facilities are also considered an asset & liability management tool. Treasury products such as FX spot, forward, swap, option and interest rate swap (IRS) are offered to a select number of corporates and financial institutions. This is facilitated by the bank's FX Trading Platform providing live foreign exchange quotations and by simultaneous buying and selling transactions without creating FX positions; the aim is to increase the bank's anchorage in these product types in the future. Securities transactions are maintained as an important activity for the bank's own portfolio, since these asset types provide the dual benefit of being liquidity and investment tools. DHB Bank does not keep a securities trading book.

Supported by extensive marketing and credit assessment activities, the momentum gained in geographical expansion – and corporate loans – continued throughout the year under review. Focus countries are those constituting the EEA; the bank also targets selective local European companies as well as subsidiaries of Turkish and foreign banks in the EEA. Turkey will remain in the bank's coverage area, albeit to a lesser extent, as a traditional business area and to maintain relationship continuity with corporate clients. Selective additions to the portfolio will be evaluated, while loans to top Turkish banks will be maintained as a liquidity tool as well as for diversification and, depending on market circumstances, return purposes. Increased synergy with group affiliates will be sought in the different countries where they are present, so as to improve risk management, operational support and business generation fuelled by their local knowledge. Azerbaijan will continue to be an interest area for DHB Bank depending on market conditions. On the other hand, starting in the first quarter of 2014, the bank swiftly and massively reduced its exposures in Russia following the start

of the Crimea crisis. The bank also has relatively granular – highly secured/collateralized – exposures to countries in a wider geographical spectrum such as Georgia, Kosovo, Saudi Arabia, the United Arab Emirates etc. DHB Bank also, to a small extent, cooperates with some multilateral development banks in order to diversify its geographical coverage under the umbrella of these institutions.

On the liabilities side, as part of its new strategies, the bank undertook in 2014 to slightly increase wholesale borrowings in its liabilities compared with the previous year; these, however, continue to account for only a relatively small portion of total balance sheet size. Wholesale funds consist primarily of repo funding, of which a major portion relates to deals closed with the ECB. DHB Bank also occasionally made use of wholesale funding in the form of bank bilateral loans or money market borrowings during the year, for relatively small amounts and for diversification purposes. The bank increased the number of its counterparts and correspondent banks in 2014.

Apart from its general role in assets and liabilities management for the bank's activities including the wholesale business, the Treasury Department continued to manage liquidity and market risk, monitored by the Risk Management Department. As an extension of its post-crisis strategies and particularly due to extraordinary circumstances such as the Russia/Ukraine crisis in 2014, during a major part of the year DHB Bank maintained considerable liquid assets, which corresponded to more than 30% of the saving deposits.

In terms of market risk management in general, and FX risk management in particular, and due to the traditional balance sheet composition of assets denominated partly in USD with funding mostly in EUR, the bank was usually active in FX swaps as a EUR placer and USD taker. In this respect, DHB Bank focused on funding its long term USD denominated assets with cross-currency swaps matching the maturities of the related assets. The bank also conducts FX swaps for funding its short term exposures in TRY denomination. Additionally, the bank continued to use interest rate swaps for hedging purposes.

In 2014, the bank started procuring insurance as an alternative financial solution to risk management. Transferring credit risk to highly rated institutions (insurers) enables the bank to conclude more business volumes within individual counterparty limits. The potential of this approach will be explored for different names in different regions.

Retail Operations

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

Retail deposits collected from Germany, the Netherlands and Belgium, which have already proved their stickiness in several globally or regionally stressed environments, constitute the main pillar of the bank's funding and liabilities management. Due to their significance, developments in the retail markets are closely followed, and the bank's retail deposit base and developments therein are monitored on a daily basis.

In the framework of active deposit management principles, as well as in light of regulatory rules that led the management to maintain the balance sheet size in the EUR 1.8 billion range, DHB Bank kept the retail deposits stable: the outstanding balance at year-end 2014 was slightly higher than year-end 2013.

Deposits management was also conducted with the main goal of maintaining term deposits at least at 40% of total deposits, and rates offered by the bank on these products were adjusted from time to time in line with this target.

As far as the product range is concerned, retail deposit products

offered are current account, savings deposits and time deposits (between 3-month and 5-year in different brackets) in all the countries of operation, namely the Netherlands, Germany and Belgium. DHB Bank also developed floating rate term deposits and offers these to its customers in the Netherlands and Germany so as to improve market penetration in the term deposits segment. Deposits are collected through call centres and Internet in these three countries. In the Netherlands, deposits were collected also through its branches; in 2014, however, it was decided to close these branches. In past years, the bank had occasionally launched special deposit campaigns in Germany in the past, and will maintain these campaigns on its agenda in the future in case of need, though none were carried out in 2014. Such campaigns consisted of offering, for a short period, slightly higher interest rates with the aim of collecting long-term time deposits in order to ensure stable funding matching the longer-term commercial loans. These campaigns were considered successful; they yielded high response rates, thus generating some new time deposits as well as indicating room for additional initiatives to manage deposit volumes and maturities when needed.

Consumer lending on a funded basis, which had been completely halted after the 2008 crisis when consumer loan brokerage activities were intensified instead in cooperation with other providers, gradually resumed later on a completely insured/covered structure. The marketing of these consumer loans - including Turkey Home Credit, a special mortgage product offered to residents of European Union member countries for their residential purchases in Turkey; not insured but collateralized - continued in a centralized way in Belgium.

Workers' remittances, mostly to Turkey, were a niche for DHB Bank in the Netherlands and a stable source of income. These services, however, were discontinued in the last quarter of 2014 parallel to the afore-mentioned decision concerning the closure of branches. More detail regarding the branch closures is provided under the section 'Organization and Operations'.

Financial Review

The 2014 EU-IFRS financial statements of DHB Bank are prepared on a consolidated basis, incorporating the bank's participating interest in Best CreditLine B.V. which was established as a separate entity to provide consumer loans via intermediaries and which has currently a very small share in the consolidated balance sheet.

In the Dutch banking sector, DHB Bank stands as a small-sized bank, which provides it flexibility and swiftness in adapting to changes in the economic and financial environment. This advantage is coupled with a straightforward business model based on traditional banking. The bank closed 2014 with EUR 1,870.6 million in assets, registering a EUR 136.9 million increase compared with the previous year. The purpose of this growth was to make more use of leveraging on the face of the bank's already strong capital buffer by both international and local standards.

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

Liabilities

Apart from the shareholders' equity, DHB Bank's liabilities consist mainly of customer deposits, while wholesale funds account for a relatively small portion. Total deposits from customers corresponded to 68.6% of the balance sheet at the end of 2014 and wholesale funds to 17.9%.

The bank's own resources have traditionally been at very comfortable levels by international standards with a strong loss absorption capacity. This continued to be the case in 2014. The shareholders' equity stood at EUR 230.4 million as of year-end 2014, which corresponded to 12.3% of total liabilities compared with 13.4% in 2013, a reflection of the slight increase in leveraging referred to higher above, but without affecting the strong capitalization level of the bank. In absolute terms, equity was slightly reduced as a combined result of reporting EUR 9.4 million net profit for the year, the distribution of 50% of its 2013 net profit during 2014 and decrease in fair value reserve compared with 2013 that is a reflection of the mark-to-market valuation of securities under the AFS portfolio over which the bank does not have control.

With regard to capital adequacy, DHB Bank reported a comfortable 16.84% total capital ratio at year-end 2014. Parallel to the approval of the audited accounts by the annual general meeting of shareholders, the current year's net profit is taken into account by 50% in this calculation, considering the 50% effective dividend distribution for 2013 and the planned proposal of the same percentage distribution for 2014. In calculations throughout the year, however, the current year's profit was not taken into account in line with the CRR. Nevertheless, the bank's capital ratio in these calculations was always above 16% as well. Owing to its straightforward business model and strategies as well as to its robust equity base, the bank does not make use of hybrid capital instruments.

DHB Bank is utilizing the standardized approach 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 and reporting. In terms of financial transparency, additional disclosures are published on the web site of DHB Bank along the lines of Pillar 3. The bank's capital level is also adequate as per the requirements in the Netherlands that demand – compared to international Basel standards – additional capital in line with the Policy Rule on the treatment of concentration risk in emerging countries.

Deposits from customers, the liabilities item overwhelmingly consisting of retail deposits, slightly increased in 2014 by EUR 20.1 million. Collected from the Netherlands, Germany and Belgium, customer deposits represented 78.2% of non-equity liabilities with EUR 1,282.8 million in 2014 versus 84.1% and EUR 1,262.7 million in 2013; the decrease in percentage points was a reflection of balance sheet growth, supported mainly through wholesale funds. In terms of product breakdown, saving deposits constituted 55% of the total while the remaining 45% were accounted for by term deposits (and minor current accounts) as of year-end 2013, more or less parallel to 2013. Out of total customer deposits, 72.0% were collected in Germany, 15.4% in the Netherlands and 12.6% in Belgium.

The 'Due to banks' item, as a wholesale funding source, amounts to 20.4% of non-equity liabilities with EUR 334.0 million. Nearly EUR 221 million of this item consists of repo deals with the ECB, including mostly LTRO and to some extent TLTRO, while the majority of the remainder comprises bilateral bank loan transactions.

The EUR 13.6 million "financial liabilities held for trading" item represents the valuation of derivative transactions that are not designated for hedge accounting, while other liabilities with a balance of EUR 7.0 million include items such as accrued expenses, payables to suppliers, premiums payables et cetera.

DHB Bank set aside a EUR 280K provision in relation to future obligations of the Rotterdam branch following its planned closure in Q1 2015. In addition DHB Bank made a provision of 73K for the expected liabilities under the rent contract of the Rotterdam branch.

The EUR 3.9 million other liabilities item represents accrued expenses and payables to suppliers.

Assets

DHB Bank's interest-earning assets, excluding EUR 102.6 million cash and deposit balances with the European Central Bank, corresponded to 93.7% of the total balance sheet, and comprised mainly corporate loans, bank placements and securities investments, with a smaller contribution from personal loans. These were split between fixed interest rate and floating interest rate assets, whereby the latter corresponded to roughly 40% of the total and the former to 60%.

The distribution of DHB Bank's assets reflects its efforts for diversification in terms of geography and product range. Setting aside non-interest earning assets, 46.6% of the bank's assets including off-balance-sheet items originated from EEA - of which 15.1 percentage points were from the Netherlands - and 36.6% from Turkey. Of the latter, 8.0 percentage points comprise very short-term loans in local currency. These ratios were 28.7% for the EEA and 42.2% for Turkey at the end of 2013. This change is a concrete result of the bank's endeavours concerning the expansion and diversification in the EEA. The bank has exposures to 21 EEA countries, with amounts varying between EUR 4.5 million in Austria and EUR 282 million in the Netherlands, with a EUR 41.5 million on average per country. Aside from the EEA and Turkey, the remaining 16.9% of DHB Bank exposures (EUR 317.4 million, of which the largest is to the USA with EUR 64.7 million) are to 19 different countries at a EUR 15.8 million average. DHB Bank's exposure to Russia is a mere 1.4% of assets, following the swift and massive de-risking implemented in the first half of 2014.

The EUR 102.6 million cash item primarily consists of balances with the ECB. In economic terms, however, the immediately available liquidity of DHB Bank was substantially higher at 11.3% of the balance sheet total, or EUR 210.5 million, including cash and balances with central banks,

the available ECB eligible securities after haircuts and funds maintained with correspondent bank accounts. Including the contingent liquidity line from Halkbank, the total liquidity of the bank was EUR 310.5 million or 16.6% of the balance sheet.

The 'loans and receivables – customers' item, which comprises corporate and retail loans, posted an increase of EUR 99.1 million or 11.7% between 2013 and 2014. With EUR 947.7 million in total including a small proportion of retail loans, it was the largest asset item with 50.7% of the balance sheet in 2014. The yearly increase is the result of the successful implementation of DHB Bank's aforementioned strategic alignment that favours corporate loans. A majority of this item is accounted for by working capital loans to corporates in Turkey, including short-term loans in local currency, and loans to companies mainly in the EEA, among others. Apart from traditionally providing export financing to Turkish companies and loans to European companies, during the past few years DHB Bank positioned itself as a counterparty financing Turkish corporates' investments and operations outside the country, primarily in the EEA, aiming to become their 'home bank abroad'. Loans to small and medium sized enterprises (SMEs) in the Netherlands represent a minor part of this loan segment and are on a decreasing trend, as management has halted expansion in this field on strategic and economic grounds.

Retail loans occupied a small portion of the total balance sheet. Following the crisis in 2008, DHB Bank progressively resumed granting funded retail loans to its customers on a fully insured basis instead of only acting as an intermediary in the crisis years, resulting in a relatively small total outstanding amount of EUR 45.7 million as of year-end 2014 (2013: EUR 33.5 million). Without setting aggressive targets, DHB Bank aims to gradually increase its exposure in this line.

The 'loans and receivables – banks' item represented another important portion of DHB Bank's assets at the end of 2014, with a figure of EUR 415.0 million, or 22.2% of the balance sheet (2013: EUR 328.1 million or 18.9%). Despite the relative increase during 2014, the general trend is toward a reduction compared with previous years when, in the post-2008 period, this asset type was favoured thanks to its short tenors, acceptable returns and relatively liquid/tradable nature. This general decreasing trend is the

> "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."

outcome of the strategic alignment plan that envisaged credit expansion in corporate loans at the expense of bank loans. Accordingly, the decrease in this loan type is partially offset by the increase in non-bank loans, as explained in the above paragraphs. Still, DHB Bank continues to consider bank lending as an important activity in its overall lending policy. Thanks to their relatively short term, as well as their liquid nature in the secondary market for syndications and promissory notes, bank loans can serve as liquidity management tools as well as investment products. Depending on alternative opportunities, and as far as feasible given liquidity and capital requirements, bank loans – as well as securities and short-term Turkish Lira loans – had a pivotal function: their balance was reduced or increased according to developments in non-bank loans. This strategy will be maintained in 2015 while the overall direction is set as increasing non-bank loans. The bank loans item does not include bank placements in the form of securities, which are booked under the securities item in the balance sheet. Out of the total banks item, EUR 73.3 million were bilateral bank loans, EUR 288.6 million syndication placements, while the remainder consisted of money market and similar placements.

Securities investments closed the year with a balance of EUR 390.5 million (20.9% of the balance sheet) at the end of 2014, marginally higher than the previous year. A portion of these securities are used for repo transactions. The majority of the securities item was related to ECB eligible securities, of which the predominant portion is minimum A- rated; 77% of securities were from the EU, 15.8 % from the USA and the remaining 7.2% from emerging markets. 91.8% were issued by banks, 6.7% by corporates and the remaining 1.5% by sovereigns.

Income Statement

DHB Bank possesses a straightforward earnings model: The key revenue driver is interest income supported by a relatively small contribution of commission income, while the main expense items are staff costs and administrative expenses. Excluding the "result on financial transactions" item as clarified below to reflect recurring profitability, net interest income accounted for 94% of total operating income versus 5% for net commission income in 2014 and 1% others. As for the expense items, excluding impairment charges, staff expenses accounted for 62% of total operating expenses versus 35% for administrative expenses and 3% for depreciation and amortization expenses for the same period. Detailed information regarding various risk factors such as credit risk or market risks that might affect the earnings of the bank, and their management and hedging is presented in the financial statements part of this annual report.

Extraordinary One-Off Items in 2014

There were extraordinary one-off expense items for DHB Bank in 2014, which directly affected the gross profit of the year in the amount of about EUR 6 million. These were:

- Russia/Ukraine Conflict: The 2013 year-end EUR 185.9 million Russia exposure was rapidly reduced starting early 2014, reaching EUR 84.9 million in March and EUR 29.1 million in June (December 2014: EUR 24.3 million). This voluntary initiative caused the bank to incur losses in the form of i) liquidity cost (maintenance of very high liquidity in the period March-July 2014), ii) opportunity cost (replacement of off-loaded Russian exposures with lower yielding assets, and this, within a certain timeframe) and iii) around EUR 0.8 million loss due to the sale of some assets at unfavourable market rates.

"The distribution of DHB Bank's assets reflects its efforts for diversification"

- Contribution to the SNS bailout: DHB Bank's pro-rata contribution to the 2013 bailout of SNS was paid in 2014; its negative effect on net profit is higher as it is not tax deductible. However, this last point was partially offset by a collection related to IceSave Bank regarding whose failure DHB Bank had made contributions earlier.

- Branch closures: These are related to severance payments to staff who were employed in the Amsterdam, The Hague and Rotterdam branches whose closure was decided upon in 2014, as well as some respective expense provisions.

Operating Income

In terms of market environment, the decline in base rates continued in 2014. Euro base rates (3-month and 6-month Euribor, which are the main components of the bank's floating rate assets) were realized at 0.285% p.a. on average in the period January-December 2014, close to the level projected by the bank. These extremely low interest rate conditions were balanced by the bank's continuing strategic alignment activities, which call for a more effective utilization of the bank's resources and a shift from low yielding securities and bank placements towards higher yielding corporate loans. As a result, the negative effect of the low asset yield environment on the net interest income of the bank has been neutralized to a certain extent; net interest income amounted to EUR 54.4 million, which is slightly higher than the previous year's EUR 52.4 million figure. This result was achieved thanks to reduced deposit costs as well; offered retail deposit rates have been reduced on several occasions throughout the year in parallel with market developments and the bank's strategies. Overall, interest income in 2014 was realized as EUR 76.7 million (2013: EUR 78.9 million) versus EUR 22.3 million interest expense (2013: EUR 26.5 million). It should also be noted that the bank maintained close to EUR 96 million average cash balance throughout the year (much higher in the first half), which, coupled with the negative interest rate policy of ECB since the beginning of June 2014, had an adverse impact on the income side.

Net fee and commission income was EUR 2.8 million in 2014 versus EUR 2.6 million in 2013, as a combined result of an increase in commission income and a decrease in commission expense. Commission income, with an end-2014 balance of EUR 3.2 million, consists of fees received in relation to bilateral loans, and of income from banking services, mainly in the form of remittance services, as well as, to a lesser extent, brokerage fees for insurance intermediation. The commission expense item mainly represents fees related to banking services in the course of daily operations, with a negligible yearly cost of EUR 0.4 million in 2014.

As per EU-IFRS, the EUR -18.4 million result on financial transactions mainly represents the result from securities transactions, the result of the mark-to-market valuation of derivative transactions – namely interest rate swaps and FX swaps – and the net interest cost of swap transactions. The latter amounts to EUR -21.2 million and represents the interest cost on funding obtained through swap transactions for loans denominated in USD and TRY. These are not related to any positions taken for trading purposes, as the bank does not keep a trading book in general; from an economic perspective, these are interest expenses, which is the explanation behind the negative difference between EUR 39.3 million total operating income and EUR 57.2 million net interest income + net fee and commission income.

Overall, total operating income closed the year 2014 with EUR 39.3 million versus EUR 43.6 million in 2013. The decline was predominantly due to the effect of high liquidity and costs incurred in relation to reducing Russia exposure as explained above.

Operating Expense

Total operating expenses showed an increase of EUR 3.1 million, closing the year with EUR 20.1 million versus EUR 17.0 million in 2013. Staff costs rose nearly by EUR 1.2 million partially due to severance payments to employees from the closed branches, among others. Other administrative expenses surged by EUR 1.9 million; however, EUR 2.8 million of these expenses corresponds to the SNS contribution mentioned above, while EUR 1.5 million was, thanks to collections, released from provisions of the same nature from previous years in relation to similar contributions of the bank in the Dutch banking sector.

Depreciation and amortization expenses did not show a significant change.

Operating result before impairment in 2014 was EUR 19.2 million, EUR 7.5 million lower than the previous year mainly due to the extraordinary one-off items mentioned in the above part.

Impairment charges were net EUR 6.0 million in 2014 with respect to provisions made for specific files.

Result

DHB Bank's consolidated 2014 income statement reported a pre-tax profit of EUR 13.2 million (net profit EUR 9.4 million). The decline compared with 2013 was mainly the result of extraordinary one-off expenses and costs explained in this part of the report. From a recurring profitability viewpoint, however, DHB Bank demonstrated the continuing positive effects of the strategic alignment program on operational profitability going forward.

Key Indicators

Some of the key indicators related to DHB Bank's 2014 performance are as follows:

As mentioned earlier, the bank's capital adequacy ratio stood at 16.84% at the end of the financial year under review (assuming 50% of the net profit is distributed as dividend), reflecting its considerably low leverage considering risk weighted assets and loss absorption capabilities. Low leverage was also demonstrated in nominal terms, with the bank's total assets over total equity being a low 8.12, which was intentionally attained by the management so as to maintain a high level of capital adequacy while preserving asset quality.

The cost to income ratio was realized as 45.8% at the end of 2014 compared with the 39.0% ratio of 2013. The reason behind the deterioration in 2014 can be found in extraordinary one-off expense items and costs, as explained under the section 'Income Statement'. The overall improvement compared with earlier years, when the ratio was around 70%, is the result of cost efficiency measures implemented earlier having their positive effects more recently, as well as an outcome of the strategic alignment that provides for more focused lending operations and correspondingly more efficient revenue generation.

As of year-end 2014, total non-performing loans (defined as bank, corporate, retail and sovereign loans for which any of the principal, instalment or interest receivables are 90 days overdue) as a proportion of the bank's total loans portfolio stood at gross 1.30% with a 69.0% coverage ratio, compared with 1.23% and 47.4% in 2013. Regarding the specific provision set aside for particular exposures, as mentioned in the sub-section Operating Expenses above, management is of the opinion that the increased loan loss coverage is adequate, based on the fact that the respective companies are still continuing their operations, and paying interest on their debts, and also thanks to completed restructurings.

DHB Bank's net interest margin was realized as 1.94% for 2014, a slight improvement over the 1.71% ratio of 2013. While this level is an improvement over the previous years as well thanks to the strategic alignment, it still reflects the relatively high deposit and funding costs in the markets of DHB Bank in relation to low asset and base yields, as explained in the Economic & Regulatory Environment section.

The bank's pre-tax return on assets (ROA) and on shareholders' equity (ROE) was 0.73% and 6.05% respectively in 2014, compared with the 1.35% and 11.46% ratios in 2013. These decreases are explained, again, by extraordinary one-off expense items and costs in the year under review. Otherwise, these ratios in 2014 would have been close to 2013, a reflection of the bank's established recurring profitability base.

Organization and Operations

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

Major developments at DHB Bank in 2014 from an organizational and operational perspective are presented below.

Organization

In response to the emergence of electronic banking and progress in the distribution of financial products and services, coupled with stringent regulations regarding cash transactions and money transfers, DHB Bank decided to completely discontinue handling cash transactions that it had still been offering in its branches in the Netherlands, following the same move some years ago in its branches in Germany and Belgium. As a result, the bank closed its Amsterdam and The Hague branches on 1 December 2014 and the Rotterdam branch on 1 March 2015. These branches were mainly active in the remittance business to Turkey and cash transactions, meaning that these services have been completely terminated. However, deposit account services continue to be offered through the internet and call centre. The closure of the branches did not have any noteworthy impact, as they amounted to less than 1% of the bank's total balance sheet size. Furthermore, the contribution of the remittance business to revenues was relatively small – and on a decreasing trend – from an overall income and expenses breakdown and cost efficiency perspective. Consequently, the bank will continue to carry on all its operations and activities from its head office in Rotterdam, from its branches in Dusseldorf and Brussels (with additional 3 sub-branches in Belgium), and from its representative office in Istanbul.

Apart from the closure of branches in the Netherlands, it has also been decided to terminate, at the beginning of October 2014, the on-line-money-transfer (OMT) services offered by DHB Bank for non-account holders through the Ideal platform in the Netherlands and through the Sofort platform in Germany, after weighing the commercial aspects against the expected intensification of regulatory requirements in this field.

In order to provide custodian services under a separate legal structure and in accordance with Dutch regulations, DHB Bank had established Stichting DHB Bewaarfonds in 2006 as a foundation. In view of the fact that the bank had no longer provided custodian services for its customers in the past few years, the dormant foundation was dissolved in 2014.

Recent changes in the Dutch regulations stipulate that external auditors should be replaced every 8 years. Although in practice DHB Bank could have made this rotation in 2016, it opted not to wait till the last minute, also considering that it has been working with KPMG Accountants since the bank's establishment in 1992. As a result, following a selection process, the bank agreed with Ernst & Young Accountants LLP as new external auditors starting with the 2014 financial year.

DHB Bank's lease contract on the London Office, which had been vacant for some time, and whose original maturity was October 2015, was ended under agreement with the landlord, without any remaining obligation for the bank.

The bank finalized the installation on the servers of the new content management system (CMS) that was purchased from a third party. This new application will enhance the bank's websites by improving their functionality and web marketing tools. This application offers a powerful content editing interface, which is effective from a technological and functional point of view as well, and is expected to be fully launched in the first quarter of 2015 with a new website design.

The bank has further improved the functionality of its internally designed core banking system Matrix, which is a modularly structured integrated complete standard banking software solution for the whole range of requirements of DHB Bank. It is an integrated comprehensive total banking solution with an open architecture that allows interfaces with many third party financial and non-financial systems. Considering also the 24/7 availability and multi-branching and multi-country features, Matrix is characterized by a very high degree of flexibility. With the purpose of further improving the staff access to and analysis of information, the IT Department initiated a project to enhance functionalities of the bank's existing reporting infrastructure, to support users as a help desk point, to prepare reports upon request and finally to train staff to use the tool efficiently for their needs. In this context, the IT Department conducted a technical evaluation of the current infrastructure for efficiency and performance, prepared the relevant documentation, and organized an outsourced training program for different levels of users. Furthermore, the migration to the most recent supported versions of the bank's databases, application servers and operating systems, planned in 2013 as a long-term project, was completed successfully in July 2014. They are now ready for further developments without dependency on any hardware. Based on possible business or technical requirements, infrastructural changes can now be implemented easily to support the banking application. In terms of process enhancement, to support DHB Bank's internal automation and help increase the IT Department's productivity by enhancing the effectiveness of its processes, the bank implemented an ITIL compliant ("Information Technology Infrastructure Library", a set of practices for IT) third-party solution named TOP desk, which is a process-supporting software. The tool, which is being implemented module by module, facilitates - among others - inventory management, configuration management and change management by the IT Department.

As an outcome of DNB's thematic examination on information security in 2013 and 2014, it has been established that DHB Bank meets all the required maturity levels in all the concerned control areas, and, furthermore, that its results were above the sector average. In this respect, it is noteworthy to point out that DHB Bank employs an expert Information Security Officer, who is positioned independently of the IT department as a second line of defence against related risks and particularly cyber threats.

DHB Bank has also service level agreements (SLA) with specialized companies for software development and for database management to assure business continuity, and to create an external backup in case of emergency.

Operations

Initiated in September 2007, Operational Risk and Control Assessment (ORCA) aims to involve operating units in developing and maintaining the bank's risk and control system. In this framework, a full review of the risk registers - including reassessment of existing risk items, updating of action plans and capturing potential new risk(s) - has been launched by the Risk Management Department in the first half of the year. After its completion, the risk-tolerance

charts have been updated and give a renewed and fresh oversight of non-financial risks and available mitigating measures within the organization.

Since the beginning of June 2014, the report templates used for credit analysis have been updated, providing concise information supported by more commentary on the business and financial performance of the customers.

Business Continuity Plan (BCP) tests organized annually for unforeseen events/disaster scenarios were conducted once again in 2014. Conducting the BCP tests for the last 5 years with different scopes broadly aimed at increasing the maturity level with each of the tests; in 2014, the scope was to simulate the case that primary IT department colleagues were unavailable. Recovery in this scenario was performed using external or internal backup resources. The aim was to test if the systems could be recovered in the stipulated timeframe using the existing recovery documentations. It was also assumed that primary data centre at the head office was not available. The recovery tool to be tested was that users seamlessly connecting to systems at the Germany disaster recovery site could continue banking operations (tests) from their respective desks at the head office. The test was successful and included the following areas: Matrix Core Banking, Website and Netbanking infrastructure, Swift payment systems, Netbanking Administration and end-of-day operations.

In line with the requirements of the European Market Infrastructure Regulation (EMIR), in force since February 2014, banks' over-the-counter (OTC) derivatives transactions must be reported to a Trade Repository (TR). TR centrally collects the reports of derivatives contracts in a transaction register supervised by the European Securities and Markets Authority. Throughout 2014, DHB Bank has developed its internal reporting and made agreements with third parties ensuring full compliance with this regulation.

As part of its strategic drive to position itself as preferred lender to corporates having investments/operations outside Turkey DHB Bank continued its joint advertisement campaign with its corporate loan customers. In parallel, the bank intensified its efforts to provide current account services to these customers, with the ambition to becoming their "home bank in Europe" for all their banking requirements outside their banking relations in Turkey. Active marketing will continue in 2015 also concerning FX option transactions to both existing clients (account management) and new prospects (cross-selling to clients using other products).

DHB Bank has become fully compliant with the regulations pertaining to the SEPA (Single Euro Payments Area) standards before the 1 February 2014 deadline thanks to the development and completion of a number of infrastructural projects throughout 2013.

The Capital Requirements Regulations that was introduced on 1 January 2014 brought in a new EU-wide supervisory reporting framework for financial reporting (as from March 2014) and common reporting (as from September 2014) for the purpose of harmonization. IT based projects have been initiated to facilitate its smooth processing.

"...the home bank of corporate customers in the EEA with links, businesses and trade with Turkey"

Expectations

Management is confident that operational profitability at levels similar to the successful past years, if not better, will be attained in 2015 and in a progressive trend in the following years, based on further benefits from the ongoing strategic alignment as well as expected further improvements in the operating environment. On the other hand, apart from reference interest rates being at record lows, credit spreads have also narrowed due to the combined effect of vast market liquidity and lenders' search for quality assets with higher yields. This trend has been particularly observable for high-credit standing institutions globally, and also in DHB Bank's markets. Accordingly, the financial environment is expected to continue putting pressure on the bank's profitability in terms of interest margin in the short-to-medium term.

In many Eurozone countries, including the Netherlands, since the 2008 global crisis, deposit rates –the commercial banks' main funding cost – have decoupled from Euribor rates, causing a significant discrepancy between funding costs and lending rates, as a result of which funding costs are much higher than lending spreads for low-risk investments and for corresponding maturities. Liquidity costs in the Eurozone have increased, due to ECB's negative interest rate on deposits and the fact that deflation threats and the ECB's introduction of an open-ended massive QE resulted in some sovereign bonds being traded at negative interest rates. This phenomenon is expected to continue for some time, at least until capital markets improve, deflation threats are thwarted and economic recovery in the Eurozone picks up significantly so that policy rates once again trend upwards, based on other parameters as well. DHB Bank will continue to closely monitor market developments and manage its offered deposit rates accordingly to ensure always a stable funding base.

Regarding its bank and corporate exposures, DHB Bank expects its asset quality to remain healthy. The bank maintains strict credit underwriting processes, and its exposures are mainly to countries (or to customer segments) that are less affected by the Eurozone crisis. Bank and corporate customers continue to be selected among those with high credit standings, and hard collateral is required for some loans. DHB Bank will also continue to make use of its traditionally rigorous risk monitoring processes.

It is the aim of DHB Bank to become the 'Home Bank abroad' of its recently acquired corporate customers in the EEA with links, businesses and trade with Turkey, for all their banking requirements abroad and particularly in the EEA. To enhance its services in this area, the bank plans to implement an internet-based account management system for corporate customers, namely 'Business Online' in 2015.

Liquidity and capital management will continue to be another focal point, and the Supervisory Review and Evaluation Process in relation to ICAAP and ILAAP of 2014, which maintained the bank's strong position with regard to these two parameters, will be on the permanent agenda of the bank in the years to come. Possessing a strong capital base and highly liquid balance sheet, DHB Bank does not expect any adverse developments in these fields. Thanks to the development of a recovery plan, management does not expect the long-term viability of the bank to be affected by a potentially severe crisis, idiosyncratic or systemic. The maintenance of the recovery plan, ILAAP and ICAAP will be conducted on a yearly basis.

In 2014, the management explored physical expansion possibilities in some other European countries for further diversification purposes; however, given the size and activities of the bank and the costs and regulatory pre-requisites not justifying such an expansion from an economic

perspective, this plan is halted for the time being.

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

On 4 November 2014, the ECB took over supervisory responsibility for banks in the Euro area with the introduction of the Single Supervisory Mechanism that entails many new aspects and supervisory functions. Owing to its size, DHB Bank will not be directly supervised by the ECB and will continue to be under the supervision of DNB, at least in the foreseeable future.

A concept of future-oriented banking was developed by the Dutch Banking Association (NVB), effective as from 2015. Designed to enhance confidence in the banking industry, future-oriented banking introduced a social charter, updated the Dutch Banking Code, implemented a bankers' oath for all the employees of the Dutch banks irrespective of their position, and instituted codes of conduct and a disciplinary system. A majority of this concept's stipulations were already incorporated in DHB Bank's policies and practices, while minor deviations therefrom will be tackled in the course of 2015. The bank was already aligned with the enhanced contribution to public trust in banks and their role in the community intended via this concept. Therefore, DHB Bank will not be affected by this new set of principles.

In terms of business model and strategic positioning, DHB Bank has already started to adjust its activities in line with the requirements of the 'Policy Rule on Maximizing the Deposits and Exposures Ratio under the Act on Financial Supervision'. In terms of geographical coverage, the bank will be more concentrated in the EEA.

As a result of management's strategic stance on controlled credit expansion particularly in the EEA, within the limits of sound risk and capital management, it is anticipated that DHB Bank will report a higher profit in 2015 under current market interest rate dynamics, as the bank does not intend to ease its risk appetite and neither does it expect extraordinary one-off costs such as in 2014. In this context, the bank projects, for 2015, an asset size of around EUR 1,850 million and a capital adequacy ratio around 16% throughout the year.

> “With more than 20 years behind, we trust that we will continue together on a successful path”

Board and Staff

As at year-end 2014, the bank employed 140 staff compared with 142 one year earlier.

In the course of the year, in line with its strategic alignment endeavours and changing requirements, the bank strengthened its human resources for different functions. Throughout the year, facilitated by internal or external trainers, the staff attended numerous trainings and workshops. These were; reporting tool, CMS (Content Management System), mystery call, ORCA (Operational Risk and Control Assessment), compliance, IFRS update and developments, ethical hacking and countermeasures, and anti-money laundering/customer due diligence. In addition, many staff members attended (and were encouraged to attend) different specific and external trainings/workshops relating to their business lines.

Mr Theo Bark resigned from his membership position in the SB as from 31 March 2015 in compliance with the SB Policy. We would like to express our sincere appreciation for the valuable inputs and contributions he provided during his tenure since 9 November 2002.

In conclusion, we would like to express our sincere thanks to our shareholders for their continued support, to the members of our Supervisory Board for their constructive oversight and valuable advice. We would also like to offer our sincere thanks and appreciation to the bank’s management and staff for their effort and dedication, which have helped breed success in DHB Bank’s activities and shaped the bank into what it is today, as well as to our clients and partners who chose to work with us.

With more than 20 years behind, we trust that we will continue together on a successful path, sustain profitability in 2015 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.

Rotterdam, 10 April 2015

Mr Kayhan Acardağ
Senior General Manager

Mr Steven Prins
General Manager

Mr Okan Balköse
General Manager

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

Governing Bodies & Management

Supervisory Board

Mr Hanno W. E. Riedlin
Chairman

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

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

Mr İsmail Hasan Akçakayalıoğlu
Member

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

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

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

Mr Theodoor Joseph Bark
Member

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

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

In addition Mr Bark is Chairman of the Supervisory Board of Scotia Bank (Malaysia) Bhd in Malaysia since August 2013. Furthermore he is the representative of Larive International B.V., a Dutch financial consultancy in Malaysia since 2010.

Mr Hans J.Ph. Risch
Member

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

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

Dr Nurzahit Keskin
Member

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

Starting his career as a lecturer at Marmara University in 1986, he subsequently held different positions such as independent auditor, management consultant and senior executive at various national, multinational and international companies in Turkey. In 2003, Dr Keskin

became a member of the Executive Board of Türkiye Cumhuriyeti Ziraat Bankası A.Ş. and was also on the boards of this bank's several subsidiaries abroad. Since 2005, Dr Keskin has been a member of the Board of Directors of Türkiye Halk Bankası A.Ş. and joined the Supervisory Board of DHB Bank in 2008.

Mr Henk Sliedrecht
Member

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

He left KPMG for retirement in 2006. From 2006 until 2014 he was a member and from 2009 chairman of the Supervisory Board of WBV Heerjansdam, a local housing corporation. From 2008 till 2011 he was appointed as administrator in the emergency regulation of the Landsbanki office in The Netherlands. In 2011 Mr Sliedrecht joined the Supervisory Board of DHB Bank.

Mr M. Shafik Gabr
Member

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

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

Mr Süleyman Kalkan
Member

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

Mr Kalkan also served as the member of the Supervisory Board in different İşbank subsidiaries like TSKB, (The Industrial Investment Bank of Turkey, 2009-2010), Anadolu Hayat Emeklilik (Life Insurance Co., 2007-2009) and İş Faktoring (Factoring Co.,1996-1998).

Between March 2010 and March 2013, he was the CEO and General Manager of Vakifbank, one of the leading state banks of Turkey. At the same time, he was the Chairman of the Supervisory Board in Güneş Sigorta (Insurance Co.) and Vakıf International AG (Vienna), both subsidiaries of VakıfBank.

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

Managing Board

Mr Kayhan Acardağ
Senior General Manager

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

He started his career at the Board of Sworn Bank Auditors in Turkey, where he served as Sworn Bank Auditor until 1989. He joined Türkiye Halk Bankası A.Ş. in 1989 in the position of Advisor to the Chairman of the Supervisory Board, and subsequently served as Manager of the Fund Credits Department until 1993. Mr Acardağ has held various executive positions at DHB Bank since 1993 and has been a member of the bank's Managing Board since 2004, and Senior General Manager since 2010

Mr Steven W. Prins
General Manager

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

After graduation, he worked at Rabobank International, Utrecht between 1987 and 1994 first as financial analyst and subsequently as area manager in the fields of correspondent banking and trade finance. He gradually progressed to the CEO position of GE Artesia Bank, Amsterdam in 2004, subsequent to joining this bank in 1994 and after having worked at various managerial positions in the bank and being promoted in 2003 to the position of CFO and member of the Managing Board. Mr Prins joined DHB Bank in November 2013 as member of the Managing Board.

Mr Okan Balköse
General Manager

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

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

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

Senior Management

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

Ms Ayşe Çıngıl
Assistant General Manager
Corporate Loans & Credit Analysis & Credit Restructuring & Credit Underwriting and Monitoring

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

Department Heads

Compliance & Internal Control & Legal Affairs
Mr Tony Roodnat

Corporate Loans
Mr Ozan Dereli

Corporate Marketing
Ms Fulya Baran

Credit Analysis
Mr Kerem Güder

Financial Control
Mr Ercan Erdoğan

Financial Institutions
Ms Ayşın Atalay-de Jong

Forfaiting
Mr Gaspar Esteve Cuevas

General Affairs
Ms Kiraz Başaran, *Section Manager*

Human Resources
Ms Gülhan Develi, *Section Manager*

Information Security
Mr Dheeraj Katarya

Information Technology
Mr Nezih Engin

Internal Audit
Mr Diederik Geerits
(since 2 February 2015)

Operations & Documentary Credits
Ms Pınar Olierook-Türe

Planning, Coordination & Communication
Mr B. Affan Sağ

Risk Management
Mr Djono Subagjo

System Analysis & Process Improvement
Mr Fatih Teke

Treasury
Mr İrfan Çetiner

Foreign Main Branches & Representative Office

Germany
Mr Wilfried Hübner
Country Manager

Belgium
Mr René Bienfait
Country Manager

Istanbul Representative
Ms Fulya Baran

Financial Statements
for the Year 2014

Consolidated statement of financial position

As at 31 December

(in thousands of EUR)	**Notes**	**2014**	**2013***
ASSETS			
Cash and balances with central banks	4.1	102,614	120,766
Financial assets held for trading	4.2	284	25,376
Available for sale financial assets	4.3	390,463	379,810
Securities held to maturity	4.4	–	15,266
Loans and receivables – banks	4.5	415,019	328,146
Loans and receivables – customers	4.6	947,687	848,557
Derivative financial instruments – hedge accounting	4.7	–	1,801
Property and equipment	4.8	11,964	12,070
Intangible assets	4.9	245	141
Current tax assets	4.10	458	–
Deferred tax assets	4.10	7	198
Other assets	4.11	1,813	1,569
Total assets		**1,870,554**	**1,733,700**
LIABILITIES			
Due to banks	4.12	333,956	223,668
Financial liabilities held for trading	4.2	13,629	2,162
Deposits from customers	4.13	1,282,823	1,262,715
Derivative financial instruments – hedge accounting	4.7	2,707	271
Provisions	4.14	1,392	1,377
Current tax liabilities	4.15	8	2,786
Deferred tax liabilities	4.15	1,696	2,353
Other liabilities	4.16	3,914	5,756
Total liabilities		**1,640,125**	**1,501,088**
EQUITY			
Share capital	4.17	113,750	113,750
Retained earnings		103,118	94,520
Other reserves	4.18	4,189	6,237
Net profit		9,372	18,105
Total equity		**230,429**	**232,612**
Total equity and liabilities		**1,870,554**	**1,733,700**
Commitments and contingent liabilities	6.1	9,322	9,477

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

** The comparative figures have been reclassified due to the change in accounting standards for fees that are an integral part of the effective interest rate.*

Consolidated statement of profit or loss

(in thousands of EUR)	**Notes**	**2014**	**2013***
Interest income		76,685	78,898
Interest expense		(22,308)	(26,526)
Net interest income	5.1	54,377	52,372
Fee and commission income		3,156	3,010
Fee and commission expense		(356)	(429)
Net fee and commission income	5.2	2,800	2,581
Result on financial transactions	5.3	(18,355)	(11,229)
Result on hedge transactions	5.4	108	(100)
Other operating income	5.5	344	11
Total operating income		39,274	43,635
Administrative expenses:			
• Staff expenses	5.6	(12,374)	(11,193)
• Other administrative expenses	5.7	(7,196)	(5,319)
		(19,570)	(16,512)
Depreciation and amortization		(535)	(504)
Total operating expense		(20,105)	(17,016)
Operating profit before impairment		19,169	26,619
Net impairment charge	5.8	(6,013)	(2,781)
Total expense		(26,118)	(19,797)
Operating profit before tax		13,156	23,838
Income tax expense	5.9	(3,784)	(5,733)
Net profit		**9,372**	**18,105**
Earnings per share			
Basic		0.0375	0.0724
Diluted		0.0375	0.0724

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

** The comparative figures have been reclassified due to the change in accounting standards for fees that are an integral part of the effective interest rate.*

Consolidated statement of changes in equity

The movements in equity are as follows:

(in thousands of EUR)

	Share capital	Retained earnings	Revaluation reserve	Legal reserve	Defined benefit obligation reserve	Cash Flow hedge reserve	Fair value reserve	Consolidated net profit	Total
At January 1, 2013	**113,750**	**85,337**	**2,579**	**–**	**(191)**	**364**	**6,173**	**17,877**	**225,889**
Appropriation of prior year net profit	–	8,774	–	–	–	–	–	(8,774)	**–**
Effect IAS 19	–	328	–	–	–	–	–	(328)	**–**
Change in revaluation reserve	–	–	365	–	–	–	–	–	**365**
Change in defined benefit obligation reserve	–	–	–	–	236	–	–	–	**236**
Change in cash flow hedge reserve	–	–	–	–	–	(336)	–	–	**(336)**
Change in fair value reserve	–	–	–	–	–	–	(2,872)	–	**(2,872)**
Net profit for the year	–	–	–	–	–	–	–	18,105	**18,105**
Total comprehensive income	**–**	**–**	**365**	**–**	**236**	**(336)**	**(2,872)**	**18,105**	**15,498**
Transactions with owners, recorded directly in equity									
Transfer to / from retained earnings	–	81	(81)	–	–	–	–	–	**–**
Dividends paid	–	–	–	–	–	–	–	(8,775)	**(8,775)**
At December 31, 2013	**113,750**	**94,520**	**2,863**	**–**	**45**	**28**	**3,301**	**18,105**	**232,612**

	Share capital	Retained earnings	Revaluation reserve	Legal reserve	Defined benefit obligation reserve	Cash Flow hedge reserve	Fair value reserve	Consolidated net profit	Total
At January 1, 2014	**113,750**	**94,520**	**2,863**	**–**	**45**	**28**	**3,301**	**18,105**	**232,612**
Appropriation of prior year net profit	–	9,052	–	–	–	–	–	(9,052)	**–**
Change in revaluation reserve	–	–	96	–	–	–	–	–	**96**
Change in defined benefit obligation reserve	–	–	–	–	(585)	–	–	–	**(585)**
Change in cash flow hedge reserve	–	–	–	–	–	(28)	–	–	**(28)**
Change in fair value reserve	–	–	–	–	–	–	(1,983)	–	**(1,983)**
Net profit for the year	–	–	–	–	–	–	–	9,372	**9,372**
Total comprehensive income	**–**	**–**	**96**	**–**	**(585)**	**(28)**	**(1,983)**	**9,372**	**6,872**
Transactions with owners, recorded directly in equity									
Transfer to / from retained earnings	–	(454)	(88)	–	540	–	–	–	**–**
Dividends paid	–	–	–	–	–	–	–	(9,053)	**(9,053)**
At December 31, 2014	**113,750**	**103,118**	**2,871**	**–**	**–**	**–**	**1,318**	**9,372**	**230,429**

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

Consolidated statement of comprehensive income

(in thousands of EUR)	**2014**	**2013**
Net profit	9,372	18,105
Items that are or may be reclassified to the income statement		
Cash flow hedge reserve	(28)	(336)
Fair value reserve	(1,983)	(2,872)
Items that will never be reclassified to the income statement		
Revaluation reserve	96	365
Defined benefit obligation reserve	(585)	236
Other comprehensive income	**(2,500)**	**(2,607)**
Total comprehensive income for the year	**6,872**	**15,498**
Attributable to:		
• owners of the parent	6,872	15,498
• non-controlling interest	–	–
Total comprehensive income for the year	**6,872**	**15,498**

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

Consolidated cash flow statement

(in thousands of EUR)		**2014**	**2013***
Cash flows from operating activities			
Net profit for the period		9,372	18,105
Adjustments for noncash items included in profit:			
Depreciation and amortization for property and equipment	4.8	471	476
Depreciation and amortization for intangible assets	4.9	64	28
Net impairment charge on financial assets	5.8	6,054	2,851
Net impairment charge on tangible assets	5.8	(41)	(70)
Provisions	4.14	15	(453)
IAS19R pension settlement	5.6	(540)	–
Income tax expense	5.9	3,784	5,733
Changes in operating assets:			
Financial assets held for trading	4.2	25,092	(21,599)
Loans and receivables – banks	4.5	(86,954)	85,991
Loans and receivables – customers	4.6	(105,265)	(97,876)
Derivative financial assets – hedge accounting	4.7	1,801	(1,231)
Income tax assets and other assets	4.10, 4.11	(511)	6,632
Changes in operating liabilities:			
Due to banks	4.12	110,288	12,209
Deposits from customers	4.13	20,108	(70,908)
Financial liabilities held for trading	4.2	11,439	(10,284)
Derivative financial liabilities – hedge accounting	4.7	2,436	(2,173)
Income tax liabilities and other liabilities	4.15, 4.16	(5,381)	(13,920)
Income tax paid		(3,890)	(3,026)
Net cash used in operating activities		**(11,658)**	**(89,515)**
Cash flows from investing activities			
Additions to financial investments	4.3, 4.4	(325,573)	(320,030)
Disposals and redemptions of financial investments	4.3, 4.4	328,365	420,485
Investments in property and equipment	4.8	(362)	(246)
Investments in intangible assets	4.9	(168)	(118)
Disposal of property and equipment	4.8	297	5
Net cash from investing activities		**2,559**	**100,096**
Cash flows from financing activities			
Dividends paid	5.10	(9,053)	(8,775)
Net cash used in financing activities		**(9,053)**	**(8,775)**
Net (decrease)/increase in cash and cash equivalents		(18,152)	1,806
Cash and balances with central banks at 1 January		120,766	118,959
Cash and balances with central banks at 31 December	**4.1**	**102,614**	**120,766**
Operational cash flows from interest			
Interest received		79,713	79,016
Interest paid		(22,863)	(30,121)

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

Notes to the consolidated financial statements

1. Corporate information

Demir-Halk Bank (Nederland) N.V. is a limited company incorporated and domiciled in the Netherlands. Its registered office is at Parklaan 8, 3016 BB 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 financial position of the bank is related to the economic developments in Turkey, CIS countries 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 Compliance status

The consolidated financial statements of DHB Bank and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (EU-IFRS), as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU) and in accordance with accounting principles in The Netherlands as embodied in Part 9 of Book 2 of the Netherlands Civil Code.

The consolidated financial statements for the year ended December 31, 2014 were authorized for issue in accordance with a resolution of the Managing Board, the Supervisory Board and the General Meeting of Shareholders on April 10, 2015.

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

2.2 Basis of measurement

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

2.3 Functional and presentation currency

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

3. Summary of significant accounting policies

3.1 Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities, income and expenses of DHB Bank and its subsidiary Best CreditLine B.V.. Stichting DHB Bewaarfonds, a minor subsidiary of DHB Bank, was legally liquidated in 2014. In accordance with EU-IFRS the company income statement is also presented in an abbreviated form to show company results and results of subsidiaries.

Subsidiaries

Subsidiaries are entities controlled by DHB Bank. The bank '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 bank having power over an investee.

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

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

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

3.2 Foreign currency translation

Transaction and balances

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

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

Foreign operations

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

3.3 Significant accounting estimates

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

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

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

These items are explained in related sections.

3.4 Financial instruments – recognition and subsequent measurement

Recognition date

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

Initial recognition of financial instruments

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

Measurement of financial instruments

Financial instruments are measured at amortized cost or fair value.

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

Following IFRS 13, the bank defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants 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.

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

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

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

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

Classifications of financial instruments

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

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

b. Loans and receivables:

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

c. Securities held to maturity:

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

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

d. Available for sale financial assets:

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

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

e. Derivative financial instruments – Hedge accounting

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

Fair value hedges

DHB Bank applies fair value hedge accounting to the interest rate risk and/or the foreign exchange risk arising from financial instruments at available-for-sale or at amortized costs with fixed interest rates. Interest rate swaps and/or cross-currency interest rate swaps are used as hedging instruments.

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

Cash flow hedges

Cash flow hedging is applied to hedge the variability arising on expected future cash flows due to interest rate risk on USD denominated available for sale securities with floating interest rates. As interest rates fluctuate, the

future cash flows on these instruments also fluctuate. DHB Bank uses cross-currency swaps to hedge the risk of such cash flow fluctuations.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity under the item 'cash flow hedge reserve'. The hedged item, which is designated as part of a cash flow hedge, does not change as far as the administrative processing is concerned. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects net result. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when a hedging instrument expires or is sold.

f. Other financial liabilities

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

3.5 Derecognition of financial assets and liabilities

Financial assets

DHB Bank derecognizes a financial asset when:

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

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

Financial liabilities

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

Offsetting financial assets and financial liabilities

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

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

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

3.6 Impairment of financial assets

DHB Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include one or more of the following indications:

- The borrower has been placed in bankruptcy leading to the avoidance or delays in the repayments regarding the financial assets;
- The borrower has failed the repayment of principal, interest or fees and the payment problem remained unsolved for a certain period;
- The borrower's credit quality has deteriorated and the estimated cash flows in the related financial assets are negatively impacted. Triggers for impairment include, but not limited to, elements such as negative equity and regular payment problems. They could – but do not necessarily - result in the borrower being classified as impaired.

(i) Loans and receivables due from banks and customers

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Loans together with the associated allowance accounts are written off when there is no realistic prospect of future recovery and the collateral has neither been realized nor transferred to DHB Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. When any part of a claim is deemed uncollectible or forgiven, a write-off is charged to the allowance account. When a write-off is later recovered, the recovery is recognised in the income statement.

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

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

(ii) Held to maturity financial investments

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

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

(iii) Available for sale financial assets

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

Interest based on market rates is accrued at the effective yield on the reduced carrying amount of the asset and is recorded as part of interest income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

3.7 Cash and cash equivalents

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

3.8 Repurchase and reverse repurchase transactions

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

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

3.9 Property and equipment

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

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

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

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

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

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

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

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

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

3.10 Intangible assets

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

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

3.11 Impairment of non-financial assets

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

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

3.12 Provisions

Provisions mainly consist of provisions for variable remuneration and restructuring provision for a closed branch.

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.

In 2014, DHB adopted a variable remuneration plan that is comprised of cash component (50%) and non-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 cash component) and three equal instalments to be paid in succeeding three years.

The non-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 equity value. The non-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 recognised as a staff expense over the vesting period with a corresponding rise in liability, which is recorded under 'Provisions'. The fair value of the liability is re-measured at each balance sheet date and its adjustment is recognized in income statement under item 'Staff expenses'.

Restructuring provisions are recognised as estimated cash outflow when DHB Bank has approved a detailed and formal restructuring plan, and the restructuring either has started or announced publicly.

3.13 Income taxes

Current tax

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

Deferred income tax

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

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

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

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

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

3.14 Recognition of income and expenses

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

a) Interest income and expense

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

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

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

b) Fee and commission income

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

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

c) Result on financial transactions

Result on financial transactions comprises the following items:

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

d) Result on hedge transactions

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement together with changes in the fair value of the hedged items attributable to the hedged risks.

Fair value hedge ineffectiveness within the 80% - 125% bandwidth is recognised in the income statement through the actual hedge adjustment. Ineffectiveness outside the 80% - 125% bandwidth is recognised 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.

When a derivative financial instrument hedges the exposure to variability in the cash flows from a hedged item, the effective part within the 80% - 125% bandwidth of any gain or loss on re-measurement of the hedging instrument is recognised directly in equity. Hedge ineffectiveness for cash flow hedges is measured as the amount by which the changes in the fair value of the derivative are in excess of changes in the fair value of the expected cash flow in the cash flow hedge. The gain or loss relating to the ineffective portion is recognised in the profit and loss account immediately.

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

3.15 Equity components

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

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

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

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

Fair value reserve
In this component gains and losses arising from a change in the fair value of available for sale assets are recognised, net of taxes, 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 recognised in equity is transferred to the income statement.

3.16 Cash flow statement

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

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

3.17 New standards and interpretations adopted

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

- ***Amendments to IAS 19 (Defined Benefit Plans Employee Contributions)***

  Based on IAS 19 an entity is required to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. If the amount of the contributions is independent of the number of years of service, an entity is allowed to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014.

  This amendment has no impact to DHB Bank, since the bank has no active participants under defined benefit plan.

- ***Amendments to IAS 32 (Offsetting financial assets and financial liabilities)***

  Based on IFRS 7 amendments an entity is required to disclose information about rights of set-off and related arrangements (e.g., collateral agreements), which is useful information in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures apply for all recognised financial instruments that are set off in accordance with IAS 32 (Financial Instruments: Presentation). Additionally also should be disclosed recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32.

  The amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right to set-off". The application of the IAS 32 offsetting criteria with respect to settlement systems (such as central clearing house systems), which apply gross settlement mechanisms that are not simultaneous, are also clarified.

  The IAS 32 amendments clarify that rights of set-off must be legally enforceable in the normal course of business and also in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The rights of set-off must not be contingent on a future event.

  The amendments to IAS 32 are effective beginning on or after 1 January 2014 and required presentation and disclosure has been applied accordingly.

- ***Amendments to IAS 39 (Novation of Derivatives and Continuation of Hedge Accounting)***

  The amendments clarify in which circumstances it is no more required to discontinue hedge accounting in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument.

  The amendments cover the following novations:
  - That arise as a consequence of laws or regulations, or the introduction of laws or regulations
  - In which the parties to the hedging instrument agree that one or more clearing counterparties replace the original counterparty to become the new counterparty to each of the parties
  - That did not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing

  If all of the above criteria are not met the hedge accounting must be discontinued.

  The amendments must be applied retrospectively. Amendments to IAS 39 are effective for annual periods beginning on or after 1 January 2014.

  These amendments do not have any impact to DHB Bank.

- ***IFRS10: Consolidated Financial Statements, IFRS 11: Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities)***

  IFRS 10 introduces a single control model which applies to all investees to determine the scope of consolidation. An investor controls an investee when it is exposed, 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. The objective of IFRS 11 is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements). IFRS 11 defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement. IFRS 12 introduces a single disclosure standard for subsidiaries, joint arrangements, associates and structured entities within a comprehensive disclosure standard.

  IFRS 10, 11 and 12 are effective for annual periods beginning on or after 1 January 2014.

  DHB Bank has reviewed the effects of these new standards before adoption and noted that the adoption of IFRS 10 and 12 has no significant effect on the financial statements. IFRS 11 is not applicable to DHB Bank as it does not hold interest in arrangements that are jointly controlled.

- ***IFRIC 21 (Levies)***

  In IFRIC 21 a levy is defined as an outflow from an entity imposed by a government in accordance with legislation. The interpretation clarifies that an entity should recognize a liability for a levy only when the triggering event specified in the legislation occurs. The interpretation does not clarify the debit side of the accounting that arises from recognising a liability to pay a levy. Entities look to other standards to decide whether an assets item or an expense item should be debited for the recognition of a liability to pay a levy.

  IFRIC 21 is effective beginning on or after 1 January 2014. The changes are applied retrospectively and have no material impact on DHB Bank.

3.18 New standards and interpretations not yet adopted

Many new standards, amendments to standards and interpretations are not yet effective, or have not been endorsed by the EU, for the year ended December 31, 2014, and have not been applied in preparing these consolidated financial statements.

- ***IFRS 9 (Financial Instruments)***

  In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments and reflects all phases of the financial instruments project. IFRS 9 replaces IAS 39 (Financial Instruments: Recognition and Measurement) and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015.

  DHB Bank started the process of evaluating the potential effect of this standard. This new standard will be adopted when they become effective.

- ***Amendments to IFRS 10, IFRS 12 and IAS 28 (Investment Entities)***

  The investment entities amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. These amendments are effective for annual periods beginning on or after 1 January 2016 and have no impact on DHB Bank.

- ***Amendments to IFRS 11 (Accounting for Acquisitions of Interests in Joint Operations)***

  The amendments to IFRS 11 require that an entity after the acquisition of an interest in a joint operation must apply the relevant IFRS 3 principles for business combinations accounting. Entities are required to disclose information in relation to business combinations. IFRS 11 is effective for annual periods beginning on or after 1 January 2016.

  These amendments do not have any impact to DHB Bank.

- ***IFRS 14 (Regulatory Deferral Accounts)***

  IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016.

  Since DHB Bank is an existing IFRS preparer, this standard would not apply.

- ***IFRS 15 (Revenue from Contracts with Customers)***

  IFRS 15 applies to all revenue arising from contracts with customers. IFRS 15 replaces all existing revenue requirements (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services). The standard gives guidelines that an entity must apply to measure and recognise revenue. Additionally it gives a model for the recognition and measurement of sales of some non-financial assets including disposals of property, equipment and intangible assets. IFRS 15 is effective for annual periods beginning on or after 1 January 2016.

  DHB Bank started the process of evaluating the potential effect of this standard.

- ***Amendments to IAS 16 and IAS 38 (Clarification of Acceptable Methods of Depreciation and Amortisation)***

  These amendments clarify the principle in IAS 16 (Property, Plant and Equipment) and IAS 38 (Intangible Assets) that revenue should reflect a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. Within this respect, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and can only be used in very limited circumstances to amortise intangible assets. This means that entities that are currently using revenue-based amortisation methods for property, plant and equipment have to change their current amortisation approach to an acceptable method that results in a different amortisation pattern.

  Amendments to IAS 16 and IAS 38 are effective prospectively for annual periods beginning on or after 1 January 2016.

- ***Amendments to IAS 27 (Equity Method in Separate Financial Statements)***

When IAS 27 and IAS 28 were revised in 2003, the equity method was removed as an option to account for investments in subsidiaries and associates in an entity's separate financial statements. In some jurisdictions, local regulations require an entity to use the equity method for this purpose, therefore creating a difference between separate financial statements prepared in accordance with local GAAP and those prepared in accordance with IFRS. The objective of these amendments is to restore the option to use the equity method.

Amendments to IAS 27 are effective prospectively for annual periods beginning on or after 1 January 2016. DHB Bank is currently assessing the impact on its financial statements.

4. Balance sheet

4.1 Cash and balances with central bank

	2014	2013
Cash in hand	120	660
Balances with central banks	102,494	120,106
Total	**102,614**	**120,766**

This item includes all legal tender, as well as demand deposits held at the central bank in countries in which DHB Bank is established. Balances with central bank include reserve deposits which are not available in daily operations amounting to 10,370 (2013: 10,062).

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

4.2 Financial assets and liabilities held for trading

The following table show the financial assets and liabilities held for trading as of December 31, 2014 and 2013:

	2014		2013	
	Fair value	**Notional**	**Fair value**	**Notional**
Financial assets held for trading				
Forwards	–	–	466	8,299
Currency swaps	126	17,062	19,146	395,642
Interest rate swaps	158	6,387	–	–
Cross currency swaps	–	–	2,403	48,148
Debt securities issued by banks	–	–	3,361	3,716
Total	**284**	**23,449**	**25,376**	**455,805**
Financial liabilities held for trading				
Forwards	–	–	451	8,299
Currency swaps	9,951	254,174	837	66,608
Interest rate swaps	299	29,387	176	23,000
Cross currency swaps	3,379	44,164	698	47,190
Total	**13,629**	**327,725**	**2,162**	**145,097**

The assets and liabilities held for trading mainly relate to derivatives positions to hedge financial risks, which are not qualifying as hedging instrument in accounting sense.

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

When fair value of derivatives is positive (negative), both fair value and corresponding notional amounts are reported as assets (liabilities). In 2014 the notional amounts of derivatives decreased by 250 million and the fair valuation showed significant movement against DHB Bank notably due to appreciation of the USD.

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

4.3 Available for sale financial assets

	2014	2013
Available for sale financial assets		
Debt securities issued by banks	358,262	354,239
Debt securities issued by corporates	26,328	14,823
Government (Euro)bonds	5,873	–
Syndicated bank loans	–	10,905
Subtotal	**390,463**	**379,967**
IBNR allowances for impairment	–	(157)
Total	**390,463**	**379,810**

From the available for sale financial assets 360,112 (2013:260,682) are under custody with DNB, of which 241,717 (2013:167,552) is pledged for total funding 221,222 (2013:152,130) obtained from the ECB under the (Targeted) Long Term Refinancing Operations and in the form of short term repo borrowings. The remaining available for sale financial assets of 148,746 (2013:212,435) is freely available.

The pledged transactions are conducted in accordance with the general terms and conditions of DNB.
There are no subordinated available for sale financial assets.

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

	2014	2013
At January 1	**379,810**	**449,767**
Purchases	328,275	324,862
Sales	(237,062)	(207,929)
Redemptions	(77,431)	(175,000)
FX revaluations	(5,460)	(2,238)
Market value revaluations	2,174	(9,876)
Allowances for impairment	157	224
At December 31	**390,463**	**379,810**

4.4 Securities held to maturity

	2014	2013
Securities held to maturity		
Debt securities issued by banks	–	5,139
Debt securities issued by corporates	–	10,132
Subtotal	**–**	**15,271**
IBNR allowances for impairment	–	(5)
Total	**–**	**15,266**

There are no securities held to maturity used for repo transactions (2013: None).
There are no subordinated securities held to maturity in 2014 (2013: None).

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

	2014	2013
At January 1	**15,266**	**48,346**
Purchases	–	4,942
Sales	(13,340)	(41)
Redemptions	(532)	(37,515)
FX revaluations	(3)	(782)
Changes in accrued interest and (dis)agio	(1,396)	238
Allowances for impairment	5	78
At December 31	**–**	**15,266**

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

In the first quarter of 2014, a significant portion of securities in the HTM portfolio were sold as a proactive response to geo-political developments in Ukraine and Russia; this sale did not cause tainting thanks to its non-recurring aspect. The loss due to the sale of securities in HTM portfolio at unfavourable market rates amounted to 22 in total.

4.5 Loans and receivables - banks

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

	2014	2013
Money market placements	19,139	9,194
Other loans and receivables	396,127	319,163
Subtotal	**415,266**	**328,357**
Specific allowances for impairment	–	(45)
IBNR allowances for impairment	(247)	(166)
Total	**415,019**	**328,146**

The item 'Loans and receivables – banks' includes pledged funds amounting to 16,036 (2013: 2,561) which serve as a collateral for several swap transactions for the entire amount (2013: 1,061). These pledged fund transactions are conducted under terms based on the applicable ISDA Collateral Guidelines and CSA terms.

Placements with 'Other loans and receivables' include the interest-free loan given to the Dutch Central Bank (DNB) in relation to DSB Bank amounting to 3,725 (2013: 8,401).

There are no subordinated loans and receivables granted to banks.

4.6 Loans and receivables - customers

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

	2014	2013
Retail loans	45,734	33,455
Commercial loans	919,412	825,977
Subtotal	**965,146**	**859,432**
Specific allowances for impairment	(16,824)	(9,910)
IBNR allowances for impairment	(635)	(965)
Total	**947,687**	**848,557**

There are no subordinated loans and receivables granted to customers.

4.7 Derivative financial instruments - Hedge accounting

DHB Bank holds derivative financial instruments for general risk management purposes as at 31 December 2014 and 31 December 2013.

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

	2014			2013		
	Notional	Fair values		Notional	Fair values	
	amounts	Positive	Negative	amounts	Positive	Negative
Interest rate swaps						
Fair value hedges	29,092	–	2,707	1,971	1,230	271
Cash flow hedges	–	–	–	745	571	–
Total	**29,092**	**–**	**2,707**	**2,716**	**1,801**	**271**

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

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

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

31 December 2014	Within 1 year	1-5 years	Over 5 years
Cash inflows	3,198	11,314	–
Cash outflows	–	–	–
Total	**3,198**	**11,314**	**–**

During 2014 the equity item 'Cash flow hedge reserve' decreased by 28 (2013: decreased by 336) relating to the effective portion of cash flow hedges.

4.8 Property and equipment

The changes in book value of property and equipment in 2014 and 2013 are as follows:

	Buildings	Other fixed assets	Total
Balance at January 1, 2014	**11,766**	**304**	**12,070**
Investments	210	152	**362**
Divestments	(253)	(44)	**(297)**
Depreciation	(343)	(128)	**(471)**
Revaluation	259	–	**259**
Reversal of impairment	41	–	**41**
Balance at December 31, 2014	**11,680**	**284**	**11,964**
Cost	14,306	6,050	**20,356**
Cumulative depreciation and impairment	(7,428)	(5,766)	**(13,194)**
Cumulative revaluations	4,802	–	**4,802**
Total	**11,680**	**284**	**11,964**

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

The real estate consists of office premises located in Rotterdam, Düsseldorf, Brussels and Antwerp and are latest appraised separately by independent experts as per December 31, 2014. The total market value of all the premises amounted to 11,680 (2013: 11,766).

The divestment in 2014 relates to the sale of real estate in the Hague as a result of the closure of the respective branch.

The reversal of impairment amounting to 41 (2013: 70) relates to the positive revaluation of our office premises located in Düsseldorf.

DHB Bank does not have any restrictions on title, and property, plant and equipment pledged as security for liabilities (2013: none).

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

4.9 Intangible assets

The changes in book value of intangibles are as follows:

	2014	2013
Balance at January 1	**141**	**51**
Investments	168	118
Amortization	(64)	(28)
Balance at December 31	**245**	**141**
Cost	4,523	4,475
Cumulative amortization	(4,278)	(4,334)
Total	**245**	**141**

This item mainly includes licences. The investment amounting to 168 relates to licence expenses for software.

4.10 Income tax assets

	2014	2013
Current tax assets	458	–
Deferred tax assets	7	198
Total	**465**	**198**

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 and concern depreciation of fixed assets in Germany and employee benefits.

The movements in deferred tax assets are as follows in 2014:

	Balance at January 1	Recognized in income statement	Recognized in other comprehensive income	Balance at December 31
Property and equipment – Real estate valuation	28	(21)	–	7
Employee benefits	170	(350)	180	–
Total	**198**	**(371)**	**180**	**7**

4.11 Other assets

	2014	2013
Prepayments	1,602	964
Other receivables	211	605
Total	**1,813**	**1,569**

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

4.12 Due to banks

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

	2014	2013
Current accounts	2,972	2,287
Time deposits	328,510	201,964
Syndication loan	2,474	19,099
Other	–	318
Total	**333,956**	**223,668**

Majority of the balance represents funds obtained through repo transactions amounting to 221,222 (2013: 152,130). This item also includes pledged deposit amounting to 45,000 (2013: 35,061) which serve as collateral for a bank loan granted by DHB Bank.

4.13 Deposits from customers

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

	2014	2013
Current accounts	20,195	34,455
Saving accounts	702,554	689,669
Time deposits	560,074	538,591
Total	**1,282,823**	**1,262,715**

This item includes pledged deposits amounting to 42,115 (2013: 27,137) 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:

	2014	2013
Employee benefits pensions	–	680
Employee benefits others	1,039	–
Onerous contracts	73	697
Restructuring	280	–
Total	**1,392**	**1,377**

Employee benefits pensions

DHB Bank had both defined benefit and defined contribution pension plans in the previous years. In the current year all the active employees agreed to change their pension plan to defined contribution plan by which there is no more basis to have a provision for employee benefits in 2014 and it is therefore released as settlement. Expenses related with defined contribution plan are directly recognised under staff cost and no provisions are set aside.

The amounts recognised in the balance sheet are as follows:

	2014	2013
Present value of total defined benefit obligation	–	5,619
Fair value of plan assets	–	(4,939)
Present value of net obligations	–	**680**

The pension expense recognised in the income statement is calculated as follows:

	2014	2013
Current service cost	(165)	(216)
Interest cost	(219)	(212)
Expected return on plan assets	191	181
Administration cost	(9)	(13)
Effect settlement	1,528	–
Net periodic gain/ (cost)	**1,326**	**(260)**

The change in net pension provisions can be summarized as:

	2014	2013
Defined benefit liability at January 1	5,619	6,396
Net periodic actuarial gain/(losses)	546	(1,172)
Current service and interest costs	384	428
Benefits paid by the plan	(32)	(33)
Effect settlement	(6,517)	–
Defined benefit liability at December 31	**–**	**5,619**

	2014	2013
Fair value of plan assets at January 1	4,939	5,529
Net periodic actuarial gain/(losses)	(220)	(857)
Return on assets	191	181
Costs	(9)	(13)
Contribution benefits	120	131
Benefits paid by the plan	(32)	(32)
Effect settlement	(4,989)	–
Fair value of plan assets at December 31	**–**	**4,939**

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

	2014	2013
Discount rate at December 31	2.37%	3.79%
Social security increases	1.50%	1.50%
Pension increases active participants	0.00%	0.00%
Pension increases other participants	0.00%	1.50%
Expected return on plan assets	2.37%	3.79%
Collective salary increases	1.50%	1.50%
Individual salary increase average	1.50%	1.50%
Pensionable age	67	67

For the fiscal year the discount rate was decreased from 3.79% to 2.37% to reflect the developments on the capital markets. On the other side the expected return on plan assets has also decreased from 3.79% to 2.37%. Fluctuation rates are based on the average rates in The Netherlands depending on participant's age.

Employee benefits others

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

	2014	2013
Opening balance	–	–
Addition	1,039	–
Closing balance	**1,039**	**–**

The balance mainly consists of provisions for variable remunerations related to 2014 (700) and 2013 (297.5). The total amount of the latter was 500 as of year-end 2013 and reported under other liabilities.

Onerous contracts

Provision for onerous rental contract mainly relates to the rent obligations of closed branch in London. The lease contract on the London Office, whose original maturity was October 2015, was ended in 2014 under agreement with the landlord, without any remaining obligation for the bank. On the other hand, the bank set aside in 2014 a provision for the liabilities under the rent contract of Rotterdam branch. The movements of the provision for onerous rental contracts are as follows:

	2014	2013
Opening balance	697	1,278
Addition	73	9
Utilization	(541)	(557)
Release	(156)	–
Exchange rate movement	–	(33)
Closing balance	**73**	**697**

Restructuring

Restructuring provision relates to the expected payments for the closure of the Rotterdam branch in 2015.

	2014	2013
Opening balance	–	–
Addition	280	–
Closing balance	**280**	**–**

4.15 Income tax liabilities

	2014	2013
Current tax liabilities	8	2,786
Deferred tax liabilities	1,696	2,353
Total	**1,704**	**5,139**

Current tax liabilities include payables due, to tax authorities.

According to our accounting policies all other comprehensive income items under equity must be presented net of tax effect. If these equity items show positive balance, the tax effect has to be shown under deferred tax liabilities. The deferred tax liabilities are partly released in 2014 mainly because of sale and redemption of available-for-sale financial assets.

The movements in deferred tax liabilities are as follows in 2014:

	Balance at January 1	Recognized in income statement	Recognized in other comprehensive income	Balance at December 31
Property and equipment – Real estate valuation	1,243	(25)	39	1,257
Fair value reserve	1,101	–	(662)	439
Cash flow hedge reserve	9	–	(9)	–
Total	**2,353**	**(25)**	**(632)**	**1,696**

4.16 Other liabilities

	2014	2013
Accrued expenses	1,747	2,894
Payables to suppliers	173	355
Other payables	1,994	2,507
Total	**3,914**	**5,756**

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

4.17 Share capital

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

4.18 Other reserves

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

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

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

5. Income Statement

5.1 Net interest income

	2014	2013
Interest income from:		
Cash and balances with central banks	17	54
Financial assets held for trading	–	139
Available for sale financial assets	6,749	12,859
Securities held to maturity	93	1,526
Loans and receivables – banks	9,924	12,120
Loans and receivables – customers	59,902	52,164
Other interest income	–	36
Subtotal	**76,685**	**78,898**
Interest expense from:		
Due to banks	1,176	1,626
Deposits from customers	20,796	24,629
Derivative financial instruments	275	271
Other interest expense	61	–
Subtotal	**22,308**	**26,526**
Total	**54,377**	**52,372**

Derivative financial instruments are the net amount of interest received and paid regarding derivatives used for hedge accounting.

5.2 Net fee and commission income

	2014	2013
Letter of guarantees	32	60
Letter of credits	235	231
Cash loan	1,702	1,343
Banking services	1,148	1,317
Other fees and commissions	39	59
Subtotal	**3,156**	**3,010**
Fee and commission expense	356	429
Total	**2,800**	**2,581**

5.3 Result on financial transactions

	2014	2013
Results from foreign currency exchange transactions	(451)	549
Results from securities transactions	2,760	7,506
Results from derivatives transactions	(20,664)	(19,284)
Total	**(18,355)**	**(11,229)**

'Results from foreign currency exchange transactions' comprises all (un)realized gains and losses arising from foreign currency positions in relation to exchange rate changes. Foreign currency positions generally relate to assets, liabilities or derivative transactions. The mentioned gains and losses show the total result without indicating the underlying position.

'Results from securities transactions' are (un)realized fair value gains and losses of debt securities held for trading. In this item are also included the amounts transferred from equity to the income statement on the sale of available for sale financial assets.

'Results from derivatives transactions' reflect fair value results on FX swap and cross currency swap transactions, with exception of the foreign currency effects on the result, that is included in the abovementioned subline item 'Result from foreign currency exchange transactions', which are concluded to fund loans and receivables in other currencies, mainly USD and TRY. The differences between their spot rates and forward rates are amortized daily and recognized through the lifetime of the respective transactions.

5.4 Result on hedge transactions

	2014	2013
Results from hedge transactions	108	(100)

'Results from hedge transactions' comprise the gains and losses from:	2014	2013
• fair value hedges on the hedging instrument	(3,177)	2,648
• fair value hedges on the hedged item	3,285	(2,748)
Total	**108**	**(100)**

These results are related to the fair value hedges. DHB Bank applies fair value hedge accounting to the interest rate risk and/or the foreign exchange risk arising from financial instruments at available-for-sale or at amortized costs with fixed interest rates. DHB Bank uses interest rate swaps and cross currency swaps as a hedging instrument.

5.5 Other operating income

	2014	2013
Other operating income	344	11

Other operating income consists of non-recurring income items, such as the income from sale of real estate of the Hague branch.

5.6 Staff expenses

	2014	2013
Wages and salaries	10,569	8,430
Pension costs	(99)	1,047
Other social security costs	1,446	1,395
Other staff costs	458	321
Total	**12,374**	**11,193**

The current number of full-time equivalents in 2014 was 135 (2013: 136)

	2014	2013
• In The Netherlands	88	91
• Outside The Netherlands	47	45
Total	**135**	**136**

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. In 2014 all the active employees, who were in the defined pension benefit plan, agreed to change their plan into defined contribution plan, by which there is no more basis to have a provision for employee benefits in 2014. This provision is released as settlement from pension costs, which explains the negative amount for 2014. Further reference is made to note 4.14.

The fixed remuneration (including pension costs) of the members of the Managing Board amounted to 1,427 (2013: 634) and variable remuneration to 400 (2013: 150) in 2014. No expense is included in 2014 (2013: 46) in relation to the crisis tax of 16%, as it was abolished in 2014.

5.7 Other administrative expenses

	2014	2013
Other administrative expenses	7,196	5,319

Other administrative expenses refer to operational expenses incurred during the year. Major items in other administrative expenses are the communication expenses, external service expenses and maintenance expenses. In 2014 this item also includes released provision amount regarding DSB Bank.

With the nationalisation of SNS REAAL N.V. DHB Bank paid a one-time levy in 2014 amounting to 2.8 million according to the bank's market share in retail deposits like all other Dutch banks.

The expenses of the current and former members of the Supervisory Board amounted to 313 (2013: 314) in 2014, of which 250 (2013: 250) relates to the fixed remuneration and 63 (2013: 64) relates to the reimbursements of expenses.

This item also includes the expenses for audit and tax advisory services:

	2014	2013
Financial audit expenses	223	184
Tax advisory services	50	83
Total	**273**	**267**

5.8 Net impairment charge

	2014	2013
Available for sale assets	(157)	(224)
Held to maturity assets	(5)	(66)
Loans and receivables	6,216	3,141
Property and equipment	(41)	(70)
Total	**6,013**	**2,781**

5.9 Taxation

The Netherlands
Corporate income tax is levied at the rate of 25% (2013: 25%) on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2014. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies.

Germany
Profit is subject to trade tax, which is calculated based on rate of the local city. Trade tax is not deductible for the calculation of corporate tax at a statutory rate of 25%. The statutory solidarity tax is 5.5% on corporate tax. The effective tax rate is estimated at 30.92%.

Belgium
The statutory tax rate is 33.99% in Belgium consisting of basis tax rate of 33% and an additional tax called 'Crisis Tax' at a rate of 3%. The effective tax rate is estimated at 1.22%, which is lower than statutory tax rate because of notional interest deduction facility in Belgium.

Reconciliation of effective tax rate	%	2014	%	2013
Profit before income tax		13,156		23,838
Income tax using the domestic corporation tax rate	(25.00%)	(3,289)	(25.00%)	(5,960)
Effect of tax rates in foreign jurisdictions	(1.13%)	(149)	(0.20%)	(47)
Non-deductible expenses / tax exempt items	(2.64%)	(347)	0.90%	214
Other	0.01%	1	0.25%	60
Total	**(28.76%)**	**(3,784)**	**(24.05%)**	**(5,733)**

Income tax expense recognized in income statement	2014	2013
Current income tax expense	(3,439)	(6,004)
Deferred income tax expense	(345)	271
Total	**(3,784)**	**(5,733)**

Income tax related to components of other comprehensive income	2014	2013
Revaluation reserve	(39)	(171)
Defined benefit obligation reserve	–	(79)
Fair value reserve	9	957
Cash flow hedge reserve	661	112
Total	**631**	**819**

5.10 Dividends paid

	2014	2013
Dividends declared and paid	4,686	9,053
Dividend paid per ordinary share	0.0187	0.0362

Dividend distribution is subject to no-objection decision of DNB as per the Dutch regulations.

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 income statement when the service is delivered.

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

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

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

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

	2014	2013
Non-credit substitute guarantees	2,106	3,501
Irrevocable letters of credit	7,216	5,976
Total	**9,322**	**9,477**

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

	2014	2013
The Netherlands	3,411	3,201
Turkey	975	3,085
Rest of Europe	4,936	3,191
Total	**9,322**	**9,477**

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 2014, C Group companies consist of Demir Kyrgyz International Bank, C Faktoring A.Ş., C Yatırım Holding A.Ş., HCBG Holding B.V., C International Belgium SA, C International N.V and C Real Estate LLC. Halk group companies consist of Türkiye Halk Bankası A.Ş., Halkbank AD Skopje and Halk Finansal Kiralama A.Ş.

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

Regarding the total loans to the related parties, 45,000 (2013: 35,061) is granted against cash collaterals. There are no outstanding risks in 2014 against third party promissory notes/cheques (2013: 1,498).

The outstanding balances with related parties for the year ended December 31, 2014 are as follows:

	Parent companies	**Other related parties**	**Key management and their relatives**	**Total**
Assets				
Loans and receivables – banks	50,062	12,523	–	62,585
Loans and receivables – customers	–	2,016	–	2,016
Liabilities				
Due to banks	45,140	813	–	45,953
of which received cash collaterals for loans	*45,000*	–	–	*45,000*
Deposits from customers	339	2,234	663	3,236
of which received cash collaterals for loans	–	–	–	–
Contingent liabilities				
Letter of credits	–	–	–	–
Guarantees	3	1,812	–	1,815

The income and expenses in respect of related parties included in the financial statements for the year 2014 are as follows:

	Parent companies	**Other related parties**	**Key management and their relatives**	**Total**
Interest income	530	2,634	–	3,164
Interest expense	385	123	1	509
Commission income	238	43	–	281
Commission expense	169	–	–	169

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

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

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

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

6.3 Capital adequacy

The bank manages the adequacy of its own funds and makes adjustments in light of changes in economic conditions and regulatory requirements among others by adjusting the dividend payment to shareholders. The own funds is adequate to cover the credit risk of on-balance sheet and off-balance sheet 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 is 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 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. 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 December 31, 2014 and the previous year (according to Basel II Capital Accord) are as follows:

	2014		2013	
	Required	**Actual**	**Required**	**Actual**
Total capital	107,246	230,429	102,793	229,236
Total capital ratio / BIS ratio	8.00%	17.19%	8.00%	17.84%
Tier 1 capital	60,326	230,429	51,396	226,373
Tier 1 capital ratio	4.50%	17.19%	4.00%	17.62%
Risk Weighted Assets		1,340,572		1,284,912

If dividend for the year 2014 is distributed as proposed by the Managing Board and adopted by the Supervisory Board and General Meeting of Shareholders, and subsequently depending on the no-objection decision of De Nederlandsche Bank (the Dutch Central Bank), the actual total capital would be 225,743, while the total capital ratio / BIS ratio would be 16.84%.

6.4 Fair value measurement of assets and liabilities

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

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

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

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

DHB Bank 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 2014		31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and balances with central banks	102,614	102,614	120,766	120,766
Financial assets held for trading	284	284	25,376	25,376
Available for sale financial assets	390,463	390,463	379,810	379,810
Securities held to maturity	–	–	15,266	15,489
Loans and receivables – banks	415,019	416,126	328,146	327,228
Loans and receivables – customers	947,687	962,453	848,557	878,399
Derivative financial instruments – hedge accounting	–	–	1,801	1,801
Property and equipment	11,964	11,964	12,070	12,070
Intangible assets	245	245	141	141
Current tax assets	458	458	–	–
Deferred tax assets	7	7	198	198
Other assets	1,813	1,813	1,569	1,569
Total	**1,870,554**	**1,886,427**	**1,733,700**	**1,762,847**
Liabilities				
Due to banks	333,956	333,956	223,668	223,668
Financial liabilities held for trading	13,629	13,629	2,162	2,162
Deposits from customers	1,282,823	1,306,570	1,262,715	1,285,836
Derivative financial instruments – hedge accounting	2,707	2,707	271	271
Provisions	1,392	1,392	1,377	1,377
Current tax liabilities	8	8	2,786	2,786
Deferred tax liabilities	1,696	1,696	2,353	2,353
Other liabilities	3,914	3,914	5,756	5,756
Total	**1,640,125**	**1,663,872**	**1,501,088**	**1,524,209**

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 with regards 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 judgement and estimation and also 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 and the observable inputs have a significant effect on the instrument's valuation. The bank has designated controls and processes for the determination of the fair value of its financial assets and liabilities. When unobservable inputs are used, management may determine a range of possible valuations based upon differing stress scenarios to determine the sensitivity associated with the valuation. As a final step, the bank considers the need for further adjustments to the calculated price to reflect assumptions that market participants would make.

  In the case of DHB Bank, level 3 valuation is applied to buildings, which are carried out at least once per year by certified external appraisals based on the rental value capitalization method. The market value based on the market rent capitalization method is the gross market rent of the Property's lettable floor area. The value of the Property is determined by capitalization of the net market rent (gross market rent less expenses for property). This methodology applies two variables with a significant impact on the market value, the market rent and the gross initial yield.

  In order to set an appropriate market rent for the different spaces, recent rental transactions of comparable buildings have been analysed. Considering these transactions a bandwidth for the market of offices space is constructed. Based on professional judgement of the appraiser, market rents are set with the bandwidth or in specific cases with reason out of the bandwidth. The more specific the transaction references are, the narrower the bandwidth of the market rent becomes.

  In order to estimate the capitalization factor, the appropriate initial yield has been derived from recent transactions in the market. These gross initial yields are provided in the report and approximately equal to 8.5%. The buildings owned by DHB Bank are considered good in terms of marketability as mentioned in the report. Therefore a lower initial yield is applied, which is between 8.1% and 8.4% depending on the real estate.

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 2014	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading	–	284	–	**284**
Available for sale financial assets	390,463	–	–	**390,463**
Derivative financial instruments – hedge accounting	–	–	–	**–**
Property and equipment – Buildings	–	–	11,680	**11,680**
Total	**390,463**	**284**	**11,680**	**402,427**
Liabilities				
Financial liabilities held for trading	–	13,629	–	**13,629**
Derivative financial instruments – hedge accounting	–	2,707	–	**2,707**
Total	–	**16,336**	–	**16,336**

31 December 2013	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading	–	25,376	–	**25,376**
Available for sale financial assets	379,810	–	–	**379,810**
Derivative financial instruments – hedge accounting	–	1,801	–	**1,801**
Property and equipment – Buildings	–	–	11,766	**11,766**
Total	**379,810**	**27,177**	**11,766**	**418,753**
Liabilities				
Financial liabilities held for trading	–	2,162	–	**2,162**
Derivative financial instruments – hedge accounting	–	271	–	**271**
Total	**–**	**2,433**	**–**	**2,433**

There have been no transfers between Level 1 and Level 2 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.

31 December 2014	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	120	102,494	–	**102,614**
Securities held to maturity	–	–	–	**–**
Loans and receivables – banks	–	416,126	–	**416,126**
Loans and receivables – customers	–	–	962,453	**962,453**
Total	**120**	**518,620**	**962,453**	**1,481,193**
Liabilities				
Due to banks	–	333,956	–	**333,956**
Deposits from customers	–	–	1,306,570	**1,306,570**
Total	**–**	**333,956**	**1,306,570**	**1,640,526**

31 December 2013	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	660	120,106	–	**120,766**
Securities held to maturity	15,489	–	–	**15,489**
Loans and receivables – banks	–	327,228	–	**327,228**
Loans and receivables – customers	–	–	878,399	**878,399**
Total	**16,149**	**447,334**	**878,399**	**1,341,882**
Liabilities				
Due to banks	–	223,668	–	**223,668**
Deposits from customers	–	–	1,285,836	**1,285,836**
Total	**–**	**223,668**	**1,285,836**	**1,509,504**

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amounts of level 3 financial assets which are measured at fair value. These assets are buildings in own use. Further reference is made to note 4.8.

	2014	2013
Balance at January 1	**11,766**	**11,378**
Investments	210	108
Divestments	(253)	–
Depreciation	(343)	(325)
Revaluation	259	535
Reversal of impairment	41	70
Balance at December 31	**11,680**	**11,766**

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 and the net amount is reported on the balance sheet if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The bank applies netting to derivative contracts for which a market settlement mechanism (e.g. an exchange or clearing house) exists which effectively accomplishes net settlement through daily cash margining processes.

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 derivative 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.

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

2014	Gross amount	Offsetting counterparty position in the statement of financial position	Net amounts presented in the financial position	Cash collaterals pledged/ received	Financial instruments	Net amount
Financial Assets						
Derivative assets	284	–	284	–	–	284
Total	**284**	**–**	**284**	**–**	**–**	**284**
Financial Liabilities						
Derivative liabilities	13,629	–	13,629	(13,629)	–	–
Repo agreements	221,222	–	221,222	–	221,222	–
Total	**234,851**	**–**	**234,851**	**–**	**221,222**	**–**

2013	Gross amount	Offsetting counterparty position in the statement of financial position	Net amounts presented in the financial position	Cash collaterals pledged/ received	Financial instruments	Net amount
Financial Assets						
Derivative assets	22,015	–	22,015	(2,270)	–	19,745
Total	**22,015**	**–**	**22,015**	**(2,270)**	**–**	**19,745**
Financial Liabilities						
Derivative liabilities	2,162	–	2,162	(1,061)	–	1,101
Repo agreements	152,130	–	152,130	–	(152,130)	–
Total	**154,292**	**–**	**154,292**	**(1,061)**	**(152,130)**	**1,101**

6.6 Transfer of financial assets

DHB Bank's financial assets that have been transferred, but do not qualify for derecognition are available for sale debt securities used in repurchase transactions.

	2014	2013
Transferred Assets		
Available for sale financial assets	241,717	167,663
Associated Liabilities		
Due to banks	221,222	152,130

DHB Bank has transferred but has not derecognised 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 therefore has not derecognised them.

From the available for sale financial assets 360,112 (2013:260,682) are under custody with DNB, of which 241,717 (2013:167,552) is pledged for total funding of 221,222 (2013:152,130) obtained from the ECB under the (Targeted) Long Term Refinancing Operations and in the form of short term repo borrowings. The remaining available for sale financial assets of 148,746 (2013: 212,435) 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.

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

6.7 Subsequent events

There are no subsequent events.

7. Risk Management

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

The bank's organisation-wide risk management approach is supported by its organizational structure, policies and procedures as well as methods for assessing and managing risks. Furthermore, the risk management framework is supported by a strong risk culture at all levels. The maintenance of risk awareness in the organization is regarded as an essential component for DHB Bank's business strategies.

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

The measurement models and techniques employed are continually subject to assessment for appropriateness and reliability. For those risk types that are difficult to quantify, the bank places greater emphasis on qualitative risk factors and on the assessment of activities to gauge the overall level of risks to ensure that they are within the approved risk appetite. Risk factors for new 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 launch date.

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

RISK TYPES AND THEIR MANAGEMENT

Credit risk

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

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

The bank ensures that credit quality is not compromised for growth, and for this purpose applies separate limits for all the lending activities in accordance with the credit approval procedures. All loan decisions are made by the Credit Committee. The loans above a certain level are additionally subject to positive advice by the SBCC or full SB, depending on the respective amount. As for retail credits, the acceptance criteria are drawn up and reviewed separately under the approval authority granted by the Managing Board.

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

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

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

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

The bank has been working on the implementation of an enhanced internal rating system during 2012-2014. The new system supports related units to manage credit portfolio as well as individual risks based on determined guidelines and incorporate available public and private information in an advanced way in risk decisions to be taken.

The new 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 has been enhanced to capture and reflect inherent credit risk more 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.

Credit exposure

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

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

	2014	**2013**
Cash with central banks	102,494	120,106
Financial assets held for trading	284	25,376
Available for sale financial assets	388,895	375,640
Securities held to maturity	–	15,266
Loans and receivables – banks	415,019	328,146
Loans and receivables – customers	947,654	848,487
Derivative financial instruments – hedge accounting	–	1,801
Total on-balance sheet items	**1,854,346**	**1,714,822**
Contingent liabilities L/G	2,106	3,501
Contingent liabilities L/C	7,216	5,976
Total off-balance sheet items	**9,322**	**9,477**
Total credit risk	**1,863,668**	**1,724,299**

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

Collateral and other credit enhancement

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

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

December 31, 2014	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	102,494	–	–	–	–	–	–	–	0%
Financial assets held for trading	284	–	–	–	–	–	–	–	0%
Available for sale financial assets	388,895	–	–	–	–	–	–	–	0%
Securities held to maturity	–	–	–	–	–	–	–	–	0%
Loans and receivables – banks	415,019	–	11,672	–	–	45,000	–	56,672	14%
Loans and receivables – customers	947,654	–	–	217,947	206	43,958	550,480	812,591	86%
Derivative financial instruments – hedge accounting	–	–	–	–	–	–	–	–	0%
Total assets	**1,854,346**	**–**	**11,672**	**217,947**	**206**	**88,958**	**550,480**	**869,263**	**47%**
Contingent liabilities L/G	2,106	–	–	54	–	174	1,878	2,106	100%
Contingent liabilities L/C	7,216	–	–	3,048	–	669	3,499	7,216	100%
Total off-balance	**9,322**	**–**	**–**	**3,102**	**–**	**843**	**5,377**	**9,322**	**100%**
Total credit risk	**1,863,668**	**–**	**11,672**	**221,049**	**206**	**89,801**	**555,857**	**878,585**	**47%**

December 31, 2013	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	120,106	–	–	–	–	–	–	–	0%
Financial assets held for trading	25,376	–	–	–	–	–	–	–	0%
Available for sale financial assets	375,640	2,000	–	–	–	–	–	2,000	1%
Securities held to maturity	15,266	–	–	–	–	–	–	–	0%
Loans and receivables – banks	328,146	–	–	–	–	40,000	–	40,000	12%
Loans and receivables – customers	848,487	–	–	150,916	1,680	27,104	347,386	527,086	62%
Derivative financial instruments – hedge accounting	1,801	–	–	–	–	–	–	–	0%
Total assets	**1,714,822**	**2,000**	**–**	**150,916**	**1,680**	**67,104**	**347,386**	**569,086**	**33%**
Contingent liabilities L/G	3,501	–	–	100	–	9	3,227	3,336	95%
Contingent liabilities L/C	5,976	–	–	1,677	–	–	4,300	5,977	100%
Total off-balance	**9,477**	**–**	**–**	**1,777**	**–**	**9**	**7,527**	**9,313**	**98%**
Total credit risk	**1,724,299**	**2,000**	**–**	**152,693**	**1,680**	**67,113**	**354,913**	**578,399**	**34%**

Credit risk concentration

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

In line with the strategic realignment targets the bank continues to reduce its exposure to developing countries. Nevertheless, DHB Bank's largest exposure remains to banks and companies in Turkey. As of year-end 2014 DHB Bank further reduced its exposure to Turkey compared to 2013 by around 57 million and the exposure to Russia

by 159 million. Loans and receivables to banks reduced by 88 million whereas loans and receivables to customers increased by 99 million compared to the previous financial year.

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

December 31, 2014	Cash with central banks	Financial assets held for trading	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Derivatives financial instruments – hedge accounting	Commit-ments and contingent liabilities	Total	%
Turkey	–	–	13,044	–	266,139	401,926	–	975	682,084	36.6%
The Netherlands[i]	102,470	–	119,076	–	37,371	19,673	–	3,411	282,001	15.1%
Germany	23	69	5,470	–	31,537	89,282	–	1,609	127,990	6.9%
France	–	20	46,929	–	3	34,042	–	–	80,994	4.3%
United Kingdom	–	33	26,381	–	12,568	34,526	–	–	73,508	3.9%
United States of America	–	4	61,057	–	3,668	–	–	–	64,729	3.5%
Belgium	1	–	–	–	21	52,713	–	–	52,735	2.8%
Spain	–	158	40,232	–	–	9,651	–	–	50,041	2.7%
Azerbaijan	–	–	6,761	–	15,766	16,311	–	–	38,838	2.1%
Egypt	–	–	–	–	–	37,458	–	–	37,458	2.0%
Sweden	–	–	16,639	–	–	20,360	–	–	36,999	2.0%
United Arab Emirates	–	–	–	–	–	34,441	–	–	34,441	1.8%
Romania	–	–	–	–	–	31,161	–	–	31,161	1.7%
Macedonia	–	–	–	–	12,523	16,445	–	–	28,968	1.6%
Italy	–	–	20,950	–	–	7,264	–	–	28,214	1.5%
Russia	–	–	9,343	–	8,042	8,776	–	–	26,161	1.4%
Republic of Kosovo	–	–	–	–	–	24,171	–	–	24,171	1.3%
Others	–	–	23,013	–	27,381	109,454	–	3,327	163,175	8.8%
Total	**102,494**	**284**	**388,895**	**–**	**415,019**	**947,654**	**–**	**9,322**	**1,863,668**	**100%**

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

December 31, 2013	Cash with central banks	Financial assets held for trading	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Derivatives financial instruments – hedge accounting	Commit-ments and contingent liabilities	Total	%
Turkey	–	3,755	31,788	524	170,463	529,356	–	3,085	738,971	42.9%
The Netherlands[i]	120,008	1,490	47,844	–	14,954	21,281	–	3,201	208,778	12.1%
Russia	–	–	77,866	14,742	59,813	33,126	–	–	185,547	10.8%
United States of America	–	4,737	109,062	–	141	–	–	–	113,940	6.6%
United Kingdom	–	7,300	43,361	–	2,843	15,925	1,530	–	70,959	4.1%
Germany	87	6,101	–	–	10,283	32,020	271	–	48,762	2.8%
Azerbaijan	–	–	5,965	–	19,211	16,088	–	–	41,264	2.4%
Republic of Kosovo	–	–	–	–	3,001	30,212	–	–	33,213	1.9%
Egypt	–	466	–	–	–	32,677	–	–	33,143	1.9%
Multilateral Development Banks	–	–	1,700	–	30,780	–	–	–	32,480	1.9%
Italy	–	–	23,850	–	–	4,500	–	–	28,350	1.6%
Macedonia	–	–	–	–	10,019	14,901	–	–	24,920	1.4%
Sweden	–	–	–	–	–	20,439	–	–	20,439	1.2%
Belgium	11	–	–	–	13	18,738	–	–	18,762	1.1%
France	–	544	13,560	–	301	2,506	–	–	16,911	1.0%
Romania	–	–	–	–	–	16,899	–	–	16,899	1.0%
Spain	–	–	15,510	–	–	–	–	–	15,510	0.9%
Others	–	983	5,134	–	6,324	59,819	–	3,191	75,451	4.4%
Total	**120,106**	**25,376**	**375,640**	**15,266**	**328,146**	**848,487**	**1,801**	**9,477**	**1,724,299**	**100.0%**

i Balances with ECB are classified in The Netherlands.

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

	2014		2013	
Sectors	**On-balance**	**Off-balance**	**On-balance**	**Off-balance**
Financial institutions and insurance	228,797	3	365,229	–
Agriculture, forestry and fishing	10,144	–	6,786	–
Mining and quarrying	3,799	–	4,935	–
Manufacturing	205,538	3,161	146,061	56
Electricity, gas, steam and air conditioning supply	57,962	–	58,682	–
Construction	110,692	–	97,092	–
Wholesale and retail trade	88,061	4,133	38,933	6,012
Transport and storage	57,739	–	36,338	–
Accommodation and food service activities	25,260	183	21,071	160
Information and communication	47,621	–	24,178	–
Real estate activities	40,840	–	5,189	–
Administrative and support service activities	2,897	–	2,889	9
Human health services and social work activities	8,445	–	7,495	7
Other services	31,584	1,812	11,029	3,191
Total	**919,379**	**9,292**	**825,907**	**9,435**
Private individuals / self- employed	45,734	30	33,455	42
Total	**965,113**	**9,322**	**859,362**	**9,477**
Allowances for impairment	(17,459)	–	(10,875)	–
Total loans and receivables - customers	**947,654**	**9,322**	**848,487**	**9,477**

Credit quality of financial assets

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

One of 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.

Summary forbearance – Loans and receivables

Gross carrying amount	Performing assets			Non-performing assets			Total forborne assets	Forbearance ratio
	Modification of the contract	Refinancing	Total performing forborne assets	Modification of the contract	Refinancing	Total non-performing forborne assets		
1,376,302	6,259	-	-	16,359	-	16,359	22,618	1.6%

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

	2014	2013
Neither past due nor impaired	1,854,348	1,711,790
Past due but not impaired	997	620
Impaired	26,029	23,137
Allowances	(17,706)	(11,248)
Total	**1,863,668**	**1,724,299**

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

	2014	2013
Investment grade	**871,178**	**772,734**
AAA	102,494	121,606
AA+	–	–
AA	–	301
AA-	51,685	7,445
A+	19,399	10,518
A	110,777	47,311
A-	129,769	163,240
BBB+	29,239	11,790
BBB	144,696	206,790
BBB-	283,119	203,733
Non-investment grade	**54,169**	**121,020**
BB+	21,307	57,100
BB	18,249	13,358
BB-	9,343	38,017
B+	–	3,008
B	5,269	4,550
B-	–	–
CCC+	1	49
CCC	–	178
CCC-	–	–
CC	–	4,760
Unrated	**938,321**	**830,545**
Total	**1,863,668**	**1,724,299**

DHB Bank makes an own assessment of the risk that a borrower will default on its financial obligations to the bank. This assessment is translated into an internal credit rating that has 8 rating category. Suffixes "+"or "-" can be appended to a rating, except for the highest and default categories, to indicate the relative position of a credit within the rating class.

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

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

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

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

Ageing of financial assets that are past due but not impaired	**2014**	**2013**
Past due up to 30 days	158	124
Past due 31 - 60 days	27	27
Past due 61 - 90 days	3	19
Past due over 90 days	808	450
Total	**997**	**620**

Provisions for loan losses are set aside for estimated losses on outstanding loans for which there is objective evidence of impairment on the borrower's capacity to repay the principal and/or interest.

In addition, the bank also sets aside provisions to cover potential loan losses on a collective basis based on an incurred but not reported (IBNR) loss provisioning method. For the purpose of calculating the IBNR loss allowance, individually assessed loans and receivables for which no evidence of loss has been specifically identified on an individual basis are grouped together according to similar risk characteristics, taking into account credit rating, exposure class, industry and geographical location. The method also takes into account the estimated period between an impairment event occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan. The loss identification periods vary across exposure and ratings and are based on actual experience.

The movements of the specific allowances for impairment for the year 2014 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	–	–	45	9,910	9,955
Addition	–	–	–	7,844	7,844
Release	–	–	–	(1,231)	(1,231)
Write-off	–	–	(45)	(366)	(411)
Exchange rate movement	–	–	–	667	667
Closing balance	**–**	**–**	**–**	**16,824**	**16,824**

The movements of the IBNR loss allowances for impairment for the year 2014 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	157	5	166	965	1,293
Addition	–	–	81	–	81
Release	(157)	(5)	–	(330)	(492)
Closing balance	**–**	**–**	**247**	**635**	**882**

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

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

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

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

The balance of total specific allowances for impaired assets increased from 10 million in 2013 to 17 million in 2014. 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. The bank's write-off decisions are determined on a case-by-case basis. For restructured loans, the policy enables reclassification of a restructured loan into a performing loan when a certain number of repayments are executed.

Liquidity risk

Regulatory requirements and expectations

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

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

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

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

Governance and management of liquidity risk

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

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

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

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

December 31, 2014	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 year	Undefined	Total
Assets (undiscounted cash flows)							
Cash and balances with central banks	92,244	–	–	–	–	10,370	102,614
Available for sale financial assets	–	26,990	51,910	311,563	–	–	390,463
Securities held to maturity	–	–	–	–	–	–	–
Loans and receivables – banks	3,103	85,354	302,517	24,989	–	–	415,963
Loans and receivables - customers	20,558	293,089	235,214	382,308	22,935	–	954,104
Other assets	–	–	–	–	–	14,487	14,487
Total assets (excluding derivatives)	**115,905**	**405,433**	**589,641**	**718,860**	**22,935**	**24,857**	**1,877,631**
Liabilities (undiscounted cash flows)							
Due to banks	2,972	274,145	47,995	8,844	–	–	333,956
Deposits from customers	722,752	111,592	199,545	246,534	2,403	–	1,282,826
Other liabilities	–	–	1,392	–	–	5,618	7,010
Total liabilities (excluding derivatives)	**725,724**	**385,737**	**248,932**	**255,378**	**2,403**	**5,618**	**1,623,792**

The immediately available liquidity of DHB Bank consisting of cash and the ECB eligible securities valued after the ECB haircuts as of year-end 2014 was 211 million, representing 11.3% of the balance sheet size. As an additional liquidity buffer, the bank has also a contingent liquidity agreement with Halkbank for a total amount of 100 million.

December 31, 2013	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 year	Undefined	Total
Assets (undiscounted cash flows)							
Cash and balances with central banks	110,704	–	–	–	–	10,062	120,766
Financial assets held for trading	–	–	–	3,361	–	–	3,361
Available for sale financial assets	–	17,209	45,293	317,210	–	–	379,712
Securities held to maturity	–	133	391	14,742	–	–	15,266
Loans and receivables - banks	3,178	89,019	167,981	66,037	1,801	–	328,016
Loans and receivables - customers	15,710	394,260	155,402	272,353	19,250	–	856,975
Other assets	–	–	–	–	–	13,978	13,978
Total assets (excluding derivatives)	**129,592**	**500,621**	**369,067**	**673,703**	**21,051**	**24,040**	**1,718,074**
Liabilities (undiscounted cash flows)							
Due to banks	2,287	47,564	19,417	154,400	–	–	223,668
Deposits from customers	724,126	114,707	209,905	213,926	53	–	1,262,717
Other liabilities	–	–	1,377	–	–	10,895	12.272
Total liabilities (excluding derivatives)	**726,413**	**162,271**	**230,999**	**368,326**	**53**	**10,895**	**1,498,657**

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 2014 and 31 December 2013.

December 31, 2014	Up to 3 months	3-12 months	1-5 years	Over 5 year	Total
Interest rate and cross-currency derivatives					
Derivatives used for trading					
Receivables	237,065	49,981	37,330	12,775	**337,151**
Payables	247,033	52,335	39,041	12,775	**351,184**
Derivatives used for hedging					
Receivables	–	–	26,656	–	**26,656**
Payables	–	–	29,092	–	**29,092**

December 31, 2014	Up to 3 months	3-12 months	1-5 years	Over 5 year	Total
Interest rate and cross-currency derivatives					
Derivatives used for trading					
Receivables	440,703	59,604	48,413	–	**548,720**
Payables	427,299	70,137	33,152	–	**530,588**
Derivatives used for hedging					
Receivables	–	24,806	57,292	–	**82,098**
Payables	–	24,877	54,708	–	**79,585**

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 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, the exponentially weighted moving average (EWMA) and the 'Monte-Carlo Simulation'. The VaR approach is not applied to determine the solvency requirement for market risk but forms an integral part of the bank's risk management framework.

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

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

VaR of FX position	**2014**	**2013**
Max	(49)	(71)
Min	(1)	(4)
Average	(7)	(20)
End of year	(2)	(4)

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

Interest rate risk 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 1% 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 December 31, 2014 and December 31, 2013 respectively:

Net interest income sensitivity by major currencies at 31 December 2014	**Interest rate shock of +/- 100bp**	
	100 bp decrease	**100 bp increase**
EUR	218	(506)
USD	(88)	(131)
Others	(9)	(15)
Total	**121**	**(654)**

Net interest income sensitivity by major currencies at 31 December 2013	**Interest rate shock of +/- 100bp**	
	100 bp decrease	**100 bp increase**
EUR	1,475	1,462
USD	(550)	654
Others	(44)	12
Total	**881**	**2,128**

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 December 31, 2014 and December 31, 2013 respectively.

Fair value sensitivity to interest rate shocks at 31 December 2014						
	-300	**-200**	**-100**	**+100**	**+200**	**+300**
EUR	8,265	5,504	2,749	(2,743)	(5,480)	(8,212)
USD	584	362	167	(139)	(251)	(335)
Others	25	18	9	(10)	(21)	(32)
Total	**8,875**	**5,884**	**2,925**	**(2,892)**	**(5,752)**	**(8,579)**
Equity value (IFRS)		230,951			230,951	
Standard 200 bps shock as % of the equity		2.55%			-2.49%	

Fair value sensitivity to interest rate shocks at 31 December 2013						
	-300	**-200**	**-100**	**+100**	**+200**	**+300**
EUR	(49)	32	48	(112)	(289)	(530)
USD	3,297	2,087	988	(877)	(1,643)	(2,299)
Others	92	63	33	(35)	(72)	(111)
Total	**3,340**	**2,182**	**1,069**	**(1,024)**	**(2,004)**	**(2,939)**
Equity value (IFRS)		232,612			232,612	
Standard 200 bps shock as % of the equity		0.94%			-0.86%	

Currency risk

Foreign currency risk is the risk of changes in the fair value or the future cash flows of financial instruments resulting from changes in foreign currency exchange rates. The bank is exposed to currency risk, particularly to changes between EUR, USD and TRY rates. While currency risk is almost fully avoided through FX swap transactions, open positions are monitored and reviewed by the Asset & Liability Management Committee, so that action can be taken where necessary. Considering the derivative transactions, the open currency positions are at insignificant levels as of 31 December, 2014. The management sets the limits for such positions according to the net foreign currency position rules determined by the Dutch Central Bank (DNB).

December 31, 2014	EUR	USD	TRY	GBP	CHF	Others	Total
Cash and balances with central banks	102,591	23	–	–	–	–	102,614
Financial assets held for trading	284	–	–	–	–	–	284
Available for sale financial assets	362,629	27,834	–	–	–	–	390,463
Securities held to maturity	–	–	–	–	–	–	–
Loans and receivables – banks	378,868	35,374	205	16	552	4	415,019
Loans and receivables - customers	639,823	154,711	148,333	4,820	–	–	947,687
Derivative financial instruments – hedge accounting	–	–	–	–	–	–	–
Property and equipment	11,964	–	–	–	–	–	11,964
Intangible assets	245	–	–	–	–	–	245
Current tax assets	458	–	–	–	–	–	458
Deferred tax assets	7	–	–	–	–	–	7
Other assets	1,725	84	3	1	–	–	1,813
Total assets	**1,498,594**	**218,026**	**148,541**	**4,837**	**552**	**4**	**1,870,554**
Due to banks	314,231	19,105	–	95	525	–	333,956
Financial liabilities held for trading	299	11,007	241	2,082	–	–	13,629
Deposits from customers	1,266,956	14,610	1,210	47	–	–	1,282,823
Derivative financial instruments – hedge accounting	2,707	–	–	–	–	–	2,707
Provisions	1,392	–	–	–	–	–	1,392
Current tax liabilities	8	–	–	–	–	–	8
Deferred tax liabilities	1,696	–	–	–	–	–	1,696
Other liabilities	3,313	409	167	–	25	–	3,914
Total non-equity liabilities	**1,590,602**	**45,131**	**1,618**	**2,224**	**550**	**–**	**1,640,125**
Net gap	(92,008)	172,895	146,923	2,613	2	4	230,429
Net open currency position after derivatives	(50)	25	19	1	1	4	

December 31, 2013	EUR	USD	TRY	GBP	CHF	Others	Total
Cash and balances with central banks	120,739	27	–	–	–	–	120,766
Financial assets held for trading	21,316	578	3,361	121	–	–	25,376
Available for sale financial assets	260,854	110,003	8,953	–	–	–	379,810
Securities held to maturity	10,651	4,615	–	–	–	–	15,266
Loans and receivables - banks	286,211	41,570	155	40	163	7	328,146
Loans and receivables - customers	459,617	95,729	287,540	5,671	–	–	848,557
Derivative financial instruments – hedge accounting	1,396	405	–	–	–	–	1,801
Property and equipment	12,070	–	–	–	–	–	12,070
Intangible assets	141	–	–	–	–	–	141
Current tax assets	–	–	–	–	–	–	–
Deferred tax assets	198	–	–	–	–	–	198
Other assets	1,272	–	295	2	–	–	1,569
Total assets	**1,174,465**	**252,927**	**300,304**	**5,834**	**163**	**7**	**1,733,700**
Due to banks	214,160	9,147	1	174	186	–	223,668
Financial liabilities held for trading	863	884	296	119	–	–	2,162
Deposits from customers	1,246,424	15,642	592	57	–	–	1,262,715
Derivative financial instruments – hedge accounting	271	–	–	–	–	–	271
Provisions	1,377	–	–	–	–	–	1,377
Current tax liabilities	2,786	–	–	–	–	–	2,786
Deferred tax liabilities	2,353	–	–	–	–	–	2,353
Other liabilities	5,369	381	5	–	1	–	5,756
Total non-equity liabilities	**1,473,603**	**26,054**	**894**	**350**	**187**	**–**	**1,501,088**
Net gap	(299,138)	226,873	299,410	5,484	(24)	7	232,612
Net open currency position after FX and interest rate swaps	(84)	42	40	19	(24)	7	

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 2014. The bank's operational risk management process involves a structured approach based on a risk and self-assessment control methodology. The goal of the ongoing self-assessment process is for each business unit to identify the key operational risks specific to its environment and evaluate the degree to which it maintains appropriate controls. Action plans are developed for identified issues, enabling the bank to improve its existing control measures and implement new measures where necessary.

Legal, compliance and reputation risk

Legal risk is the possibility that lawsuits, adverse judgments or contracts that turn out to be unenforceable can disrupt or adversely affect the operations of the bank. Legal risks are managed centrally by the Legal Affairs unit. External legal advisors are also consulted where necessary. In addition, the Compliance Officer of the bank has a proactive role in this respect, aiming at reducing the compliance risk, and eventual reputation risk.

The reputation risk management framework is embedded in the policy and governance structure of the bank. Attention to reputation has always been a key aspect of the bank's practices, and maintenance of the bank's reputation is regarded as a responsibility of all staff members. The Managing Board takes the necessary actions to establish a proper ethical culture within the bank. The bank's line management is responsible for applying, monitoring and controlling the integrity policy and rules in their units, and reports to the Managing Board, and to the Compliance Officer where applicable. In addition to the Compliance Officer, the Internal Audit Department also evaluates integrity issues during its regular and specific audits.

Company Financial Statements

Annual Report

for the year ended

December 31, 2014

Rotterdam, The Netherlands

Company Statement Of Financial Position

(in thousands of EUR)	**Notes**	**2014**	**2013**
ASSETS			
Cash and balances with central banks		102,614	120,766
Financial assets held for trading		284	25,376
Available for sale financial assets		390,463	379,810
Securities held to maturity		–	15,266
Loans and receivables – banks		415,019	328,146
Loans and receivables – customers		947,131	847,762
Derivative financial instruments – hedge accounting		–	1,801
Participating interest in group companies	1	835	853
Property and equipment		11,964	12,070
Intangible assets		245	141
Current tax assets		486	–
Deferred tax assets		7	198
Other assets		1,813	1,568
Total assets		**1,870,861**	**1,733,757**
LIABILITIES			
Due to banks		333,956	223,668
Financial liabilities held for trading		13,629	2,162
Deposits from customers		1,283,137	1,262,830
Derivative financial instruments – hedge accounting		2,707	271
Provisions		1,392	1,377
Current tax liabilities		–	2,733
Deferred tax liabilities		1,696	2,353
Other liabilities		3,915	5,751
Total liabilities		**1,640,432**	**1,501,145**
EQUITY	**2**		
Share capital		113,750	113,750
Retained earnings		103,118	94,520
Other reserves		4,189	6,237
Net profit		9,372	18,105
Total equity		**230,429**	**232,612**
Total equity and liabilities		**1,870,861**	**1,733,757**
Commitments and contingent liabilities		9,322	9,477

Company Income Statement

(in thousands of EUR)	**2014**	**2013**
Net income of the parent company	9,254	17,891
Net income participating interests after taxes	118	214
Net income	**9,372**	**18,105**

Notes To The Company Financial Statements

1 Basis of preparation

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

The principles of valuation and determination of results stated in connection with the consolidated balance sheet and income statement are also applicable to the company balance sheet and income statement.

2 Summary of significant accounting policies

The significant accounting policies as stated in the notes to the consolidated financial statements are also applicable to the company financial statements with exception of the participating interest in group companies.

Based on article 402 of Book 2 of the Netherlands Civil Code, the Company's notes presentation is simplified.

Participating interest in group companies
Participating interest in group companies of DHB Bank is stated at equity method and the share in the net result is recognised in the income statement as 'Net profit of subsidiaries'.

3 Participating interest in group companies

Participating interest in group companies consists of Best CreditLine B.V.. Stichting Bewaarfonds, a minor subsidiary of DHB Bank, was legally liquidated in 2014. The table below shows the movement of the carrying amount during the financial year.

	2014	2013
Participating interest in group companies		
Development:		
Opening balance	853	639
Capital investment	–	–
Capital divestment	(136)	–
Net profit subsidiaries	118	214
Closing balance	**835**	**853**

DHB Bank guarantees all liabilities of its subsidiary Best CreditLine B.V. by giving a 403 declaration.

4 Equity

Share capital

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

Legal reserve

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

Defined benefit obligation reserve

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

Revaluation reserve

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

Cash flow hedge reserve

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

Fair value reserve

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

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

5 Maturity of certain assets and liabilities

December 31, 2014	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 year	Undefined	Total
Assets							
Balances with central banks	92,124	–	–	–	–	10,370	102,494
Available for sale financial assets	–	21,800	57,100	311,563	–	–	390,463
Securities held to maturity	–	–	–	–	–	–	–
Loans and receivables – banks	3,103	74,758	305,146	32,012	–	–	415,019
Loans and receivables - customers	10,969	276,229	180,169	392,048	87,716	–	947,131
Liabilities							
Due to banks	2,972	274,145	47,995	8,844	–	–	333,956
Deposits from customers	723,064	110,351	200,492	246,827	2,403	–	1,283,137

December 31, 2013	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 year	Undefined	Total
Assets							
Balances with central banks	110,044	–	–	–	–	10,062	120,106
Financial assets held for trading	–	–	–	3,361	–	–	3,361
Available for sale financial assets	–	17,209	45,293	317,308	–	–	379,810
Securities held to maturity	–	–	524	14,742	–	–	15,266
Loans and receivables - banks	3,178	88,978	152,720	81,469	1,801	–	328,146
Loans and receivables - customers	10,054	383,325	104,134	297,926	52,323	–	847,762
Liabilities							
Due to banks	2,287	47,564	19,417	154,400	–	–	223,668
Deposits from customers	724,240	114,121	210,135	213,821	513	–	1,262,830

Rotterdam, 10 April 2015

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

Managing Board:
Kayhan Acardağ
Steven Prins
Okan Balköse

Other information

Profit appropriation

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

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

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

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

4. There shall be no distribution of profits in 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.

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

Dividend 50%	4,686
Addition to the 'retained earnings'	4,686
	9,372

Independent Auditor's Report

To: The shareholders and Supervisory Board of Demir-Halk Bank (Nederland) N.V.

Report on the audit of the financial statements 2014

Our opinion

We have audited the financial statements 2014 of Demir-Halk Bank (Nederland) N.V. (the company), based in Rotterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- the consolidated financial statements give a true and fair view of the financial position of Demir-Halk Bank (Nederland) N.V. as at December 31, 2014, and of its result and its cash flows for 2014 in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code;

- the company financial statements give a true and fair view of the financial position of Demir-Halk Bank (Nederland) N.V. as at December 31, 2014, and of its result for 2014 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2014;

- the following statements for 2014: consolidated statements of profit and loss and other comprehensive income, changes in equity and cash flows; and

- the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at December 31, 2014;

- the company profit and loss account for 2014; and

- the notes comprising a summary of the significant 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 Demir-Halk Bank (Nederland) N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

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

Materiality

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.

Based on our professional judgment we determined the materiality for the financial statements as a whole at € 0.8 million. The materiality is based on 5% of operating profit before tax excluding some nonrecurring items like the levy regarding the nationalization of SNS Reaal N.V. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of € 40,000, 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

Demir-Halk Bank (Nederland) N.V. is head of a group of entities. The financial information of this group is included in the consolidated financial statements of Demir-Halk Bank (Nederland) N.V.

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.

Our group audit mainly focused on significant group entities in the Netherlands, Germany and Belgium. We have performed audit procedures ourselves at group entities in the Netherlands and used the work of other EY auditors when auditing the entity in Belgium. We performed specific audit procedures at the group entity in Germany.

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 about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, 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.

Financial assets at amortized costs

Despite signs of economic recovery, the impact of the economic conditions of the last few years on the default risk and the cost of credit losses is still high. The assessment processes of credit risks include subjective elements and are based on assumptions that may come out differently than expected. Reference is made to note 7 in the financial statements.

During our audit, extra attention was paid to the assessment of credit risks. During our audit of the loan loss provisions, we primarily assessed the judgments made related to the ability of the debtor to fulfil the contractual obligations arising out of the financing agreement. If this ability is questionable or if shortages are expected, judgment is made whether the value of the collateral can cover any shortfalls. The loan strategy of the bank is an important aspect in making the assessments of credit risks or the need for valuation of real estate. Our audit work included assessing the expectations and assumptions about future cash flows and external data, such as accounts of debtors and valuation of collateral.

Valuation of financial assets and liabilities at fair value

Fair value measurement and associated valuation adjustments can be a subjective area and more so for so called areas of 'level 2' and 'level 3' valuation. 'Level 2' and 'level 3' valuations include valuation techniques with the use of observable inputs either directly (prices) or indirectly (derived from prices) or valuation techniques using significant unobservable inputs. Market conditions can also be volatile due to current uncertainty, furthermore market practice continues to evolve. Valuation techniques can be subjective in nature and involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions, especially in the 'level 3' valuation area, could produce significant different estimates of fair value. Associated risk management disclosure is complex and dependent on the quality of data.

As part of our audit procedures we performed independent price verification. We performed additional procedures for areas of higher risk and estimation with the assistance of our valuation specialists. This included, where relevant, the assessment of judgments made to current and emerging market practice and reperformance of valuations on a sample basis. Finally, we audited the related disclosures including the disclosure of fair value hierarchy. Reference is made to note 6.4 in the financial statements.

Responsibilities of management and the Supervisory Board 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, and for the preparation of the management board report in accordance with 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 have detected all errors and fraud.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- 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 ceasing to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and

- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 identify during our audit.

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 those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. 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.

Report on other legal and regulatory requirements

Report on the management board report and the other information

Pursuant to legal requirements of Part 9 of Book 2 of the Dutch Civil Code (concerning our obligation to report about the management board report and other information):

- We have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code, and whether the information as required by Part 9 of Book 2 of the Dutch Civil Code has been annexed.

- We report that the management board report, to the extent we can assess, is consistent with the financial statements.

Engagement

We were engaged by the Shareholders as auditor of Demir-Halk Bank (Nederland) N.V. on March 11, 2014, as of the audit for the year 2014 and have operated as statutory auditor since that date.

Amsterdam, April 10, 2015

Ernst & Young Accountants LLP
/s/ P.J.A.J. Nijssen

Implementation of the Dutch Banking Code at DHB Bank

STIPULATION	NOTES & EXPLANATIONS

1 Compliance With The Code

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

2 Supervisory Board

2.1 Composition and expertise

2.1.1 The supervisory board shall be composed in such a way that it is able to perform its tasks properly. Complementarity, a collegial board, independence and diversity are preconditions for the supervisory board to perform its tasks properly.	*DHB Bank (the bank) drew up profiles for the Supervisory Board (SB) members and chairman, as articulated in the SB Policy. Composed of members with diverse backgrounds, expertise, experiences, cultures and social sensitivity, the SB has a collegial working structure, and as per the bank's Articles of Association (AoA), each member is entitled to cast one vote. Half of the SB members, including the chairman, are independent, as laid down also in the AoA of the bank. Resolutions have to be taken by absolute majority, and should be supported by at least one independent member; in case of a tie vote, the chairman decides. The brief CVs of the SB members are presented under the section "Governing Bodies" of this annual report.*
2.1.2 The supervisory board shall have a sufficient number of members to properly perform its function, including in its committees. The appropriate number of members depends on the nature, size and complexity of the bank.	*As of year-end 2014, the SB was composed of eight members, a number considered adequate by the General Meeting of Shareholders when taking into account the business scope, size and complexity of the bank. The SB has five sub-committees, each composed of two to four members from its ranks, of which at least one member is independent. These committees are: Risk and Audit Committee (RAC), Remuneration and Compensation Committee (RCC), Related Party Transactions Committee (RPTC), Supervisory Board Credit Committee (SBCC) and Nomination Committee (NC). The respective members possess the relevant competence and experience necessary for the efficient functioning of these sub-committees.*

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

STIPULATION	NOTES & EXPLANATIONS
2.1.9 The assessment of the effectiveness of the lifelong learning programme referred to in principle 2.1.8 shall be part of annual evaluation by the supervisory board.	*As per the SB Policy "The SB members will annually provide the chairman of the SB with a self-evaluation in writing of their performance as a SB member of the Bank. The assessment of the effectiveness of the lifelong learning shall be part of this self-evaluation." A similar stipulation is present in the "Lifelong Learning Policy" as well. "Each SB member shall be able to express his views confidentially during the reviews". The respective evaluation has been completed for the financial years 2012 and 2014 via closed sessions, and through external evaluation in 2013 as explained in the following item.*
2.1.10 In addition to the supervisory board's annual self-evaluation, the functioning of the supervisory board shall be evaluated under independent supervision once every three years. The involvement of each member of the supervisory board, the culture within the supervisory board and the relationship between the supervisory board and the executive board shall be part of this evaluation.	*As per the SB Policy "The performance of SB members shall be assessed under independent external supervision once every three years". Based on the members' self-assessment and individual interviews conducted by a professor who is an expert on corporate governance as facilitator, the independent evaluation of the SB took place in the third quarter of 2013. The outcome of this evaluation was discussed among the members with the facilitator in a closed session. The SB is of the opinion that this evaluation further cemented the already constructive working principles of the Board by providing an additional open and congenial discussion platform, with a view to constantly adapting to the continuously changing banking environment.*

2.2 Tasks and working methods

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

3

Executive Board

3.1 Composition and expertise

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

STIPULATION	NOTES & EXPLANATIONS
3.1.2 Each member of the executive board shall possess a thorough knowledge of the financial sector in general and the banking sector in particular, thorough knowledge of the bank's functions in society and of the interests of all parties involved in the bank, thorough knowledge so that he or she is able to assess and determine the main aspects of the bank's overall policy and then form a balanced and independent opinion about the risks involved.	*Members of the MB possess between 20 and 30-plus years of experience in various banking fields. Safeguarding the continuity of the bank and balancing the interests of all the stakeholders, including the bank's clients, are the major principles guiding the decisions of the MB. To this end, the MB ensures a balanced assessment of the commercial interests of the bank and the risks to be taken, taking into account the approved risk appetite of the bank.*
3.1.3 The chairman of the executive board shall organise a programme of lifelong learning, with the aim of maintaining the expertise of the executive board directors at the required standard and improving their expertise where necessary. The learning programme shall cover relevant developments at the bank and in the financial sector, corporate governance in general and in the financial sector in particular, the duty of care towards the client, integrity, risk management, financial reporting and audits.	*DHB Bank has in place a lifelong learning policy that describes the necessary qualifications for the members of the MB – and the SB – and the methods by which their knowledge base will be maintained to fulfil their respective responsibilities via lifelong learning sessions. Throughout the year, all the MB and SB members in office take part in lifelong learning sessions relating to governance, and to the developments in the bank and the banking sector. More information about these sessions is disclosed in the "Report of The Supervisory Board" and "Report of the Managing Board" sections of the annual reports of DHB Bank, including this one.*
3.1.4 Every member of the executive board shall take part in the programme referred to in 3.1.3 and meet the requirements of lifelong learning. They have to satisfy this condition to sit on the executive board. The SB shall ascertain whether the members of the executive board continue to fulfil the expertise requirements developed by the De Nederlandsche Bank (the Dutch Central Bank).	*Together with the SB, the MB members attended lifelong learning sessions, which have been organized since 2011. Please refer to explanations under 3.1.4. The SB is of the opinion (as reported in the 'Report of the Supervisory Board' section of this annual report) that these sessions, combined with their professional background and experience, also helped the members of the MB to continue fulfilling the expertise requirements developed by DNB in the exercise of their functions.*
3.1.5 Each year, the bank shall indicate in its annual report in what manner it implemented principles 3.1.3 and 3.1.4.	*Please refer to the explanations under 3.1.3.*
3.1.6 Taking into account the risk appetite approved by the supervisory board, the executive board shall ensure a balanced assessment between the commercial interests of the bank and the risks to be taken.	*Please refer to the explanations under 3.1.2 and 3.1.7.*
3.1.7 Within the executive board one member shall be responsible for preparing the decision-making with regard to risk management. This member of the executive board shall be involved in a timely manner, in the preparation of decisions that are of material significance for the bank as regards the risk profile, especially where these decisions may result in a departure from the risk appetite approved by the supervisory board. Risk management shall also include a focus on the interests of financial stability and on the impact systemic risk could have on the risk profile of the bank.	*While being jointly responsible for the management of DHB Bank, the members of the MB have separate primary responsibilities. In this framework, the MB member whose primary responsibilities include, among others, the commercial activities of the bank, is not directly involved in risk management. The utmost care is jointly taken not to deviate from the risk appetite statement, which was largely achieved in 2014 and slight deviations were tackled if and when they occurred. The continuity of DHB Bank is the core driver behind risk management. Going beyond the production and review of detailed management information system reports, risk management is a continuous process handled via the different committees of the bank, some of which are Asset / Liability Committee, Credit Committee, Organization and Control Committee, and Risk Management Committee.*

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

3.2 Tasks and working methods

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

STIPULATION	NOTES & EXPLANATIONS

4

Risk Management

4.1

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

The MB is responsible for adopting, implementing, monitoring and, where necessary, adjusting the bank's overall risk policy, as is also more extensively set out in the MB Policy. The MB each year proposes the bank's risk appetite statement, which comprises quantitative and qualitative dimensions, to the SB via initial discussions at the Risk and Audit Committee (RAC). The 2012 risk appetite statement of DHB Bank was proposed by the MB and approved following deliberations by the SB in its meeting dated 16 December 2011, while the 2013 risk appetite statement, largely based on the previous year, was approved by the SB in its meeting dated 14 December 2012. Similarly, the 2014 risk appetite statement was approved by the SB in its meeting dated 13 December 2013, and the 2015 one on 12 December 2014.

4.2

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

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

4.3

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

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

4.4

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

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

4.5

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

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

5

Audits

5.1

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

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

5.2

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

DHB Bank has its own IAD, which has an independent position within the bank. The bank's Head of Internal Audit is registered by the Dutch Auditor's Institute NBA (as RA) and by the Professional Organisation of IT Auditors NOREA (as RE) and member of the Institute of Internal Auditors (IIA). He has a direct access to the Chairman of the Risk and Audit Committee (RAC) in addition to the MB. This further strengthens his independence. He presents his reports and findings accordingly.
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5.3

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

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

5.4

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

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

5.5

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

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

5.6

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

The Head of Internal Audit has the responsibility of arranging talks with De Nederlandsche Bank (DNB) and the external auditor at least once a year, to discuss each other's risk analysis and findings and each other's audit plan at an early stage. In the tripartite meetings of 2014 attended by the representatives of De Nederlandsche Bank (the Dutch Central Bank, DNB), KPMG Accountants N.V., the Internal Audit Department and the MB, various aspects of reporting, internal audit and risk management in relation to DHB Bank were discussed.

STIPULATION	NOTES & EXPLANATIONS

6

Remuneration Policy

6.1 Basis

6.1.1

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

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

6.2 Governance

6.2.1

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

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

6.2.2

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

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

6.3 Remuneration of members of the executive board

6.3.1

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

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

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

6.4 Variable remuneration

6.4.1	
The allocation of variable remuneration shall be related to the bank's long-term objectives.	*Please refer to the explanations under 6.3.3. Additionally, as per the Remuneration Policy, the assessment of the performance of the MB will be conducted in a three-year framework in order to ensure that the assessment process is based on long-term performance.*
6.4.2	
Every bank shall set a maximum ratio of variable remuneration to fixed salary that is appropriate for the bank in question. The variable remuneration per annum of members of the executive board shall not exceed 100% of the member's fixed income.	*In line with regulations in force in 2014, the total variable remuneration for any member of the MB or senior staff will never exceed 100% of the total yearly fixed remuneration of the member concerned (50% for senior staff members engaged in a risk management or control function). As per the amendments on the law regarding remuneration for the financial sector (Wet beloningsbeleid financiële ondernemingen/ Wbfo) that was approved by the Dutch parliament in January 2015 and according to which a 20% bonus cap was introduced in the Netherlands as from February 2015 for all the employees of financial institutions (with some exceptions), DHB Bank's Remuneration Policy will be adjusted accordingly in 2015.*
6.4.3	
Variable remuneration shall be based on the performances of the individual, his part of the business and the performance of the bank as a whole according to pre-determined and assessable performance criteria. In addition to financial performance criteria, non-financial performance criteria shall also make up a significant portion of the assessment of the individual. Performance criteria shall be defined in terms that are as objective as possible in the bank's remuneration policy.	*The Remuneration Policy covers the granting of variable remuneration on performance criteria based on both financial and non-financial criteria; non-financial performance criteria make up a significant portion of the assessment of the individual.*

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

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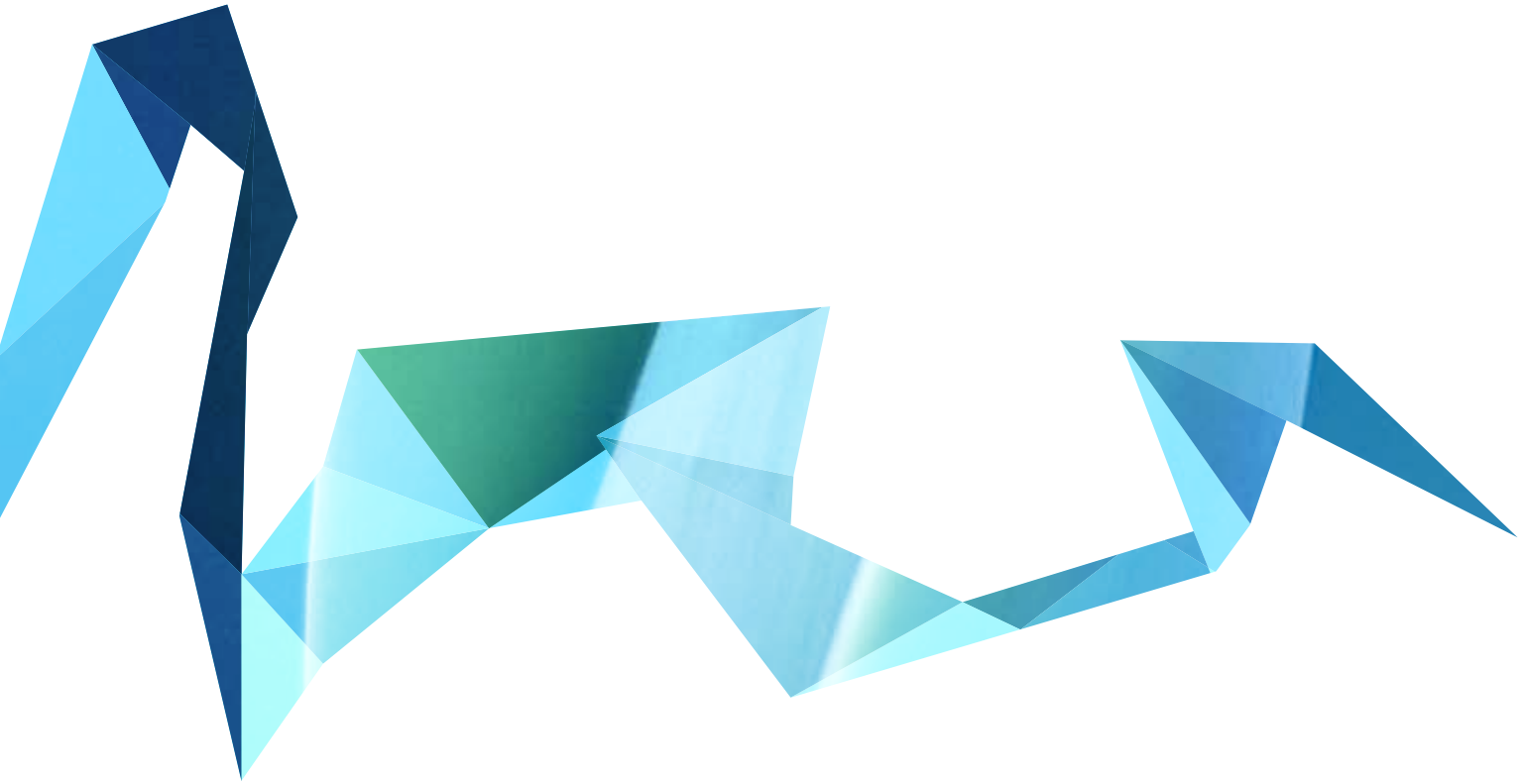

DHB Bank

DEMİR-HALK BANK (NEDERLAND) N.V.