Annual Report **2016**

Financial Statements of DHB Bank for the Year 2016

DHB Bank
DEMİR-HALK BANK (NEDERLAND) N.V.

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About DHB Bank

About Us

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 2016, DHB Bank's balance sheet size was EUR 1,762.5 million and equity EUR 239.7 million.

Owned by HCBG Holding B.V. (70%) and Türkiye Halk Bankası A.Ş. (30%), DHB Bank has a two-tier management structure, the Managing Board and the Supervisory Board. Both shareholders have equal voting rights proportional to their shares; there are no non-voting shares in DHB Bank, neither shares with no or only a limited right on profit sharing or a specification of the powers attached to those shares.

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 38.5% shares in Access Financial Services IFN S.A. Romania, 35.4% shares in C International (Nederland) N.V. and 9.7% 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 O.J.S.C. as well; that bank's other shareholder is the European Bank for Reconstruction and Development with a 2.5% stake.

Türkiye Halk Bankası A.Ş. (Halkbank), with nearly EUR 62 billion in balance sheet size, is one of the largest banks by assets in Turkey; its main shareholder is the Turkish Sovereign Wealth Fund with a 51.10% stake, while 48.88% is free float, and the negligible 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 and abroad, mainly in the financial sector, as well as other bank subsidiaries in Macedonia and Serbia.

On 18 October 2016, Moody's Investors Service affirmed the bank's baseline credit assessment of ba1 and its long-term and short-term foreign and local currency bank deposit ratings of Ba1 with stable outlook. DHB Bank continued its operations in 2016 by creating value for all its stakeholders while living up to its economic and social responsibilities.

FINANCIAL HIGHLIGHTS	2016 (EUR 000)	2015 (EUR 000)
Total assets	1,762,515	1,897,315
Loans and receivables – banks	238,398	265,640
Loans and receivables – customers	990,019	1,140,296
Deposits from customers	1,208,132	1,308,926
Total equity	239,730	235,949
Net interest income	57,749	47,871
Net fee and commission income	1,175	1,632
Result on financial transactions*	(18,188)	(11,849)
Net profit	14,043	11,211
Non-performing loans (NPL)	1.02%	0.92%
NPL coverage ratio	65.0%	68.4%
Solvency ratio (%)**	16.90	16.37
Number of employees	110	128
Number of locations	7	7

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

** *The solvency ratios exclude the annual net profits for both years.*

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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 239.7 million and asset size of EUR 1,762.5 million at the end of 2016. During this time-span, 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 primarily on retail funding (and wholesale funding to a certain extent) and mainly wholesale asset generation (again relatively small retail asset generation). DHB Bank's business model and revenue stream fully rely on real banking transactions, and there is no reliance on any kind of speculative income. Therefore, the bank tries to minimize the market risk by avoiding FX position or interest rate position, and derivative transactions are mainly done for assets and liabilities hedging purposes. Against the backdrop of its mission statement and vision statement, the bank conducts its activities through the executional authorities and responsibilities of the Managing Board (MB), under the supervision of the Supervisory Board (SB), and cascades these down throughout the organization founded on different building blocks (i.e. departments and functions).

- *Retail Banking: DHB Bank's retail operations consist of retail deposits and consumer loans. Retail deposits are collected from Germany and the Netherlands via Internet and call centre channels. The bank terminated deposit collection in Belgium parallel to efficiency measures implemented in 2016.*

  Retail deposits, 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.

  As far as the product range is concerned, retail deposit products offered are current accounts, savings deposits and time deposits (between 3-month and 5-year in different brackets). DHB Bank also offers floating rate term deposits to its customers in the Netherlands and Germany so as to improve market penetration in the term deposits segment.

  Consumer lending occupies a relatively small portion of the assets. The marketing of the consumer loans continues in Belgium in a completely insured setup.

  A very small part of the consumer loan portfolio includes Turkey Home Credits, a special mortgage product offered to residents of European Union member countries for their residential purchases in Turkey. These loans are not insured, but collateralized.

- *Wholesale Banking: On the assets side, wholesale banking is the foremost revenue generation source for DHB Bank. The bank's wholesale asset generation activities are centralized at the head office in Rotterdam. Wholesale asset generation activities comprise primarily placements in the form of corporate loans, syndications, to an extent bilateral loan to banks, and securities investments. Geographical diversity is an essential feature of DHB Bank's activities on the asset side with exposures primarily in the European Economic Area (EEA). This business is conducted by the Corporate Marketing, Financial Institutions & Forfaiting and Treasury departments. In its lending endeavours, the bank strictly follows its traditionally stringent risk assessment, credit granting and monitoring principles through the Credit Analysis and Credit Risk Monitoring & Control departments.*

  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 main product types in the corporate segment of wholesale asset generation will continue to be bilateral loans for

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working capital 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. Securities/bonds 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; as of year-end 2016 more than 95 % of the securities portfolio consisted of ECB eligible securities DHB Bank does not keep in principle a securities/ bonds trading book.

On the liabilities side, as part of its strategies, the bank maintains a certain portion of its funding in the form of wholesale funds; these, however, continue to account for a relatively small portion of total balance sheet size. These funds consist primarily of repo funding, of which a major portion relates to deals closed with the ECB under the Targeted Longer Term Refinancing Operations (TLTRO). DHB Bank also made use of wholesale funding in the form of bank bilateral loans or money market borrowings during the year, with an increasing trend in terms of amount and number counterparties for diversification purposes.

Apart from securities investments, including its general role in assets and liabilities management for the bank's activities, the Treasury Department continued to manage liquidity and market risk, which is separately monitored by the Risk Management Department.

Our clients

Forming the backbone of its activities, clients are perceived by the bank as vital partners under a continuity aspect as well as from the perspective of corporate social responsibility. Although DHB Bank takes into account the interests of all its customers ranging from individuals to corporates and financial institutions, it pays particular attention to the interests of its retail customers, as the other groups are professional entities equipped to assess and pursue their best interest. Even so, DHB Bank conducts all its activities on a fair and open basis, including all dealings with corporates and financial institutions, for which it has a 'Client First Policy'.

Sources of Profit and Profit Prospects

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

From an overall perspective the bank's activities deliver positive net interest spread while a portion of its assets are ECB eligible securities with very low yields but high liquidity. These securities are invested in for (regulatory) liquidity management purposes, which inevitably exert pressure on the ROE level.

DHB Bank does not expect significant fluctuations in its recurring revenue base in 2017 on the face of the regulatory, economic and financial environment. On the other hand, thanks to the structural measures implemented in 2016 to reduce the cost base (as covered under 'Strategic Alignment and Direction' in the Report of the Managing Board), DHB Bank is expected to report higher profitability in the longer term starting from 2018.

Competition and Stakeholder Perspective

DHB Bank demonstrated that, thanks to its strategic alignment introduced at the end of 2010 and refined on different occasions parallel to regulatory, economic & financial changes and shareholders expectations, it has the foundation and infrastructure to continue as a viable institution.
From a resources perspective, the bank possesses a sticky retail deposit base that proved to be stable; a large portion of the bank's customers remained loyal even during the severe crisis situations. As for revenue generation activities, again the afore-mentioned strategic alignment endeavours ensured a more clear-cut and refined business model; i.e. with a more precise definition of target customer base (particularly corporate customers) that are expected to remain with the bank thanks to established relationships with them and quality of the offered services.

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

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

Nature of the Organization

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

Risk Management & Scenario Analyses

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

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

Mission Statement

Delivering quality through transparent and fairly priced products and services to our clients in a select number of countries in order to foster mutually beneficial long-term relationship 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.

02

Report of the **Supervisory** Board

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, 2016.

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.

Proposal to the Annual General Meeting of Shareholders

We propose to the annual General Meeting of Shareholders (GMS) to adopt the financial statements for 2016 and to adopt the proposal for the appropriation of the financial result, i.e. 100% dividend distribution from the net profit of financial year 2016.

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

1. *All the proposals were unanimously approved by the general annual meeting of shareholders on 20 April 2017*

Overview

As part of its working routine, the SB regularly meets with the MB. The main matters discussed included the regulatory, financial and economic environment and requirements, and other major issues, specifically the bank's business model, financial development and budgeting, risk appetite and risk management. In particular, the SB has continued to closely monitor the financial and economic developments in the Eurozone as well as developments in Turkey and in its neighbouring countries – particularly in the second half of 2016 due to political and economic developments triggered by increased uncertainty in Turkey coupled with volatility in the markets, along with the bank's general exposures and investment profile in terms of size, borrower segments and geographical coverage. These topics, together with other bank-specific subjects, were covered extensively in the regular management reports as well as in the reports of the internal and external auditors.

The SB always takes a keen interest in the bank's provision of added value and appropriate services to the clients. The accumulation of new rules and regulations, taxes, levies etc. that were introduced in the banking sector over the past years continued to require a great effort on the part of the MB and the SB so as to align these with the justifiable wishes of shareholders and clients, and keep the stakeholders informed timely, comprehensively and appropriately.

During 2016, the MB was in dialogue with DNB also in the context of industry-wide thematic examinations on various subjects, like Systemic Integrity Risk Analysis, Risk Assessment System Control Project, among some others. Members of the SB were also included in these proceedings where necessary - by additionally holding separate meetings with the supervisor on some occasions.

Strategy

In line with the shareholders' expectation of a higher ROE level, the MB developed certain measures to further rationalise the organisational structure and cost base of the bank – in alignment with its business model - in order to increase profitability against a backdrop of a continued low/zero asset yields environment in its markets of operations. These measures, which are summarized in the Report of the Managing Board section, were approved early 2016 by the SB. The Board closely followed their implementation and appreciated their timely completion as well as frequent reporting from the MB in this respect.

The SB monitored the bank's continued adherence to the requirements of the Policy Rule on Maximizing the Deposits and Exposures Ratio under the Act on Financial Supervision, which guided the bank to expand more in the European Economic Area. The SB appreciates the Managing Board's intensive efforts for meeting the relevant asset diversification targets and further strengthening the bank's position and prospect on all fronts in this context.

Report of the **Supervisory** Board

Intensive commercial activities with sound operations and active risk management, supported by careful policy development and implementation, have collectively continued to bring about overall satisfactory performance of the bank, parallel to the targeted profit level for 2016.

The SB considers the strategy development and review as a continuing process that requires regular attention under the changing market circumstances. The SB will continue its strategic oversight concerning the business model and activities of the bank on the basis of sound risk parameters, including strong solvency and liquidity levels in compliance with the regulatory requirements and in alignment with the approved 2017 risk appetite statement.

Corporate Governance

Appropriate corporate governance is of great importance to the bank. It was made significantly more explicit and codified in DHB Bank in accordance with the many rules and regulations in the past few years. All the stipulations of the new Dutch Banking Code are fully adopted by DHB Bank. Furthermore, though the Dutch Corporate Governance Code is not applicable to DHB Bank because it is not a listed company, the bank has adopted the Code's relevant requirements, including internal risk management, internal audit and compliance. A dedicated 'Corporate Governance' section in this annual report comprehensively explains the respective applications at the bank.

Along with its committees the SB continued in 2016 to closely monitor compliance with regulatory requirements. Overall, the SB and its committees, in close communication with the MB, continued to monitor the full implementation in the bank in both text and spirit of the Future-oriented Banking guidance that was introduced in the Netherlands by the Dutch Banking Association in 2015. Future-oriented Banking comprises a social charter, an updated Banking Code and rules of conduct associated with the bankers' oath; it is intended to achieve an ethical, customer-oriented and sustainable banking sector in the Netherlands. The SB sincerely believes in the guidance and stipulations covered in this package and in DHB Bank applying these in its activities. Regarding compliance with the Banking Code, detailed information is provided in the bank's website.

Risk Management, Audit and Internal Control Systems

The periodical meetings of the Risk and Audit Committee (RAC), whose members have sound knowledge and experience of risk management, audit and internal control systems, were also attended by the MB members, by the senior managers of the internal audit, credits, compliance and risk management departments, and by representatives of the external auditor, Ernst & Young Accountants LLP.

Subjects regularly reviewed were financial reporting, internal audit, internal control systems and risk management policies and practices, 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 of the bank, established and proposed by the MB and approved by the SB for 2016 covered various risk dimensions including capital adequacy, liquidity, credit risks and 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. Through periodical assessments made by the Risk Management Department, and as reviewed by the RAC, it was verified that the bank's risk profile remained within the risk levels established in the risk appetite statement throughout 2016. The independent organizational position 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.

The SB and the Supervisory Board Credit Committee (SBCC) regularly convened to assess and provide advice on the credit proposals of the credit committee of the bank.

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

Report of the **Supervisory** Board

unexpected local and/or regional crises. A sticky and track proven retail deposit base, combined with the bank's liquid assets and the short weighted average duration of the loan portfolio, also enable DHB Bank to withstand possible future liquidity squeezes in the markets under plausible stress scenarios. 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 were subject to the supervisory review and evaluation process (SREP) in 2016.

The bank's Recovery Plan sets out the possible key measures to be taken by DHB 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. Guidelines published by EBA on this subject – where applicable – were also taken into account in the Recovery Plan. The SB and RAC are convinced that the measures envisioned therein provide adequate comfort regarding the preparedness of the bank against severe crisis scenarios.

The bank's overall risk monitoring, reporting and control mechanisms were further improved in 2016. 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. The SB also appreciates the constructive and effective dialogue that the MB has established with DNB.

Related Party Transactions

The Related Party Transactions Committee (RPTC) of the SB, consisting of two independent SB members, reviewed the transactions that the bank intended to conclude with related parties in the ordinary course of business and informed the SB accordingly; SB members related to the shareholders did not participate in voting on proposals involving their own group. This working principle, along with other practices and policies, is an important building block for the prevention of conflict of interests.

Self-Evaluation

The SB members annually provide the chairman of the SB with a written self-evaluation of their performance as a SB member of the bank.

In the self-assessment session that was conducted during their meeting in December 2016, the members jointly discussed their self-evaluations that were 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. In addition, the SB members also discussed their self-assessment on the general governance of the bank, centred on themes such as SB's pursuit of bank interests and management policies, the composition of the Board, SB sessions, culture and development of the SB etc. During this session, the SB's responsibilities, the supervision of the bank's strategy and day-to-day activities and the assessment of the effectiveness of the lifelong learning programmes were among the other subjects discussed. The SB reiterates its opinion that these yearly evaluations further cement 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, while, on the other hand, some attention points were underlined to further improve the Board's supervision.

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. The next external assessment that was initially planned for 2016 has been postponed by one year for a more efficient assessment, considering the number of new members who joined the SB in 2016 as reported further below.

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. Parallel to the Lifelong Learning Program 2016 of the SB, all the SB members in office – and the MB members – took part in lifelong

Report of the **Supervisory** Board

learning sessions organized during the year under review. In the four sessions that were mainly facilitated by external consultants, the subjects covered were:

- Navigating through regulatory challenge
- Economic developments and prospects in Turkey and in the World
- IFRS 9 impairment modelling
- The oversight role of the SB in strategy formulation and implementation

The effectiveness of lifelong learning was evaluated during the self-assessment mentioned above; the SB considered these sessions valuable in enhancing the expertise of its members.

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.

Board Composition

The terms of Dr Nurzahit Keskin and Mr Suleyman Kalkan, SB members related to Türkiye Halk Bankası A.Ş., ended on 4 April 2016 and 28 September 2016 respectively, parallel to the termination of their mandate in that bank. We would like to express our sincere appreciation for the contributions they made to DHB Bank and to the Supervisory Board during their terms of office.

The Nomination Committee convened several times in 2016 in relation to the scheduled or arisen vacancies in the Board and recommended the appointment of new candidates to the SB in this respect according to their selection process. Following the completion of these processes, discussions and decisions at the Board and shareholders levels and ultimately subsequent to the receipt of DNB's approvals, several new members joined the SB in 2016.

- Ms **Liana Mirea**
  joined on 19 January 2016
- Mr **Cornelis Visscher**
  joined on 7 March 2016
- Mr **Frederik-Jan Umbgrove**
  joined on 12 April 2016
- Mr **Mustafa Aydın**
  joined on 28 September 2016
- Mr **Elvan Öztabak**
  joined on 18 October 2016

The SB welcomes its new members who already started to contribute to the efficient functioning of the Board via their experience and different profiles. For further details on the background of the SB members, reference is made to the Corporate Governance section in this annual report.

Stakeholders

We are very appreciative of our shareholders' continued commitments towards and confidence in the bank. Dialogue with our shareholders will continue in 2017 concerning the bank's strategic activities, with a view to balance the interests of all stakeholders.

We express our appreciation for the dedication of DHB Bank's management and staff, and thank them for their overall performance 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, 20 April 2017

Mr **Henk Sliedrecht** (Chairman)

Mr **Hans J.Ph. Risch**

Ms **Nesrin Koçu de Groot**

Ms **Liana Mirea**

Mr **Cornelis Visscher**

Mr **Frederik-Jan Umbgrove**

Mr **Mustafa Aydın**

Mr **Elvan Öztabak**

Picture at the boardroom of the former head office

From left to right

Mr **Mr Elvan Öztabak**

Mr **Mustafa Aydın**

Mr **Frederik-Jan Umbgrove**

Mr **Henk Sliedrecht** *(Chairman)*

Ms **Liana Mirea**

Mr **Kemal Cıngıllıoğlu** *(Observer)*

Mr **Hans J.Ph. Risch**

Ms **Nesrin Koçu de Groot**

Mr **Cornelis Visscher**

03

Report of the **Managing** Board

Report of the **Managing** Board

2016 Highlights

During the year under review, DHB Bank's balance sheet was reduced intentionally by 7% to EUR 1,762.5 million; the core reason of downsizing was to scale back the relatively costly Belgium retail deposits against the backdrop of a low/negative yield environment. On the asset side, reduction was made primarily in loans (percentage-wise and in nominal amount) to corporates.

The equity increased by EUR 3.8 million to EUR 239.7 million despite 100% distribution of the 2015 net profit as dividend in 2016. The increase was largely due to higher profit in 2016 compared with 2015, among a few other changes.

Thanks to an active asset and liability management in 2016 while operating within the boundaries of the risk appetite, the bank closed the year with a EUR 22.8 million operating profit before impairment and before tax. This is higher than the projected amount and higher than previous year, for which clarifications are made under the section 'Income Statement'. Combined with lower impairment charges compared to the previous year, among other developments, the 2016 profit after tax amounted to EUR 14.0 million, which constitutes an improvement of 25.3% over 2015.

Shareholders

The MB values the shareholders' traditional commitment to the bank since its establishment by way of occasional capital injections and frequent profit retentions.

Considering the strong capital of the bank, DHB Bank started to distribute 50% of annual net profit as dividend since 2012, and lastly 100% for financial year 2015. The MB considers the bank's ability to distribute dividends as a continued validation of DHB Bank's solid financial standing. In view of the bank's Dividend Policy, the MB proposes again a 100% dividend distribution from the 2016 net profit.

Lifelong Learning

The Senior General Manager organizes annually a lifelong learning programme for the MB. The MB members attended the following four lifelong learning sessions that were organized jointly with the SB during 2016:

- Navigating through regulatory challenge
- Economic developments and prospects in Turkey and in the World
- IFRS 9 impairment modelling
- The oversight role of the SB in strategy formulation and implementation

Additionally, the MB members separately attended seminars, forums or similar events in the framework of lifelong learning such as; European Bank Supervision and the Role of DNB within SSM; Global Economy & Capital Markets Forum 2016; Global Energy Sector; Credit Concentration Risk; Global Outlook & Emerging Markets; Strategy Formulation.

The MB is of the opinion that lifelong learning sessions in 2016 reinforced the already extensive knowledge base of its members and their ability to adapt to the ever changing banking environment.

Corporate Governance

In order to cover the Report of the Managing Board in a concise fashion with focus on developments/explanations related to the financial year (2016), corporate governance applications of DHB Bank are presented in this annual report under the section 'Corporate Governance'.

Environment

Extraordinary economic, financial and (geo)political developments and stringent regulatory requirements continued to prevail in 2016, all of which had and continue to have varying degrees of impacts on the banking business.

Economic & Financial Environment

The recovery in the last two years in the Eurozone has been supported by low oil prices and a gradual pick up in credit growth, thanks also to the aggressive monetary easing (quantitative easing- QE) programme of the ECB. Monetary easing, among others, helped the weakening of Euro, and lowered the borrowing costs. Relying only on the ECB's monetary effort, being a currency union without a fiscal unity makes Eurozone more sensitive to internal and external shocks. Among others, the new protectionist stance of USA on trade, particularly towards China

Report of the **Managing** Board

and Mexico, among others, encompasses risks of global trade wars with inevitable implications on the Eurozone as well. In addition, specific developments such as Brexit, rise of Euroscepticism, nationalist voices, and uncertainty due to the elections France and Germany in 2017 add to risk aversion. Considering its exposures in the European Economic Area (EEA), DHB Bank will continue to diligently monitor the political, economic and financial developments in this region.

Historically Turkey has been an important country for DHB Bank, albeit with a significantly reduced exposure over the past couple of years (2016: 27% of total assets; in nominal terms EUR 469 million over total EUR 1,762 million balance sheet) triggered by the diversification strategies of the bank, mainly towards EEA. Of this EUR 469 million exposures (which was progressively reduced from approximately EUR 740 million in 2013), approximately EUR 290 million consisted of exposures to top tier banks and their subsidiaries. Management is closely monitoring developments in Turkey. This is especially important because Turkey was downgraded[2] to sub-investment grade by Moody's late 2016 and by Fitch early 2017, mainly due to a general deterioration in credit fundamentals triggered by the failed coup in July 2016 and ensuing economic uncertainty and geopolitical instability. DHB Bank closely follows developments triggered by this coup attempt, for which, under the close attention of the MB, credit risk management is in daily contact with front offices that are closely monitoring potential impacts on the bank's portfolio through various channels and for which pro-active measures were taken. Overall, the bank was not significantly affected from these developments.

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

Aside abundantly available economic and financial reports, Management frequently analyses DHB Bank's credit portfolio through various impact/volatility analyses.

On the financial front, the ECB's negative interest rates for deposits since June 2014 (currently minus 0.40% p.a.) were coupled with its own open-ended QE program in January 2015 (following FED's similar move in the past) to revitalize the Eurozone economy and to counter deflation. These policies' implications extended to 2016, with relatively mid-term safe-haven sovereign bonds such as German Bunds continuing to trade at negative spreads. In this context, the banks' funding from the ECB under the TLTRO is subject to zero interest rate, yet it is not a match to the negative yield of 7-year German bunds (and occasionally 10-year bunds) or the negative yield of slightly shorter term securities of other strong sovereigns.

It should be also noted that this low/negative interest rate environment is still not fully reflected in retail deposit costs, representing a significant disparity in the general banking sector in the Eurozone.

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 (which are floored with zero as a market practice for loans and receivables). This adverse condition is exacerbated by the fact that, for the past few years, the reduction in deposit interest rates did not match the magnitude of the decline of base rates and credit yields. 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.

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 profitability. This approach will continue to be the bank's strategic mainstay in the future.

Regulatory & Supervisory Environment

The most significant regulatory requirement having implications for the activities of the bank is the Policy Rule on Maximizing the Deposits and Exposures Ratio under the Act on Financial Supervision (the Business

2. *Despite initially being placed to negative outlook by Moody's on 29 July 2016, along with Turkey Sovereign, Turkish banks and major corporates, on 18 October 2016 Moody's revised the negative outlook on DHB Bank's Ba1 deposit rating to stable, which reflected: (1) the decrease in the bank's exposures to emerging economies, which is expected to continue; and (2) the resilience of the bank's credit profile in a context of a weakening operating environment in Turkey.*

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Model Policy Rule), which entered into force in the first quarter of 2014. This Policy Rule requires the Dutch banks to comply with a certain ratio (25%) – a proportion 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 strategic roadmap to fully comply with this regulation gradually and over a certain timeframe was prepared by the MB in consultation with the SB and in agreement with DNB. Accordingly, DHB Bank carried on shifting its lending activities in 2016 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, and stated to be fully compliant with this stipulation by year-end 2016.

Another important regulatory requirement is the Policy Rule on the Treatment of Concentration Risk in Emerging Countries (the Country Concentration Policy Rule) which ultimately calls for Dutch banks to maintain more capital in comparison to Basel guidelines - depending largely on the level and nature of their exposures above a certain threshold to some emerging countries. DHB Bank fully complies with the respective Policy Rule.

During the year under review DNB initiated new or followed up on system-wide thematic examinations (some via self-assessments) that they conducted the previous year(s), such as: Risk Assessment System Control Project; Thematic Assessment of the Credit Concentration Risk; Systemic Integrity Risk Analysis (SIRA); Examination on Information Security; Search for Yield; Data Quality; Self-assessment Survey Regarding EMIR (European Market Infrastructure Regulation); Survey on Risks And Mitigants/ Controls Related to International Sanctions, Anti-Money Laundering, Counter Terrorism Financing and Anti-Bribery and Corruption. Overall and in general, DHB Bank had satisfactory results from these examinations and self-assessments, while some recommendations of DNB thereto were successfully applied by the bank.

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.

DHB Bank timely completed again its ICAAP and ILAAP processes in the first quarter of 2016; these were followed by the Supervisory Review and Evaluation Process (SREP) conducted and completed by DNB for the year. The outcome of SREP did not reveal significant changes compared with the previous year. Moreover, DHB Bank is in compliance with all the capital adequacy ratios of the Basel III Accord, before their deadlines. 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 the ECB and ECB eligible securities.

DNB started to collect in 2016 ex-ante contributions from Dutch banks to the Deposit Guarantee Scheme (DGS) in implementation of the respective European DGS Directive. The amount of an individual bank's contribution is calculated according to the banks' risk profile and on the amount of guaranteed deposits at these banks.

With the introduction of Single Resolution Mechanism, which aims at alleviating the impact of failing banks on public funds by accumulating a Single Resolution Fund (SRF) over a transitional period, DHB Bank started to contribute to this fund at the end of 2015, albeit with a small amount.

DGS and SRF contributions coupled with regulatory supervision expenses (DNB, ECB, AFM) represented 34% of DHB Bank's other administrative expenses.

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Strategic Alignment and Direction

General

Due to the regulatory developments mentioned in the section above, particularly concerning the Business Model Policy Rule, DHB Bank refined its strategic alignment, which had originally begun in 2010, and continued throughout 2016. It involved more focus on increasing EEA exposure over a certain timeframe, a continued shift from exposures to banks towards exposures to non-banks, and exploration of more and diversified wholesale funding in the years to come, depending on market opportunities. This strategic process is demarcated by DHB Bank's customary stringent risk assessment, limit establishment and monitoring practices, aimed at preventing unnecessary risks in search of higher yields.

In this direction, 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 variations depending on market circumstances and opportunities. Retail deposits were to remain the main funding source while the bank was also, to a lesser extent, benefitting from wholesale funding potentials, mainly repo transactions, money market funding and some bilateral bank loans.

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. The past three years' efforts in this direction bore results, thanks to which exposures to the EEA started at the end of 2015 – and continued in 2016 – to represent the largest share in the bank's portfolio. In addition, a portion of Turkey exposures is in the form of very short term placements (average 1 month maturity) in local currency; these are kept for liquidity as well as solvency management purposes.

DHB Bank's core strategic direction is to maintain recurring profitability in the face of a minus/low interest rates environment while not deviating from its prudent risk appetite, and further refining its business model for the benefit of all its stakeholders. In this respect, the MB reiterates its appreciation of the valuable support of the SB concerning the formation of the bank's long-term strategy.

2016 Project ReFocus

In view of the prolonged minus/low interest rates period, Management engaged in a set of structural measures (named Project ReFocus) with the aim of strengthening the bank's performance in the years to come. Project ReFocus was developed under consultation with the shareholders, with the support of the SB and in proper communication with the local authorities. Its measures consisted mainly of further reducing cost base in both the financial and administrative parts of the bank's operations. An overarching principle of this project, which took into account the bank's intrinsic strength, expertise, experience and culture, was not-compromising the bank's sound risk appetite and risk management principles while refraining from entering in uncharted territories - to reach a higher profitability.

Concerning the financial angle, it was decided to slightly downsize by winding down the retail deposit collection activities of Brussels Branch, and to continue with this activity type in the Netherlands and Germany. Belgium was selected due to the low volume of retail deposits in this country (around 12.5% of the total at the beginning of 2016) coupled with the relatively high overheads and deposit costs in this country. This operation was successfully completed in September 2016 following proper communication with authorities and customers, as well as by virtue of strict project management. In the implementation of this process, the bank did not face any issue or complaint either from customers or regulatory authorities. With the termination of deposit activities, Belgium Branch concentrated on providing retail loans to customers in a more dedicated and efficient fashion.

Concerning administrative expenses, cost cutting consisted of selling the bank's head office premises in Rotterdam – due to high maintenance costs, inefficient working environment and excessive space – and relocate to a modern office in the centre possessing all the efficient working facilities, streamlining the bank's organizational set-up to enhance efficiency in order to further reduce the cost base. All these measures were successfully

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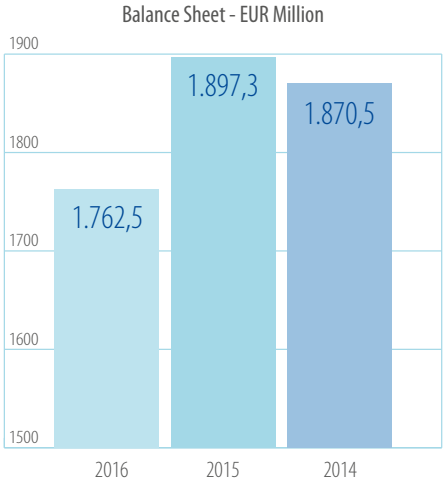
implemented and overwhelmingly completed in the course of the year, while the head office relocated to its new location in April 2017.

Financial Review

The 2016 financial statements of DHB Bank are prepared according to EU-IFRS on a stand-alone basis as the bank does not have subsidiaries.

In the Dutch banking sector, DHB Bank stands as a small-sized bank, which supports its 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 2016 with EUR 1,762.5 million in assets, 7.1% lower than the previous year in line with the above-mentioned Project ReFocus.



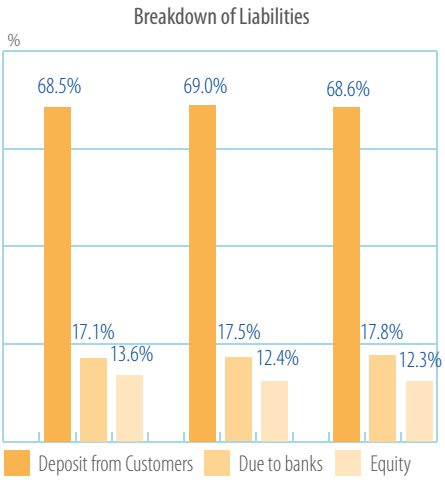
The bank's financial goal is to maintain sustainable profitability while keeping adequate capital ratios and relatively high liquidity levels in the form of cash and cash equivalent investments as per regulatory requirements.

Liabilities

DHB Bank's external liabilities consist mainly of customer deposits, while wholesale funds account for a relatively small portion of the total. Total deposits from customers corresponded to 68.5% of the balance sheet at the end of 2016 and wholesale funds to 17.1%, both ratios almost identical with those in 2015. Over the years retail deposits represented the primary funding source of the bank, and these are planned to remain as such in the future.

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 2016. The shareholders' equity stood at EUR 239.7 million as of year-end 2016, which corresponded to 13.6% of total liabilities - higher than 12.4% in 2015; capital increased by EUR 3.8 million in spite of decrease in balance sheet size. Equity growth occurred amidst 100% distribution of the 2015 net profit (EUR 11.2 million), among others, coupled with slight increase in the fair value reserve compared with 2015.

With regard to capital adequacy, DHB Bank reported a comfortable 16.9% total capital ratio, which is equal in DHB Bank to Core Tier 1 capital ratio, at year-end 2016. The net profit of 2016 is not taken into account



in this calculation, considering the planned proposal of 100% distribution for the year. In the calculations throughout the year, the current year's profit was not taken into account either in line with the Capital Requirements Regulation. Nevertheless, the bank's capital ratio has always been above 16.0%. 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 for credit risk under Pillar 1 according to the Basel II Capital Accord. The capital adequacy assessment under Pillar 2 is regularly updated and taken into account in solvency calculations and reporting. In terms of financial transparency, additional disclosures are published on the web site of DHB Bank as required under Pillar 3. The bank's capital level is also adequate as per the requirements in the Netherlands that

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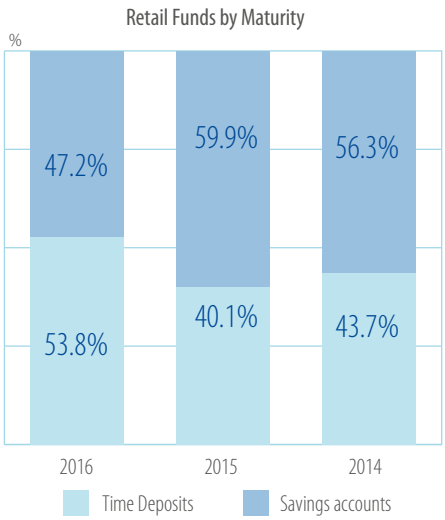
demand – compared to international Basel standards – additional capital in line with the Country Concentration Policy Rule.

Deposits from customers, the liabilities item overwhelmingly consisting of retail deposits, were reduced by EUR 100.8 million 2016 to EUR 1,208.1 million. Outflows were voluntarily allowed from Belgium – where a very small portion of remaining time deposits in the country will be reimbursed to customers at their maturities - whereas there were inflows in the Netherlands and Germany despite several cuts made in offered interest rates. In terms of product breakdown, time deposits constituted 53.8% of the total while the remainder was accounted for by savings accounts (and minor current accounts) as of year-end 2016, a change compared with the earlier years when savings accounts constituted the majority.



Out of total retail customer deposits at the end of 2016, 79.8% were collected in Germany, 19.0% in the Netherlands and 1.1% in Belgium.

Concerning offered deposit rates, DHB Bank ranks at the mid-to-low-end of the market with respect to savings accounts and around the top 10 with respect to time deposits.

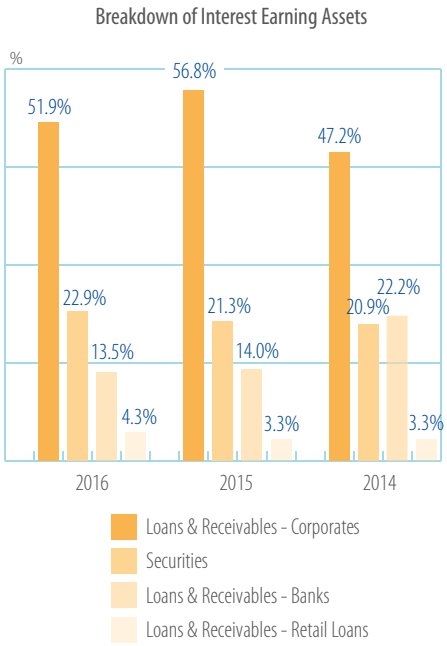
The 'Due to banks' item, as a wholesale funding source, amounts to 19.8% of non-equity liabilities with EUR 302.1 million. Nearly EUR 218 million of this item consists of funds obtained from the ECB under TLTRO, while the majority of the remainder comprises bilateral bank loans and money market borrowings.

Other liabilities, amounting to total EUR 12.6 million, consists of items such as "financial liabilities held for trading", derivative financial instruments designated for hedge accounting, various provisions, accrued expenses, payables to suppliers, premiums payables et cetera.

Assets

DHB Bank's interest-earning assets – all financial assets, except for interest-bearing EUR 121.7 million cash balances with the European Central Bank – corresponded to 92.6% of the total balance sheet, and comprised mainly corporate loans, bank placements and securities investments, with a smaller contribution from consumer loans.

The distribution of DHB Bank's assets reflects its efforts to increase diversification



in terms of geography. Setting aside non-interest earning assets, 62.7% of the bank's exposures (including off-balance-sheet items) originated from the EEA of which 22.0 percentage points were from the Netherlands and 26.7% from Turkey, of which 9.7 percentage points with very short-term maturities up to one month and 17.1 percentage points up to 6 months. This change is a concrete result of the bank's continuous work towards the expansion and diversification in the EEA. The bank has credit exposures to 22 EEA countries, with amounts -excluding nostro accounts- varying between EUR 7.1 million and EUR 386.7 million (the latter is in the Netherlands) with a EUR 50.2 million on

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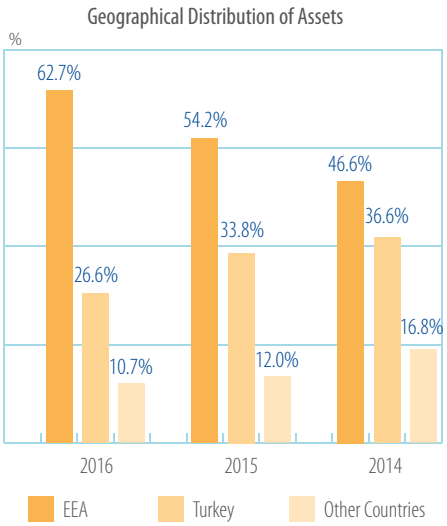
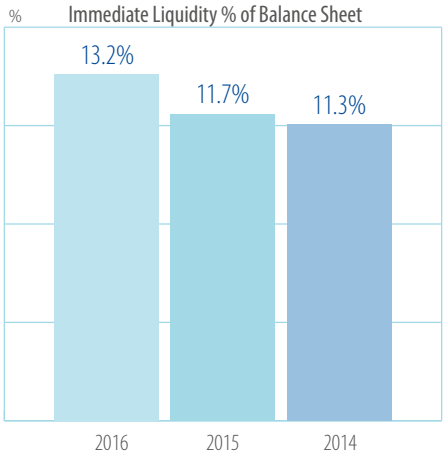
simple average. Apart from the EEA and Turkey, the remaining 8.5% of DHB Bank exposures (EUR 189.5 million) are to 17 different countries at a EUR 11.1 million



on average. It is worthwhile mentioning in addition that 71% of EEA exposures as of 2016 consisted of top creditworthy exposures (such as cash, ECB eligible securities, global banks, 100% insured personal loans, liens on EEA real estates etc.) while 61% of Turkey exposures were to top tier Turkish banks and to their subsidiaries, most of them very short term.

The EUR 121.7 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 13.3% of the balance sheet total, or EUR 235.2 million, when

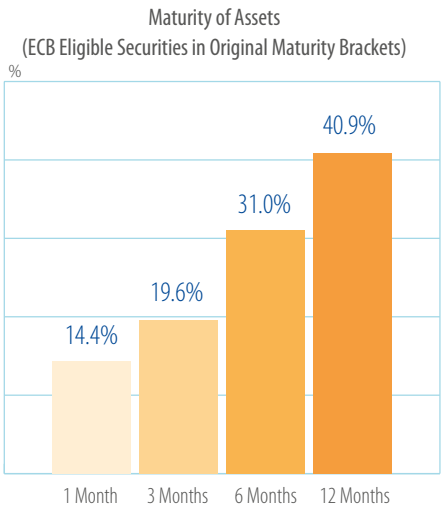


the available – i.e. unused - ECB eligible securities after haircuts and nostro accounts with correspondent banks are taken into account. The strong liquidity position of the bank is additionally supported by its asset structure with very short tenors.

The 'loans and receivables – customers' item, which comprises corporate and retail loans, were reduced by EUR 150.2 million in 2016 to close the year with EUR 990.0 million; yet these exposures still constitute the main assets of the bank with 56.2% of the balance sheet. This reduction is the reflection of Management's voluntary downsizing endeavours in 2016 and its precautionary stance against developments in Turkey covered higher above. A majority of the outstanding balance of this item is accounted for by loans to companies in the EEA, while the balance of retail loans – which are granted on a fully insured basis - amounted to EUR 76.2 million compared with EUR 63.3 million in 2015. Out of the total EUR 913.8 million corporate loans, EUR 111.3 million are very short term TRY loans with approximately 1 month average maturity.

Securities investments closed the year with a balance of EUR 403.6 million at the end of 2016, nearly the same as the previous year. A portion of these securities are used for TLTRO transactions. The overwhelming majority of the securities were ECB eligible (for liquidity purposes), of which the predominant portion is minimum A- rated; 95.6% of securities were from the EU. 75.7% were issued by banks, 15.7% by sovereigns and 8.6% by non-banks.

The 'loans and receivables – banks' item represented another important portion of DHB Bank's assets at the end of 2016, with a total of EUR 238.4 million, or 13.5% of the



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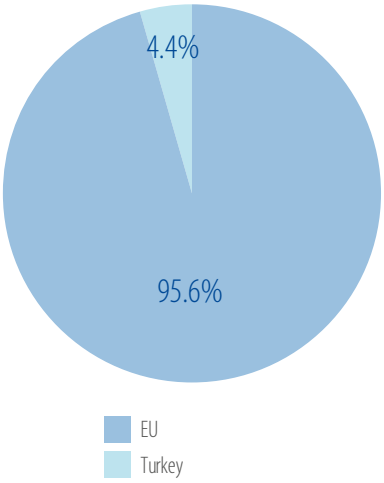
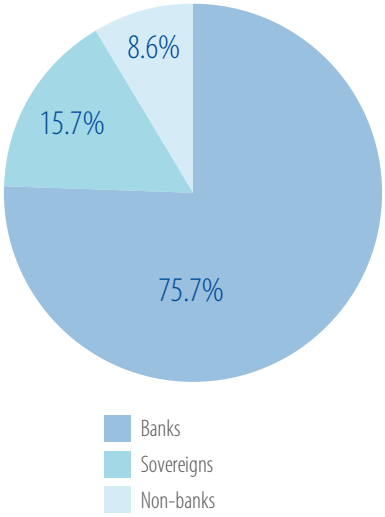
Securities by Geography - 2016



Securities by Customer - 2016



balance sheet. The general trend in this lending type was a gradual decline over the recent years, also as a consequence of the strategic alignment plan that envisaged credit expansion in corporate loans at the expense of bank loans; however, considering the developments in Turkey since July 2016, the level of bank loans was maintained the same in the balance sheet from a risk management perspective, i.e. by virtue of their short-term nature, sell-ability in the secondary markets and their relatively more safe nature, particularly top banks with which DHB Bank cooperates.

Depending on alternative opportunities, and as far as feasible given liquidity and capital requirements, bank loans – as well as securities and short-term TRY loans – have a pivotal function: their balance are reduced or increased according to developments in 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.

Income Statement

DHB Bank possesses a straightforward earnings model: The key revenue driver is interest income supported by a relatively small contribution from commission income, while the main expense items are staff expenses and administrative costs. If the "net cost of derivatives" would be represented under interest expense (as clarified under Operating Income sub-section) to identify recurring profitability, net interest income would effectively account for 90.4% of total operating income versus net trading result of debt instruments for 3.5%, extraordinary other operating income for 3.3% and net commission income for 2.8% in 2016. As for the expense items, excluding impairment charges, staff expenses accounted for 63.9% of total operating expenses versus other administrative expenses 34.0% and depreciation and amortization expenses 2.1% in 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 and corporate governance part of this annual report.

OPERATING INCOME

In terms of market environment, the decline in base rates continued in 2016. Euro base rates (3-month and 6-month Euribor, which are the main components of the bank's floating rate assets) were realized at minus 0.22% p.a. on average in the period January-December 2016, below the level initially projected by the bank. Net interest income amounted to EUR 57.8 million, higher than the previous year's EUR 47.9 million figure thanks to the bank switching its lending operations more toward higher yielding corporate assets coupled with several reductions undertaken on offered retail deposit interest rates throughout the year in parallel with market developments and the bank's strategies. Overall, gross interest income in 2016 was realized as EUR 72.4 million (2015: EUR 65.3 million) versus EUR 14.7 million gross interest expense (2015: EUR 17.4 million). It should also be noted that the bank kept voluntarily close

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to EUR 88 million average cash balance with the ECB throughout the year, which, coupled with the negative interest rate policy of the ECB had an adverse impact on the income side.

On the other hand, to present an accurate picture of net interest income, the cost of swap transactions (that are reported under Result on Financial Transactions) could be reclassified under interest expense from an economic perspective, as these represents the cost of funding obtained through swap transactions for loans denominated in USD and TRY. These costs were EUR 19.7 million and EUR 15.9 million in 2016 and 2015 respectively, and when they are reclassified under interest expense, the picture of net interest income is as follows, also consistent with the explanations provided in the paragraph above.

EUR million	**2016**	**2015**
Interest Income	72.5	65.3
Interest Expense	(14.7)	(17.4)
Cost of Swaps	(19.7)	(15.9)
Net Interest Income	**38.1**	**32.0**

Net fee and commission income was EUR 1.2 million in 2016. Commission income, with a balance of EUR 1.4 million, consists of fees received from some banking services, and, to a lesser extent, of brokerage fees for insurance intermediation in relation to retail lending. In this context, DHB Bank has largely terminated providing traditional banking services that generate commission revenues, such as money transfers or trade finance intermediation services due to high administrative costs not justifying the returns; therefore this income type does not represent an important revenue generation source on an overall basis. The commission expense item mainly represents fees related to banking services received in the course of daily operations, with a low yearly cost of EUR 0.3 million in 2016

The EUR -18.2 million result on financial transactions mainly represents the result of the mark-to-market valuation of derivative transactions – namely interest rate swaps (IRS), cross currency swaps (CCS) and FX swaps – and the net (interest) cost of these transactions. As explained higher above, the latter amounts to EUR -19.1 million and represents the cost of funding obtained through swap transactions for loans denominated in USD and TRY. In other words, the respective swap cost that substantially affects result on financial transactions is not related to any positions taken for trading purposes, as the bank does not keep a trading book in general. The remaining amount of EUR 0.9 million relates to realised results on securities transactions.

Other Operating Income has a one-off nature and represents EUR 1.4 million profit from the sale of the bank's premises in Rotterdam and Dusseldorf as covered under the section Organization and Operations.

Despite the unfavourable effect of maintaining high liquidity - at negative yields on the cash balance with the ECB and at very low yields on ECB eligible securities, total operating income closed the year 2016 with EUR 42.1 million, EUR 4.5 million higher than 2015 thanks to mainly a better interest income figure fuelled by improved yields on corporate loans and bank placements and a one-off operating income related to the sale profit of premises.

OPERATING EXPENSE

Total operating expenses exceptionally increased by EUR 1.8 million with EUR 19.4 million in 2016 versus EUR 17.6 million the previous year, due to the reasons explained below.

EUR million	**2016**	**2015**	**Difference**
Staff Expenses	12.4	11.8	0.6
Other Administrative Expenses	6.6	5.3	1.3
Depreciation & Amortization	0.4	0.5	(0.1)
Total Operating Expense	**19.4**	**17.6**	**1.8**

Despite an apparent nominal increase in staff expenses, DHB Bank incurred close to EUR 1 million (one-off nature) severance expenses in 2016 in relation to redundancies in the framework of its restructuring plan, which aimed to reduce the bank's cost base in this field in the years to come.

Increase in other administrative expenses is solely due to the ex-ante contribution of

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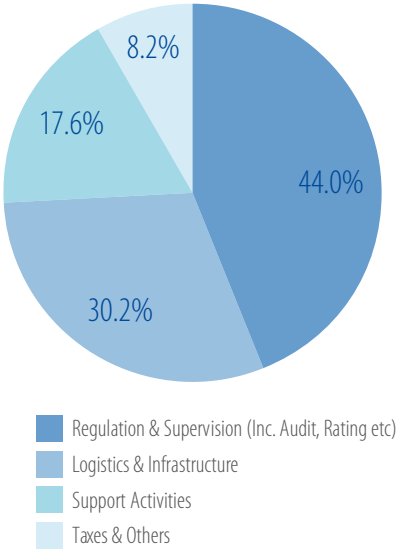
Distribution of Other Administrative Expenses



DHB Bank - in parallel to other Dutch banks - to the pre-funded Deposit Guarantee Scheme (DGS), which otherwise showed a minor EUR 0.1 million reduction. DGS and Single Resolution Fund fees, Regulation and Supervision charges as well as other similar charges such as external audit etc. constitute the highest portion of other administrative expenses with 44% of the total, among which DGS is the highest.

The minor decrease in depreciation and amortization expenses is related to DHB Bank selling in the first half of the year the premises of Dusseldorf Branch, which moved in the second half of 2015 to a new commercial location in the city, an office suitable for conducting its activities more efficiently.

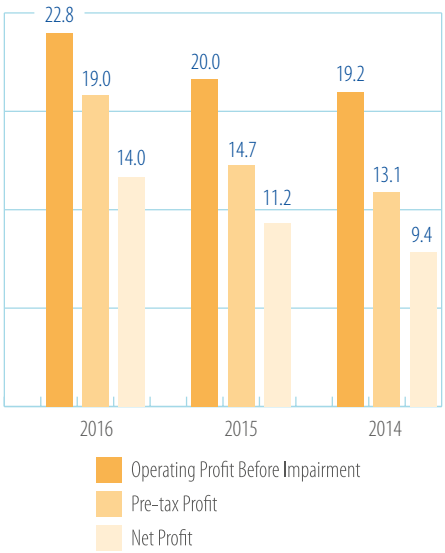
Operating result before impairment in 2016 was EUR 22.8 million, above the EUR 20.0 million figure of the previous year thanks to the improved profitability of lending operations.

Impairment charges were net EUR 3.8 million in 2016, comprised of specific provisions made mainly for some corporate loans, compared with EUR 5.4 million in 2015.

RESULT

DHB Bank reported a pre-tax profit of EUR 19.0 million in 2016, representing EUR 14.0 million on a net basis. The increase compared to 2015 was mainly the result of slightly better asset yields in the bank's overall client segments.

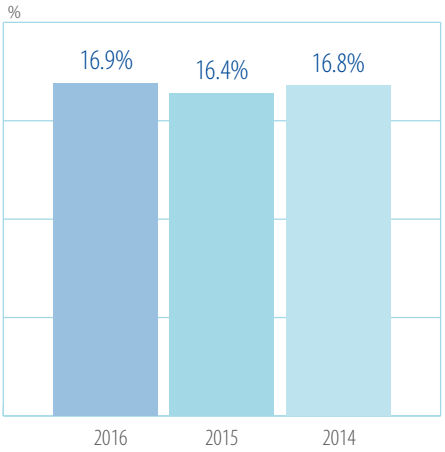
Profit - EUR million



Key Indicators

Some of the key indicators related to DHB Bank's 2016 performance are as follows:

Solvency



DHB Bank always reports high levels of capital adequacy ratio, with 16.9% at the end of the financial year under review, even though net profit is not included in calculations, reflecting the bank's considerably low leverage in terms of risk weighted assets and high level of loss absorption capacity. Low leverage was also demonstrated in nominal terms, with the bank's Tier 1-Capital over total on-balance and off-balance positions being a high 13.6% (2015:12.4%), which was intentionally maintained as such by the management so as to continue having a high level of solvency while preserving asset quality.

The cost to income ratio was realized as 45.0% at the end of 2016, showing a slight

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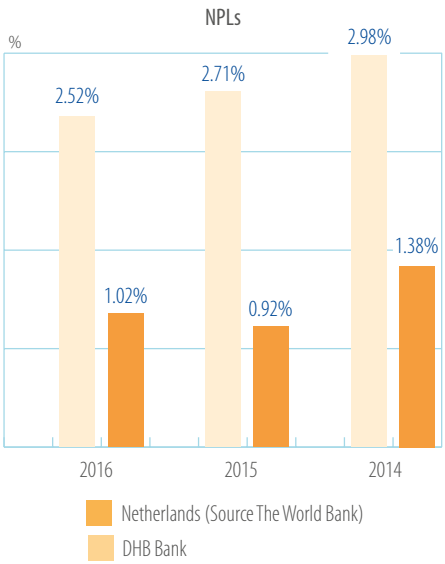
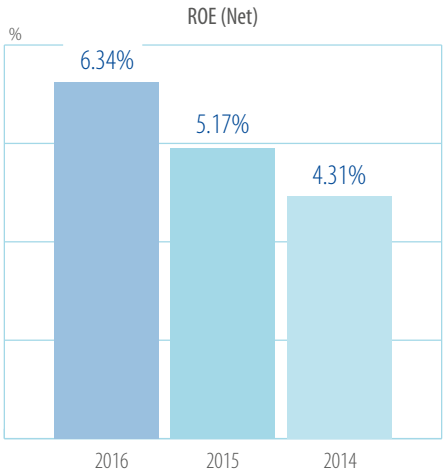
improvement in comparison with the last year (47.2%).

As of year-end 2016, 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 1.02% with a 65.0% loan loss coverage ratio. Despite some write-offs seeing that there are no more options for collecting some loans, which were fully provisioned, there have been only a few additions in the bank's NPLs in 2016. Management is of the opinion that the NPL ratio is quite low while the loan loss coverage is also adequate considering the related collaterals and projected cash flows and in view of the fact that some of the respective companies are still continuing their operations.



DHB Bank's net interest margin was realized as 2.12% for 2016, an improvement over the 1.87% ratio of 2015. This is a reflection of relatively increased yields in the markets of DHB Bank starting the second half of the year coupled with decreased retail deposit interest rates and wholesale funding costs.

Based on the above-covered developments, the bank's net return on assets (ROA) and on shareholders' equity (ROE) were realized as 0.77% and 6.34% respectively in 2016, compared with 0.62% and 5.17 % in 2015.



Organization and Operations

DHB Bank has a 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 2016 from organizational and operational perspectives are presented below.

Organization

OFFICES IN THE NETHERLANDS AND GERMANY

In 2016, the bank's Head Office premises were sold for efficiency purposes for moving to a new leased location, i.e. to increase co-operation in an open office environment in an appealing and modern work space at a central location in Rotterdam. Similarly, Germany Branch building in Dusseldorf was also sold in 2016, following its relocation to a new commercial location in the city in 2015, a leased office suitable for conducting its activities more efficiently. Both premises were sold at a profit, a portion of which was

directly transferred from revaluation reserve to retained earnings under the equity and the remainder booked as other income in the P/L. The relocation of Head Office is planned to be completed in the second quarter of 2017.

INFORMATION TECHNOLOGIES AND INFORMATION SECURITY

In view of the increasing cyber threats over the recent years, the bank continued in 2016 to pay attention to information security and business continuity measures. As an annual preventive measure, the bank commissioned a specialist firm to conduct an "External Security Assessment / Penetration Test", which is an ethical software attack on DHB Bank computer systems through the internet in order to identify security weaknesses, potentially gaining access to the computer's features and data. No critical vulnerabilities were spotted during the evaluation while some minor recommendations were tackled by IT Department to further improve the security of DHB Bank's internet based infrastructure.

Information Security and Information Technology departments continued in 2016 their efforts to further progress in the maturity ladder of information security for meeting the respective regulatory requirements as well as industry standards in line with advances in technology. DNB had confirmed previously that DHB Bank met the required maturity level 3 in all 54 control areas under 6 categories, and later had requested then the bank to reach a maturity level of 4 for three control areas, which was attained by DHB Bank.

IT Department completed the project to upgrade the applications and operating systems of many critical systems to the recent supported versions, improving functionality and reducing the vulnerability of these systems to security risks.

Some other IT based improvements were as follows: retail loan modules were upgraded, improving efficiency; digital statement is introduced to the system; Internet banking customers can now download their statements from Netbanking; monthly financial statements to corporate customers are automatized to send with email; Netbanking is now more functional for corporates.

To proactively prevent phishing scams or similar attacks potentially targeting DHB Bank, with the initiative of Information Security department (IS), a module was jointly developed by IT and IS departments and is integrated into the monitoring system of IS. This system helped the bank to detect two fraudulent apparatus being built up by cybercriminals.

Parallel to Project ReFocus measures, System Analysis and Process Improvement Department joined IT Department as a new section under the name of System Analysis; all the tasks, authorities and responsibilities of SPD started to being performed by IT Department. In the same line, existing IT sections that were engaged in Matrix, Internet and System Integration have now been combined together with System Analysis to form IT Application Development Group.

DHB Bank's website is an important communication 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 2016, 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 standard. Availability of its internet banking application NetBanking was again at a high level of 99.88% for 2016.

IFRS 9

The bank's IFRS 9 Project Team conducted preparations and works for an efficient and smooth implementation of IFRS 9 at DHB Bank; in this context, the bank agreed to cooperate with a third party provider offering software based solutions for expected credit loss modelling.

Operations

BUSINESS CONTINUITY PLAN

DHB Bank conducted the annual BCP (Business Continuity Plan) test this year to check the readiness, availability and consistency of critical business systems in the bank's disaster location in case of a major failure of the main systems at Head Office. During this year's test, which was conducted by using the disaster recovery infrastructure in KPN Cyber Center in Amsterdam, the opportunity was found to

evaluate the bank's recently migrated and upgraded systems and services. This year's scenario was to recover the systems by the bank's own IT staff in an unannounced approach. End-users tested the bank's applications, third party systems and communication tools to ensure that all the systems are available and that the data is consistent with the production systems as in the last working day. Some minor issues were noticed and fixed during the test.

OPERATIONAL RISK AND CONTROL ASSESSMENT

Initiated in September 2007, the bank's Operational Risk and Control Assessment (ORCA) aims to involve the 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) - were completed by the related departments and subsequently by the Risk Management Department in 2016. Accordingly, the risk-tolerance charts were updated to give a renewed oversight of non-financial risks as well as available mitigating measures within the organization.

REPORTING

As per CRS (Common Reporting Standard) that entered into force as of 1 January 2016, financial institutions are obliged to report information about the accounts held by entities or individuals having a foreign tax residency. More than 100 countries signed up to implement CRS, as a result of which participating jurisdictions will be able to share account information from foreign tax residents. In this context, financial institutions need to identify their account holders to check whether they are also (tax) resident in CRS participating jurisdictions. In this respect, new clients have to fill in 'self-certification forms' for CRS since the beginning of 2016. Concerning existing DHB Bank clients, after controlling their address data with the help of IT-Department, self-certification forms explaining the details of CRS were sent to corresponding customers with a cover letter.

De Nederlandsche Bank (DNB) mandated the use of XBRL standards for CRD IV reporting by September 2016. This implied for DHB Bank a transformation process according to which the bank opted to the reporting solution of a third party for producing XBRL instances to meet regulatory COREP/FINREP reporting. This tool supports also the taxonomies published by the European Banking Authority (EBA).

MISCELLANEOUS

A special deposit campaign was launched in the second half of the year in Germany to saving account holders; the campaign consisted of offering these customers to switch their savings accounts to time deposits by offering slightly higher interest rates than the announced rates. The campaign was very successful, prompting the bank to make use of such active deposit management tools in the future depending on the requirements.

To test the quality of services offered, an online (retail) customer satisfaction survey was conducted among some savings and deposit customers in Germany and Belgium, following a similar survey conducted in the Netherlands the previous year. Likewise, a majority of the answers were favourable, though the survey again revealed some minor areas of improvement that have been addressed subsequently.

Expectations

Having largely implemented the planned measures of Project ReFocus in 2016, Management considers that the bank is well prepared to weather the negative effects of the negative/low interest rate environment. Management is also confident that the bank has a robust commercial, administrative, operational and organizational framework and a strong governance to ensure a sustained performance going forward. Management expects a reasonable profit in 2017, yet slightly below the level of 2016 due to the bank's cautious positioning in terms of asset generation. This cautious expansion approach is triggered by uncertainties stemming from global as well as regional/local developments, such as; Brexit, the stance of US in relation to global and regional trade, the 2017 elections in France and Germany, the ensuing effect of the failed coup in Turkey in 2016 and referendum on the constitution. Until more clarity is present in these areas, DHB Bank does not plan to aggressively expand in corporate lending area but rather on financial institutions loans and/or securities. Apart from reference

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interest rates being at below zero level, coupled with the negative yields of some strong sovereign's securities, credit spreads for high quality assets continued to narrow due to the combined effect of vast market liquidity and lenders' search for quality assets with higher yields. This trend has been observed for some years 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, while, on the other hand, yields in Turkey FX loans have somewhat improved at various extents, which will assist the bank offsetting the unfavourable effect of low yields in its other markets.

In many Eurozone countries, including the Netherlands, since the 2008 global crisis, deposit interest 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 continue to be high, due to the ECB's accommodative monetary policy resulting in some sovereign bonds still being traded at negative interest rates. This phenomenon is expected to continue for some time, at least until capital markets improve and economic recovery in the Eurozone picks up significantly so that policy rates once again trend upwards based on other parameters as well.

Overall, despite the currently non-accommodative financial markets, Management expects the bank's profitability in the following years to continue benefitting from the ongoing strategic alignment.

Regarding its bank and corporate exposures, DHB Bank expects its asset quality to remain healthy. The bank will continue to select its borrowers among those with high credit standings and to maintain strict credit underwriting processes with additional credit enhancements for some loans. DHB Bank will not compromise on making use of its traditionally rigorous underwriting and risk monitoring processes.

The bank will keep the procurement of insurance as an alternative financial solution to risk management. Transferring credit risk to highly rated institutions (insurers) enabled the bank - in the past - to conclude more business volumes within individual counterparty limits or to open room in risk weighted assets for achieving more volume in different lending operations and to lower credit risk.

In terms of geographical coverage/lending, the bank will continue to focus on the EEA that has become its primary market since the past couple of years.

Retail deposits – collected from Germany and the Netherlands – will continue to be the primary funding source of the bank's operations, followed by wholesales funds and equity. The retail deposit base – and its portion to total liabilities - is not planned to be considerably reduced, if not at all, but opportunities to increase wholesale funds will be explored.

Liquidity and capital management will continue to be another focus in the context of ICAAP and ILAAP. Possessing a strong capital base and highly liquid balance sheet, DHB Bank does not expect any adverse developments in these fields. Thanks to the presence of a recovery plan, management does not expect the viability of the bank to be affected by any possible severe crisis, idiosyncratic or systemic. The maintenance of the recovery plan, ILAAP and ICAAP will be conducted on a yearly basis.

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.

Aside expenses related to the relocation of the Head Office, no major investments or organizational changes are planned in the near future.

IFRS 9 will be effective starting 2018. The management and the related staff will spend a significant time and resources to meet the respective standards in time considering the comprehensive changes, particularly with regard to modelling expected credit loss, which will have considerable effect on the bank's financial projections.

KYC (know your customer), CDD (customer due diligence), AML (anti-money laundering), sanctions and data protection will continue to be at the forefront of

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compliance while the awareness of staff will be kept fresh with trainings.

DHB Bank plans to introduce a so-called 'Notice Period Deposit Account'; as a cross between savings account and time deposits, the holder of notice period account will be entitled to withdraw its fund after giving a notice in a pre-determined period. This would enable the respective account holder to receive slightly higher interest rate than the standard savings rate.

In 2017, the SB and MB plan to hold joint discussion sessions for assessing different options or potentials concerning the strategy, business lines and activities of the bank.

The Dutch Corporate Governance Code Monitoring Committee published the revised Dutch Corporate Governance Code (DCGC) that took effect as from 1 January 2017. Compared with the previous version, the new DCGC contains some changes; the bank will review these updates and will consider implementing into its practices those that would be beneficial in terms of good corporate governance.

As a result of management's strategic stance on controlled credit presence particularly in the EEA, the bank projects, for 2017, an asset size close to EUR 1,800 million and a capital adequacy ratio of slightly higher than 16.0% throughout the year.

Board and Staff

As at year-end 2016, the bank employed 110 staff compared with 128 one year earlier, a reduction whose source is the redundancy measures of Project ReFocus mainly in the Netherlands and Belgium.

Throughout the year, facilitated by internal or external trainers, the staff also attended a number of trainings and workshops, such as Project Finance Analysis, CDD/KYC/AML/Anti-Bribery/Corruption, Strategy Formulation and Flip-Thinking. In addition, many staff members attended different specific and external trainings/workshops relating to their business lines.

In addition, several social events were organized outside the bank to further strengthen the DHB Bank Family concept, which was developed and cemented thanks to an overwhelming majority of the employees and senior management having served the bank for very long years.

As covered under the section 'Report of the Supervisory Board', several changes occurred in the composition of the SB throughout 2016. In the course of 2016, while the terms of Dr Nurzahit Keskin and Mr Suleyman Kalkan ended, Ms Liana Mirea, Mr Cornelis Visscher, Mr Frederik-Jan Umbgrove, Mr Mustafa Aydin and Mr Elvan Öztabak joined the Supervisory Board. We would like to relay our sincere thanks to Dr Keskin and Mr Kalkan for their contributions during their tenure at DHB Bank and extend our heartfelt welcome to our new SB members.

In conclusion, we would like to express our sincere gratitude to our shareholders for their continued support and trust, to the members of our Supervisory Board for their constructive oversight and valuable advice.

We would also like to offer our sincere thanks to the bank's management and staff for their efforts and dedication, which have helped bring about 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 almost 25 years behind, we trust that we will continue together on a successful path, sustain profitability in 2017 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.

Conformity Statement

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

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

Report of the **Managing** Board

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

- DHB Bank 2016 Annual Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of DHB Bank as a whole; and
- DHB Bank 2016 Annual Report gives a true and fair view of the position at the balance sheet date, the development and performance of the business during the financial year 2016 of DHB Bank, together with a description of the principal risks DHB Bank is being confronted with.

Rotterdam, 20 April 2017

Mr **Kayhan Acardağ**
Senior General Manager

Mr **Steven Prins**
General Manager

Mr **Okan Balköse**
General Manager

Picture in front of the former head office
From left to right:

Mr **Steven Prins**

Mr **Kayhan Acardağ**

Mr **Okan Balköse**

04

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Introduction

This chapter sets out the corporate governance of DHB Bank that is set up in accordance with Capital Requirements Directive IV ("CRD IV") as well as the Banking Code 2015 that have been implemented in Dutch law. In addition to the legal requirements, DHB Bank voluntarily adheres to the Dutch Corporate Governance Code to the extent applicable.

These principles are embedded in the bank's corporate culture and supported and substantiated by various policies, procedures, measures and practices, some of which are briefly described further below under 'Corporate Governance Principles'.

Financial Reporting Process

DHB Bank's internal control over financial reporting is a process designed under the supervision of the managing board and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of DHB Bank;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorisations of our management; and
- provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Managing Board

Composition and Responsibilities

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

The MB is responsible for the day-to-day management of the bank, for the development and implementation of 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 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. All

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the deliberations, strategic planning and day-to-day management of the MB are conducted on a collegial basis. Based on these guiding principles, the MB frequently consults the senior management of the bank as well, and the majority of decisions are taken following discussions and deliberations at various bank committee meetings. 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. Thus, e.g., the MB member whose responsibilities are primarily related to commercial activities of the bank does not have primary responsibility in risk monitoring and control and is involved in risk management mainly through specific committees; this applies analogously to the members who are primarily responsible for risk management, among others. In terms of organization and administration, there are clear reporting lines concerning each member's responsibilities.

The below table shows - in alphabetic order - the reporting lines of each MB member, which demonstrates the balanced segregation of duties within the board:

Steven Prins	**Kayhan Acardağ**	**Okan Balköse**
Compliance & Legal	Information Technology	Corporate Marketing
Credit Departments[3]	FCD[4]	Financial Institutions
General Affairs	Operations	Treasury
Human Resources	PCC[5]	
Internal Audit	Risk Management	
Retail Banking		

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

Utmost care is jointly taken not to deviate from the risk appetite statement; this goal is achieved despite the volatile financial and economic environment. Temporary or potential deviations, if any, are generally 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. Yet, no deviation occurred in 2016 vis-à-vis the risk appetite. 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, Organization & Control 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:

- Full compliance with regulatory and supervisory requirements
- Sound capital position
- Good asset quality
- High liquidity
- Rigorous risk management
- Strong governance
- Diversified geographical and customer coverage

3. *Comprised of: Credit Analysis, Credit Risk Monitoring & Control and Corporate Loans*
4. *Financial Control & Accounting Department*
5. *Planning, Coordination & Communication Department*

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Information on Members of the 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 AŞ 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 its establishment 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 Bank Pozitif Kredi ve Kalkinma Bankasi between 2004 -2013.

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

Supervisory Board

Composition and Responsibilities

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

The SB is responsible for the supervision of the policy of the MB, for the supervision of the general course of affairs and risk management, and for assessing and approving the strategies and budget proposed by the MB; these responsibilities and authorities of the SB are defined in the Supervisory Board Policy. This policy covers other aspects as well - such as rules related to the supervision of the bank and more in particular to the collective responsibility of the SB members - 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 foremost goal of this bank to service its clientele well. The shareholders of the bank believe that good service to the clients over time will propel the bank to prosper. In such an

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environment, staff and management can dedicate themselves to their work to create value for all stakeholders.

Supervisory Board Committees and Composition

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 and the assessment of the performance 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.
- Related Party Transactions Committee (RPTC): The RPTC reviews and grants pre-approval to the transactions with i) Shareholders; ii) Managing Board Members; iii) Supervisory Board Members; iv) Companies in which a Shareholder holds an interest; v) Supervisory Board and Managing Board Members of companies referred to under (iv); and/or vi) Relatives of a person referred to under (i) to (v). The members of the RPTC are appointed from among the independent members of the SB.
- Supervisory Board Credit Committee (SBCC): The SB has delegated to the SBCC part of its authority for providing advice on credit proposals for amounts and transaction types as stipulated in the bank's Policy on Credit Approval & Advice Authorities and Review Principles.
- Nomination Committee (NC): The NC assists the SB for identifying, selecting and proposing candidates for vacancies in the SB and MB.

	Risk & Audit Committee	Remuneration & Compensation Committee	Related Party Transactions Committee	Supervisory Board Credit Committee	Nomination Committee
Henk Sliedrecht		√ chair	√		√ chair
Hans J.Ph. Risch	√		√ chair	√	√
Nesrin Koçu de Groot	√	√			√
Liana Mirea				√	
Cornelis Visscher	√ chair	√			
Frederik-Jan Umbgrove				√ chair	
Mustafa Aydın		√		√	√
Elvan Öztabak	√				

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Principles

The SB and/or its sub-committees regularly convene 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. The SB continued, in particular, to spend ample time on discussing and reviewing the business model 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 keeping a low risk profile and conducting its 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.

Secondary Positions of Board

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

Information on the Members of the Supervisory Board

Mr Henk Sliedrecht
Chairman

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.

Mr. Sliedrecht joined DHB Bank in 2011 as an independent SB member and is the chairman of the Board since 6 August 2015.

Mr Hans J.Ph. Risch

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 an independent 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.

Ms Nesrin Koçu-de Groot

Born in 1977 in Ankara, Turkey, Ms Koçu-de Groot graduated from Middle East Technical University, Ankara, Department of Economics.

She held various roles in the Financial Planning & Control Department and in the Risk Management Department of Demirbank TAŞ, Istanbul that she joined in August 1999. Between September 2001 and February 2006, she led the Financial Control and Risk Management Department of Yapi Kredi Bank (Nederland) NV, following which she was the statutory auditor of C Faktoring AŞ, Istanbul and Bank Pozitif AŞ, Istanbul until March 2013.

Ms Koçu-de Groot joined the Supervisory Board of DHB Bank in April 2015 as member related to HCBG Holding B.V. Aside this position, she is the Chief Financial Officer of HCBG Holding B.V., Supervisory Board Member of C Faktoring AŞ, and

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Supervisory Board Member of Demir Kyrgyz International Bank, Bishkek.

Ms Liana Mirea

Ms Mirea was born in 1957 in Bucharest, Romania. She graduated from the Academy for Economic Studies, Faculty of International Economic Relations and also has a post-graduate diploma in International Economic and Fiscal Foreign Currency Relations.

Ms Mirea started her career in 1980 in the reinsurance field, as an economist for the state insurance company Administratia Asigurarilor de Stat. In 1991, she continued her career in the Romanian Bank for Development (currently BRD Societe Generale) first as head of department and later on in various positions up to the level of Head of Investment Banking Department. In 1996, she went on to establish the bank's first securities-trading subsidiary, Eco-Invest BRD, and in 1998 joined another bank, Banca Tiriac (currently Unicredit Romania) as a vice-president (deputy CEO). In 2000 she joined Demirbank Romania (currently Unicredit Romania) as vice -president (deputy CEO), and continued in the same position after the bank was taken over by Unicredit Italy. In 2004 she went back to Banca Tiriac – again in the same position of vice-president (deputy CEO), and after this bank too was acquired by HVB and finally by Unicredit, she established her own consultancy company, Aesopus International, as she was asked to support the merger between the banks during 2006. Afterwards, from 2006 to 2007, she worked for C International as a business developer, until finally in 2007 she and her team established Access Financial Services IFN SA ("AFS"), a non-bank financial institution regulated by the National Bank of Romania, having initially HCBG Holding as its sole shareholder. She has continued in the position of general manager of AFS ever since.

Ms Mirea also served as a member of the Board of Directors of the Romanian Fund for Energy Efficiency (FREE) for 8 years (the maximum period allowed), from 2007 to 2015.

On 19 January 2016, Ms Mirea joined the Supervisory Board of DHB Bank as member related to HCBG Holding B.V.

Mr Cornelis Visscher

Born in 1965 in the Netherlands, Mr Visscher graduated from Vrije Universiteit Amsterdam, Department of Business Economics, and later received the 'Post-Doctoraal Register Controller' qualification from the Post-Qualified Controllers Institute at the same university.

Starting his career at ABN Amro Bank NV, Amsterdam in 1988, he held several positions and responsibilities at different departments in this bank such as International Division, Corporate Centre, Investment Banking, Wholesale Client Services and Group Finance.

He joined RBS NV in 2008, where he first served as Head of Group Consolidations in Amsterdam and subsequently as Head of Global Financial Services in Edinburgh. Since 2013, Mr Visscher is the CFO and Managing Board member of RBS NV.

On 7 March 2016, Mr Visscher joined the Supervisory Board of DHB Bank as independent member and chairman of the Risk and Audit Committee.

Mr Frederik-Jan Umbgrove

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

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

In 2008, he joined the Royal Bank of Scotland Group as Chief Credit Officer CEEMEA for this bank's Global Markets Division, following which he served as Chief Risk Officer and Member of the Managing Board of Amsterdam Trade Bank NV throughout 2010-2013 and as Group Risk Officer of Alfa Bank Group Holding between 2011 and 2013.

On 12 April 2016, Mr Umbgrove joined the Supervisory Board of DHB Bank as independent member and chairman of the Supervisory Board Credit Committee.

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Mr Mustafa Aydın
Since 28 September 2016

Born in 1965 in Turkey, Mr Aydın graduated from Middle East Technical University, Faculty of Economics and Administrative Sciences in 1989.

He began his professional career at Türkiye Ögretmenler Bankası as inspector and continued as General Manager at Nahçivan Türk Bankası. He served as inspector at Albaraka Turk Katılım Bankası and as Branch Manager at Asya Katılım Bankası. He subsequently and consecutively served at Bosnia Herzegovina Airlines (Board Member and CFO), Turkish Airlines (Head of Finance), THY Teknik AŞ (Affiliates Financial Coordinator) and Negmar Shipping Ltd (CFO). Mr Aydın joined Türkiye Halk Bankası AŞ in 2014 as Deputy General Manager in charge of Financial Management and Planning. Mr Aydın is also Supervisory Board member of Halkbank Belgrade and Supervisory Board member of Türk P ve I Sigorta AŞ.

On 28 September 2016 Mr Aydın joined the Supervisory Board of DHB Bank as member related to Türkiye Halk Bankası AŞ.

Mr Elvan Öztabak
Since 18 October 2016

Born in 1968, Mr Öztabak graduated from 'Ziraat Banking School' in 1993 and started his career as a banking specialist at Ziraat Bank Head Office in Ankara. In 1996 he moved to Frankfurt Branch after which he held various managerial functions as Vice President in Istanbul Head Office for International Banking in the years from 1999 till 2002.

Mr Öztabak joined Ziraat Bank International AG, Frankfurt as Assistant General Manager in 2002 and was in charge of different areas till 2010. He was responsible for the accounting, reporting, budgeting functions and has also established the Financial Controlling Department. Later on Mr Öztabak was also in charge for further areas such as foreign operations and human resources. In his years with Ziraat Bank International AG he was a member of the ALCO, the Credit and the Personal Committee.

Mr Öztabak gained experience in the non-financial sector in 2011 after which he continued his banking career with Halkbank in 2012. He started as Managing Director in International Banking division of Halkbank and since then is heading the departments for Financial Institutions and for Investor Relations. Mr Öztabak is rapporteur of the Corporate Governance Committee and member of the Sustainability Committee. He was also a member of the Board of Directors of Halk Investment (2014/2015) and of Halk Factoring (2015/2016) companies.

Mr Öztabak joined the Supervisory Board of DHB Bank in 2016 as member related to Türkiye Halk Bankası AŞ.

Corporate **Governance**

Senior Management

Ms Bahar Kayıhan
Assistant General Manager
Operations & Retail Services and Savings (Netherlands) & Information Security

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

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

Ms Fulya Baran
Assistant General Manager
Corporate Marketing

Mr Irfan Çetiner
Assistant General Manager
Treasury

Mr Jan-Hein Auf dem Brinke
Senior Financial Controller

Department Heads

Compliance & Internal Control & Legal Affairs
Ms Ivon Huyskes *(since 1 May 2017)*

Corporate Customer Services and Processes
Mr Mustafa Beker

Corporate Loans
Mr Ozan Dereli

Credit Analysis
Mr Kerem Güder

Financial Control & Accounting
Mr Ercan Erdoğan

Financial Institutions
Ms Ayşın Atalay-de Jong

Forfaiting
Mr Gaspar Esteve Cuevas

General Affairs
Ms Kiraz Başaran

Human Resources
Ms Gülhan Develi

Information Security
Mr Dheeraj Katarya

Information Technology
Mr Nezih Engin

Internal Audit
Mr Diederik Geerits

Operations
Ms Pınar Olierook-Türe

Planning, Coordination & Communication
Mr B. Affan Sağ

Risk Management
Mr Ali Kastrat

Foreign Main Branches & Representative Office

Germany
Mr Wilfried Hübner
Country Manager

Belgium
Mr René Bienfait
Country Manager

Istanbul Representative
Ms Fulya Baran

Corporate **Governance**

Bankers' Oath

As per the new regulations in a bid to improve confidence in the financial sector, since 2014 SB and MB members of Dutch banks and insurers have had to pledge an oath to put their clients' interests first, and to observe other and similar principles. Since 2016, this oath has become mandatory for all the employees of the banking sector.

All the present SB and MB members as well as all DHB Bank employees took that pledge and signed the bankers' oath. SB members and bank employees who joined DHB Bank in 2016 also took this oath within 3 months of joining the bank.

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, 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.

Policies and Procedures

In the course of 2016, DHB Bank continued to apply its strong corporate governance guidelines and is committed to continuously enhancing its corporate governance and compliance structure in line with related developments in the respective fields.

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

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 are working effectively in relation to the quality and effectiveness of the system of governance. The Planning, Coordination and Communication Department generally oversees and/or facilitates applications related to corporate governance.

Corporate **Governance**

Some particularities of the bank's corporate governance structure are articulated in the below policies and documents.

- 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 (the 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, comprising 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-centred 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.

Corporate **Governance**

- 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.

- Customer Due Diligence Policy:
  In 2015, the bank revised and completely updated its CDD policy to ensure adaptation to changing regulations and achieve a more efficient practice in this respect.

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, Policy on Credit Approval & Advice Authorities and Review Principles, Integrity Risks Policy, Customer Due Diligence Procedure, Dividend Policy and the like.

To ensure up-to-date practices in the bank's operations and activities, policies and procedures are placed in an annual review schedule under the control of Compliance & Legal going forward.

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 2016, DHB Bank continued to consistently apply its existing principle in relation to Know Your Customer and customer acceptance criteria.

Risk Governance and Management

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

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

Risk Governance

The bank's risk governance structure is based on the overarching principle that all the business units are primarily responsible for managing risks in their operations within the approved risk appetite framework. Each business unit works in close cooperation with the independent risk assessment units and actively participates in the relevant committees as required to effectively manage the respective risks, thus forming the first line of defence in the bank's triple-layered risk management setup.

The Risk Management Department (RMD) and the Compliance and Legal 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

Corporate **Governance**

Board's Risk & Audit Committee (RAC). Supported by assessments and various reports prepared by the Internal Audit Department (IAD), the Risk Management Department (RMD), the Compliance & Legal Department (CL) and related credit departments, the RAC is responsible for the oversight of policies and processes by which risk assessment and management are carried out within the governance structure. The RAC also reviews internal control and financial reporting systems that are relied upon to ensure integrated risk measurement and disclosure processes.

Within the governance structure, and reporting to the MB, the Risk Management Committee (RMC) oversees both financial and non-financial risks 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 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. Based on the categorization of product and activities, on the impact/risk levels for different scenarios and product/service groups, relevant risks, conclusions and follow-up items, the self-assessment revealed that DHB Bank has a robust integrity risk control framework.

With this general approach, the bank maintained its strong governance structure in 2016, 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 formulated 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). DHB Bank was prepared in time to implement systems and methods to regularly monitor its compliance with the new rules.

The bank benefits 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 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 latest updated in 2016 - 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 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 strong financial position of DHB Bank, which was also 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 contains certain minimum disclosure requirements regarding risk and capital management in line with the Pillar 3 rules. Its goal is to encourage market discipline in disclosure in order to allow stakeholders to assess the bank's standing in terms of capital resources, capital adequacy, liquidity, overall risk profile, and risk management practices.

DHB Bank publishes its disclosures on its website. The next Pillar 3 disclosure will be available during the first half of 2017 based on 31 December 2016 figures.

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Additional Disclosures

Risk appetite and key risks

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

DHB Bank's risk appetite covers the following dimensions, which are considered the key risks faced by the bank: Capital adequacy, business model risk, credit risk, credit concentration (country, sector, obligor), liquidity, FX risk, market risk, interest rate risk in the banking book, operational risk, IT & information security, governance, integrity & reputation, compliance with regulations. For relevant cases, there are subsets with quantitative targets and/or benchmarks, and for each dimension, the risk appetite is separately determined between low, medium or high levels.

Out of a total of 15 risk dimensions in 2016, the bank's risk appetite was determined as "low" for 10, "medium-to-low" for 1, "medium" for 3, and "medium-to-high" for 1 dimension. No risk dimension is determined as high. Their breakdown is presented below:

Risk Appetite	Risk Dimension
Low	Capital Adequacy, Liquidity, FX Risk, Market Risk, Interest Rate Risk in the Banking Book, Operational Risk, IT and Information Security, Governance, Integrity and Reputation, Compliance with Regulations
Medium-to-Low	Business Model
Medium	Credit, Sector Concentration, Obligor Concentration
Medium-to-High	Country Concentration

As per assessments conducted periodically by the independent Risk Management Department, it was established that these risk appetite levels were complied with in 2016. It should also be underlined that within capital planning, capital is allocated for an overwhelming majority of the risk dimensions indicated above for an amount commensurate with their exposure/risk levels.

In the 2017 Risk Appetite Statement approved by the Supervisory Board in December 2016, the risk appetite of 'Business Model' was decreased to low, while two new dimensions were introduced with low risk appetite, namely leverage and exposure to shadow banking.

Monitoring, assessment & control measures

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

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

Periodical risk assessment reports prepared by the Risk Management Department additionally cover the subject on a high level, comparing the status quo to the risk appetite statement. Similarly, market risk and interest rate risk (as well as liquidity risk) is monitored and managed daily by the Treasury Department, weekly at the ALCO meetings and monthly through the MIS Reports. MIS reports include dedicated reports on VaR

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on Trading Portfolio, VaR on Open Position, on Asset & Liability Maturity Schedule, on ILAAP / SREP Liquidity Requirements and on Interest Rate Risk etc. Periodical risk assessment reports additionally cover these subjects on a high level, in comparison with the risk appetite statement.

As with almost all commercial banks, credit risk is the constant risk dimension present in DHB Bank's activities. It should be noted that DHB Bank, however, has very rigorous credit underwriting and monitoring policies and practices in place that allow it to control credit risks. Apart from allocating ample capital for its credit exposures, the bank also uses collateralization for credit enhancement. In addition, the bank stringently avoids entering uncharted (market) territories to increase short-term profits at the expense of incurring high credit risks. Depending on market developments, in an attempt to control various aspects of credit risk, the bank conducts special analyses and reports concerning its portfolio; some of the analyses performed in 2016 were: Impact of Failed Coup Attempt in Turkey, FX Volatility and Impact Analysis Related to Hard Currency Appreciation against TRY, Impact Analysis of Economic Sanction Imposed by Russia on Performance of Turkish Companies in DHB Bank Portfolio, Impact Analysis of AZN Devaluation on Performance of Corporates and Banks in DHB Bank Portfolio etc.

DHB Bank is subject to country risk due to its international operations. Among other countries, Turkey was the primary country of interest for DHB Bank since its establishment thanks to the management's in-depth knowledge and experience in the country. The bank works therein essentially with creditworthy and top tier corporates or banks having high financial standing and reputation while obtaining collaterals for some exposures. As a further risk mitigating factor, the bank sets aside additional capital to alleviate country risk. Furthermore, the bank has considerably decreased its exposure to Turkey over the past two years to below 30%, and does not aim to excessively exceed this level; in this context, DHB Bank strives to and will maintain its exposure to the EEA where it has its highest exposure to. Concerning risk mitigation, occasionally insurance is procured from reliable counterparts to either mitigate risks or open room in the availabilities of companies.

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

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

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

Starting the second half of 2016, uncertainties in Turkey and steady devaluation of TRY against hard currencies led Management to adopt a cautious stance towards asset generation and to maintain high liquidity in this respect.

Although this did not have a significant impact on the financials, this positioning led somewhat to report a lower profitability, due to lower interest income to some extent and via higher and specific provisions as a precaution for companies in the loan portfolio that could be affected by the TRY devaluation and market circumstances.

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

For the past couple of years, DHB Bank has been continuously improving its risk management system and framework. Apart from the distinct classification of the three lines of defense model, several new reports have been developed, risk management practices have been more clearly defined, while the related committees' roles, attention points and functions in relation to various risks have been enhanced. The most important progress in this respect, however, is the development of ILAAP, ICAAP and Recovery Plan, and the implementation of measures covered therein in practice.

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

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Remuneration

The remuneration of the MB members, as well as that of senior staff members, including those engaged in risk management and control functions, and other staff members, is determined according to the bank's Remuneration Policy. This policy is based on applicable regulation and amongst others includes stipulations concerning fixed and variable remuneration, claw back, deferral payment et cetera.

Dutch Banking Code

The Dutch Banking Code, a revised version of which was adopted by the Dutch Banking Associations in 2014, is applicable to DHB Bank. The Banking Code can be downloaded from the website of the Dutch Banking Association (www.nvb.nl). Its application to DHB Bank is described in "Implementation of the Dutch Banking Code at DHB Bank", available on the DHB Bank website (https://www.dhbbank.com). This is to be read in conjunction with and deemed to be incorporated in the Annual Report of DHB Bank.

05

Financial **Statements** For the Year 2016

Statement of **Financial** Position

As at 31 December

(in thousands of EUR)	Notes	2016	2015
ASSETS			
Cash and balances with central banks	4.1	121,664	69,440
Financial assets held for trading	4.2	1,528	332
Available for sale financial assets	4.3	350,371	349,548
Securities held to maturity	4.4	53,253	54,698
Loans and receivables – banks	4.5	238,398	265,640
Loans and receivables – customers	4.6	990,019	1,140,296
Derivative financial instruments – hedge accounting	4.7	–	12
Property and equipment	4.8	2,864	8,827
Intangible assets	4.9	148	211
Current tax assets	4.10	21	1,584
Deferred tax assets	4.10	16	–
Other assets	4.11	4,233	3,027
Non-current assets held for sale	4.8	–	3,700
Total assets		**1,762,515**	**1,897,315**
LIABILITIES			
Due to banks	4.12	302,088	332,435
Financial liabilities held for trading	4.2	3,678	12,044
Deposits from customers	4.13	1,208,132	1,308,926
Derivative financial instruments – hedge accounting	4.7	1,416	1,958
Provisions	4.14	1,021	1,093
Current tax liabilities	4.15	587	–
Deferred tax liabilities	4.15	1,088	1,368
Other liabilities	4.16	4,775	3,542
Total liabilities		**1,522,785**	**1,661,366**
EQUITY			
Share capital	4.17	113,750	113,750
Revaluation reserves	4.18	2,630	3,094
Defined benefit obligation reserve	4.19	(49)	–
Retained earnings	4.20	109,356	107,894
Net profit		14,043	11,211
Total equity		**239,730**	**235,949**
Total equity and liabilities		**1,762,515**	**1,897,315**
Commitments and contingent liabilities	6.1	10,998	12,453

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

Statement of **Profit** or **Loss**

As at 31 December

(in thousands of EUR)	**Notes**		**2016**		**2015**
Interest income		72,397		65,295	
Interest expense		(14,648)		(17,424)	
Net interest income	5.1	57,749			47,871
Fee and commission income		1,446		1,938	
Fee and commission expense		(271)		(306)	
Net fee and commission income	5.2		1,175		1,632
Result on financial transactions	5.3		(18,188)		(11,849)
Result on hedge accounting transactions	5.4		(19)		(35)
Other operating income	5.5		1,416		22
Total operating income			**42,133**		**37,641**
Administrative expenses:					
• Staff expenses	5.6	(12,387)		(11,777)	
• Other administrative expenses	5.7	(6,565)		(5,341)	
			(18,952)		(17,118)
Depreciation and amortization			(421)		(521)
Total operating expense			**(19,373)**		**(17,639)**
Operating profit before impairment			**22,760**		**20,002**
Net impairment charge	5.8		(3,763)		(5,352)
Total expense			**(23,136)**		**(22,991)**
Operating profit before tax			**18,997**		**14,650**
Income tax expense	5.9		(4,954)		(3,439)
Net profit attributable to the shareholders			**14,043**		**11,211**

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

Statement of **Changes** in **Equity**

(in thousands of EUR)

	Share capital (Note 4.17)	Revaluation reserve*	Fair value reserve*	Retained earnings	Net profit	Total
At January 1, 2015	113,750	2,871	1,318	103,120	9,3972	230,431
Appropriation of prior year net profit	–	–	–	4,686	(4,686)	–
Change in revaluation reserve (Note 4.18)	–	330	–	–	–	330
Change in fair value reserve (Note 4.18)	–	–	(1,337)	–	–	(1,337)
Net profit for the year	–	–	–	–	11,211	11,211
Total comprehensive income	**–**	**330**	**(1,337)**	**–**	**11,211**	**10,204**
Transactions with owners, recorded directly in equity						
Transfer to retained earnings	–	(88)	–	88	–	–
Dividends paid (Note 5.10)	–	–	–	–	(4,686)	(4,686)
At December 31, 2015	**113,750**	**3,113**	**(19)**	**107,894**	**11,211**	**235,949**

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

(in thousands of EUR)

	Share capital (Note 4.17)	Revaluation reserve*	Fair value reserve*	Defined benefit obligation reserve	Retained earnings	Net profit	Total
At January 1, 2016	113,750	3,113	(19)	–	107,894	11,211	235,949
Change in revaluation reserve (Note 4.18)	–	(2,101)	–	–	–	–	(2,101)
Change in fair value reserve (Note 4.18)	–	–	1,705	–	–	–	1,705
Change in defined benefit obligation reserve (Note 4.18)	–	–	–	(49)	–	–	(49)
Net profit for the year	–	–	–	–	–	14,043	14,043
Total comprehensive income	**–**	**(2,101)**	**1,705**	**(49)**	**–**	**14,043**	**13,598**
Transactions with owners, recorded directly in equity							
Transfer to retained earnings	–	(68)	–	–	1,462	–	1,394
Dividends paid (Note 5.10)	–	–	–	–		(11,211)	(11,211)
At December 31, 2016	**113,750**	**944**	**1,686**	**(49)**	**109,356**	**14,043**	**239,730**

* *The revaluation reserve and fair value reserve are part of the revaluation reserves caption presented in the statement of financial position.*
** *From the movement in revaluation reserve EUR 1,394 is transferred to retained earnings and the remainder of EUR 707 is recognised in the statement of comprehensive income.*

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

Statement of **Comprehensive** Income

As at 31 December

(in thousands of EUR)	**Notes**	**2016**	**2015**
Net profit		14,043	11,211
Items that are or may be reclassified to the income statement			
Fair value reserve	4.18	1,705	(1,337)
Items that will never be reclassified to the income statement			
Revaluation reserve	4.18	(707)	330
Defined benefit obligation reserve	4.18	(49)	_
Other comprehensive income		**949**	**(1,007)**
Total comprehensive income for the year		**14,992**	**10,204**

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

Statement of Cash Flows

As at 31 December *(in thousands of EUR)*	Notes	2016	2015
Cash flows from operating activities			
Net profit for the period		14,043	11,211
Adjustments for noncash items included in profit:			
Depreciation and amortization for property and equipment	4.8	349	451
Depreciation and amortization for intangible assets	4.9	72	70
Net impairment charge on financial assets	5.8	3,763	5,375
Net impairment charge on tangible assets	5.8	-	(23)
Provisions	4.14	(138)	(299)
Income tax expense	5.9	4,954	3,439
Changes in operating assets:			
Financial assets held for trading	4.2	(1,196)	(48)
Loans and receivables – banks	4.5	27,180	149,520
Loans and receivables – customers	4.6	146,576	(198,125)
Derivative financial assets – hedge accounting	4.7	12	(12)
Income tax assets	4.10	1,563	(1,119)
Other assets	4.11	(1,206)	(1,237)
Changes in operating liabilities:			
Due to banks	4.12	(30,347)	(1,521)
Deposits from customers	4.13	(100,794)	26,103
Financial liabilities held for trading	4.2	(8,366)	(1,585)
Derivative financial liabilities – hedge accounting	4.7	(542)	(749)
Income tax liabilities	4.15	580	1,012
Other liabilities	4.16	1,233	(282)
Income tax paid		(4,863)	(4,992)
Net cash used in operating activities		**52,874**	**(12,811)**
Cash flows from investing activities			
Additions to financial investments	4.3, 4.4	(82,388)	(589,801)
Disposals and redemptions of financial investments	4.3, 4.4	84,715	574,681
Investments in property and equipment	4.8	(89)	(532)
Investments in intangible assets	4.9	(9)	(36)
Disposal of property and equipment	4.8	8,332	11
Net cash from investing activities		**10,561**	**(15,677)**
Cash flows from financing activities			
Dividends paid	5.10	(11,211)	(4,686)
Net cash used in financing activities		**(11,211)**	**(4,686)**
Net (decrease)/increase in cash and cash equivalents		52,224	(33,174)
Cash and balances with central banks at 1 January		69,440	102,614
Cash and balances with central banks at 31 December	4.1	**121,664**	**69,440**
Operational cash flows from interest			
Interest received		81,414	77,027
Interest paid		(15,238)	(21,643)

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

06

Notes to the Financial Statements

Notes to the 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 Weena 780 3014 DA Rotterdam, Netherlands.

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

The financial position of the bank is to a considerable extent related to the economic developments in Turkey 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 financial statements of DHB Bank 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 financial statements for the year ended December 31, 2016 were prepared by the Managing Board and authorized for issue in accordance with a resolution of the Supervisory Board on April 20, 2017. The General Meeting of Shareholders may decide not to adopt the annual accounts, but may not amend these.

2.2 Basis of measurement

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

2.3 Functional and presentation currency

The 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 reporting

The financial statements incorporate the assets, liabilities, income and expenses of DHB Bank.

3.2 Foreign currency translation

Transaction and balances
DHB Bank prepares its 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.

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 of financial instruments
Financial instruments are classified depending on the purpose for which the financial instruments were acquired and their characteristics at initial recognition. All financial instruments are measured initially at fair value plus/less transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

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.

Measurement of financial instruments
Financial instruments are either measured at amortized cost or fair value.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective 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.

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

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

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

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

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 or has matured. 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'.

In case of objective evidence of impairment of available for sale financial assets, the cumulative loss that has been recognised in the fair value reserve is reclassified from equity to the income statement under 'Result on financial transactions'. All subsequent losses are recognised in the income statement until the asset is derecognised.

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 held for 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 under 'result on hedge accounting transactions' 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 under 'result on financial transactions' 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 arising from 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 is derecognised.

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.

Where an existing financial asset is replaced by another to the same borrower on substantially different terms, or the terms of an existing asset are substantially modified, such an exchange or modification is treated as a derecognition of the original asset and the recognition of a new asset, and the difference in the respective carrying amounts is recognised in the income statement

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.

3.6 Offsetting financial assets and financial liabilities

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

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

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

3.7 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 income after the impairment is recognised based on the effective yield method against the reduced carrying amount of the asset using the rate of interest used to discount the future cashflows for the purpose of measuring the impairment loss. 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.

3.8 Cash and cash equivalents

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

3.9 Repurchase 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.

3.10 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.

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

Previously 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.

3.11 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.

3.12 Provisions

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

Provisions mainly consist of provisions for variable remuneration and provisions for onerous contracts for a closed branch.

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

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

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

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

unconditional) are subject to a retention period of 1 year after granting.

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

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

Other
Provisions for onerous contracts relate to the rent obligations of a closed branch.

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 Defined benefit plan – minimum guarantee

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

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

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

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

Changes in plan assets that effect Shareholders' equity and/or Net result, include mainly:
- return on plan assets using a high quality corporate bond rate at the start of the reporting period which are recognised as staff costs in the statement of profit or loss; and
- remeasurements which are recognised in Other comprehensive income (equity).

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

Changes in the defined benefit obligation that effects Shareholders' equity and/or Net result, include mainly:
- service cost which are recognised as staff costs in the statement of profit or loss;
- interest expenses using a high quality corporate bond rate at the start of the period which are recognised as staff costs in the statement of profit or loss; and
- remeasurements which are recognised in Other comprehensive income (equity).

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

3.14 Income taxes

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

Deferred income tax
Deferred income tax is created, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not created for permanent differences for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor tax profit.

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

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

Current tax and deferred tax relating to items 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.

3.15 Non-current assets held for sale

Non-current assets held for sale includes property and equipment whose carrying amount will be recovered primarily through a sale rather than through continuing operations. This relates to buildings for which a sale is agreed upon but for which the transaction has not yet closed or a sale is highly probable at the balance sheet date but for which no sale has yet been agreed. Assets once classified as held for sale are not amortized or depreciated.

3.16 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. 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). If a financial instrument is written down as a result of an impairment loss, the interest income is thereafter recognised using the rate of interest use to discount the future cash flows for the purpose of measuring the impairment loss. For assets measured at amortised cost, this interest rate would be the original effective interest rate and for available for sale financial assets it would be the new effective interest rate computed based on the fair value at the date of impairment.

Even if the value of a certain financial asset or a group of similar financial assets has been impaired, interest income continues to be 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 accounting 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.

3.17 Equity components

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

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

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.

3.18 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.

3.19 Changes in IFRS-EU

On 1 January 2016, a number of changes to IFRS became effective under IFRS-EU. The following changes were applicable and therefore adopted by DHB Bank:

- Annual Improvements Cycle: 2010 – 2012: IAS 16 (Property, Plant and Equipment) Revaluation method – proportionate restatement of accumulated depreciation/amortisation;
- IAS 1 Presentation of financial statements: Disclosure initiative – amendments to IAS 1;
- IAS 19 Employee Benefits: Defined benefit plans - Employee contributions.

The implementation of these amendments had no or no material effect on the financial statements of DHB Bank.

3.20 Changes in IFRS-EU applicable after 2016

The EU has endorsed several new standards that are applicable after 2016.

IFRS 9 (Financial Instruments)
The final version of IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 includes classification and measurement, impairment and hedge accounting. IFRS 9 is effective for financial years beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, except for hedge accounting, but providing comparative information is optional. The requirements for hedge accounting are with some limited exceptions in general applied prospectively.

DHB Bank will adopt the new standard on the required effective date. DHB Bank has performed an impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may change as a result from further detailed analyses or additional reasonable and supportable information being made available to DHB Bank in the future. DHB Bank expects no significant impact on its balance sheet and equity due to classification, measurement and hedge accounting. However DHB Bank expects that the loss allowance will be higher which will have a negative impact on equity. The magnitude of the impact

cannot be assessed at this point in time as DHB Bank will only implement the loan loss model in the second half of 2017.

(a) *Classification and measurement*

Based on the facts and circumstances to date, DHB Bank does not expect to make changes to the objectives of its business in relation to its financial assets. As such, DHB Bank does not expect a significant impact on its balance sheet or equity as a result of applying the classification and measurement requirements of IFRS 9. According to the expectation it will continue to measure at fair value all financial assets currently held at fair value.

Debt securities that are available for sale are expected to be measured at fair value through other comprehensive income under IFRS 9 as DHB Bank expects not only to hold the assets to collect contractual cash flows but also to sell these securities.

Loans & receivables as well as held-to-maturity debt securities, are held for the purpose of collecting contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. DHB Bank expects that these items will continue to be measured at amortised cost under IFRS 9. DHB Bank will however perform an analysis before concluding whether the contractual cash flow characteristics of the mentioned instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) *Impairment*

IFRS 9 standard requires DHB Bank to record expected credit losses on all of its debt securities, loans and receivables, these expected credit losses are either on a 12-month or lifetime basis. DHB Bank has partnered with an external consulting firm to develop and implement the loan loss calculation module that is based on standardized software from that consulting firm. This module includes an expected credit loss model that is tailored towards DHB Bank's loan portfolio characteristics and enables automated calculation of the impairments using transaction data from DHB Bank's source systems.

The development and implementation involves:

- Understanding DHB Bank's business and standardized software from the consulting firm;
- Alignment of data definitions;
- Tailoring of the loan loss model;
- Technical implementation;
- Testing.

The implementation is expected to be completed by September 2017 in order to enable a dry run for the last three months of 2017. This will also enable DHB Bank to perform a more detailed analysis which considers all reasonable and supportable information that includes forward-looking elements to determine the extent of the impact on equity. Based on the knowledge to date, DHB Bank expects a significant impact on its equity due to the nature of its loans and receivables that will affect the height of the expected loan losses.

Hedge accounting

Existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9 according to DHB Bank. IFRS 9 does not change the general principles of how an entity accounts for effective hedges, therefore DHB Bank does not expect a significant impact resulting from the application of applying IFRS 9.

IFRS 15 (Revenue from Contracts with Customers)

IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards.

The new standard will supersede all current revenue recognition requirements under IFRS. A full retrospective application or a modified retrospective application is required. IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

This standard does not have a material impact on DHB Bank.

3.21 Upcoming changes in IFRS-EU applicable after 2016

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

- *IFRS 16 (Leases)*
  IFRS 16 requires lessees to account for all leases under a on-balance sheet model (subject to certain exemptions) in a way similar to finance leases under IAS 17 with recognition exemptions for leases of 'low-value' assets and short-term leases. The lessees recognise a liability to pay for the lease with a corresponding asset, and recognise interest expense and depreciation separate from each other. Reassessing of certain key considerations is required of the lessee upon certain events (e.g., lease term, variable rents based on an index or rate, discount rate). According to IAS 17's dual classification approach lessor accounting is substantially the same as today's lesser accounting. Furthermore, IFRS 16 requires lessors and lessees making more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods starting on or after 1 January 2019.

  This standard does not have a material impact on DHB Bank.

- *Amendments to IAS 12 (Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses)*
  These amendments to IAS 12 clarifies that an entity needs to consider whether there are restrictions in tax law on the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. In addition, the amendments provide guidance on the determination of future taxable profits and explain when taxable profit may include the recovery of some assets for more than their carrying amount.

  Reporting entities are required to apply the amendments retrospectively but on initial application of the amendments, the change in the opening equity of the earliest period used for comparison may be recognised in opening retained earnings, without allocating the change between opening retained earnings and other components of equity. If entities apply this then disclosure of this fact is required for entities.

  This amendment is effective for annual periods beginning on or after 1 January 2017. This amendment has no impact to DHB Bank.

- *Amendments to IAS 7 (Statement of Cash Flows – Disclosure Initiative)*
  Based on IAS 7 an entity is required to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment is effective for annual periods beginning on or after 1 January 2017.

  This amendment has no impact to DHB Bank.

- *Clarifications to IFRS 15 Revenue from Contracts with Customers*
  The amendments to the Revenue Standard, which was first issued in 2014 and adopted by the EU in 2016, do not change the underlying principles of the Standard but clarify how those principles should be applied. They arise as a result of discussions of the Transition Resource Group (TRG). The TRG was set up jointly by the Board and the US national standard-setter, the Financial Accounting Standards Board (FASB), to assist companies with implementing the new Standard.

  The amendments clarify how to:
  - identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract;
  - determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
  - determine whether the revenue from granting a licence should be recognised at a point in time or over time.

  In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

  The amendments have the same effective date as the Standard: 1 January 2018.

  These amendments do not have an impact on DHB Bank as interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards.

- *Amendments to IFRS 2 (Share-based Payment – Classification and Measurement of Share-based Payment Transactions)*

The amendments clarify how to account for certain types of share-based payment transactions and provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of share-based payments that are settled in cash.
- Share-based payment transactions that are settled net of withholding tax obligations
- A modification to the terms and conditions of payments that are share based that changes the classification of the transaction from cash-settled to equity-settled.

The amendments become effective for financial years beginning on or after 1 January 2018, with early adoption permitted. This amendment has no impact to DHB Bank.

- *Amendments to IFRS 4 (Insurance Contracts – Applying IFRS 9 Financial Instruments with IFRS 4)*

The amendments introduce two optional approaches for entities that issue insurance contracts within the scope of IFRS 4:

- The "overlay approach" gives all entities that issue insurance contracts the possibility to recognise in other comprehensive income instead of in profit or loss, additional volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is applied.
- The "deferral approach" gives companies whose activities are predominantly connected with insurance the option to refrain from applying IFRS 9 until 2021. These companies will then continue to apply IAS 39 Financial Instruments: Recognition and Measurement until 2021and will be required to make additional disclosures.

The amendments become effective for financial years starting on or after 1 January 2018. Earlier application is allowed. This amendment has no material impact to DHB Bank.

- *Annual Improvements to IFRS Standards 2014-2016 Cycle*

- IFRS 1 First-time Adoption of International Financial Reporting Standards: IASB deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose;
- IFRS 12 Disclosure of Interests in Other Entities: IASB clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- IAS 28 Investments in Associates and Joint Ventures: IASB clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017.

The annual improvements do not have a material impact to DHB Bank.

- *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations*

The interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or payed at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

Consensus:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability;
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. This interpretation has no material impact to DHB Bank.

- *Amendments to IAS 40: Transfers of Investment Property*

  The amendments in Transfers of Investment Property (Amendments to IAS 40) are:
  - Paragraph 57 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use;
  - The list of evidence in paragraph 57(a) – (d) was designated as non-exhaustive list of examples instead of the previous exhaustive list.

  The amendments are effective for periods beginning on or after 1 January 2018. Earlier application is permitted.

  This amendment has no impact to DHB Bank.

3.22 Corrections and changes

Personnel expenses

DHB Bank identified a clerical error in the disclosure of the 2015 personnel expenses in note 5.6. The bonus charge of 350,000 was disclosed as other staff costs whereas it should have been disclosed as wages and salaries. The amounts in note 5.6 are corrected as follows:

- Wages and salaries was increased from 8,713 to 9,063;
- Other staff costs was reduced from 959 to 609.

Pledged and freely available securities

DHB Bank identified some related clerical error and has made the following changes to the comparative figures as presented in the accompanying text of the following notes in order to correct those errors:

Note 4.3
- In the 2015 financial statements the following was stated: From the available for sale financial assets under custody with DNB, 175,131 is pledged for total funding 155,618 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 149,255 is freely available.
- It should have stated: From the available for sale financial assets under custody with DNB, 240,778 is pledged for total funding 210,058 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 83,608 is freely available.

Note 4.4
- In the 2015 financial statements it was stated that none of the securities in the Held to Maturity portfolio were freely available and that all securities are pledged for total funding obtained from the ECB under the (Targeted) Long Term Refinancing Operations and in the form of short term repo borrowings.
- It should have stated that none of the securities were pledged and that all securities (amounting to 54,698) are freely available.

Note 6.6
- In connection with the above errors the table in note 6.6 should have stated the following 2015 figures:
  - Available for sale securities: 240,778 (instead of 175,131)
  - Securities held to maturity: nil (instead of 54,698)

In the accompanying text it should have stated that 240,778 (instead of 229,829) is pledged and that the remaining available for sale financial assets and securities held to maturity that are freely available should amount to 142,686 (instead of 149,255).

Risk disclosures

In the table that presents the loans and receivables and the off-balance sheet exposures to nonbank customers split by economic sectors the following changes are made as the mapping within DHB Bank was refined.

Category	Was	Is	Change
Manufacturing	208,600	251,447	42,847
Wholesale and retail trade	73,078	30,231	(42,847)
Professional, scientific and technical activities	-	132	132
Public administration and defence, compulsory social security	-	2,279	2,279
Human health services and social work activities	4,906	4,773	(133)
Other services	60,925	58,647	(2,278)

4. Balance sheet

4.1 Cash and balances with central banks

	2016	2015
Cash in hand	2	2
Balances with central banks	121,662	69,438
Total	**121,664**	**69,440**

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 freely available in daily operations amounting to 8,400 (2015: 9,657).

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 shows the financial assets and liabilities held for trading as of December 31, 2016 and 2015:

	2016		2015	
	Fair value	Notional	Fair value	Notional
Financial assets held for trading				
Currency swaps	1,349	97,797	55	16,870
Interest rate swaps	179	5,061	145	5,805
Cross currency swaps		–	132	18,443
Debt securities issued by banks	–	–	–	–
Total	**1,528**	**102,858**	**332**	**41,118**
Financial liabilities held for trading				
Currency swaps	732	37,782	3,947	215,918
Interest rate swaps	125	5,061	178	16,305
Cross currency swaps	2,821	38,127	7,919	57,527
Total	**3,678**	**80,970**	**12,044**	**289,750**

The assets and liabilities held for trading relate to derivatives positions to hedge financial risks, which do qualify for hedge accounting.

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 related to US Dollar and Turkish Lira. Currency forwards are offered to select customers in main currencies whereby the currency risk is fully hedged by offsetting deals with bank counterparties.

When fair value of derivatives is positive (negative), both fair value and corresponding notional amounts are reported as assets (liabilities). In 2016 the notional amounts of derivatives increased by 32 million, whereas the fair valuation showed movement in favour of DHB Bank.

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

Available for sale financial assets	2016	2015
Debt securities issued by banks	305,156	282,640
Debt securities issued by corporates	34,727	35,352
Government (Euro)bonds	10,488	31,556
Total	**350,371**	**349,548**

From the available for sale financial assets 332,369 (2015: 324,386) is under custody with DNB and serves as a pool of ECB eligible securities that can be used to obtain funding from the ECB. From this pool 274,516 (2015: 240,778) is blocked as a pledge for total funding amounting to 238,029 (2015: 210,058) as obtained from the ECB under the (Targeted) Long Term Refinancing Operations (TLTRO) and in the form of other short term repo borrowings. The remaining ECB eligible available for sale financial assets of 57,853 (2015: 83,608) is freely available.

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

There are subordinated securities available for sale amounting to 1,885 (2015: 3,640).

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

	2016	2015
At January 1	**349,548**	**390,463**
Purchases	87,793	535,548
Sales	(81,102)	(552,866)
Redemptions	(3,613)	(21,815)
FX revaluations and accrued interests	904	(2,634)
Market value revaluations	(3,159)	852
At December 31	**350,371**	**349,548**

4.4 Securities held to maturity

Securities held to maturity	2016	2015
Government (Euro bonds)	53,253	54,698
Total	**53,253**	**54,698**

From the securities held to maturity 53,253 (2015: 54,698) is under custody with DNB. The total ECB eligible held to maturity securities of 53,253 (2015: 54,698) is freely available.

There are no subordinated securities held to maturity as at 31.12.2016 (31.12.2015: None).

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

	2016	2015
At January 1	**54,698**	**–**
Purchases	–	55,706
Sales	–	–
Redemptions	–	–
FX revaluations	–	–
Changes in accrued interest and (dis)agio	(1,445)	(1,008)
At December 31	**53,253**	**54,698**

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'.

	2016	2015
Money market placements	30,014	14,949
Other loans and receivables	208,552	250,797
Subtotal	**238,566**	**265,746**
IBNR allowances for impairment	(168)	(106)
Total	**238,398**	**265,640**

The item 'Loans and receivables – banks' includes pledged funds amounting to 8,625 (2015: 12,251) which serve as a collateral for several swap transactions for the entire amount (2015: 12,251). 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 4,509 (2015: 4,275).

There are no subordinated loans and receivables granted to banks as at 31.12.2016 (31.12.2015: None).

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:

	2016	2015
Retail loans	77,774	63,256
Commercial loans	922,479	1,085,762
Subtotal	**1,000,253**	**1,149,018**
Specific allowances for impairment	(9,600)	(8,033)
IBNR allowances for impairment	(634)	(689)
Total	**990,019**	**1,140,296**

There are no subordinated loans and receivables granted to customers as at 31.12.2016 (31.12.2015: None).

4.7 Derivative financial instruments - hedge accounting

DHB Bank holds derivative financial instruments for general risk management purposes as at 31 December 2016 and 31 December 2015.

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

	2016			2015		
	Notional amounts	Fair values		Notional amounts	Fair values	
		Positive	Negative		Positive	Negative
Interest rate swaps						
Fair value hedges	28,218		1,416	32,645	12	1,958
Cash flow hedges	–	–	–	–	–	–
Total	**28,218**	**–**	**1,416**	**32,645**	**12**	**1,958**

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.

4.8 Property and equipment & assets held for sale

The changes in book value of assets held for sale in 2016 and 2015 are as follows:

	Buildings	Other fixed assets	Total
Balance at January 1, 2016	**8,380**	**447**	**8,827**
Investments	3	86	**89**
Divestments	(4,596)	(36)	**(4,632)**
Depreciation	(154)	(195)	**(349)**
Revaluation	(1,071)	–	**(1,071)**
Balance at December 31, 2016	**2,562**	**302**	**2,864**
Cost	2,742	3,829	**6,571**
Cumulative depreciation and impairment	(2,156)	(3,527)	**(5,683)**
Cumulative revaluations	1,976	–	**1,976**
Total	**2,562**	**302**	**2,864**

	Buildings	Other fixed assets	Total
Balance at January 1, 2015	**11,680**	**284**	**11,964**
Investments	211	321	**532**
Divestments	–	(11)	**(11)**
Reclassification to assets held for sale	(3,677)	-	**(3,677)**
Depreciation	(304)	(147)	**(451)**
Revaluation	470	–	**470**
Balance at December 31, 2015	**8,380**	**447**	**8,827**
Cost	8,808	5,365	**14,173**
Cumulative depreciation and impairment	(5,719)	(4,918)	**(10,637)**
Cumulative revaluations	5,291	–	**5,291**
Total	**8,380**	**447**	**8,827**

The real estate consists of office premises located in Brussels and Antwerp and are latest appraised separately by independent experts as per December 31, 2016. The total market value of all the premises amounted to 2,562 (2015: 8,380).

DHB Bank does not have any restrictions on title, and property, plant and equipment pledged as security for liabilities (2015: None).

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

The changes in book value of assets held for sale in 2016 and 2015 are as follows:

	Buildings	Other fixed assets	Total
Balance at January 1, 2016	**3,700**		**3,700**
Reclassifications	4,596		**4,596**
Divestments	(8,296)		**(8,296)**
Balance at December 31, 2016	**-**		**-**

	Buildings	Other fixed assets	Total
Balance at January 1, 2015	**-**		**-**
Reclassifications	3,700		**3,700**
Divestments	-		**-**
Balance at December 31, 2015	**3,700**		**3,700**

As per year end 2015 the building in own use located in Düsseldorf was recorded as a non-current asset held for sale for an amount of EUR 3.7 million as the building was no longer needed as a result of a reorganisation of DHB Bank. This building was sold in April 2016 for an amount of EUR 4 million and subsequently derecognised from the balance sheet taking into account a book profit of EUR 0.3 million that is recorded as a profit under other operating income (see 5.5). The related revaluation reserve is allocated to retained earnings.

In April 2016, the Supervisory Board agreed on the intention to sell the premises of Rotterdam as the building became too large in light of the staff reductions that took place as part of the reorganisation of DHB Bank. Accordingly DHB Bank classified the asset as a non-current asset held for sale for an amount of EUR 4.6 million and stopped the periodic depreciation. In July 2016 a sales agreement for an amount of EUR 5.7 million was concluded and full ownership of the building was delivered on 15 December 2016. Subsequently the asset was derecognised from the balance sheet taking into account a book profit of EUR 1.1 million that is recorded as a profit under other operating income (see 5.5). The related revaluation reserve is allocated to retained earnings.

DHB bank retained the right to use the building in Rotterdam until 31 March 2017. DHB Bank assessed whether the sale and the subsequent right to use the building qualifies as a sale and leaseback and concluded that it should be treated as a regular operational lease contract.

As at 31 December 2016 there are no assets that are classified as held for sale.

4.9 Intangible assets

The changes in book value of intangibles are as follows:

	2016	2015
Balance at January 1	**211**	**245**
Investments	9	36
Amortization	(72)	(70)
Balance at December 31	**148**	**211**
Cost	4,550	4,553
Cumulative amortization	(4,402)	(4,342)
Total	**148**	**211**

This item mainly includes licences. The investment amounting to 9 relates to license expenses for software.

4.10 Income tax assets

	2016	2015
Current tax assets	21	1,584
Deferred tax assets	16	–
Total	**37**	**1,584**

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

The movements in deferred tax assets are as follows in 2016:

	Balance at January 1	Recognized in income statement	Recognized in other comprehensive income	Balance at December 31
Property and equipment – Real estate valuation	–	–	–	–
Employee benefits	–	–	16	16
Total	**–**	**–**	**16**	**16**

4.11 Other assets

	2016	2015
Prepayments	3,654	2,735
Other receivables	579	292
Total	**4,233**	**3,027**

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.

	2016	2015
Current accounts	1,239	2,091
Borrowings	300,849	330,344
Total	**302,088**	**332,435**

Majority of the balance represents funds obtained through repo transactions amounting to 238,029 (2015: 210,058). Most of the repo transactions relate to the participation in the targeted longer-term refinancing operations (TLTRO), a program that aims to stimulate lending to the real economy in the Eurozone. The interest rate on the TLTRO's is normally fixed over the life of the operations at the benchmark rate of the European Central Bank. Under TLTRO II, the ECB might grant a discount with retrospective effect if the net lending exceeds certain benchmarks. DHB Bank has not accounted for this possible discount as it is uncertain whether DHB Bank will exceed those benchmarks.

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

This balance sheet item does not include pledged deposits (2015: 49,966) which could 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.

	2016	2015
Current accounts	40,754	62,982
Saving accounts	529,366	718,890
Time deposits	638,012	527,054
Total	**1,208,132**	**1,308,926**

Decrease in the savings accounts is related to terminating deposit collection in Belgium. The balances in savings accounts are paid out in the fourth quarter of 2016.

This item includes pledged deposits amounting to 17,638 (2015: 46,100) 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:

	2016	2015
Employee benefits	1,001	986
Onerous contracts	20	107
Restructuring	-	–
Total	**1,021**	**1,093**

Employee benefits others

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

	2016	2015
Opening balance	986	1,039
Addition through income statement	391	350
Addition through equity	65	0
Utilization	(441)	(403)
Closing balance	**1,001**	**986**

Provisions for employee benefits consist of provisions related to the bank's variable remuneration for an amount of 964 (2015: 955) and to the defined benefit plan that is applicable as of 2016 for DHB Bank's Belgian staff of 65 (2015: nil), while 37 (2015: 31) is related to vitality leave.

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

Defined benefit plan

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

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

	2016	2015
Fair value of plan assets	983	–
Defined benefit obligation	1.048	–
Net defined benefit liability	**(65)**	**–**

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

	2016	2015
Opening balance of plan assets	–	–
Initial recognition via retained earnings	983	–
Closing balance of plan assets	**983**	**–**
Opening balance of defined benefit obligation	–	–
Initial recognition via retained earnings	1,048	–
Closing balance of defined benefit obligation	***1,048***	**–**
Net defined benefit liability	**65**	**–**

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

- Discount rate: 1,45% per annum;
- Expected return on Assets: 1,45% per annum;
- Expected rate of salary increases, including inflation: 3%;
- Duration: 12,5 years;
- Retirement age: 65 years;
- Withdrawal rates per age category:
  - 20-29 years: 10%
  - 30-39 years: 8%
  - 30-49 years: 6%
  - 50-54 years: 4%
  - 55-64 years: 0%

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

		Discount rate		Withdrawal
	Original	**-1%**	**1%**	**0%**
Rates	1.45%	0.45%	2,45%	0%
Defined benefit obligation	1,048	1,097	999	1,090
Normal cost	47	50	47	47
Fair value of assets	983	983	983	983

Annual premiums are paid to the insurance company to cover the pension costs in accordance with the insurance contracts. For 2017 the expected contributions are EUR 47 thousand and the estimated payments for 2017 are EUR 411 thousand.

		Discount rate		Withdrawal
	Original	**-1%**	**1%**	**0%**
Rates	1.45%	0.45%	2,45%	0%
Defined benefit obligation	1,048	1,097	999	1,090
Normal cost	47	50	47	47
Fair value of assets	983	983	983	983

Annual premiums are paid to the insurance company to cover the pension costs in accordance with the insurance contracts. For 2017 the expected contributions are EUR 47 thousand and the estimated payments for 2017 are EUR 411 thousand.

Onerous contracts

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

	2016	2015
Opening balance	107	73
Addition	-	34
Utilization	(76)	–
Release	(11)	–
Closing balance	**20**	**107**

Restructuring

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

	2016	2015
Opening balance	–	280
Addition	–	–
Utilization	–	(280)
Closing balance	**–**	**–**

4.15 Income tax liabilities

	2016	2015
Current tax liabilities	587	–
Deferred tax liabilities	1,088	1,368
Total	**1,675**	**1,368**

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 movements in deferred tax liabilities are as follows in 2016:

	Balance at January 1	Recognized in income statement	Recognized in other comprehensive income	Balance at December 31
Property and equipment – Real estate valuation	1,368	(4)	(838)	526
Fair value reserve	–	–	562	562
Total	**1,368**	**(4)**	**(276)**	**1,088**

4.16 Other liabilities

	2016	2015
Accrued expenses	2,255	1,715
Payables to suppliers	-	197
Other payables	2,520	1,630
Total	**4,755**	**3,542**

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 Revaluation reserves

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

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

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

4.19 Defined benefit obligation reserve

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

4.20 Retained earnings

Retained earnings can be freely distributed, except for an amount of EUR 1,146 thousand (2015: EUR 258 thousand) related to the unrealised positive fair value on derivatives after tax effect that is included in the statement of profit or loss and to be treated as a legal reserve under Dutch corporate law.

5. Income Statement

5.1 Net interest income

	2016	2015
Interest income from:		
Cash and balances with central banks	1	5
Financial assets held for trading	–	–
Available for sale financial assets	2,363	2,919
Securities held to maturity	55	7
Loans and receivables – banks	3,981	5,158
Loans and receivables – customers	66,095	57,299
Derivative financial instruments	(164)	(171)
Other interest income	66	78
Subtotal	**72,397**	**65,295**
Interest expense from:		
Due to banks	1,637	1,007
Deposits from customers	13,011	16,417
Derivative financial instruments	–	–
Other interest expense	–	–
Subtotal	**14,648**	**17,424**
Total	**57,749**	**47,871**

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

For financial assets or financial liabilities that are not at fair value through profit or loss the total interest income amounts to EUR 70.2 million (2015: EUR 62.5 million) and total interest expense amounts to EUR 14.6 million (2015: EUR 17.4 million).

5.2 Net Fee And Commission Income

	2016	2015
Letter of guarantees	25	25
Letter of credits	187	310
Cash loan	19	304
Banking services	1,158	998
Other fees and commissions	57	301
Subtotal	**1,446**	**1,938**
Fee and commission expense	271	306
Total	**1,175**	**1,632**

5.3 Result on financial transactions

	2016	2015
Results from securities transactions	876	4,008
Results from derivatives transactions	(19,064)	(15,857)
Total	**(18,188)**	**(11,849)**

'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 (including foreign currency translation results) on FX swap and cross currency swap 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.

Within the results from securities transactions, the following amounts were reclassified from equity to the statement of profit and loss in connection with the sale of securities that were part of the securities portfolio as per year end 2015.

	2016	2015
Gross amounts (as recorded in P&L)	77	3,028
Net amounts (as reclassed from equity)	58	2,271

5.4 Result on hedge accounting transactions

	2016	2015
Result on hedge accounting transactions	(19)	(35)

'Result on hedge accounting transactions' comprise the gains and losses from:		
• fair value hedges on the hedging instrument	(410)	(527)
• fair value hedges on the hedged item	391	492
Total	**(19)**	**(35)**

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

	2016	2015
Other operating income	1,416	22

Other operating income consists of non-recurring income items, mainly related to the sale of real estates. In 2016, DHB Bank sold the buildings in own use located in Düsseldorf and Rotterdam. The transactions resulted in a gain of 1.4 million.

5.6 Staff expenses

	2016	2015
Wages and salaries	9,606	9,063
Pension costs	753	682
Other social security costs	1,394	1,423
Other staff costs	634	609
Total	**12,387**	**11,777**

The current number of full-time equivalents in 2016 was 104 (2015: 125)

In The Netherlands	66	78
Outside The Netherlands	38	47
Total	**104**	**125**

Pension costs consist of payments to a defined contribution plan, for which DHB Bank pays fixed contributions and there is no legal or constructive obligation to pay further contributions. Further reference is made to note 4.14.

The Managing Board compensation is as follows:

Fixed remuneration	2016	2015
Short-term employee benefits	1,416	1,449
Post-employment benefits	60	60
Total	**1,476**	**1,509**

Included in the short-term employee benefits is a variable remuneration of 165 (2015: 150).

5.7 Other administrative expenses

	2016	2015
Other administrative expenses	6,565	5,341

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

The expenses of the current and former members of the Supervisory Board amounted to 270 (2015: 265) in 2016, of which 205 (2015: 225) relates to the fixed remuneration and 64 (2015: 40) relates to the reimbursements of expenses. Social charges in relation to the Supervisory Board are excluded from this and booked under personnel expenses.

This item also includes the expenses for audit and audit related services of Ernst & Young Accountants LLP:

	2016	2015
Audit of financial statements	163	163
Audit related services	61	66
Total	**224**	**229**

From the EUR 224, EUR 141 was paid in 2016. The remainder is accrued in the balance sheet as a liability.

5.8 Net impairment charge

	2016	2015
Loans and receivables	3,763	5,375
Property and equipment	-	(23)
Total	**3,763**	**5,352**

5.9 Taxation

The Netherlands
Corporate income tax is levied at the rate of 25% (2015: 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 2016. 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 40.98%.

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 23.19%, which is lower than statutory tax rate because of notional interest deduction facility in Belgium.

Reconciliation of effective tax rate	%	2016	%	2015
Profit before income tax		18,997		14,650
Income tax using the domestic corporation tax rate	(25.00%)	(4,750)	(25.00%)	(3,663)
Effect of tax rates in foreign jurisdictions	(1.10%)	(209)	(0.47%)	(69)
Non-deductible expenses / tax exempt items	0.07%	13	2.27%	333
Other	(0.04%)	(8)	(0.27%)	(40)
Total	**(26.07%)**	**(4,954)**	**(23.47%)**	**(3,439)**

Income tax expense recognized in income statement	2016	2015
Current income tax expense	(4,958)	(3,459)
Deferred income tax expense	4	20
Total	**(4,954)**	**(3,439)**

Income tax related to components of other comprehensive income	2016	2015
Revaluation reserve	838	(137)
Fair value reserve	(562)	439
Cash flow hedge reserve	–	–
Total	**276**	**302**

5.10 Dividends

	2016	2015
Dividends proposed	14,043	11,211
Dividend per ordinary share	0.0562	0.0448

Dividend distribution is subject to approval by the Supervisory Board and General Meeting of Shareholders and depending on the 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 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:

	2016	2015
Non-credit substitute guarantees	1,959	4,177
Irrevocable letters of credit	9,039	8,276
Total	**10,998**	**12,453**

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

	2016	2015
The Netherlands	972	3,737
Turkey	-	478
Rest of Europe	10,026	8,238
Total	**10,998**	**12,453**

In addition to the business-related commitments and contingent liabilities and in relation to the sale of the office in Germany, DHB Bank entered into a 5-year rental agreement for a new office concluded in May 2015. The rental agreement qualifies as an operational lease with an annual rent for the office space that amounts to 90,000.

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 2016, 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, C Real Estate LLC and Acces Financial Services – IFN S.A.. Halk group companies consist of Türkiye Halk Bankası A.Ş., Türkiye Halk Bankası A.Ş. Bahrain branch, Halkbank AD Skopje, Halk Finansal Kiralama A.Ş, Halk Faktoring A.Ş and Halkbank AD Beograd.

During the year, the bank entered 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, no loans (2015: 49,966) are granted against cash collaterals. There are no outstanding risks in 2016 against third party promissory notes/cheques (2015: None).

Further reference is made to note 5.6 for the key management personnel compensation.

The outstanding balances with related parties for the year ended December 31, 2016 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Assets				
Loans and receivables – banks	8,876	20,138	–	**29,014**
Loans and receivables – customers	–	37,103	–	**37,103**
Liabilities				
Due to banks	285	631	–	**917**
of which received cash collaterals for loans	–	–	–	**–**
Deposits from customers	639	3,175	166	**3,980**
of which received cash collaterals for loans	–	2,286	–	**2,286**
Contingent liabilities				
Letter of credits	–	–	–	**–**
Guarantees	3	759	–	**762**

The income and expenses in respect of related parties included in the financial statements for the year 2016 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Interest income	276	4,438	–	**4,713**
Interest expense	228	191	2	**422**
Commission income	15	42	–	**57**
Commission expense	87	–	–	**87**

The outstanding balances with related parties for the year ended December 31, 2015 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Assets				
Loans and receivables – banks	50,102	12,521	–	**62,623**
Loans and receivables – customers	–	43,255	–	**43,255**
Liabilities				
Due to banks	55,172	1,921	–	**57,093**
of which received cash collaterals for loans	*49,966*	–	–	**49,966**
Deposits from customers	441	2,631	158	**3,230**
of which received cash collaterals for loans	–	*2,214*	–	**2,214**
Contingent liabilities				
Letter of credits	–	–	–	**–**
Guarantees	3	2,021	–	**2,024**

The income and expenses in respect of related parties included in the financial statements for the year 2015 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Interest income	549	1,479	–	**2,028**
Interest expense	376	169	1	**546**
Commission income	5	34	–	**39**
Commission expense	161	–	–	**161**

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 solely comprised of Common Equity Tier 1 (CET1) capital which is considered to have the highest loss absorbing capacity to cover unexpected loss.

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

CRDIV/CRR standards are in effect as of January 2014. The objective of CRDIV/CRR is to enhance the capital adequacy of the banking industry by making it more responsive to risk. Under CRDIV/CRR banks have the option to choose between various approaches ranging from standardized to advanced. 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, 2016 and the previous year are as follows:

	2016		2015	
	Required	Actual	Required	Actual
Total capital	106,677	225,377	109,844	224,744
Total capital ratio / BIS ratio	8.00%	16.90%	8.00%	16.37%
Tier 1 capital	60,006	225,377	61,787	224,744
Tier 1 capital ratio	4.50%	16.90%	4.50%	16.37%
Risk Weighted Assets		1,333,457		1,373,052

The total capital is based on the expectation that 100% of the net profit for the year 2016 is distributed as dividend 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). If the entire net profit for the year 2016 would be taken into account, the actual total capital would be 239,421, while the total capital ratio / BIS ratio would be 17.95%.

6.4 Fair value measurement of assets and liabilities

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

If there is an active market for the asset or liability, the fair value represents the quoted price in that market. A market is considered active if transactions take place with sufficient frequency and volume.

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

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

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

DHB Bank makes fair value adjustments to cover the credit risk on derivatives (credit value adjustment – CVA, and debit value adjustment – DVA). The CVA is applied to derivatives with a positive fair value for counterparties without objective evidence of impairment. The DVA is applied to derivatives with a negative fair value to cover the counterparty's credit risk on DHB Bank.

	31 December 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and balances with central banks	121,664	121,664	69,440	69,440
Financial assets held for trading	1,528	1,528	332	332
Available for sale financial assets	350,371	350,371	349,548	349,548
Securities held to maturity	53,253	53,809	54,698	55,049
Loans and receivables – banks	238,398	234,661	265,640	265,184
Loans and receivables – customers	990,019	988,262	1,140,296	1,146,530
Derivative financial instruments – hedge accounting	-	-	12	12
Property and equipment – Buildings	2,562	2,562	8,380	8,380
Non-current assets held for sale – Building	-	-	3,700	3,700
Total	**1,757,795**	**1,752,857**	**1,892,046**	**1,898,175**
Liabilities				
Due to banks	302,088	302,088	332,435	332,435
Financial liabilities held for trading	3,678	3,678	12,044	12,044
Deposits from customers	1,208,132	1,234,445	1,308,926	1,330,772
Derivative financial instruments – hedge accounting	1,416	1,416	1,958	1,958
Total	**1,515,314**	**1,541,627**	**1,655,363**	**1,677,209**

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

  In the case of DHB Bank, level 3 valuation is applied to buildings, which are carried out at least once per year by 1 or more certified external appraisers based on 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.

  By multiplying the capitalization factor with the market rent, the market value is derived. This would be the same as discounting the market rent by the initial yield in perpetuity. In order to estimate the capitalization factor, the appropriate initial yield has been derived from recent transactions in the market. There are no recent investment transactions available for office mansions in Rotterdam or other major cities in the Netherlands. Therefore, no comparable gross initial yields are available for comparison. To overcome this data insufficiency, the recent purchase transactions have been analysed. As the purchasers in these transactions often represent an owner-occupier the transaction price per m^2 LFA offer guidance on the market value.

  Based on the derived market rent and market value a gross initial yield is constructed. These yields have increased slightly in comparison to the yields applied in the previous valuation of 2015. This is in line with general market movements in the applicable cities.

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

Fair value hierarchy for assets and liabilities measured at fair value

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

31 December 2016	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading	–	1,528	–	**1,528**
Available for sale financial assets	350,371	–	–	**350,371**
Derivative financial instruments – hedge accounting	–	–	–	**–**
Property and equipment – Buildings	–	–	2,562	**2,562**
Non-current assets held for sale – Building	–	–	–	**–**
Total	**350,371**	**1,528**	**2,562**	**354,461**
Liabilities				
Financial liabilities held for trading	–	3,678	–	**3,678**
Derivative financial instruments – hedge accounting	–	1,416	–	**1,416**
Total	**-**	**5,094**	**-**	**5,094**

31 December 2015	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading	–	332	–	**332**
Available for sale financial assets	349,548	–	–	**349,548**
Derivative financial instruments – hedge accounting	–	12	–	**12**
Property and equipment – Buildings	–	–	8,380	**8,380**
Non-current assets held for sale – Building	–	–	3,700	**3,700**
Total	**349,548**	**344**	**12,080**	**361,972**
Liabilities				
Financial liabilities held for trading	–	12,044	–	**12,044**
Derivative financial instruments – hedge accounting	–	1,958	–	**1,958**
Total	**–**	**14,002**	**–**	**14,002**

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

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

The following table shows the fair values of assets and liabilities not measured at fair value and analyses them by the level in the fair value hierarchy.

31 December 2016	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	2	121,662	–	**121,664**
Securities held to maturity	53,809	–	–	**53,809**
Loans and receivables – banks	–	234,661	–	**234,661**
Loans and receivables – customers	–	–	988,262	**988,262**
Total	**53,811**	**356,323**	**988,262**	**1,398,396**
Liabilities				
Due to banks	–	302,088	–	**302,088**
Deposits from customers	–	–	1,234,445	**1,234,445**
Total	**–**	**302,088**	**1,234,445**	**1,536,533**

31 December 2015	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	2	69,438	–	**69,440**
Securities held to maturity	55,049	–	–	**55,049**
Loans and receivables – banks	–	265,184	–	**265,184**
Loans and receivables – customers	–	–	1,146,530	**1,146,530**
Total	**55,051**	**334,622**	**1,146,530**	**1,536,203**
Liabilities				
Due to banks	–	332,435	–	**332,435**
Deposits from customers	–	–	1,330,772	**1,330,772**
Total	**–**	**332,435**	**1,330,772**	**1,663,207**

Movements in level 3 financial assets 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.

	2016	2015
Balance at January 1	**12,080**	**11,680**
Investments	3	211
Divestments	(4,596)	–
Reclassification	(3,700)	23
Depreciation	(154)	(304)
Revaluation	(1,071)	470
Balance at December 31	**2,562**	**12,080**

6.5 Offsetting financial assets and financial liabilities

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

Financial assets and liabilities are offset per counterparty and the net amount is reported on the 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 in the balance sheet to derivative contracts with some counterparties for which the services of a central clearing house are used.

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

Legally enforceable master netting agreement have provisions that make offsetting exercisable only in the event of default, insolvency or bankruptcy of DHB Bank or counterparties. For 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.

2016

	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	1,528	–	1,528	–	–	1,528
Total	**1,528**	**–**	**1,528**	**–**	**–**	**1,528**
Financial Liabilities						
Derivative liabilities	3,678	–	3,678	(3,678)	–	–
Repo agreements	238,029	–	238,029	–	(238,029)	–
Total	**241,707**	**–**	**241,707**	**(3,678)**	**(238,029)**	**–**

2015

	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	332		332	–	–	332
Total	**332**	**–**	**332**	**–**	**–**	**332**
Financial Liabilities						
Derivative liabilities	12,044	–	12,044	(12,044)	–	–
Repo agreements	210,058	–	210,058	–	(210,058)	–
Total	**222,102**	**–**	**222,102**	**(12,044)**	**(210,058)**	**–**

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 financial assets and securities held to maturity used in repurchase transactions.

	2016	2015
Transferred Assets		
Available for sale financial assets	274,516	240,778
Securities held to maturity	–	–
Associated Liabilities		
Due to banks	238,029	210,058
Net position	**36,487**	**30,720**

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

From the available for sale financial assets and securities held to maturity 385,622 (2015: 379,084) is under custody with DNB, of which 274,516 (2015: 240,778) is pledged for total funding for an amount of 238,029 (2015: 210,058) as obtained from the ECB under the (Targeted) Long Term Refinancing Operations and in the form of short term repo borrowings. The remaining ECB eligible available for sale financial assets and securities held to maturity of 111,106 (2015: 142,686) 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

In relation to the sale of the office in The Netherlands, DHB Bank entered into a 10-year rental agreement for a new office that was concluded in January 2017. The rental agreement qualifies as an operational lease with an annual rent for the office space and related parking space that amounts to EUR 228 plus 4% VAT compensation, and annual service charges amounting to EUR 48 excluding VAT. Furthermore, in connection with the rental agreement, DHB Bank is entitled to a one off incentive of EUR 54 and VAT compensation of EUR 32 and has to pay a one-off compensation for non-deductible VAT of EUR 744.

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, to the extent possible, addressed in the overall risk management framework.

The measurement models and techniques employed are continually subjected to assessment for appropriateness and reliability. For the risk types that are difficult to quantify, the bank places greater emphasis on qualitative risk factors and on the assessment of activities to gauge the overall level of risks to ensure that they are within the approved risk appetite. Risk factors for new products are systemically identified using a new products approval process initiated by the unit owning the product. All related front and back office units and Risk Management evaluate the product specifications and assess the risk level of the product in all aspects before the launch date.

In the below sections DHB Bank's risk position is presented in detail. Given figures are according to fair value or 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 from the SBCC or full SB, depending on the respective amount. As for retail credits, the acceptance criteria is drawn up and reviewed separately under the approval authority granted by the Managing Board.

The bank dedicates considerable resources to controlling credit risk effectively. Operating under a sound credit administration, measurement, monitoring and reporting process, DHB Bank strives to maintain appropriate control over credit risk at portfolio, obligor group and individual facility levels. Credit monitoring is carried out at individual borrower, sector and country levels by the Credit Analysis Department, which conducts credit reviews and reports to the Credit Committee on a regular basis. 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 sector and geography concentration;
- Exposures to arge customer groups;
- 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 an enhanced internal rating system supports related departments to manage portfolio credit risks as well as individual credit risks based on determined guidelines and incorporate available public and private information in an advanced way in risk decisions to be taken.

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

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:

	2016	2015
Cash with central banks	121,662	69,438
Financial assets held for trading	1,528	332
Available for sale financial assets	348,130	349,590
Securities held to maturity	53,253	54,698
Loans and receivables – banks	238,398	265,640
Loans and receivables – customers	989,875	1,140,357
Derivative financial instruments – hedge accounting	-	12
Total on-balance sheet items	**1,752,846**	**1,880,067**
Contingent liabilities L/G	1,959	4,177
Contingent liabilities L/C	9,039	8,276
Total off-balance sheet items	**10,998**	**12,453**
Total credit risk	**1,763,844**	**1,892,520**

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 is required to provide as a security to the bank. Collaterals are valued and obtained prior to the disbursement of the approved loans. As a general rule, the lower the perceived creditworthiness of a borrower, the more collateral the customer would be required to provide. The bank regularly reassesses the value of the collateral.

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

December 31, 2016	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	**121,662**	–	–	–	–	–	–	**–**	0%
Financial assets held for trading	**1,528**	–	–	–	–	–	–	**–**	0%
Available for sale financial assets	**348,130**	–	–	–	–	–	–	**–**	0%
Securities held to maturity	**53,253**	–	–	–	–	–	–	**–**	0%
Loans and receivables – banks	**238,398**	4,509	-	-	-	-	7,515	**12,024**	5%
Loans and receivables – customers	**989,875**	-	-	164,466	72	18,040	583,764	**766,341**	77%
Derivative financial instruments – hedge accounting	**-**	–	–	–	–	–	–	**-**	0%
Total assets	**1,752,846**	**4,509**	**-**	**164,466**	**72**	**18,040**	**591,279**	**778,365**	**44%**
Contingent liabilities L/G	**1,959**	–	–	–	–	621	1,315	**1,936**	99%
Contingent liabilities L/C	**9,039**	–	–	–	–	–	9,039	**9,039**	100%
Total off-balance	**10,998**	**–**	**–**	**–**	**–**	**621**	**10,354**	**10,975**	**100%**
Total credit risk	**1,763,844**	**4,509**	**-**	**164,466**	**72**	**18,661**	**601,633**	**789,340**	**45%**

December 31, 2015	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	**69,438**	–	–	–	–	–	–	**–**	0%
Financial assets held for trading	**332**	–	–	–	–	–	–	**–**	0%
Available for sale financial assets	**349,590**	–	–	–	–	–	–	**–**	0%
Securities held to maturity	**54,698**	–	–	–	–	–	–	**–**	0%
Loans and receivables – banks	**265,640**	–	–	–	–	49,966	43,600	**93,566**	35%
Loans and receivables – customers	**1,140,357**	–	400	170,898	84	46,524	656,684	**874,590**	77%
Derivative financial instruments – hedge accounting	**12**	–	–	–	–	–	–	**–**	0%
Total assets	**1,880,067**	**–**	**400**	**170,898**	**84**	**96,490**	**700,284**	**968,156**	**52%**
Contingent liabilities L/G	**4,177**	–	–	50	–	671	3,123	**3,844**	92%
Contingent liabilities L/C	**8,276**	–	–	213	–	–	7,850	**8,063**	97%
Total off-balance	**12,453**	**–**	**–**	**263**	**–**	**671**	**10,973**	**11,907**	**96%**
Total credit risk	**1,892,520**	**–**	**400**	**171,161**	**84**	**97,161**	**711,257**	**980,063**	**52%**

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 2016 DHB Bank further reduced its exposure to Turkey compared to 2015 by around 170 million. Loans and receivables to banks reduced by 27 million whereas loans and receivables to customers decreased by 150 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, 2016	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	Commitments and contingent liabilities	Total	%
Turkey	–	–	18,399	–	135,070	315,652	–	–	**469,122**	26.6%
The Netherlands[1]	121,637	143	90,750	–	12,325	160,925	–	972	**386,752**	21.9%
Germany	24	–	37,271	–	26,542	41,279	–	2,571	**107,689**	6.1%
France	–	–	37,428	10,203	–	38,811	–	–	**86,443**	4.9%
Belgium	–	–	–	11,172	354	70,679	–	–	**82,206**	4.7%
United Kingdom	–	1,114	47,138	–	7,548	21,152	–	–	**76,951**	4.4%
Sweden	–	–	38,568	–	–	30,274	–	–	**68,842**	3.9%
Spain	–	179	24,288	–	–	16,129	–	–	**40,596**	2.3%
Macedonia	–	–	–	–	15,132	16,360	–	–	**31,493**	1.8%
Austria	–	–	20,820	10,237	–	–	–	–	**31,058**	1.8%
Multilateral Development Banks	–	–	–	–	30,585	–	–	–	**30,585**	1.7%
Italy	–	–	2,501	–	–	27,288	–	–	**29,789**	1.7%
Greece	–	–	–	–	–	28,794	–	–	**28,794**	1.6%
Romania	–	–	–	–	–	26,737	–	–	**26,737**	1.5%
Slovenia	–	–	–	10,711	–	15,098	–	–	**25,809**	1.5%
Croatia	–	–	–	–	–	17,798	–	6,196	**23,994**	1.4%
Egypt	–	–	–	–	–	22,285	–	–	**22,285**	1.3%
Others	–	92	30,967	10,928	10,840	140,614	–	1,259	**194,700**	11.0%
Total	**121,662**	**1,528**	**348,130**	**53,253**	**238,398**	**989,875**	**–**	**10,998**	**1,763,844**	**100.0%**

1. Balances with ECB amounting to EUR 122 million are classified in The Netherlands.

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

December 31, 2015	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	Commitments and contingent liabilities	Total	%
Turkey	–	–	16,703	–	140,938	480,889	–	478	**639,008**	33.8%
The Netherlands[1]	69,412	–	91,224	–	42,407	114,752	–	3,737	**321,532**	17.0%
Germany	25	3	9,043	–	35,576	83,289	–	3,354	**131,290**	6.9%
Belgium	1	–	–	11,584	28	72,454	–	–	**84,067**	4.4%
United Kingdom	–	185	48,235	–	9,795	22,824	12	–	**81,051**	4.3%
Sweden	–	–	55,235	–	–	20,229	–	–	**75,464**	4.0%
France	–	–	22,008	10,307	400	33,016	–	–	**65,731**	3.5%
Austria	–	–	25,730	10,359	–	1,024	–	–	**37,113**	2.0%
Egypt	–	–	–	–	–	33,382	–	–	**33,382**	1.8%
Macedonia	–	–	–	–	12,521	19,938	–	–	**32,459**	1.7%
United Arab Emirates	–	–	–	–	–	32,385	–	–	**32,385**	1.7%
Spain	–	144	22,091	–	–	7,955	–	–	**30,190**	1.6%
Italy	–	–	13,134	–	–	10,802	–	1,619	**25,555**	1.4%
Romania	–	–	–	–	–	24,165	–	–	**24,165**	1.3%
Republic of Kosovo	–	–	–	–	–	21,643	–	744	**22,387**	1.2%
United States of America	–	–	–	–	1	21,003	–	–	**21,004**	1.1%
Finland	–	–	20,778	–	–	–	–	–	**20,778**	1.1%
Others	–	–	25,409	22,448	23,974	140,607	–	2,521	**214,959**	11.2%
Total	**69,438**	**332**	**349,590**	**54,698**	**265,640**	**1,140,357**	**12**	**12,453**	**1,892,520**	**100.0%**

1. 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.

	2016		2015	
Sectors	**On-balance**	**Off-balance**	**On-balance**	**Off-balance**
Financial institutions and insurance	236,144	3	286,817	148
Agriculture, forestry and fishing	10,132	–	10,134	–
Mining and quarrying	20,314	–	–	–
Manufacturing	154,106	407	251,447	8,788
Electricity, gas, steam and air conditioning supply	55,252	6,196	55,764	744
Water supply	3,943	–	5,243	–
Construction	82,375	–	168,752	–
Wholesale and retail trade	52,504	3,438	30,231	546
Transport and storage	80,768	–	85,730	–
Accommodation and food service activities	23,212	158	44,471	178
Information and communication	836	–	34,909	–
Real estate activities	55,443	–	44,215	–
Professional, scientific and technical activities	91,900	–	132	–
Administrative and support service activities	6,035	–	–	–
Public administration and defence, compulsory social security	759	–	2,279	–
Human health services and social work activities	14,901	–	4,773	–
Arts, entertainment and recreation	30,495	–	–	–
Other services	3,216	–	60,926	–
Total	**922,335**	**10,202**	**1,085,823**	**10,404**
Private individuals / self- employed	77,774	796	63,256	2,049
Total	**1,000,109**	**10,998**	**1,149,079**	**12,453**
Allowances for impairment	(10,234)	–	(8,722)	–
Total loans and receivables - customers	**989,875**	**10,998**	**1,140,357**	**12,453**

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

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

As at 31 December 2016

Summary forbearance – Loans and receivables

	Performing assets			Non-performing assets				
Gross carrying amount	Modification of the contract	Refinancing	Total performing forborne assets	Modification of the contract	Refinancing	Total non-performing forborne assets	Total forborne assets	Forbearance ratio
1,360,481	4,152	–	4,152	8,668	–	8,668	12,820	0.9%

As at 31 December 2015

Summary forbearance – Loans and receivables

	Performing assets			Non-performing assets				
Gross carrying amount	Modification of the contract	Refinancing	Total performing forborne assets	Modification of the contract	Refinancing	Total non-performing forborne assets	Total forborne assets	Forbearance ratio
1,412,160	6,250	–	6,250	8,004	–	8,004	14,254	1.0%

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.

	2016	2015
Neither past due nor impaired	1,755,588	1,881,981
Past due but not impaired	520	1,829
Impaired	18,138	17,538
Allowances	(10,402)	(8,828)
Total	**1,763,844**	**1,892,520**

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

	2016	2015
Investment grade	**607,742**	**769,892**
AAA	123,662	69,438
AA+	10,237	25,517
AA	49,332	37,158
AA-	121,565	159,383
A+	59,533	42,746
A	14,754	26,111
A-	95,521	56,771
BBB+	67,980	79,003
BBB	24,724	204,057
BBB-	40,435	69,708
Non-investment grade	**157,055**	**57,321**
BB+	24,911	34,784
BB	130,244	13,830
BB-	–	8,707
B+	1,900	–
B	–	–
B-	–	–
CCC+	–	–
CCC	–	–
CCC-	–	–
CC	–	–
Unrated	**999,047**	**1,065,307**
Total	**1,763,844**	**1,892,520**

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

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

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

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

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

	2016	2015
Investment grade	**883,741**	**996,719**
AAA	124,268	77,549
AA+	10,237	25,517
AA	45,073	46,262
AA-	123,395	111,151
A+	59,146	79,392
A	15,173	26,113
A-	68,512	30,529
BBB+	71,988	58,393
BBB	76,115	354,314
BBB-	289,833	187,500
Non-investment grade	**804,638**	**833,625**
BB+	199,609	240,220
BB	113,446	198,831
BB-	146,692	87,909
B+	96,792	163,655
B	96,220	79,155
B-	82,470	45,237
CCC	50,806	5,252
CC	–	–
C	9,264	–
DDD	5,664	9,100
DD	2,185	2,712
D	1,220	1,552
Unrated	**75,465**	**62,177**
Total	**1,763,844**	**1,892,520**

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	2016	2015
Past due up to 30 days	231	484
Past due 31 - 60 days	168	35
Past due 61 - 90 days	14	6
Past due over 90 days	108	1,304
Total	**520**	**1,829**

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. An important factor in determining the general provision is what is known as the Loss Identification Period (LIP), the period between the time a loss event occurs at the customer's company

and the time the bank has recorded the default. The loss identification periods vary across exposure and ratings and are based on actual experience. Considering the credit risk profile of DHB Bank with major exposure to banks and corporate, the LIP (is expressed in months) is determined as three months for exposures to governments and banks rated with external rating at BBB or higher, and six months for the rest of credit exposures.

The movements of the specific allowances for impairment for the year 2016 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	–	–	–	8,033	**8,033**
Addition	–	–	–	3,925	**3,925**
Release	–	–	–	(157)	**(157)**
Write-off	–	–	–	(2,117)	**(2,117)**
Exchange rate movement	–	–	–	(84)	**(84)**
Closing balance	**–**	**–**	**–**	**9,600**	**9,600**

The movements of the IBNR loss allowances for impairment for the year 2016 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	–	–	106	689	**795**
Addition	–	–	62	–	**62**
Release	–	–	–	(55)	**(55)**
Closing balance	**–**	**–**	**168**	**634**	**802**

The movements of the specific allowances for impairment for the year 2015 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	–	–	–	16,824	16,824
Addition	–	–	–	5,568	5,568
Release	–	–	–	(97)	(97)
Write-off	–	–	–	(15,322)	(15,322)
Exchange rate movement	–	–	–	1,060	1,060
Closing balance	**–**	**–**	**–**	**8,033**	**8,033**

The movements of the IBNR allowances for impairment for the year 2015 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	–	–	247	635	882
Addition	–	–	–	54	54
Release	–	–	(141)	–	(141)
Closing balance	**–**	**–**	**106**	**689**	**795**

The balance of total specific allowances for impaired assets increased from 8 million in 2015 to 10 million in 2016. 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 maturities. In this respect, with a conservative approach, the total amount of savings accounts is placed in the on-demand maturity bucket even though they traditionally demonstrated a stable pattern. In a similar approach, financial assets available for sale are placed in maturity buckets according to their respective maturities even though they are readily available as a source of liquidity.

December 31, 2016	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	113,262	–	–	–	–	8,400	121,662
Available for sale financial assets	–	14,322	6,190	330,944	2,354	–	353,810
Securities held to maturity	–	1,285	215	51,899	–	–	53,399
Loans and receivables – banks	3,390	59,950	136,655	37,717	4,509	–	242,222
Loans and receivables – customers	10,782	283,418	265,325	440,497	58,413	–	1,058,435
Other assets	–	–	–	–	–	7,282	7,282
Total assets (excluding derivatives)	**127,434**	**358,975**	**408,386**	**861,057**	**65,276**	**15,682**	**1,836,810**
Liabilities (undiscounted cash flows)							
Due to banks	1,239	32,199	46,162	223,805	–	–	303,405
Deposits from customers	570,120	104,470	234,125	322,354	500	–	1,231,570
Other liabilities	–	–	1,021	–	–	6,450	7,471
Total liabilities (excluding derivatives)	**571,359**	**136,669**	**281,308**	**546,160**	**500**	**6,450**	**1,542,446**

The immediately available liquidity of DHB Bank consisting of cash and the ECB eligible securities valued after the ECB haircuts as of year-end 2016 was 235 million, representing 13.3% of the balance sheet size.

December 31, 2015	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	59,783	–	–	–	–	9,657	69,440
Available for sale financial assets	–	1,994	10,995	340,541	4,811	–	358,341
Securities held to maturity	–	1,299	218	53,400	–	–	54,917
Loans and receivables – banks	2,699	41,996	196,152	26,981	–	–	267,828
Loans and receivables – customers	4,410	333,583	344,927	466,534	61,295	–	1,210,749
Other assets	–	–	–	–	–	17,349	17,349
Total assets (excluding derivatives)	**66,892**	**378,872**	**552,292**	**887,456**	**66,106**	**27,006**	**1,978,624**
Liabilities (undiscounted cash flows)							
Due to banks	2,091	83,774	36,972	210,748	–	–	333,585
Deposits from customers	781,872	92,164	191,918	245,702	24,207	–	1,335,863
Other liabilities	–	–	1,093	–	–	4,910	6,003
Total liabilities (excluding derivatives)	**783,963**	**175,938**	**229,983**	**456,450**	**24,207**	**4,910**	**1,675,451**

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 2016 and 31 December 2015.

December 31, 2016	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	130,316	16,311	12,493	21,470	**180,590**
Payables	130,758	17,108	13,501	21,508	**182,875**
Derivatives used for hedging					
Receivables	–	–	27,043	–	**27,043**
Payables	–	–	28,218	–	**28,218**

December 31, 2015	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	16,582	288	7,532	16,715	**41,117**
Payables	216,068	47,525	20,352	5,805	**289,750**
Derivatives used for hedging					
Receivables	–	–	–	23,000	**23,000**
Payables	–	–	9,645	–	**9,645**

Market risk

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

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

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

The bank's primary statistical risk measure, Value-at-Risk (VaR), estimates the potential loss from adverse market moves in an ordinary market environment and provides a consistent cross-business measure of risk profiles. For internal management purposes, DHB Bank evaluates the market risk of the positions it holds using different VaR methods, i.e. historical simulation, 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 on 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	2016	2015
Max	(227)	(333)
Min	(1)	(1)
Average	(26)	(54)
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 monitoring and stop-loss limits. The bank also implements back testing to monitor the effectiveness of the VaR model in practice and carries out regular stress testing to evaluate the financial impact of a variety of exceptional market scenarios.

Interest rate risk in the banking book

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

To evaluate interest rate risk from an earnings perspective, the bank uses scenario analyses involving various shifts in market rates in relevant currencies. Assuming a constant balance sheet position and an instantaneous shock of 2% parallel movement in market rates, the sensitivity of the net interest earnings by main currencies over a time period of one year is shown in the following table for the year ending December 31, 2016. For the year ending 31 December, 2015 the sensitivity of the net earnings is presented based on 1% parallel movement in market rates:

Profit or loss sensitivity by major currencies at 31 December 2016

	Interest rate shock of +/- 200bp	
	200 bp decrease	**200 bp increase**
EUR	(1,826)	2,003
USD	(262)	262
Others	(6)	6
Total	**(2,094)**	**2,272**

Profit or loss sensitivity by major currencies at 31 December 2015

	Interest rate shock of +/- 200bp	
	200 bp decrease	**200 bp increase**
EUR	(1,644)	1,664
USD	(141)	141
Others	(53)	53
Total	**(1,838)**	**1858**

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, 2016 and December 31, 2015 respectively.

Fair value sensitivity to interest rate shocks at 31 December 2016 (in bps)	**-300**	**-200**	**-100**	**+100**	**+200**	**+300**
EUR	3,436	2,308	1,163	(1,180)	(2,377)	(3,592)
USD	(1,459)	(991)	(504)	522	1,062	1,620
Others	71	48	24	(25)	(51)	(79)
Total	**2,047**	**1,365**	**683**	**(683)**	**(1,367)**	**(2,050)**
Equity value (IFRS)		239,779			239,779	
Standard 200 bps shock as % of the equity		0.57%			-0.57%	

Fair value sensitivity to interest rate shocks at 31 December 2015 (in bps)	**-300**	**-200**	**-100**	**+100**	**+200**	**+300**
EUR	5,617	3,787	1,914	(1,956)	(3,954)	(5,993)
USD	(2,233)	(1,523)	(779)	814	1,662	2,545
Others	83	57	29	(30)	(61)	(94)
Total	**3,467**	**2,320**	**1,164**	**(1,172)**	**(2,353)**	**(3,542)**
Equity value (IFRS)		235,949			235,949	
Standard 200 bps shock as % of the equity		0.98%			-1.00%	

Currency risk

Foreign currency risk is the risk of changes in the fair value or the future cash flows of financial instruments resulting from changes in foreign currency exchange rates. The bank is exposed to currency risk, particularly to changes between EUR, USD and TRY rates. While currency risk is almost fully avoided through FX swap transactions, open positions are monitored and reviewed by the Asset & Liability Management Committee, so that action can be taken when necessary. Considering the derivative transactions, the open currency positions are at insignificant levels as of 31 December, 2016. 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, 2016	EUR	USD	TRY	GBP	CHF	Others	Total
Cash and balances with central banks	121,664	–	–	–	–	–	**121,664**
Financial assets held for trading	1,528	–	–	–	–	–	**1,528**
Available for sale financial assets	337,297	13,074	–	–	–	–	**350,371**
Securities held to maturity	53,253	–	–	–	–	–	**53,253**
Loans and receivables – banks	235,133	2,361	286	363	174	81	**238,398**
Loans and receivables - customers	803,917	65,961	111,928	8,213	–	–	**990,019**
Derivative financial instruments – hedge accounting	–	–	–	–	–	–	**–**
Property and equipment	2,864	–	–	–	–	–	**2,864**
Intangible assets	148	–	–	–	–	–	**148**
Current tax assets	21	–	–	–	–	–	**21**
Deferred tax assets	16	–	–	–	–	–	**16**
Other assets	4,122	108	2	1	0	–	**4,233**
Total assets	**1,559,962**	**81,504**	**112,216**	**8,578**	**174**	**81**	**1,762,515**
Due to banks	270,825	30,705	–	461	98	–	**302,088**
Financial liabilities held for trading	125	3,450	103	–	–	–	**3,678**
Deposits from customers	1,192,760	14,346	727	149	75	75	**1,208,132**
Derivative financial instruments – hedge accounting	199	1,217	–	–	–	–	**1,416**
Provisions	1,021	–	–	–	–	–	**1,021**
Current tax liabilities	587	–	–	–	–	–	**587**
Deferred tax liabilities	1,088	–	–	–	–	–	**1,088**
Other liabilities	4,601	60	113	–	1	–	**4,775**
Total non-equity liabilities	**1,471,206**	**49,778**	**943**	**610**	**173**	**75**	**1,522,785**
Net gap	88,757	31,726	111,272	7,967	1	6	**239,730**
Net open currency position after derivatives	(46)	18	15	6	1	6	**–**

December 31, 2015	EUR	USD	TRY	GBP	CHF	Others	Total
Cash and balances with central banks	69,440	–	–	–	–	–	69,440
Financial assets held for trading	313	19	–	–	–	–	332
Available for sale financial assets	328,085	21,463	–	–	–	–	349,548
Securities held to maturity	54,698	–	–	–	–	–	54,698
Loans and receivables – banks	256,901	8,461	73	22	180	3	265,640
Loans and receivables - customers	816,893	137,948	180,030	5,425	–	–	1,140,296
Derivative financial instruments – hedge accounting	12	–	–	–	–	–	12
Property and equipment	8,827	–	–	–	–	–	8,827
Intangible assets	211	–	–	–	–	–	211
Current tax assets	1,584	–	–	–	–	–	1,584
Deferred tax assets	–	–	–	–	–	–	–
Other assets	2,876	140	3	8	–	–	3,027
Non-current assets held for sale	3,700	–	–	–	–	–	3,700
Total assets	**1,543,540**	**168,031**	**180,106**	**5,455**	**180**	**3**	**1,897,315**
Due to banks	314,934	16,734	–	578	189	–	332,435
Financial liabilities held for trading	179	10,138	1,474	253	–	–	12,044
Deposits from customers	1,278,983	28,114	1,787	42	–	–	1,308,926
Derivative financial instruments – hedge accounting	–	1,958	–	–	–	–	1,958
Provisions	1,093	–	–	–	–	–	1,093
Current tax liabilities	–	–	–	–	–	–	–
Deferred tax liabilities	1,368	–	–	–	–	–	1,368
Other liabilities	3,306	229	6	–	1	–	3,542
Total non-equity liabilities	**1,599,863**	**57,173**	**3,267**	**873**	**190**	**–**	**1,661,366**
Net gap	(56,323)	110,858	176,839	4,582	(10)	3	235,949
Net open currency position after derivatives	(89)	70	26	–	(10)	3	–

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 2016. The bank's operational risk management process involves a structured approach based on a risk and self-assessment control methodology. The goal of the ongoing self-assessment process is for each business unit to identify the key operational risks specific to its environment and evaluate the degree to which it maintains appropriate controls. Action plans are developed for identified issues, enabling the bank to improve its existing control measures and implement new measures where necessary.

Legal, Compliance, Integrity and Reputation risk

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 and integrity 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.

8. Profit appropriation

Prior to approval by the General Meeting of Shareholders, the Board proposes that the net profit of 14,043 be distributed as follows:

Dividend 100%	14,043
Addition to the 'retained earnings'	–
	14,043

Rotterdam, 20 April 2017

Supervisory Board

Henk Sliedrecht

Cornelis Visscher

Hans J.Ph. Risch

Frederik-Jan Umbgrove

Nesrin Koçu de Groot

Mustafa Aydın

Liana Mirea

Elvan Öztabak

Managing Board

Kayhan Acardağ

Steven Prins

Okan Balköse

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Independent **Auditor's Report**

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 2016 included in the annual report

Our opinion

We have audited the financial statements 2016 of Demir-Halk Bank (Nederland) N.V. ('DHB Bank' or 'the company'), based in Rotterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of DHB Bank as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:
- The statement of financial position as at 31 December 2016
- The following statements for 2016: the statement of profit or loss, the statements of comprehensive income, changes in equity and cash flows
- 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 DHB Bank in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	EUR 950,000
Benchmark applied	5% of operating profit before tax (rounded)
Explanation	Based on our professional judgment we consider operating profit before tax as the most appropriate basis to determine materiality for DHB Bank as it is one of the key performance measures for the users of the financial statements and provides us with a consistent year on year basis for determining materiality.

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

Independent **Auditor's Report**

We agreed with the supervisory board that misstatements in excess of EUR 47,500, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

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.

Allowance for impairments for loans and receivables	
Key audit matter	As disclosed in note 7 to the financial statements the allowance for impairments for loans and receivables amounts to EUR 10.4 million as at 31 December 2016. The appropriateness of loan loss provisions is a key area of judgment for management. The identification of loans that are deteriorating, the assessment of objective evidence for impairment, the value of collateral and the determination of the recoverable amount are inherently uncertain involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market inputs and expected net selling prices. The use of different assumptions could produce significantly different estimates of loan loss provisions. The associated risk management disclosure is complex. Given the impact of inherent uncertainty of the loan loss provision and the subjectivity involved in the judgments made, we considered this to be an important item for our audit.
Our audit approach	We assessed and tested the design and operating effectiveness of the controls related to the timely recognition and measurement of impairments for loan losses. For loan loss provisions calculated on an individual basis we examined a selection of individual loan exposures in detail, and challenged management assessment of the recoverable amount. We tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. We applied professional judgment in selecting the loan exposures for our inspection. We tested the sufficiency of the assumptions and data used by management to measure loan loss impairments for incurred but not identified loan losses, including the appropriateness of the respective loss identification period that is used. Finally, we assessed the completeness and accuracy of the disclosures relating to loan loss provisions to assess compliance with disclosure requirements included in EU-IFRS.

Independent **Auditor's Report**

Assets and liabilities measured at fair value	
Key audit matter	The financial instruments that are measured at fair value are significant for the financial statements. As disclosed in note 6.4 to the financial statements at 31 December 2016, financial instruments held for trading (both assets/ liabilities) amount to EUR 1.5/EUR 3.7 million, available for sale financial assets amount to EUR 350.4 million, derivative financial instruments – hedge accounting (liabilities) amount to EUR 1.4 million and property and equipment – buildings amount to EUR 2.6 million. For financial instruments that are actively traded and for which quoted prices are available, there is high objectivity in the determination of fair values (level 1 valuation). Regarding level 2 assets, observable market inputs or market parameters are available as inputs for valuation models that are used to determine the fair values. Regarding level 3 assets, observable market inputs or market parameters are not available. As a result the fair value is subject to estimation uncertainty as significant judgment is applied to estimate fair value. Given the judgment applied in the estimation of the fair values, we determined this to be an important item for our audit.
Our audit approach	We have tested the level 1 fair valuations by comparing the fair values applied by the company with publicly available market data. For level 2 and level 3 valuations we tested the appropriateness of the models used by the company and the reliability of the data that was used as input to these models. We performed independent price verification and performed additional procedures for areas of higher risk and estimation with the assistance of our valuation specialists. This included, where relevant, comparison of judgments made to current and emerging market practice and reperformance of valuations on a sample basis. We also assessed the impact of other sources of fair value information. Finally, we assessed the completeness and accuracy of the disclosures relating to fair values of financial assets and liabilities to assess compliance with disclosure requirements included in EU-IFRS.
Reliability and continuity of electronic data processing	
Key audit matter	DHB Bank is dependent on the IT-infrastructure for the continuity and reliability of their business processes and financial reporting. DHB Bank continuously made investments to further improve the IT-environment and IT-systems as well as the reliability and continuity of the electronic data processing.
Our audit approach	We included IT-auditors in our team. As part of our audit procedures we tested the IT-general controls related to logical access and change management and application controls embedded in DHB Bank's key processes. In addition, we assessed the reliability and continuity of electronic data processing to the extent necessary within the scope of the audit of the financial statements.

Independent **Auditor's Report**

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- About DHB Bank
- Report of the Supervisory Board
- Report of the Managing Board
- Corporate Governance
- Other information

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The managing board is responsible for the preparation of the other information, including the Report of the Managing Board, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

We were engaged by the supervisory board as auditor of DHB Bank on 11 March 2014, as of the audit for the year 2014 and have operated as statutory auditor since that date.

Description of responsibilities for the financial statements

Responsibilities of the managing board and the supervisory board for the financial statements

The managing board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the managing board is responsible for such internal control as the managing board 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, the managing board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the managing board should prepare the financial statements using the going concern basis of accounting unless the managing board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The managing board 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.

Independent **Auditor's Report**

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 material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements.

Our audit included:

- 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 the managing board
- Concluding on the appropriateness of the managing boards' 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 a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Independent **Auditor's Report**

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.

Amsterdam, 20 April 2017

Ernst & Young Accountants LLP

signed by P.J.A.J. Nijssen

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Other **Information**

Other **Information**

The profit appropriation that has been proposed in chapter 8 is made in conformity with article 22 of the Articles of Association, which states:

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

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

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

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

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

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

About DHB Bank

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DHB Bank

DEMİR-HALK BANK (NEDERLAND) N.V.