Annual Report 2010

DHB Bank

DEMİR-HALK BANK (NEDERLAND) N.V.

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ANNUAL REPORT 2010

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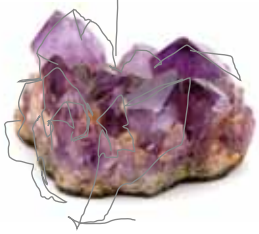

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Bank Profile and Financial Highlights

Demir-Halk Bank (Nederland) N.V. – hereafter referred to as DHB Bank – was established as a Turkish-owned commercial bank under Dutch law in 1992. Headquartered in Rotterdam with a balance sheet size of EUR 1,913.9 million as of year-end 2010, the bank conducts its activities through locations in The Netherlands, Germany, Belgium and Istanbul, and in Macedonia via Export & Credit Bank Inc., Skopje (EC Bank), for whose 66.56% stake in this subsidiary DHB Bank signed a share purchase agreement with Türkiye Halk Bankası A.Ş. at the last quarter of 2010.

HCBG Holding B.V. holds 70% of DHB Bank's shares, while the remaining 30% are owned by Türkiye Halk Bankası A.Ş. HCBG Holding B.V., whose principal business activity is to act as a financial holding company, is 100% owned by Dr. Halit Cıngıllıoğlu. In addition to his indirect investment in DHB Bank, Dr. Cıngıllıoğlu has a direct interest in Demir Kyrgyz International Bank OJSC as well. Türkiye Halk Bankası A.Ş. is the seventh largest bank in Turkey; its main shareholder is the Turkish State with a 75% stake while the remaining 25% is free float.

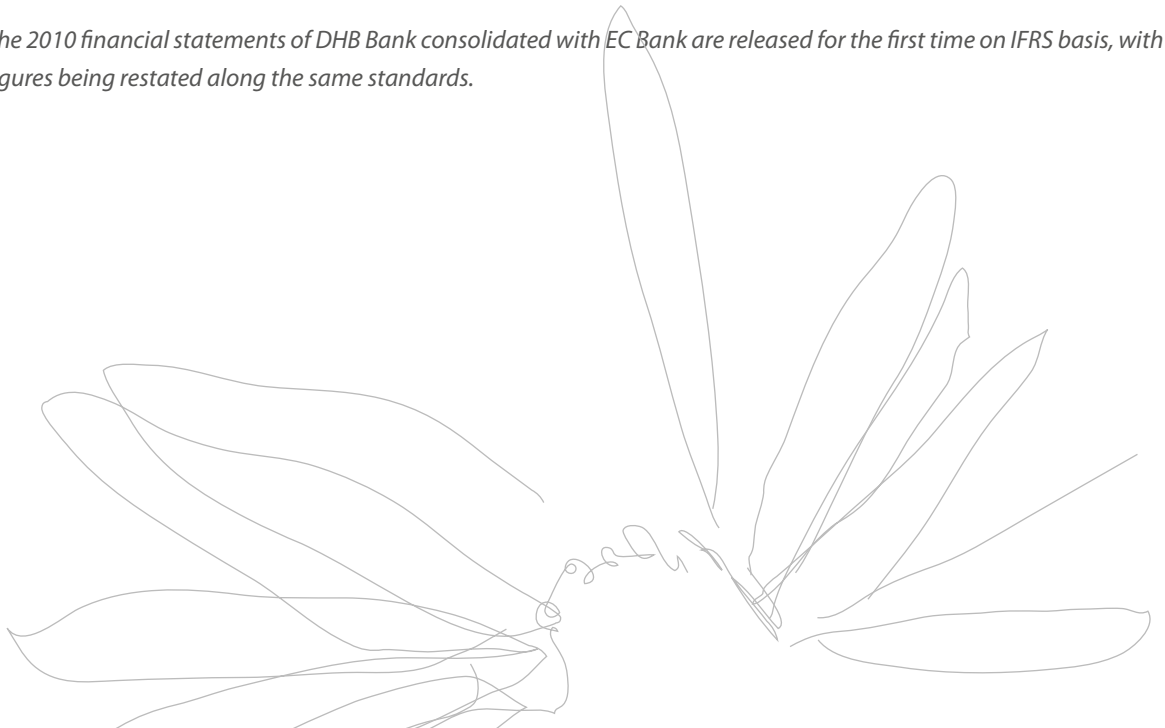
"Funding its operations predominantly via retail deposits collected mainly in The Netherlands, Germany, and Belgium, DHB Bank's investment interests lie in wholesale lending activities"

Funding its operations predominantly via retail deposits collected mainly in The Netherlands, Germany, and Belgium, DHB Bank's investment interests predominantly lie in wholesale lending activities in Turkey and Europe, alongside a renewed investment appetite for the Commonwealth of Independent States (CIS), with customers ranging from financial institutions, corporates and sovereigns.

DHB Bank's Ba2 long-term bank deposits credit rating by Moody's Investor Services was affirmed in November 2009 with a stable outlook.

Consolidated*	**2010**	**2009**
	(EUR 000)	(EUR 000)
Total assets	1,913,851	2,026,449
Loans and receivables – banks	878,542	594,653
Loans and receivables – customers	337,937	636,847
Deposits from customers	1,408,622	1,746,924
Total equity	194,040	197,836
Net interest income	30,902	23,551
Net fee and commission income	8,929	13,226
Net profit	3,962	8,715
Solvency ratio (%)	13.42	12.50
Number of employees	431	437
Number of locations	27	27

** The 2010 financial statements of DHB Bank consolidated with EC Bank are released for the first time on IFRS basis, with 2009 figures being restated along the same standards.*



From left to right: ***Drs. Jan Th. Groosmuller, Mr. Hans J. Ph. Risch, Mr. Mehmet Emin Özcan, Mr. Theodoor Joseph Bark, Mr. İsmail Hasan Akçakayalıoğlu, Dr. Nurzahit Keskin***

Report of the Supervisory Board

We are pleased to present the financial statements of DHB Bank for the year ending December 31, 2010. These financial statements were prepared by the Managing Board, and have been audited by KPMG Accountants N.V. Their unqualified report is attached to the annual accounts.

We propose to the Annual General Meeting of Shareholders to adopt the financial statements for 2010 and the appropriation of the financial result. Pursuant to Article 20, paragraph 4 of the Articles of Association of the bank, your approval will discharge the Managing Board from liability with respect to its management of the bank's activities, and the Supervisory Board regarding its supervision thereof.

During the course of the year, the Dutch Central Bank (DNB) required the banks operating in The Netherlands to adhere in due course to new higher solvency requirements. Subsequently the Managing Board presented to the Supervisory Board a strategic alignment for the bank's activities and investments, which was approved by the Supervisory Board in the 3rd quarter of 2010. DHB Bank has in the meantime started to adapt its operations to these new strategies, however a major portion of its activities during 2010 was conducted in line with its operating guidelines that were devised in response to the 2008 crisis: namely with emphasis on high solvency, on high liquidity, and on solid asset quality within the context of a moderate and acceptable profit target. During 2011, the Supervisory Board will continue its oversight on the basis of sound working risk parameters, including strong solvency and liquidity levels in compliance with new regulatory requirements, and along the lines of the bank's strategic alignment.

During the year under review, the Supervisory Board met regularly with the Managing Board. The main matters discussed included the regulatory environment, economic and financial developments in the bank's markets of operations, together with bank specific subjects, as extensively covered in the management reports as well as in the reports of the internal and external auditors. The meetings of the Board's Risk & Audit Committee were regularly attended alongside its respective members by the Managing Board members, by the Chief Internal Auditor and by a representative of the external auditor, KPMG Accountants N.V. Together with financial reporting, internal audit, internal control systems and risk management policies and practices, other subjects regularly reviewed included credit

risk, and corporate governance and its applications, as stipulated in the Dutch Banking Code.

The Supervisory Board, the Risk and Audit Committee and the Remuneration and Compensation Committee, where applicable, closely monitored compliance with regulatory changes throughout the year. In addition, and in close communication with the Managing Board, the Board and its Committees continued their initiatives to ensure full and timely implementation of the Dutch Banking Code in the bank in both text and spirit. New corporate governance policies were drawn up and existing ones were strengthened and updated, while Compliance Department strenghtened policies in relation to prevention of conflicts of interest. Subsequently a Related Party Transaction Committee was established within the Board.

Dr. Halit Cıngıllıoğlu, who has served as the Chairman of DHB Bank's Supervisory Board since almost the bank's establishment, decided to retire from his position as of December 17, 2010. It was an honor and privilege to have Dr. Cıngıllıoğlu as Chairman throughout all this time; we would like to sincerely thank him and express our gratitude for the invaluable guidance he has offered and for the priceless support he has shown towards our bank during his tenure.

Mr. Theo J. Bark, a proficient banker with long years of experience in the international banking sector and with extensive services in the Supervisory Board of DHB Bank, assumed the position of Chairman.

Mr. Hasan Cebeci retired from the Vice-Chairman position of DHB Bank's Supervisory Board as of May 31, 2010. We would like to thank him for the valuable input he provided during his tenure in the Board, and specifically for the support of Türkiye Halk Bankası A.Ş. subsequent to the 2008 global financial crisis.

Mr. Mehmet Emin Özcan, an experienced banker and former member of DHB Bank's Supervisory Board, rejoined the Board on June 1, 2010 representing Türkiye Halk Bankası A.Ş.

As of December 23, 2010, **Mr. Okan Beygo**, Supervisory Board member since August, 2008, retired from his position in the Board, and on this occasion we would like to express our sincere appreciation for the contributions made by him during his term of office.

In the meantime the Supervisory Board has identified successors to the vacant Supervisory Board positions, and appointments will be made subject to DNB's approval, which is expected shortly.

Mr. Selçuk Şaldırak, who served in the Managing Board as Senior General Manager since November 19, 2007, resigned from his position as of October 2010, at the end of his contract. Mr. Şaldırak has competently led the bank for the last three years during which period financial institutions worldwide experienced unprecedented difficult times. We thank him for his contributions and wish him well in his future endeavors.

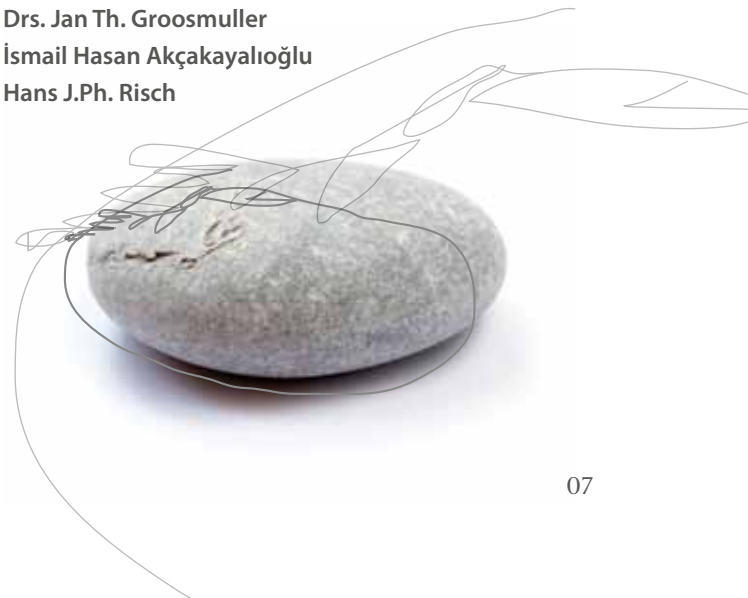
Mr. Kayhan Acardağ, General Manager of DHB Bank with over 30 years solid and successful banking experience, took over the vacant Senior General Manager's position. Having held various executive positions at DHB Bank since March 1993, shortly after the bank's establishment, Mr. Acardağ has extensive experience in the Dutch banking sector, as well as in-depth knowledge on DHB Bank's activities and operations. We wish him every success in his new assignment.

We would like to take this opportunity to thank our shareholders for resolving to retain the entire 2010 profit in the equity of the bank, which will once again further strengthen and support DHB Bank's operations.

Last but not least, we wish to express our appreciation and gratitude for the dedication and commitment shown by management and staff during the year 2010.

Rotterdam, March 31, 2011

Theodoor Joseph Bark *(Chairman since December 17, 2010)*
Mehmet Emin Özcan *(Since June 1, 2010)*
Dr. Nurzahit Keskin
Drs. Jan Th. Groosmuller
İsmail Hasan Akçakayalıoğlu
Hans J.Ph. Risch



Report of the Managing Board

Overview and Highlights

For approximately the last 10 years, DHB Bank has successfully conducted its international commercial banking activities and operations based on a general business model of retail funding versus wholesale asset generation. Excluding a negligible portion of corporate deposits, retail deposits are collected from Belgium, Germany, and The Netherlands primarily via the internet and call center channels supported by regional main branches in these countries alongside local branches in The Netherlands, while wholesale asset generation activities are centralized at the Head Office in Rotterdam. DHB Bank also has a representative office in Istanbul as a direct liaison location for its interests in Turkey. Wholesale asset generation activities comprise primarily placements in the form of trade related bank syndications, discounting of trade related bank promissory notes, bilateral commercial or trade related bank loans, structured trade finance and trade related or commercial corporate placements, securities investments, and to a lesser extent, consumer loans. Alongside the liabilities side, geographical diversity is also an essential feature of DHB Bank's activities on the assets side, encompassing primarily Western Europe, Turkey, and the Commonwealth of Independent States (CIS).

During the first three quarters of 2010, DHB Bank continued its operations parallel to the strategies that it had devised as a measure against the 2008 crisis and that it continued to apply during the subsequent period, namely the maintenance of high liquidity, of good asset quality and of strong capital, which were guiding principles that were successfully implemented during the past two years, and which allowed the bank to weather the turbulent times unharmed, resulting in an inevitable comparatively reduced profitability. Alongside as a measure against the financial crisis, DHB Bank also continued to follow these policies as a preparation to expected changes in the regulatory environment particularly in relation to solvency/capital requirements. Despite the still relatively volatile aspect of the financial markets, though to a comparatively lesser degree, uncertainties related to regulatory requirements were largely reduced in the last quarter of 2010, following which DHB Bank started to implement a strategic alignment process, whose key framework related to the re-adjustment of the bank's asset composition and its investment profile. Consequently, the bank instigated a more active placement policy to further expand its geographical coverage at the expense of Turkey exposures, and re-defined its client base with a targeted increase in corporate placements on a wider geography versus lesser bank placements.

Another essential characteristic of these strategic alignment endeavours is a planned reduction in the asset size, backed by intentional decrease in saving deposits and proportional increase in time deposits. The management is of the opinion that the current balance sheet size of the bank is for the time-being more or less at an optimum level under current market and regulatory conditions given DHB Bank's business profile.

> *"DHB Bank is deeply committed to the preservation of the bank's integrity and reputation [...]"*

The shareholders HCBG Holding B.V. and Türkiye Halk Bankası A.Ş. (Halkbank) have once again demonstrated their support to the bank. In line with their traditional commitment since DHB Bank's establishment in 1992, they

again retained the whole 2009 profit in the equity, as they similarly resolved to do for the 2010 profit. Additionally, Halkbank and DHB Bank signed in 2008 a liquidity contingency agreement in order to build up a supplementary buffer to weather any very severe deterioration in the markets, which allowed the latter to an immediate cash support from Halkbank. This agreement was renewed in January 2011, for EUR 100 million and for an additional period of 18 months.

In terms of financial reporting, for the first time in 2010 the bank released its financial statements in International Financial Reporting Standards (EU-IFRS) as adopted by the EU, and accordingly restated its 2009 financial figures along the same principles. This restatement had some implications for a few balance sheet items, as explained in the 'Financial Review' section.

DHB Bank is deeply committed to the preservation of the bank's integrity and reputation, alongside compliance with applicable laws and regulations, and within these working guidelines, internal governance structure together with its respective policies and practices were further developed and expanded, as explained below.

Corporate Governance & Banking Code

Corporate governance has become one of the top priorities of corporations in general and financial institutions in particular over the past couple of years, due to which regulators have put additional accent on respective practices as well as to restore confidence among market participants and stakeholders after the recent global crises. The new Banking Code that entered into effect in The Netherlands on January 1, 2010 also articulates additional responsibilities within this context, of which DHB Bank strives to fully comply with.

Within this context, DHB Bank has identified the gaps between its existing applications and the new Banking Code, and launched a program with an aim to fully comply with the new regulations in due course. Accordingly the bank has updated its respective policies and applications, while some related initiatives are under further development, all in line with the new Banking Code's principles, as elaborated below:

- The operational engagements for both the Supervisory Board and the Managing Board are being reviewed with regard to the composition and expertise requirements as well as tasks and working practices in line with the Banking Code. The requirements from the Banking Code have been drafted into the Supervisory Board Policy and the Managing Board Policy.

- All the Managing Board members signed the moral and ethical conduct declaration, which is published on the website of the bank. The Code of Conduct applicable to all the employees of DHB Bank as a guideline for their actions is being updated following the signing of the afore-mentioned declaration.

- While a permanent learning program for 2011 is still under development, training sessions have already been provided in 2010 to the Supervisory and Managing Board members.

- The risk appetite policy of DHB Bank has been established in line with the Banking Code requirements.

- A Product Approval Process has been described for DHB Bank, comprising extensive testing in relation to aspects of the duty of customer care and own risk management.

- In their meeting of December 2009, the Supervisory Board approved the establishment of a Risk & Audit Committee in replacement of the existing Audit Committee. All risk management related agenda items to be discussed in the Supervisory Board meetings are prepared by this committee from 2010 onwards.

- The charter for the Audit Committee has been replaced by the Risk & Audit Committee Charter.

- The Internal Audit Charter and the Compliance Charter were also updated along the requirements of the Banking Code.

- During the Risk & Audit Committee meeting held in the first quarter of 2010, the overall risk policy of DHB Bank reflecting the bank's risk appetite has been discussed at length, and has been approved in the subsequent Supervisory Board meeting.

- The Internal Audit Department has included in their yearly audit plan the assessment of the quality and effectiveness of the system of governance and risk management as a regular audit area.

- From the Supervisory Board members, a new Remuneration & Compensation Committee has been established.

- The Remuneration Policy is adopted to ensure that the current remunerations of the Supervisory and Managing Board members are in line with the Banking Code requirements. Further adjustments are under progress with regards to the respective policies while relevant practices are also subject to further review.

More initiatives to apply the Banking Code have already been developed and relevant policies have been drafted, and some initiatives are under development such as the lifelong learning program for 2011 for the members of the Supervisory Board and Managing Board.

In addition to the Supervisory Board's annual self-evaluation at the end of 2010, the functioning of the Supervisory Board will also be evaluated by independent supervision once every three years. The involvement of each member of the Supervisory Board and the relationship between the Supervisory Board and the Managing Board will be part of this evaluation.

DHB Bank has a firm commitment towards compliance with regulations and the above steps taken were in line with the current best practices for applying the Banking Code in the course of the year. The bank also values the Dutch Corporate Governance Code, and pursues initiatives to execute recommendations prescribed therewith in its respective guidelines; accordingly, DHB Bank aims to have a Supervisory Board comprised of members whose half of them, including the Chairman, are independent from the shareholders. As a first step, Dr. Halit Cıngıllıoğlu, beneficial owner of DHB Bank's majority shares, resigned from his Chairman position as of December 17, 2010, in line with a particular recommendation which prescribes rotation every 12 years for supervisory positions.

In terms of compliance, DHB Bank further reinforced its processes and applications as follows, some of which at the beginning of 2011:

- Customer Due Diligence procedures were further strengthened.

- The Policy on Conflicts of Interest was implemented, which also incorporates procedures on the approval of related party transactions. In conjunction, Related Party Transactions Committee was established within the Supervisory Board.

- The independence of the Compliance Officer has been strengthened. Currently there is a direct reporting line between the Compliance Officer and the Risk & Audit Committee, and again between the Compliance Officer and Chairman of the Supervisory Board.

- An Awareness Program has been put into force for the aim of keeping all DHB Bank staff informed against integrity risk and potential reputational harms.

Economic and Regulatory Environment

Both in the world and in the markets of DHB Bank, measures that were introduced by many governments started to gradually show their positive effects in terms of economic activities and recovery, although there is still some way to attain pre-crisis levels as evidenced by signs of volatility in some of DHB Bank's markets, particularly in the peripheries of the Euro zone. On the other hand, uncertainties in the regulatory environment in the Dutch banking environment are largely reduced, setting the ground for DHB Bank to re-align its activities and investment profile.

From an economic perspective, the bank's assets and liabilities were affected by diverging forces.

In the assets, the primary market of DHB Bank, Turkey, performed remarkably well as anticipated by the management, contributing positively to the results. This in turn started to translate itself in reduced margins in this country, which inevitably prompted the bank to evaluate and explore new markets from an investment perspective. In this context, CIS countries present themselves as potential targets, also taking into account the experience of the bank in those countries as well as positive economic developments therewith. In contrast, the extreme volatility in some securities investments that were undertaken in the peripheries of the Euro zone as a liquidity management tool had negative implication for the fair value reserve in the equity of the bank, although in the longer term this effect is expected to be annulled within the maturities of the respective securities.

> *"DHB Bank had continued during the first three quarters of 2010 to maintain high liquidity[...]"*

In the liabilities, the funding cost of the bank overwhelmingly based on offered deposit rates, despite being in line with market rates, continued to remain relatively high in relation to investment yields, which are based on money market rates that were at their historical low during 2010.

From a regulatory perspective, aside the new Dutch Banking Code's stipulations related to corporate governance and compliance functions as elaborated above, De Nederlandsche Bank N.V. (the Dutch Central Bank – DNB) released in the second half of 2010 a new regulatory policy that determines new capital requirements in relation to exposures in general to emerging countries for banks operating in The Netherlands, and which ultimately calls for Dutch banks to maintain more capital in comparison to Basel II guidelines depending largely on the level and nature of their exposures above a certain threshold to such countries. As a preparation to this anticipated new solvency regulation, DHB Bank had continued during the first three quarters of 2010 to maintain high liquidity including ECB eligible securities, refrained from long-term placements, preferred short-term investments in its niche market Turkey in order to preserved its high capital base.

DNB also introduced new rules effective as from December 31, 2010 related to 'large item rule', a regulation that determines the limitation on total exposures to customers on inter-related group level.

Following these clarifications, DHB Bank developed a strategic alignment process that will be its working guideline from end 2010 and onwards from a mainly investment perspective, as elaborated under the below sections.

The tight regulatory liquidity requirements of DNB are still in place, and DHB Bank accordingly continued to maintain relatively high liquidity levels such as cash, balances with ECB and ECB eligible securities. From an economic liquidity management perspective, DHB Bank primarily invested in short-tem bank syndications and bank promissory notes, which have the additional benefit of being traded in the secondary markets.

Strategic Alignment

The afore-mentioned DNB policy defines the parameters that would indirectly guide DHB Bank's lending activities and its resulting country exposures for an effective capital management. Accordingly, the bank has determined its priority activities, investment profile and working guidelines for the years to come.

With the general aim of maintaining the current balance sheet size and retail funding base, while also having in the agenda the option of benefitting from occasional wholesale funding potentials such as repo transactions with relatively smaller amounts, DHB Bank is in the process of adapting its asset composition.

While cash and balances with central banks, and ECB eligible securities will continue to represent the main pillars of liquidity management, the main target is to further diversify the geographical coverage of the bank at the expense of Turkey. Although the bank had already expanded its respective coverage during the years 2000 with the inclu-

sion of mainly CIS countries in its investment profile, following the 2008 crisis it had shifted its asset composition again towards Turkey, its primary and niche market, which has proven successful in protecting the asset quality. This course of action is now being reversed with targets of reducing Turkey exposure and increasing placements initially and progressively in the CIS, with mainly Russia, Azerbaijan, Kazakhstan, and Ukraine as core countries in the region. In addition, further diversification into Central, Eastern and South-Eastern European markets will be explored, among which Croatia, Bosnia and Herzegovina, Macedonia, Albania, and Bulgaria have been initially determined as prospective new potentials. Targeted customers will be in general mainly state banks and state corporates, regional banks whose majority shares are owned by strong international banks, while cooperation with private but leading banks and corporates in their countries and/or sectors, along with multinational banks, will also be evaluated in line with DHB Bank's customary stringent risk assessment, limit establishment and monitoring processes and parallel to its risk & return criteria. As a general principle, all the targeted customers in the bank's current and potential new markets will be banks and corporates with high credit credentials.

Shift from exposures to banks towards exposures to non-banks is also intended in terms of customer profile during 2011 and beyond, including plans of working with corporates in Western European countries - Germany, Belgium, and The Netherlands and with corporates of Turkish origin but operating outside Turkey. Despite the intended shift from Turkey, however, depending on market circumstances DHB Bank is not intending to completely withdraw from the country in which the management has extensive knowledge and experience coupled with very good track record. . Within this framework and together with its conventional activities, cooperation with corporates having (trade) receivables from abroad, or placements to Turkish companies in local currency will also be targeted. For diversification purposes, consumer lending activities, which currently occupy a small portion of DHB Bank's assets, will be continued through the business unit in Belgium.

Financial Review

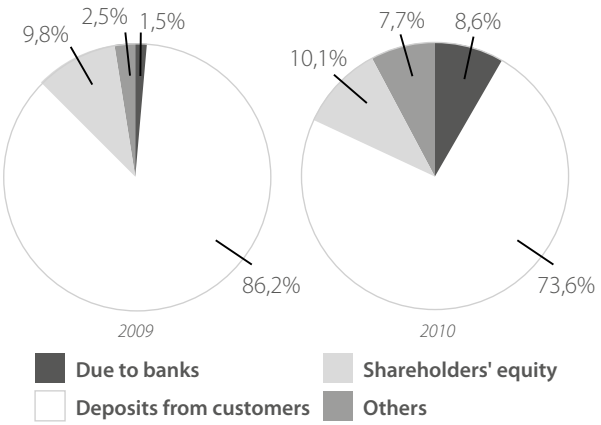
The 2010 financial statements of DHB Bank are prepared for the first time in EU-IFRS, as opposed to the Dutch GAAP up until 2009; the 2009 financial figures are restated accordingly along the same standards. The consolidated 2010 balance sheet of DHB Bank also incorporates the financials of its subsidiary Export & Credit Bank Inc., Skopje (EC Bank), which occupies a relatively small portion overall in terms of size with an approximate EUR 134 million asset size. As an important development in this area, DHB Bank and Halkbank signed a share purchase agreement on November 26, 2010 with respect to DHB Bank's aggregate 66.56% participation in EC Bank. Respective regulatory approvals for the sale & purchase have been obtained at the beginning of 2011 and the transaction is expected to be fully finalized within a short period of time, as a result of which DHB Bank's succeeding financial statements will not incorporate EC Bank any longer from 2011. For the sake of convenience, explanations in this section are made for consolidated figures, unless stated otherwise.

The bank closed the year with EUR 1,913.9 million in assets, representing a EUR 112.6 million decrease compared with the previous year on a consolidated basis. Despite the rather high capital base of the bank, the main rationale behind further reducing the balance sheet size was the management's low risk appetite with the aim of further strengthening the capital ratio while maintaining high liquidity as a preparation for the new regulatory framework in relation to capital requirements as described by DNB in the second half of 2010. Again parallel to these new rules, the current size of DHB Bank (excluding EC Bank) represents more or less an optimum level under current conditions and there are no plans of further reduction at present, apart from possible fluctuations related to the comparatively small wholesale funding base in the form of repo, which is not considered by the management as a long-term and constant funding source.

The decrease in the balance sheet size was achieved by significantly and intentionally reducing deposits from customers for reaching the targeted balance sheet size, a move that was initiated during the last quarter of 2009. In the same context, the bank also carried out sub-branch closure operations in Belgium as explained under the 'Bank Operations' section, which brought about also efficiency benefits.

The bank's own resources have traditionally been at very comfortable levels, with strong loss absorption capacity, and the same was valid for 2010. Thanks also to the shareholders' resolution to retain the whole 2009 profit in the equity to support DHB Bank's activities, the shareholders' equity stood at EUR 194 million as of December 31, 2010, which corresponds to 10.1% of total equity and liabilities, and out of which EUR 1.7 million is attributable to minority interests. This amount represents a EUR 3.8 million decrease compared with the restated 2009 EUR 197.8 million level. The main cause behind this development were the implications of EU-IFRS principles in relation to the valuation of some securities that were booked as 'available for sale', namely the negative mark-to-market valuation of some investments in sovereign securities of Euro zone peripheral countries, as booked under the 'fair value reserve' item. These valuations are subject to fluctuations that normally would be progressively eliminated over time while the corresponding placements approach their respective maturities. Moreover, these effects do not affect the capital adequacy of DHB Bank, as they are not deducted from Tier 1 capital in the calculation of the solvency according to Basel II. Accordingly, with a still high year-end 2010 13.2% Tier 1 ratio, the capital adequacy of DHB Bank is adequately compliant with Basel II in 2010. The bank also started to further adjust its asset mix at the end of 2010 parallel to the new solvency requirements. DHB Bank is utilizing the standardized approach under Pillar 1. The internal capital adequacy assessment process under Pillar 2 is further developed and renewed at the last quarter of 2010. In terms of financial transparency, additional disclosures are published on the web site of DHB Bank along the lines of Pillar 3.

DISTRIBUTION OF LIABILITIES



Deposits from customers, the highest liabilities item whose overwhelming proportion consists of retail deposits, was reduced on purpose by EUR 338.3 million in 2010 parallel to the aim of reducing the balance sheet size. This item represents 81.9% of non-equity liabilities with EUR 1,408.6 million versus EUR 1,746.9 million in 2009.

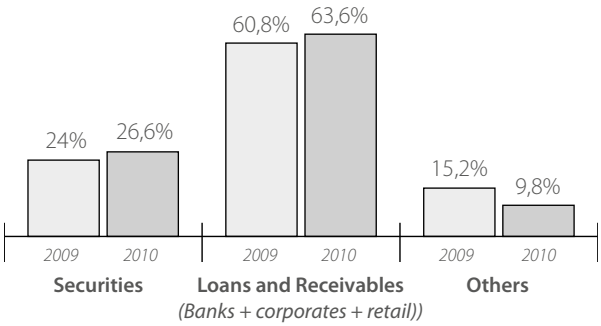
'Due to banks' item consists of short-term repo deals whose underlying transactions are securities. With EUR 163.8 million, they represent 9.5% of non-equity liabilities as a very short-term funding source.
A major part of the EUR 3.1 million provision amount corresponds to an onerous rental contract in relation to the rent obligations of closed branch in London. Other bookings under this item are regular future obligations such as pensions, and reorganization provision. The EUR 2.6 million decrease in this item is primarily a combination of a payment made to the Deposit Guarantee Fund in relation to the failure of DSB Bank and Icesave, an Icelandic bank, an increase in rental contracts obligations and a minor reduction related to EC Bank.

The distribution of DHB Bank's assets reflects its diversified base in terms of geography and product range. Setting aside non-interest bearing assets, on a standalone basis, 59.0% of the bank's assets originated from Turkey, 10.4% from Russia, 5.5% from the USA and the majority of the remaining 25.1% from Western Europe. It is the aim of DHB Bank to have a more diversified geographical composition in the future, with a decline in Turkey exposures.

The EUR 26.8 million cash item primarily consists of overnight placements with the European Central Bank (ECB) alongside cash at branches. However, the immediately available liquidity of DHB Bank is quite higher, and excluding EC Bank, the immediately available liquidity of DHB Bank as of year-end 2010 continued to be maintained at 15.4% of the balance sheet, which was in aggregate EUR 274.6 million including the year-end available ECB eligible securities after haircuts alongside the available liquidity in the form of the contingent liquidity line from Halkbank, short-term money market placements to counterparts and funds maintained with correspondent bank accounts.

The 'loans and receivables – banks' item represented an important portion of DHB Bank's assets at the end of 2010,

DISTRIBUTION OF ASSETS



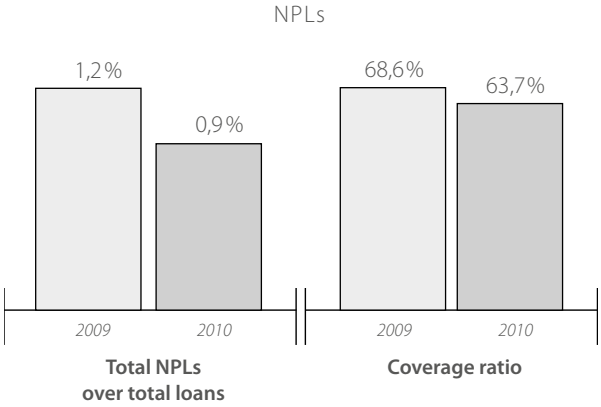
with a figure of EUR 878.5 million, or 45.9% of the balance sheet (2009: EUR 594.7 million at 29.3%). The respective increase is the outcome both of the preference of DHB Bank to invest in short-term bank placements during a major part of the year and of the afore-mentioned credit expansion that initially started with bank counterparts in the current and target markets of the bank. This amount does not include bank placements in the form of securities that are booked under the securities item in the balance sheet. In terms of products, the banks item consists mainly of trade related bank placements in the form of syndicated term loan facilities and bilateral bank loans, the discounting of bills of exchange and promissory notes, the financing of letters of credit as well as money market placements at negligible amounts; all of these also contributed to the flexible maturity structure of the assets thanks either to their short term or their marketable nature in the secondary markets. Out of the total banks item, EUR 396.6 million was mainly in the form of trade related syndication participations, EUR 135 million trade related draft discounts while the remainder consisted of money market and similar placements.

The 'loans and receivables – customers' item, which include corporate and retail loans, showed a decrease of EUR 298.9 million between 2009 and 2010. A majority of this item accounts for either bilateral corporate loans or participations in the syndications of non-bank corporate customers, with EUR 337.9 million in total including minor retail loans. The decrease is related to DHB Bank's conservative risk appetite until the clarification of new solvency rules as well as to prepayments made by some borrowers before the original maturities of the transactions; collections made on maturities (and respective prepayments) were preferred to be initially channeled towards bank placements thanks to their relatively short-term nature and the marketable characteristics of these assets in the secondary market, thus their liquid structure. With the clarification of new capital regulations, the bank resumed credit expansion again with banks in new markets, but intends also to increase its corporate loan volumes progressively in the long run at the expense of bank volumes. DHB Bank had discontinued granting retail loans on a funded basis to its customers in 2009, which is represented with a relatively small EUR 40.2 million in the balance sheet as of year-end 2010 on a standalone basis, nevertheless this business line is aimed to be revived on a funded basis as well.

Securities investments showed an increase of EUR 23.1 million, coming to EUR 508.7 million at the end of 2010 compared with EUR 485.7 million in 2009. This 26.6% share of securities in the total balance sheet is the continuation of a management decision in 2009 to channel a portion of the bank's immediately available liquidity into ECB eligible securities. ECB eligible securities, which are issued under the guarantee of European governments or issued by minimum A- rated institutions, corresponded to 51.4% of the securities, while 3.2% related to Turkish sovereign exposure and the majority of the remainder to CIS banks.

As per IFRS 5, EC Bank's figures are now reported in the balance sheet under the 'assets held for sale' and 'liabilities held for sale' items, representing 100% of EC Bank's balance sheet with EUR 133.6 million. These entries will be cancelled in 2011 following the completion of the sale of DHB Banks' shares in the bank.

Net interest income showed an increase of EUR 7.3 million in the year under review, reaching EUR 30.9 million in 2010 compared with EUR 23.6 million in 2009. The main driver behind this increase was the decline in the interest expense item being greater than the decline in the interest income item. The decrease in interest expense was due to the lowering of the level of customer deposits as well as reductions in the bank's offered rates for these products, which are the main components of this item. Decrease in interest income occurred as a result of a couple of factors, such as reduction in the asset size, early or timely closures of high yielding investments from the past and the management's preference of channeling the respective collections towards lower yielding short-term and relatively less risky bank assets in line with a low risk appetite.



The net commission income level declined by EUR 4.3 million in 2010, closing the year with EUR 8.9 million. Commission income consists of primarily upfront fees received in relation to syndicated facilities, including fees related to their sale at a profit, and of banking services mainly in the form of remittance services and brokerage fees for insurance intermediation. The relatively low commission expense item mainly represents fees related to banking services received in the course of daily operations. The reason behind the decrease in the income side is primarily declining fees received from the afore-mentioned syndicated facilities, which itself is the result of decreasing yields in the markets of DHB Bank, as well as reduced volume of remittance transactions, all consequences of the general economic downturn.

As per EU-IFRS, the result on financial transactions mainly represents i) the result of mark-to-market valuation of derivative transactions, namely CDSs, interest rate swaps and FX swaps and ii) the net interest cost of swap transactions, the latter of which used to be reported under interest items under Dutch GAAP. As such, these are not related to positions taken on some asset types for trading purposes as the bank does not keep a trading book.

Although staff costs maintained more or less their level of 2009, savings are expected in this expense item in the years to come, as some portion of these costs is related to one-off severance payments related to redundancies during the year. Other administrative expenses shrank by EUR 3.1 million, a majority of which is attributable to the positive effects cost cutting measures undertaken during the prior years in the organizational structure of the bank.
Net impairment charge returned a positive result of EUR 1.1 million, representing releases of some provisions following some restructurings and collections. The additional general precautionary provisions that were set aside for potential risks in the bank's portfolio in addition to specific provisions in 2008 were sufficient to cover expected future impairments, and DHB Bank did not incur significant non-performing loans (NPLs) in its loan portfolio either during 2010. As of year-end 2010, total NPLs (defined as bank, corporate, retail and sovereign loans for which any of the principal, installment or interest receivables are 90 days overdue) over the bank's total loans portfolio stood at gross 0.91% with a 63.7% coverage ratio on a stand-alone basis, excluding collaterals.

Amidst a negative 2010 result from its subsidiary EC Bank, DHB Bank's consolidated 2010 income statement again reported this year a moderate pre-tax profit of EUR 5.7 million, an outcome of precautionary risk-averse policies that were implemented in a post-crisis period during which the bank devised its strategic alignment roadmap while economic stability still remained to be attained.

Bank Operations

Two major developments at DHB Bank during 2010 from an operational perspective and on an organizational level were the continuation of implementing cost efficiency measures and the sale of EC Bank, among others.

DHB Bank strives to attain a more efficient working model by making better use of developments in IT and internet banking, the latter of which has become an industry standard on a general basis particularly in the retail deposits and retail transactions field. As a result, although DHB Bank will carry on its operations through local branches in The Netherlands, and main branches in Germany and Belgium along with a representative office in Istanbul, in order to achieve further cost efficiency, two sub-branches and one small business unit in Belgium were also closed during 2010. An important factor behind this move was also the discontinuation of remittance services in this country. DHB Bank now caters to its customers in Belgium through its Brussels main branch and three local retail loan offices in Antwerp, Liege and Charleroi.

Another component of cost base reduction endeavors were staff reduction along with reorganizational processes marked by the implementation of task centralizations and work-flow standardizations. Along with branch closures, some operations and work-flows were enhanced at the head office, which is anticipated to yield direct and indirect cost savings for the bank in the years ahead.

As a commercial bank registered as a joint stock company under the laws of FYR Macedonia, the 66.56% shares of EC Bank were acquired in 2008. DHB Bank supported the bank with its experience and know-how in various areas, including risk management applications, reporting systems, organizational enhancements, internal control and compliance functions improvements, but refrained from robust expansion and growth in the bank parallel to the management's prudent approach and restrictive lending policies due to market conditions resulting from the global financial crisis. DHB Bank and its shareholder Halkbank signed a share purchase agreement on November 26, 2010 with respect to DHB Bank's whole participation in EC Bank, a transaction that is expected to be completed within a short period of time as regulatory approvals have been already obtained.

Despite sub-branch closures in Belgium, DHB Bank centralized in Brussels main branch its "Turkije Hypotheek" operations, a particular mortgage product for the residents of European Union member countries for their residential purchases in Turkey. Also centralized in Belgium, the granting of funded-based consumer loans, which are fully insured against credit risk, resumed gradually.

Similarly in line with developments in IT and internet banking applications, DHB Bank discontinued cash transactions on deposits via branches in Belgium, as was already the practice in Germany.

The bank also further improved the organizational and operational support functions of IT and Research and Project Development (RPD) departments with new applications, along with developments in process control and reporting functions. Applications in the bank's internet banking platform titled NetBanking are further developed, and it is now possible to open time deposits via internet also in Belgium, while again in the same line the infrastructure is ready for the recently developed but not yet offered floating interest rate time deposits. Process management-wise, customer due diligence applications and review procedures were upgraded and updates related to payment systems such as SEPA were completed.

Particularly in IT, the MIS reporting architecture was improved with the implementation of new versions of the reporting software, resulting in a more manageable and development infrastructure. As for the security of server and end-user systems in IT, the respective functionality is further improved by revising privileges and by introducing automated patch management systems.

In the context of the wider information security system, the Business Continuity Plan (BCP) for unforeseen events such as disaster scenarios has been improved, re-evaluated and re-tested successfully in 2010 with active user involvement in order to maintain a certain level of services while restoring normal business operations.

Stichting Bewaarfonds, a foundation established in 2006 as a separate legal entity, continued to provide custody services to the bank's customers on a small scale.

Wholesale Business

On the assets side, wholesale banking is the foremost investment activity and revenue generation type for DHB Bank. Conducted by the Corporate Marketing, Financial Institutions & Forfaiting and Treasury departments, the primary customers of the bank in this context are banks, corporates and sovereigns. Parallel to its strategic alignment, as explained under the corresponding section of this report, the bank revised and redefined its target customers in its current, new and potential markets, while sovereign exposures will be taken on a limited extent as a liquidity management tool.

The main product types in this segment will continue to be trade-related & commercial bilateral bank loans and syndications, promissory notes discounts, to a lesser extent letters of credit financings, securitizations of banks, securities of banks and corporates, secured or unsecured bilateral loans to corporates. The geographical spectrum comprises

Central, Eastern and South-Eastern European countries, CIS and Turkey, alongside securities investments to corporates, banks and sovereigns, and short-term money market placements in the EU and USA with a view to manage the bank's extra liquidity. Parallel to its business model, the bank refrains from engaging in derivative products or in exposures to institutions active in this business line, with the exception of FX swaps for USD and Turkish lira funding, interest rate swaps and credit default swaps for hedging purposes.

> *"On the assets side, wholesale banking is the foremost investment activity and revenue generation type for DHB Bank"*

During the first three quarters of 2010, DHB Bank gave momentum to lending activities both in the primary and in the secondary market for bank syndicated loans, preferring to conduct this business line on a selective basis and restricted solely to Turkey with maturities shorter than one year in general. The bank participated indirectly or purchased from the secondary market syndicated facilities for a total of EUR 756 million (excluding sales) compared with EUR 232 million in 2009. Bilateral bank loans mainly in the form of trade-related promissory note discounts and bank loans again solely for top Turkish banks were continued throughout 2010 and – excluding sales – reached a volume of EUR 364 million. At the end of 2010, exposures in the form of syndications and bank loans resumed in the new markets of the bank apart from Turkey. During the year, immediate liquidity was mainly kept as overnight placements with ECB, while money market placements with counterparts were kept at comparatively negligible levels.

Secondary market loans sale activities of bank syndications and promissory notes conducted by the Financial Institutions & Forfaiting Department within a wholesale framework contributed positively to the bank's profits in 2010.

In accordance with the bank's restrictive corporate lending policies during a major part of 2010, newly granted corporate loans represented a volume of EUR 248.4 million. Renewed (rolled-over) loans made up EUR 222.1 million, a majority of which consisted of very short-term corporate loans in Turkish Lira denomination. Parallel to the bank's new strategies, and with a thrust given at the end of the year which continued at the beginning of 2011, corporate loan volumes and exposures started to increase, at the initial stage mainly with the respective short-term placements in Turkey in local currency denomination. It is the aim of the bank to increase in general long-term cooperation with corporates in its current, new and potential markets with new product structuring, for which preparations are finalized and explorations are under way.

Securities transactions and investment activities are realized within the Treasury Department. The bank's securities book did not show a significant change in 2010 with a year-end balance of EUR 508.7 million, representing 26.6% of total assets, compared with EUR 485.7 million and 24% in 2009. Of this item, a 51.4% majority was related to ECB eligible securities, of which the predominant portion is A-rated, while the rest consisted mainly of investment grade CIS bank securities and to a smaller extent, sovereigns in Turkey. DHB Bank does not hold a securities trading book.

On the liabilities side, DHB Bank refrained for the past few years from relying on wholesale funding in the form of syndicated term loan facilities. Currently, the bank does not carry any syndication in its liabilities, and has no immediate plans of tapping the markets to this end. Nonetheless, as part of its new strategies, it started at the end of 2010 to make use of short-term repo funding to a limited extent.

Under the supervision of the Managing Board, liquidity and market risk management conducted by the Treasury Department in cooperation with the Financial Risk Modeling and Assessment Department continued in 2010. As an extension of its post-crisis strategies and as a preparation to expected regulatory changes, during a major part of the year DHB Bank carried on to maintain a considerable liquidity base, which corresponded to a high proportion of the saving deposits as well.

In terms of market risk management in general, and FX risk management in particular, and due to the traditional balance sheet composition of assets denominated partly in USD with funding mostly in EUR, the bank has usually been active in FX swaps as a EUR placer and USD taker. Despite less volatility, market conditions still continued to put extra stress on USD funds around the world, represented by rather higher costs compared to conventional LIBOR rates. Despite this situation, DHB Bank continued to fully fund its USD denominated activities with swaps at macro level, and also started funding particular transactions in this context on a one-to-one basis. Nevertheless, in order to reduce its reliance on FX swaps in general, the bank usually refrains from granting new loans denominated in USD, unless for special opportunities, preferring placements in EUR instead. Within this context, the total FX swap book further shrank by the end of 2010 to nominal EUR 403.4 million from nominal EUR 525.6 million in 2009.

Retail Operations

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

Retail deposits collected from Germany, The Netherlands, and Belgium, which proved their sticky character during the crisis period, constitute the main pillar of the bank concerning funding operations and financial management. They corresponded to 73.6% of total equity and liabilities, or 81.9% excluding shareholders' equity as of year-end 2010.

As resolved at the end of 2009, as part of its strategic alignment, and in light of the new regulatory rules that led the management to undertake balance sheet size reduction at the beginning of 2010 down to the approximately year-end mark of EUR 1.8 billion (excluding EC Bank), and to maintain it around this level, DHB Bank intentionally reduced its total retail deposit base to EUR 1,408.6 million (excluding EC Bank) at the end of the year under review from EUR 1,746.9 million in 2009. The deposit base is aimed to be maintained more or less around the current levels.

Reduction in deposits were also conducted within the context of targeting ultimately an even distribution between saving accounts (including a negligible contribution of current accounts) and term deposits, and accordingly rates offered by the bank on these products are adjusted parallel to this goal. In terms of product breakdown, saving deposits constituted 59.6% of the total while the remaining 40.4% accounted for term deposits in 2010 (2009: 63% and 37% respectively). Out of total customer deposits, 62.1% were collected in Germany, 20.1% in The Netherlands and 17.8% in Belgium. The EUR 73 million deposits of EC Bank are booked under the 'liabilities held for sale' item in the balance sheet.

Product-wise, DHB Bank developed floating rate term deposits in its service range, and plans to offer it soon to its customers initially in Germany for further and progressive market penetration in the term deposits segment.

Funded-based consumer lending activities were completely halted after the crisis started, due to which the 2010 year-end balance was reduced to EUR 40.2 million (excluding EC Bank). It has been decided to resume these activities by centralizing operations in Belgium, including Turkije Hypotheek, a special mortgage product offered for residents of European Union member countries for their residential purchases in Turkey. On the other hand, in Belgium, where standard retail lending was exclusively offered on a fully insured structure in the past, the bank started to increase its brokerage commission income owing to a special cooperation agreement with a Belgian bank thanks to which prospective retail borrowers are granted loans by this provider. The bank has recently resumed retail loan activities on a funded basis as well.

Workers' remittances mostly to Turkey and to a limited extent to Morocco are a niche for DHB Bank in The Netherlands, with their stable source of income characteristics, despite the reduced overall volume attributable to the general market conditions. On the other hand, the customer coverage is nevertheless increased in The Netherlands via an internet platform peculiar to this country, namely 'Ideal', which allows also non-account-holding clients to send their funds via the internet to Turkey either in EUR or TRY denominations without having to visit bank branches, a service launched at the end of 2009. In terms of currency denomination, the trend among customers to switch from EUR remittances to TRY remittances is expected to continue.

Risk Management

DHB Bank's business activities are exposed to a variety of risks in all aspects of its operations. The bank's ability to properly identify, measure, monitor and control risk is acknowledged and recognized as critical to both its soundness and its profitability.

The bank's risk management framework is intended to provide comprehensive control over the ongoing management of major risks inherent in its business activities. The bank manages its risk by seeking to ensure that business activities provide an appropriate balance of return for the risks assumed and remain within the bank's risk appetite, which is collectively managed throughout the organization.

On a continual basis, DHB Bank 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. In this line, the management ensures that all risk-related policies are fully communicated and adopted at all levels within DHB Bank.

Risk Governance

The bank's risk governance structure starts with lines of business being responsible for managing their own risks within predefined parameters. As such, each business line unit works closely with independent risk assessment units and actively participates in relevant committees to manage the respective risks appropriately.

The Supervisory Board exercises its oversight of risk management principally through the Board's Risk & Audit Committee, which is responsible for the oversight of policies and processes by which risk assessment and management are undertaken within the governance structure. The Committee also reviews internal control and financial reporting systems that are relied upon to ensure integrated risk measurement and disclosure processes.

Within the governance structure, DHB Bank's Credit Committee, Asset & Liability Management Committee (ALCO), Organization & Control Committee and Risk & Capital Management Committee oversee major risks on an overall basis in addition to various other committees that focus on specific risk areas. The committees also support the Managing Board in fulfilling its responsibilities with regard to integrated risk management and provide oversight to the Corporate Marketing, Financial Institutions & Forfaiting and Treasury departments, which are responsible for managing the risks in their activities within approved risk limits and tolerance. Additionally, the Internal Audit Department performs an overall control function over the risk management processes.

As part of the continuous efforts to improve operational risk management, in 2008 the bank launched an Operational Risk & Control Assessment (ORCA) project, which is a continuous application developed to control operational risks more efficiently.

The bank pays utmost attention to the prevention of integrity risk and associated reputation risk. With this approach, the bank strengthened in 2010 its governance structure by establishing a Related Party Transactions Committee at the

"On a continual basis, DHB Bank strives to further strengthen the bank-wide risk and capital management framework in terms of organizational structure, processes and responsibilities"

Supervisory Board level and by adopting related policies, including policies with regard to prevention of conflict of interests within the organization.

Capital Management

DHB Bank's capital management framework provides the policies and processes for defining, measuring and managing capital in a coordinated and consistent manner. The goal is to ensure that there is sufficient capital to support the bank's risk taking activities and to maintain a level that is well in excess of the regulatory requirements and that is deemed appropriate for achieving the bank's business and rating objectives.

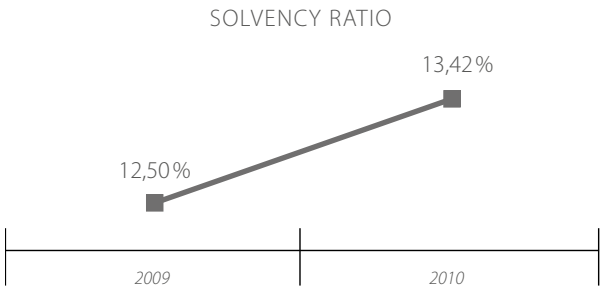
The actual owned funds as a percentage of the total risk weighted assets (BIS capital ratio) under the Pillar 1 requirements of Basel II stood at 13.42% as per year-end 2010.

The purpose of Basel II is to better align the required regulatory capital with actual bank risk. It also aims to promote enhanced risk management practices among internationally active banking organizations. DHB Bank has fully adapted to the Basel II requirements and particularly benefited from the ongoing work to enhance its internal capital adequacy assessment process (ICAAP) as required under Pillar 2.

The ICAAP sets internal capital targets and defines strategies for achieving those targets consistent with our Risk Appetite, business plans, operating environment and regulatory requirements. The ICAAP adopted by the bank has also taken into account the implications of DNB's new policy rule generally requiring higher capital requirements for risk concentration in emerging countries. For DHB Bank, the new regulation is considered as a catalyst to diversify its country risk exposures and enhance its capital adequacy ratio over a two-year period.

Basel II disclosure

Basel II regulations also prescribe certain minimum disclosure requirements in line with Pillar 3. Pillar 3 hence complements the minimum capital requirements (Pillar 1), the internal capital adequacy assessment process and the supervisory review process (Pillar 2). Its goal is to encourage



market discipline by developing a set of disclosure requirements that will allow stakeholders to assess certain specified information regarding the bank's implementation of Basel II, including capital resources, capital adequacy, risk profile, and risk management practices.

DHB Bank publishes its Pillar 3 disclosures on its website. The next Pillar 3 disclosure will be available during the first half of 2011 based on 31 December 2010 figures.

Expectations

For the past two years, DHB Bank conducted its activities parallel to the volatility in the markets, to the downturn in the global economy and to anticipated stringent regulatory changes, all of which led it to maintain high liquidity and to implement risk-averse lending policies. With relative improvements in the markets and global economy and with the recent clarification in the regulatory environment, the bank is engaged in a more active placement activity with clearly defined potential markets and target customers within its customary risk assessment and management processes.

Parallel to the economic recovery in the current, new and potential markets of DHB Bank, and based on the sound risk characteristics of the targeted clientele, asset quality is expected to remain healthy. Nevertheless, the bank will continue to make use of its traditionally strict monitoring processes, on account of which the bank never encountered serious problems in its asset quality since its establishment.

The new large item rule that delimits maximum exposures for entities on a group level has entered into force as from

December 31, 2010. Although the bank does not intend high concentration on respectively group levels, this new rule is expected to have restrictive implications on its liquidity management or on its investment profile for particular cases.

Liquidity will continue to be another focal point, and considering its current high level liquidity as well as asset and liability structure, the bank is prepared to adapt itself to the new liquidity requirements scheduled to be implemented by DNB as from May 1, 2011.

In spite of sub-branch closures in Belgium, thanks to the progress achieved in call center services and particularly in internet banking DHB Bank is committed to maintaining its services to its clients in Germany, Belgium as well as in The Netherlands.

With an efficient and upgraded in-house IT system, DHB Bank has no plans for new major investments in this area in the near future, except for ongoing IT operation & maintenance expenses and management information system applications. A switch to an open source operating system for core banking infrastructure will take place in 2011 for long-term cost savings.

Increase in service-based commission income is anticipated, particularly through the sale of residual debt insurances, through process-related fees in connection with expected growth in Turkije Hypotheek and through currency options that started to being offered to corporate customers on a hedged basis for the bank.

The relatively significant negative effects of EC Bank on the results of DHB Bank will be eliminated as from 2011 and onwards. Following the sale of the bank's shares in EC Bank, the efficiency ratio of the bank will show an improvement also in view of the positive effects of restructuring measures taken place in 2009 and 2010.

Parallel to the management's new strategic endeavors comprising controlled credit expansion within the lines of sound capital management, it is anticipated that DHB Bank will report comparatively higher and sustainable profitability in 2011 and onwards.

Board and Staff

Dr. Halit Cıngıllıoğlu who has served as the Chairman of DHB Bank's Supervisory Board over 15 years, has resigned from his position as from December 2010. We would like to thank him for the very much appreciated guidance and leadership he has endowed the bank with as well as for the invaluable support he has not spared during his tenure.

Mr. Hasan Cebeci has left his Vice-chairman position in the first half of 2010. His supervisory contributions were as priceless as the support he showed to DHB Bank particularly following the 2008 global crisis via Halkbank, and we would like to thank him for the vision he brought to the bank.

Mr. Okan Beygo left his position in the Supervisory Board, and on this occasion we would like to present him too our appreciation for his valuable contributions during his term.

The position vacated by Dr. Halit Cıngıllıoğlu was replaced by **Mr. Theodoor Joseph Bark**. Representing Halkbank, **Mr. Mehmet Emin Özcan** joined the Supervisory Board as well. We are confident that the experience and vision of Messrs. Bark and Özcan, who both have extensive knowledge on and familiarity with DHB Bank, will further assist the bank in its endeavors.

Mr. Selçuk Şaldırak had joined the Managing Board of DHB Bank as Senior General Manager at the end of 2007, a short time after which the global crisis broke out. He has left his position as of October 31, 2010, and his experience, contributions and foresight have been crucial for the bank to weather the crisis period unscathed. We would like to thank him for his respective inputs and dedication.

The Senior General Manager position of DHB Bank's Managing Board was filled by **Mr. Kayhan Acardağ**. With a banking career spanning 30 years and encompassing various executive positions, Mr. Acardağ has in depth know-how on commercial and international banking, on the Dutch banking sector as well as on DHB Bank which he served for more than 15 years.

Parallel to cost efficiency measures implemented for quite some time and also along the lines of new branch closures

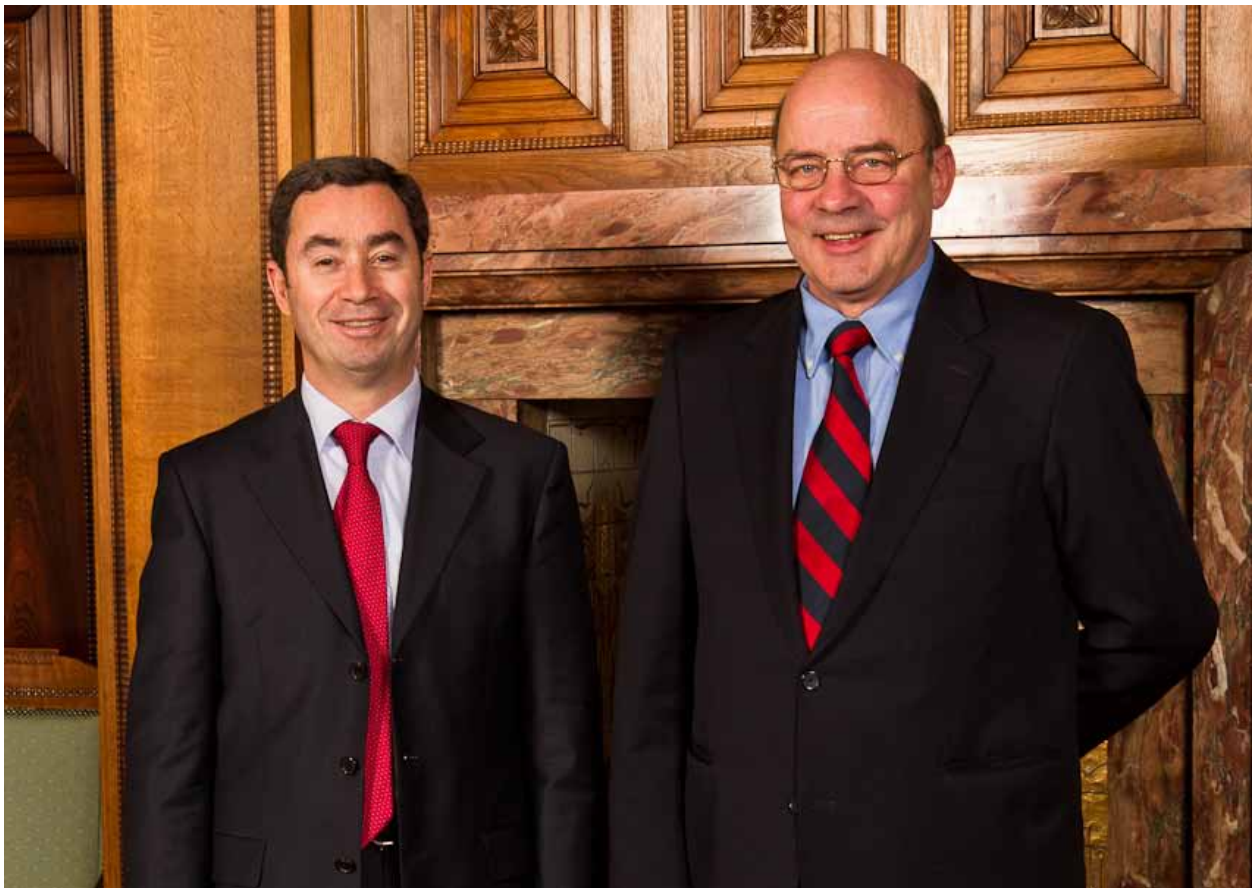
and organizational restructuring, DHB Bank's number of staff decreased to 431 in 2010 from 437 in 2009, including EC Bank.

On this occasion, we would like to convey our sincere thanks to the members of the Supervisory Board for their invaluable contribution and guidance in steering the bank through a severe crisis environment. We also would like to present our gratefulness to the management and staff of the bank thanks to whose dedication and efforts DHB Bank is where it stands today.

Rotterdam, March 31, 2011

Mr. Kayhan Acardağ
Senior General Manager

Mr. Abram Rutgers
General Manager



From left to right: Mr. Kayhan Acardağ and Mr. Abram Rutgers

Governing Bodies and Management

Supervisory Board

Mr. Theodoor Joseph Bark

Chairman

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

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

Mr. Mehmet Emin Özcan

Member

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

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

Dr. Nurzahit Keskin

Member

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

Starting his career as a lecturer at Marmara University in 1986, he subsequently held different positions such as independent auditor, management consultant and senior executive at various national, multinational and international companies in Turkey. In 2003, Dr. Keskin became a member of the Executive Board of Türkiye Cumhuriyeti Ziraat Bankası A.Ş. and was also on the boards of this bank's several subsidiaries abroad. Since 2005, Dr. Keskin has been a member of the Board of Directors of Türkiye Halk Bankası A.Ş. and joined the Supervisory Board of DHB Bank in 2008.

Drs. Jan Th. Groosmuller

Member

Born in 1930, Mr. Groosmuller graduated in banking and finance in the predecessor of Rotterdam Erasmus University.

He started his professional career with ten years in Philips, and subsequently switched to banking. He has been the local general manager of Dutch based Swiss, USA, Spanish and Italian banks during the last twenty five years. Mr. Groosmuller, one of the two founders of DHB Bank in 1992, retired from his position of the bank's General Manager in 1997, following which he joined the Supervisory Board. He is expected to retire from this position mid-2011.

Mr. İsmail Hasan Akçakayalıoğlu

Member

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

After graduating from METU, Mr. Akçakayalıoğlu has worked in Arthur Andersen and Andersen Consulting in London and Istanbul offices. Prior to his Chairman and CEO positions at BankPozitif Kredi ve Kalkınma Bankası A.Ş., which he has been heading since 2002, he had worked in the banking sector at various management levels including the CEO position of Demirbank A.Ş. Mr. Akçakayalıoğlu is also the Chairman of C Faktoring A.Ş., Chairman of JSC BankPozitiv Kazakhstan, Chairman of Demir Kyrgyz International Bank and Member of the Supervisory Board of Demir-Halk Bank (Nederland) N.V.

Mr. Hans J.Ph. Risch
Member

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

Since 2003 Mr. Risch is Honorary Consul of Turkey.

Managing Board

Mr. Kayhan Acardağ
Senior General Manager

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

He started his career at the Board of Sworn Bank Auditors in Turkey, where he served as Sworn Bank Auditor until 1989. He joined Türkiye Halk Bankası A.Ş. in 1989 with 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 held various executive positions at DHB Bank since 1993 and is a member of the bank's Managing Board since 2004.

Mr. Abram Rutgers
General Manager

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

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

Senior Management

Ms. Bahar Kayihan
Assistant General Manager
Operations & Documentary Credits

Ms. Ayten Türkmen
Assistant General Manager
Corporate Marketing

Ms. Ayşe Cingil
Assistant General Manager
Loans

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

Chief Internal Auditor
Mr. Jos de Goede RA

Department Heads

Compliance
Mr. Boudewijn Damsteegt

Financial Control
Mr. Ercan Erdoğan

Financial Risk Modeling & Assessment
Mr. Djono Subagjo

Forfaiting
Mr. Gaspar Esteve Cuevas

General Affairs & Human Resources
Mr. Ron Huibrechtse

Information Security
Mr. Dheeraj Katarya

Information Technology
Mr. Nezih Engin

Legal Affairs
Mr. Jafar Dar

Operations & Documentary Credits
Ms. Pinar Olierook-Türe

Research & Project Development
Mr. Fatih Teke

Retail Banking
Mr. Erol Ulu

Treasury
Mr. İrfan Çetiner

Retail Branches Netherlands

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

Foreign Main Branches

Germany

Mr. Wilfried Hübner
Country Manager

Belgium

Mr. René Bienfait
Country Manager

Mr. Can Kural
Country Manager

Istanbul Representative

Ms. Fulya Baran

Macedonia

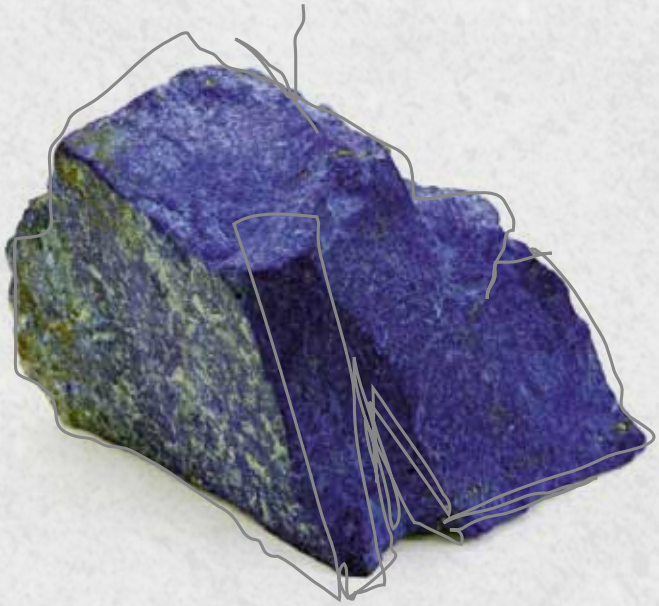
Export and Credit Bank, Inc., Skopje

Mr. Yücel İnan
Chief Executive Director

Mr. Tomce Tasevski
Executive Director

Mr. Ertürk Sümer
Executive Director

Financial Statements for the Year 2010



Consolidated statement of financial position

(in thousands of EUR)	**Notes**	**2010**	**2009**
ASSETS			
Cash and balances with central banks	4.1	26,849	252,092
Financial assets held for trading	4.2	5,431	17,513
Available for sale financial assets	4.3	393,297	252,651
Securities held to maturity	4.4	115,409	232,999
Loans and receivables – banks	4.5	878,542	594,653
Loans and receivables – customers	4.6	337,937	636,847
Property and equipment	4.7	14,283	28,749
Intangible assets	4.8	27	1,096
Current tax assets	4.9	4,798	3,103
Deferred tax assets	4.9	1,442	2,009
Other assets	4.10	2,217	4,737
Assets held for sale	4.11	133,619	–
Total assets		**1,913,851**	**2,026,449**
LIABILITIES			
Due to banks	4.12	163,833	30,074
Financial liabilities held for trading	4.2	17,991	20,773
Deposits from customers	4.13	1,408,622	1,746,924
Provisions	4.14	3,070	5,645
Current tax liabilities	4.15	68	259
Deferred tax liabilities	4.15	1,840	2,194
Other liabilities	4.16	20,447	22,744
Liabilities held for sale	4.11	103,940	–
Total liabilities		**1,719,811**	**1,828,613**
EQUITY			
Share capital	4.17	113,445	113,445
Retained earnings		82,721	77,855
Other reserves		(3,786)	4,780
Equity attributable to shareholders of the parent		**192,380**	**196,080**
Equity attributable to minority interests		1,660	1,756
Total equity		**194,040**	**197,836**
Total equity and liabilities		**1,913,851**	**2,026,449**
Commitments and contingent liabilities	6.1	18,561	22,985

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

Consolidated income statement

(in thousands of EUR)	**Notes**		**2010**		**2009**
Interest income		70,028		91,541	
Interest expense		(39,126)		(67,990)	
Net interest income	5.1		30,902		23,551
Fee and commission income		9,978		14,022	
Fee and commission expense		(1,049)		(796)	
Net fee and commission income	5.2		8,929		13,226
Result on financial transactions	5.3		(6,580)		7,843
Other operating income	5.4		947		312
Total operating income			**34,198**		**44,932**
Administrative expenses:					
Staff expenses	5.5	(17,014)		(17,148)	
Other administrative expenses	5.6	(10,402)		(13,517)	
			(27,416)		(30,665)
Depreciation and amortization			(2,112)		(2,268)
Total operating expense			**(29,528)**		**(32,933)**
Net impairment charge			1,072		282
Total operating expense			**(28,456)**		**(32,651)**
Operating profit before tax			**5,742**		**12,281**
Income tax expense	5.7		(1,780)		(3,566)
Net profit			**3,962**		**8,715**
Attributable to:					
shareholders of the parent company			4,088		8,820
minority interest			(126)		(105)

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

Consolidated statement of changes in equity

The movements in equity are as follows:

(in thousands of EUR)	**Attributable to shareholders of the parent**									
	Share capital	Retained earnings	Legal reserve	Re-valuation reserve	Fair value reserve	Foreign currency translation reserve	Consoli-dated net profit	Total	Minority interests	Total equity
At January 1, 2009	113,445	70,133	957	3,213	–	(308)	–	187,440	1,843	189,283
Addition to	–	–	139	647	(150)	282	–	918	18	936
Release from	–	(1,098)	–	–	–	–	–	(1,098)	–	(1,098)
Profit for the year	–	–	–	–	–	–	8,820	8,820	(105)	8,715
At December 31, 2009	**113,445**	**69,035**	**1,096**	**3,860**	**(150)**	**(26)**	**8,820**	**196,080**	**1,756**	**197,836**
At January 1, 2010	113,445	69,035	1,096	3,860	(150)	(26)	8,820	196,080	1,756	197,836
Addition to	–	9,598	–	–	(7,342)	–	–	2,256	30	2,286
Release from	–	–	(1,069)	(106)	–	(49)	(8,820)	(10,044)	–	(10,044)
Profit for the year	–	–	–	–	–	–	4,088	4,088	(126)	3,962
At December 31, 2010	**113,445**	**78,633**	**27**	**3,754**	**(7,492)**	**(75)**	**4,088**	**192,380**	**1,660**	**194,040**

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

Consolidated statement of comprehensive income

(in thousands of EUR)	**Notes**	**2010**	**2009**
Net profit		3,962	8,715
Currency translation reserve		(49)	282
Fair value reserve		(7,342)	(150)
Revaluation reserve		(106)	647
Gains (losses) not recognized in income statement		(7,497)	779
Comprehensive income for the year		**(3,535)**	**9,494**
Attributable to:			
• owners of the parent		(3,411)	9,599
• non-controlling interest		(124)	(105)
Total comprehensive income for the year		**(3,535)**	**9,494**

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

Consolidated cash flow statement

(in thousands of EUR)	**2010**	**2009**
Net cash from operating activities	**(208,951)**	**(127,738)**
Net profit	3,962	8,715
Noncash items included in profit:		
Depreciation and amortization for property and equipment	1,715	1,950
Depreciation and amortization for intangible assets	398	318
Provisions and impairment	(1,072)	(282)
Net change in provisions	(2,575)	2,502
Net interest income	(30,902)	(23,551)
Income tax expense	1,780	3,566
Change in financial assets held for trading	12,082	19,063
Change in loans and receivables – banks, not available on demand	(280,450)	17,096
Change in loans and receivables – customers	299,077	64,247
Change in income tax assets and other assets	(132,227)	1,055
Change in due to banks, not due on demand	133,759	(200,211)
Change in deposits from customers	(338,302)	(16,456)
Change in liabilities held for trading	(2,782)	(20,362)
Change in income tax liabilities and other liabilities	101,017	(5,700)
Exchange rate movements	(75)	(12)
Interest received	76,546	88,250
Interest paid	(47,756)	(64,699)
Income tax paid	(3,146)	(3,227)
Net cash from investing activities	**(16,295)**	**(196,980)**
Additions to financial investments	(420,956)	(597,708)
Disposals and redemptions of financial investments	391,284	402,292
Investments in property and equipment	(396)	(6,367)
Investments in intangible assets	(255)	(454)
Disposal of property and equipment	13,102	5,257
Disposal of intangible assets	926	-
Net cash flow from financing activities	**3**	**26**
Movement in group equity	3	26
Net Cash Flow	**(225,243)**	**(324,692)**
Cash and balances with central banks at January 1	252,092	576,784
Cash and balances with central banks at December 31	26,849	252,092
Net change in cash and balances with central banks	**(225,243)**	**(324,692)**

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

Notes to the consolidated financial statements

1. Corporate information

The shareholders are HCBG Holding B.V. of Amsterdam, which owns 70% and Türkiye Halk Bankası A.Ş. of Ankara, which owns 30%. DHB Bank has an interest of 66.56% in Export & Credit Bank Inc., Skopje (EC Bank) in Macedonia.

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

The consolidated financial statements for the year ended December 31, 2010 were authorized for issue in accordance with a resolution of the Supervisory Board and Managing Board on March 31, 2011.

2. Basis of preparation and first time adoption of IFRS

2.1 Compliance status

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

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

2.2 Basis of measurement

The consolidated financial statements are prepared on a historical cost basis, except for available for sale investments, derivative financial instruments, financial assets and liabilities designated at fair value through profit or loss and investment property which have been measured at fair value.

2.3 Functional and presentation currency

The consolidated financial statements are presented in euros, which is the functional currency of DHB Bank.

2.4 Changes in accounting policies

For the periods up to and including the year ended December 31, 2009, DHB Bank prepared its consolidated financial statements in accordance with Generally Accepted Accounting Principles in The Netherlands (hereinafter referred to as Dutch GAAP). Transition to EU-IFRS incorporates the impact of applying the requirements of EU-IFRS to DHB Bank's assets, liabilities and contingent liabilities at January 1, 2009.

Recently many of the requirements of EU-IFRS have been included within Dutch GAAP. However, some standards of Dutch GAAP do not comply with EU-IFRS. Most importantly, IAS 39 'Financial Instruments', which is the main EU-IFRS standard impacting banks, was not fully incorporated into Dutch GAAP. This standard, which extends the use of fair values, causes a number of the transition differences.

Effective yield method for financial asset and liabilities in all categories excluding 'held for trading':
In order to harmonise the transition to EU-IFRS DHB Bank has already changed the recognition of interest income on a daily basis. In accordance with EU-IFRS, the amortized cost has been calculated with curve method on an accrual basis.

Financial assets held for trading:
Under Dutch GAAP DHB Bank maintained certain interest bearing securities under its investment portfolio and net discounted amounts of derivative financial instruments are recorded under other assets or other liabilities. Additionally, the nominal amounts of credit default swaps are recorded under contingent liabilities. With the transition to EU-IFRS, derivative financial assets are reclassified to 'Financial assets held for trading', and their carrying amounts are adjusted to their fair values. Likewise, if any, certain bank and non-bank loans, which are created or purchased with the purpose of short-term profit making, were previously classified per Dutch GAAP under 'banks' and 'loans and advances' respectively. With the transition to EU-IFRS, these assets are reclassified to 'Financial assets held for trading', and their carrying amounts are adjusted to their fair values.

Available for sale financial assets:
Under Dutch GAAP these assets were classified under investment securities and were valued at fair value. The difference between the fair values in two periods is recognized under income statement, in 'result on financial transactions'. With the transition to EU-IFRS, previously recognized amount in 'result on financial transactions' is reclassified to equity with the description 'fair value reserve'. The differences between fair values and amortized costs are recognized under equity in 'fair value reserve' net of tax.

When preparing consolidated financial statements, DHB Bank has elected to utilize transitional provisions within IFRS 1 'First-time Adoption of International Financial Reporting Standards' which offer practical exemptions from the normal requirements of applying EU-IFRS retrospectively. DHB Bank used an exemption to establish its opening EU-IFRS equity and assumed that no restatement of business combinations that took place prior to January 1, 2009.

Below is the reconciliation of equity as at the opening balance sheet date of 1 January 2009 from Dutch GAAP to IFRS.

	Adjustments for transition to IFRS	Deferred tax (charge) / income on transition adjustments	Net impact on Equity	Totals
Shareholders' equity under Dutch GAAP as of January 1, 2009				**197,944**
Adjustment items with impact on reserves due to first time application				***(10,504)***
• Increase in the fair value of financial derivatives due to recomputations per IFRS	(9,522)	2,428	(7,094)	
• Recognition of the fair value of EBRD put option	(3,284)	-	(3,284)	
• Derecognition of provision for retail loans in Belgium	200	(54)	146	
• Recognition of additional pension provision according to IAS 19	(465)	118	(347)	
• Adjustment of foreign currency translation	(84)	-	(84)	
• Adjustment due to adoption of anticipated acquisition method	159	-	159	
Shareholders' equity under IFRS as of January 1, 2009				**187,440**

Recognition of the fair value of EBRD put option refers to the difference between the recognized financial liability on EBRD put option and the value of the 25% of the net asset value of EC Bank. It is recognized in accordance with the Anticipated Acquisition Method.

Below is the reconciliation of the consolidated income statement for the year ended December 31, 2009 from Dutch GAAP to IFRS:

Net profit under Dutch GAAP for the year ended December 31, 2009	**5,794**
Recognition of fair value gain/(loss) on financial derivatives	3,768
Impact due to fair value reserve	150
Recognition of additional pension provision according to IAS 19	43
Tax effects	(1,040)
Net profit under IFRS for the year ended December 31, 2009	**8,715**

3. Summary of significant accounting policies

3.1 Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities, income and expenses of DHB Bank and its subsidiaries DHB Hypotheken & Verzekeringen B.V., Best CreditLine B.V., Maaslust 9 Monumenten B.V. and Best Properties B.V., the company Stichting Bewaarfonds and EC Bank. In accordance with EU-IFRS the company profit and loss account is also presented in an abbreviated form to show company results and results of subsidiaries.

Subsidiaries

Subsidiaries are entities controlled by DHB Bank. Control exists when DHB Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The financial statements have been prepared using uniform accounting policies and measurement for all transactions in similar circumstances.

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

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

By the time of the acquisition of majority shares of EC Bank in Macedonia, DHB Bank has signed a 'Put and Call Option Agreement' with European Bank for Reconstruction and Development (EBRD) in respect to EBRD's remaining 25% share in EC Bank. This agreement, dated 16 May 2008, set out, inter alia, the terms on which EBRD may require DHB Bank to purchase the EBRD shares in EC Bank (put option) and the terms on which DHB Bank may require EBRD to sell the EBRD shares in EC Bank to DHB Bank (call option). It became effective upon the completion of the DHB Bank's acquisition of the EC Bank's shares as at 31 August 2008.

According to EU-IFRS, if a put option granted to the minority shareholders provides for settlement in cash or in another financial asset by the entity then the entity should recognize a liability for the present value of the exercise price of the option. DHB Bank used the Anticipated Acquisition Method which accounts such written put options as an anticipated acquisition of the underlying minority interests as if the put option had been exercised already. This is independent of how the exercise price is determined (fixed or variable) and how likely the exercise of the option. DHB Bank recognized its financial liabilities regarding the put option of EBRD for EC Bank shares in accordance with EU-IFRS and the 25% shares of EBRD starting from the date of the initial transaction, which would increase its share in EC Bank to 91.56%. As the acquisition of non-controlling interests are accounted as equity transactions, DHB Bank followed the same accounting approach that was used in the initial acquisition for the put and call option on EBRD shares in accordance with EU-IFRS.

3.2 Foreign currency translation

Transaction and balances

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

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

Foreign operations

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

3.3 Significant accounting estimates

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

DHB Bank reviews the estimates and underlying assumptions on an ongoing basis. The most significant use of judgments and estimates are made in the following areas:
• determination of fair values of non-quoted financial instruments,
• determination of impairment losses on loans and receivables.

These items are explained in related sections.

3.4 Financial instruments – recognition and subsequent measurement

Recognition date

Transfer of financial assets which require delivery of assets within a certain time frame generally established by regulation or convention in the marketplace are recognized on the trade date, i.e. the date that DHB Bank commits to purchase or sell the asset. Derivatives are recognized on trade date basis.

Initial recognition of financial instruments

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

Measurement of financial instruments

Financial instruments are measured at amortized cost or fair value.

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

Fair value is the amount at which an asset can be exchanged, or a liability settled in an arm's length transaction between two knowledgeable and willing parties, excluding cases like forced sale or liquidation. The fair value of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

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 makes maximum use of market inputs. Valuation techniques rely as little as possible on estimates specific to DHB Bank.

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

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

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

Classifications of financial instruments

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

- **Financial assets**

  A. **Financial assets held for trading:**
  Financial assets held for trading are recorded in the balance sheet at fair value at initial measurement and are subsequently re-measured also at fair value through profit or loss if acquired principally for the purpose of selling in the short term or if so designated by the management. Changes in fair value are always recorded in the income statement under 'Result on financial transactions'.

  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 cost and is subsequently re-measured at amortized cost, using the effective yield method, less provision for impairment. The losses arising from impairment are recognized 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 cost, 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 recognized 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 are interest bearing securities such as government bonds, treasury bills and various debt instruments issued by banks and companies. 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 and are subsequently re-measured also at fair value. Unrealized gains and losses are recognized directly in equity under the item 'Fair value reserve' until the investment is sold. Interest income is calculated using the effective interest method and recognized in the income statement under 'Interest income'. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement under 'Result on financial transactions'. The losses arising from impairment of such investments are also recognized in the income statement.

- **Financial liabilities**

E. **Financial liabilities held for trading:**
This category includes 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 derivatives are recorded at fair value and subsequently re-measured 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'.

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 recognized to the extent of DHB Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that DHB Bank could be required to repay.

Financial liabilities

A financial liability is derecognized 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 recognized in profit or loss.

3.6 Impairment of financial assets

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

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

(i) Loans and receivables due from banks and customers

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized 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 recognized, the previously recognized 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 credited to the 'Net impairment charge'.

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

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

(ii) Held to maturity financial investments

For held to maturity investments DHB Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized 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 recognized, any amounts formerly charged are credited to the 'Net impairment charge'.

(iii) Available for sale financial assets

For available for sale financial assets, DHB Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.
In case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest based on market rates is accrued at the effective yield on the reduced carrying amount of the asset and is recorded as part of interest income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

3.7 Business combinations

DHB Bank finalized the acquisition of EC Bank in Macedonia in August 2008. As the acquisition took place before 1 January 2009, transition date, DHB Bank is exempted from IFRS 3. EC Bank financial statements were consolidated starting from 31 August 2008. The ownership of DHB Bank was taken as 91.56% taking into account the put option on 25% EC Bank shares of EBRD in accordance with IFRS 3.

3.8 Cash and cash equivalents

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

3.9 Property and equipment

Property in use by the bank are stated at current value, as calculated according to the replacement cost value based on periodic appraisals by independent experts and any interim adjustments. Changes in the value are reflected in the revaluation reserve, taking deferred tax liabilities into account.

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

3.10 Intangible assets

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

expense on intangible assets is recognized in the income statement in the expense category consistent with the function of the intangible asset.

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

3.11 Impairment of non-financial assets

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

Previously recognized impairment losses are reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In such a case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses for goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

3.12 Provisions

Provisions mainly consist of provisions for defined benefit plan pension obligations, rent obligations for closed branches, provisions for reorganization and estimated regulatory obligations in relation to the deposit insurance scheme.

Starting from 2006 defined benefit plan pension obligations are calculated according to the projected unit credit method of actuarial cost allocation. Under this method, each plan member's benefits are funded as they would accrue, taking into account future salary increases. The total expected pension to which each plan member is entitled is broken down into units, each corresponding with a year of past or future credited service. For liabilities not covered by plan assets, there is an unfunded liability, for which a provision is created and presented in the balance sheet in the item 'Provisions'. DHB Bank recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

3.13 Income taxes

Current tax

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

Deferred income tax

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

Deferred tax assets and liabilities are recognized when it is probable that the future economic benefits resulting from the reversal of taxable temporary differences will flow to or from DHB Bank. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

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

3.14 Assets and liabilities held for sale

Non-current assets comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with DHB Bank's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on an assets held for sale first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, employee benefit assets or investment property, which continue to be measured in accordance with DHB Bank's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the income statement. Gains are not recognized in excess of any cumulative impairment loss. Intangible assets and property, plant and equipment once classified as held for sale are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale.

3.15 Recognition of income and expenses

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

a) **Interest income and expense**
Interest income or expense for financial instruments is recorded at the effective yield measured at amor-

tized cost and fair value. Effective yield exactly takes into account all accrued interests and fees with interest character. These amounts are amortized through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets or financial liability. All contractual terms of the financial instrument including any fees or incremental costs that are directly attributable to the instrument are taken into account for the calculation of the effective yield (except future credit losses). The carrying amount of the financial asset or financial liability is adjusted if DHB Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective yield and the change in carrying amount is recorded as interest income or expense.

Even if the value of a certain financial asset or a group of similar financial assets has been impaired, interest income continues to be recognized 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 recognized 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 recognized on completion of the underlying transaction. Management and service fees are recognized 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 recognized under 'Result on financial transactions'.
- *Securities held for trading*
  Dividends received and (un)realized gains and losses regarding securities held for trading are recognized under 'Result on financial transactions".
- *Derivatives held for trading*
  Interest income and expenses and (un)realized gains and losses regarding derivatives held for trading are recognized under 'Result on financial transactions'.
- *Available for sale securities*
  Gains and losses arising from disposals of available for sale securities are recognized under 'Result on financial transactions'.

3.16 Equity components

Legal reserve

Legal reserve comprises the reserves set aside to comply with legal requirements and equals to the total amount of intangible assets.

Revaluation reserve

Revaluation reserve comprises the differences between the acquisition cost and the replacement cost value of property in use by the bank determined by independent appraisers. This reserve is set aside on a net basis.

Fair value reserve

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

Foreign currency translation reserve

Foreign currency translation reserve comprises all currency differences arising from the translation of the financial statements of foreign operations net of the translation impact on foreign currency liabilities.

3.17 Cash flow statement

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

Movements in interbank deposits, loans and 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.

3.18 New standards and interpretations not yet adopted

Many new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2010, and have not been applied in preparing these consolidated financial statements. None of those changes will have a material effect on the consolidated financial statements of the DHB Bank, with the exception of:

IFRS 9, Financial Instruments, published on 12 November 2009 as part of phase 1 of the IASB's comprehensive project to replace IAS 39, covers classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. Financial assets are measured at amortized cost if they are held within a business model whose objective is to hold assets in order to collect contractual cash flows that are solely the payments of principal and interest on principal outstanding. All other financial assets are measured at fair value. These amendments eliminate the existing IAS 39 categories of held to maturity, available for sale, and loans and receivables. No amount recognized in other comprehensive income would ever be classified to profit or loss at a later date. Investments in equity instruments in respect of any entity that does not elect to present fair value changes in other comprehensive income would be measured at fair value, with changes in fair value recognized in profit or loss. The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated. Instead, the hybrid financial instrument is assessed in its entirety to determine whether it should be measured at amortized cost or fair value.

4. Balance Sheet

4.1 Cash and balances with central bank

	2010	2009
Cash in hand	971	2,785
Balances with central banks	25,878	249,307
Total	**26,849**	**252,092**

This item includes all legal tender, as well as demand deposits held at the central bank in countries in which DHB Bank is established. These balances are kept for liquidity risk management purposes.

The decrease of the item 'Balances with central banks' is the outcome of the preference of DHB Bank to invest in short-term bank placements.

4.2 Financial assets and liabilities held for trading

The following table shows the financial assets at fair value through profit or loss as of December 31, 2010 and 2009:

	2010		2009	
	Fair value	**Notional**	**Fair value**	**Notional**
Financial assets held for trading				
Currency swaps	5,431	188,600	4,895	169,069
Interest rate swaps	-	-	3,281	58,677
Credit default swaps	-	-	15	30,000
Government bonds	-	-	9,322	9,314
Total	**5,431**	**188,600**	**17,513**	**267,060**
Financial liabilities held for trading				
Currency swaps	6,795	214,806	10,099	356,500
Interest rate swaps	7,446	154,698	9,925	156,375
Credit default swaps	3,750	20,000	749	60,000
Total	**17,991**	**389,504**	**20,773**	**572,875**

Currency swaps are used to fund USD and Turkish Lira assets and interest rate swaps are used to hedge interest risk positions. DHB Bank sells protection using credit default swaps to generate income, and/or buys protection to hedge credit position.

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

4.3 Available for sale financial assets

	2010	2009
Available for sale financial assets		
Debt securities issued by banks	359,590	184,256
Debt securities issued by corporates	14,399	46,073
Other government bonds	19,942	21,911
Equity instruments	-	411
Subtotal	**393,931**	**252,651**
Specific allowances for impairment	(521)	-
IBNR allowances for impairment	(113)	-
Total	**393,297**	**252,651**

There are no subordinated available for sale financial assets.

The available for sale financial assets developed as follows:

	2010	2009
At January 1	**252,651**	**411**
Reclassification EC Bank transaction	(2,658)	-
Purchases	385,929	548,169
Sales	(237,798)	(292,214)
Redemptions	-	(8,756)
FX revaluations	4,152	4,945
Market value revaluations	(8,345)	96
Allowances for impairment	(634)	-
At December 31	**393,297**	**252,651**

4.4 Securities held to maturity

	2010	2009
Securities held to maturity		
Government (Euro)bonds	26,859	34,045
Debt securities issued by banks	88,658	197,265
Debt securities issued by corporates	-	3,156
Subtotal	**115,517**	**234,466**
Specific allowances for impairment	-	(508)
IBNR allowances for impairment	(108)	(959)
Total	**115,409**	**232,999**

There are subordinated securities held to maturity amounting to 8,220 (2009: 15,184).

The securities held to maturity developed as follows:

	2010	2009
At January 1	**232,999**	**289,972**
Reclassification EC Bank transaction	(2,856)	-
Purchases	27,202	59,627
Sales	(44,282)	(26,455)
Redemptions	(109,203)	(74,868)
FX Revaluations	11,354	(12,306)
Changes in accrued interest	(1,164)	(1,504)
Allowances for impairment	1,359	(1,467)
At December 31	**115,409**	**232,999**

Within 2010, due to significant increase in the capital requirements by the Dutch Central Bank, DHB Bank sold Turkish treasury bonds with long maturity and corporate bonds in conformity with EU-IFRS. This sale from HTM portfolio is permitted under EU-IFRS due to regulatory changes, as the sales have been performed in accordance with IAS 39, AG 22. According to IAS 39, AG 22, significant changes in the regulatory environment as a consequence of the new introduced policy rule on the treatment of concentration risk in emerging countries are one of the events that allows the companies to sell securities from HTM portfolio.

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'.

	2010	2009
Money market placements	48,051	42,611
Other loans and receivables	833,347	558,338
Subtotal	**881,398**	**600,949**
Specific allowances for impairment	(1,788)	(5,621)
IBNR allowances for impairment	(1,068)	(675)
Total	**878,542**	**594,653**

The item 'Loans and receivables – banks' includes pledged funds amounting to 21,756 (2009: 24,117), of which 18,655 (2009: 23,702) serve as collateral for some swap transactions and 3,101 (2009: 415) serve as collateral for Credit Default Swap transactions.

Placements with 'Other loans and receivables' include receivables with regard to DSB Bank amounting to 8,923 (2009: none).

There are no subordinated loans and receivables granted to banks.

4.6 Loans and receivables – customers

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

	2010	2009
Retail loans	40,189	89,142
Commercial loans	304,398	555,416
Subtotal	**344,587**	**644,558**
Specific allowances for impairment	(6,516)	(7,499)
IBNR allowances for impairment	(134)	(212)
Total	**337,937**	**636,847**

There are no subordinated loans and receivables granted to customers.

4.7 Property and equipment

The changes in book value of property and equipment in 2010 and 2009 are as follows:

	Buildings	Other fixed assets	Total
Balance at January 1, 2010	**25,862**	**2,887**	**28,749**
Investments	26	370	396
Reclassification EC Bank transaction	(11,484)	(1,564)	(13,048)
Divestments	-	(54)	(54)
Depreciation	(687)	(1,028)	(1,715)
Exchange rate movements	(38)	(7)	(45)
Balance at December 31, 2010	**13,679**	**604**	**14,283**
Cost	14,408	9,558	23,966
Cumulative depreciation and impairment	(6,330)	(8,954)	(15,284)
Cumulative revaluations	5,601	-	5,601

	Buildings	Other fixed assets	Total
Balance at January 1, 2009	**25,116**	**3,529**	**28,645**
Investments	4,883	1,484	6,367
Divestments	(4,362)	(895)	(5,257)
Depreciation	(718)	(1,232)	(1,950)
Revaluation	935	-	935
Exchange rate movements	8	1	9
Balance at December 31, 2009	**25,862**	**2,887**	**28,749**
Cost	26,692	15,225	41,917
Cumulative depreciation and impairment	(6,431)	(12,338)	(18,769)
Cumulative revaluations	5,601	-	5,601

The real estate consists of office premises located in Rotterdam, the Hague, Dusseldorf, Brussels and Antwerp and are latest appraised separately by independent experts as per December 31, 2009. None of the office premises has been impaired.

DHB Bank does not have any restrictions on title, and property, plant and equipment pledged as security for liabilities (2009: none).
DHB Bank does not have any contractual commitments for the acquisition of property, plant and equipment.

4.8 Intangible assets

The changes in book value of intangibles in 2010 and 2009 are as follows:

Balance at January 1, 2010	**1,096**
Investments	255
Reclassification EC Bank transaction	(926)
Amortization	(398)
Balance at December 31, 2010	**27**
Cost	4,319
Cumulative amortization	(4,292)
Balance at January 1, 2009	**958**
Investments	454
Amortization	(316)
Balance at December 31, 2009	**1,096**
Cost	6,117
Cumulative amortization	(5,021)

This item mainly includes computer software.

4.9 Income tax assets

	2010	**2009**
Current tax assets	4,798	3,103
Deferred tax assets	1,442	2,009
Total	**6,240**	**5,112**

4.10 Other assets

	2010	**2009**
Prepayments	1,200	1,597
Other receivables	506	1,053
Non-current assets held for sale	-	1,741
Other	511	346
Total	**2,217**	**4,737**

Assets which had been stated as collateral and obtained in the case of default are disclosed under item 'Other assets'. These non-current assets held for sale completely relate to EC Bank.

4.11 Assets and liabilities held for sale

Assets and liabilities held for sale compose of assets and liabilities of EC Bank after taking into account the intra-group eliminations.

	2010
ASSETS	
Cash and balances with central banks	14,926
Financial assets held for trading	2,909
Available for sale financial assets	3,575
Securities held to maturity	8,926
Loans and receivables – banks	13,310
Loans and receivables – customers	72,927
Property and equipment	13,048
Intangible assets	926
Current tax assets	75
Other assets	2,997
Total assets	**133,619**
LIABILITIES	
Due to banks	29,339
Deposits from customers	72,985
Provisions	285
Other liabilities	1,331
Total liabilities	**103,940**

4.12 Due to banks

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

	2010	2009
Current accounts	2,541	2,845
Time deposits	161,292	27,229
Total	**163,833**	**30,074**

4.13 Deposits from customers

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

	2010	2009
Current accounts	20,530	49,127
Saving accounts	819,435	1,051,694
Time deposits	568,657	646,103
Total	**1,408,622**	**1,746,924**

This item includes pledged deposits amounting to 4,007 (2009: 13,228) 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:

	2010	2009
Employee benefits	571	606
Onerous contracts	1,907	1,455
Estimated regulatory obligations	-	3,452
Reorganization provision	592	-
Other provisions	-	132
Total	**3,070**	**5,645**

Employee benefits

DHB Bank has both defined benefit and defined contribution obligations. Expenses related with defined contribution plan are directly recognized under staff cost so no provisions are set aside. DHB Bank sets aside provision for defined benefit plan obligations. Defined benefit plan covers 46 employees of which 18 are still active.

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

	2010	2009
Present value of total defined benefit obligation	3,429	2,807
Fair value of plan assets	(2,858)	(2,201)
Present value of net obligations	**571**	**606**

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

	2010	2009
Current service cost	129	122
Interest cost	158	132
Expected return on plan assets	(126)	(107)
Administration cost	16	24
Recognized (gains)/ losses on actuarial assumptions	(53)	110
Net periodic gain/ (cost)	**124**	**281**
Employer contributions	(160)	(340)
Pension expense for the period	**(36)**	**(59)**

The change in net pension provisions can be summarized as:

	2010	2009
Defined benefit liability at January 1	2,807	2,424
Net periodic actuarial gain/(losses)	359	155
Current service and interest costs	287	254
Benefits paid by the plan	(25)	(26)
Defined benefit liability at December 31	**3,428**	**2,807**

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

Discount rate at December 31	5.10%	5.40%
Social security increases	1.50%	1.50%
Pension increases active participants	0.00%	0.00%
Pension increases other participants	1.50%	1.50%
Expected return on plan assets	5.10%	5.40%
Collective salary increases	1.50%	1.50%
Individual salary increase average	1.50%	1.50%
Pensionable age	65	65

For the fiscal year the discount rate was decreased from 5.40% to 5.10% to reflect the developments on the capital markets. On the other side the expected return on plan assets has also decreased from 5.40% to 5.10%. Fluctuation rates are based on the average rates in The Netherlands depending on participant's age. The corridor approach is not applied.

Onerous contracts

Provision for onerous rental contract relates to the rent obligations of closed branch in London, which will mature in 2015. The movements are as follows:

	2010	**2009**
Opening balance	1,455	1,751
Addition	826	189
Utilization	(432)	(485)
Exchange rate movement	58	-
Closing balance	**1,907**	**1,455**

Estimated regulatory obligations

Provisions for regulatory obligations relate to the deposit insurance scheme in The Netherlands. The movements are as follows:

	2010	**2009**
Opening balance	3,452	600
Addition	130	2,852
Utilization	(3,582)	-
Closing balance	**-**	**3,452**

Reorganization provision

Reorganization provision relates to the expected one-off severance payments for redundancies. The movements are as follows:

	2010	**2009**
Opening balance	-	-
Addition	831	-
Utilization	(239)	-
Closing balance	**592**	**-**

4.15 Income tax liabilities

	2010	2009
Current tax liabilities	68	259
Deferred tax liabilities	1,840	2,194
Total	**1,908**	**2,453**

4.16 Other liabilities

	2010	2009
Accrued expenses	2,890	2,655
Payables to suppliers	246	641
Other liabilities	17,311	19,448
Total	**20,447**	**22,744**

Other liabilities mainly relate to the valuation of EBRD put option and other amounts which cannot be classified with any other balance sheet items.

4.17 Share capital

Referring to art. 67c, 1 f of the Dutch Civil Code, the authorized capital amounts to 227 million. According to the Articles of Association the shares are subdivided into 500,000 ordinary shares, out of which 250,000 shares have been issued and fully paid up. All of these instruments have a par value of one euro.

4.18 Fair value reserve

This regards unrealized gains and losses on securities classified as available for sale, excluding impairment losses, until the investment is derecognized.

5. Income Statement

5.1 Net interest income

	2010	2009
Interest income from:		
Cash and balances with central banks	633	2,535
Financial assets held for trading	257	175
Available for sale financial assets	8,765	2,796
Securities held to maturity	13,611	15,875
Loans and receivables – banks	18,601	25,422
Loans and receivables – customers	28,008	44,737
Other interest income	153	1
Subtotal	**70,028**	**91,541**
Interest expense from:		
Due to banks	2,336	2,713
Deposits from customers	36,790	65,145
Other interest expense	-	132
Subtotal	**39,126**	**67,990**
Total	**30,902**	**23,551**

5.2 Net fee and commission income

	2010	2009
Letter of guarantees	209	1,877
Letter of credits	233	261
Cash loan	5,450	7,396
Banking services	4,034	4,438
Other fees and commissions	52	50
Subtotal	**9,978**	**14,022**
Fee and commission expense	1,049	796
Total	**8,929**	**13,226**

5.3 Result on financial transactions

	2010	2009
Results from foreign currency exchange transactions	565	1,437
Results from securities transactions	861	3,688
Results from derivatives transactions	(8,006)	2,718
Total	**(6,580)**	**7,843**

Interest income and expense on trading positions are included in interest income and expense.

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

'Results from derivatives transactions' relate to the entire gains and losses from derivatives which are not qualifying as hedge instruments.

5.4 Other operating income

	2010	2009
Other operating income	947	312

This item mainly includes non-recurring incomes.

5.5 Staff expenses

	2010	2009
Wages and salaries	13,116	13,403
Pension costs	1,521	1,413
Other social security costs	1,631	1,677
Other staff costs	746	655
Total	**17,014**	**17,148**

The current number of full-time equivalents in 2010 was 423 (2009: 425)	2010	2009
• In The Netherlands	104	116
• Outside The Netherlands	319	309
Total	**423**	**425**

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

The remuneration (including pension costs) of the current and former members of the Managing Board amounted to 1,209 in 2010 (2009: 1,180).
The remuneration of the members of the Supervisory Board amounted to 454 (2009: 455) in 2010.

5.6 Other administrative expenses

	2010	2009
Other administrative expenses	10,402	13,517

Major items in other administrative expenses are the communication and travel expenses.

This item also includes the fees for audit services provided by the bank's auditors:

Audit-related fees	2010	2009
Audit fees related to the annual report	266	271
Tax advisory services	62	74
Other audit-related fees	15	24
Total	**343**	**369**

5.7 Taxation

The Netherlands

Corporate income tax is levied at the rate of 25,5% (2009: 25,5%) 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 2010. 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 deductible for the calculation of corporate tax at a rate of 25%. The solidarity tax is 5,5% on corporate tax. The effective tax rate is estimated at 31,38%.

Belgium

The effective tax rate is 33,99% in Belgium consisting of basis tax rate of 33% and an additional tax called 'Extra Crise Cotisation' at a rate of 3%.

The deferred tax effect includes 2,476 (2009: 88) realized under 'Fair value reserve' in 'Other Comprehensive Income'. This amount is netted from the gross amount of the fair value changes of available for sale financial assets.

Reconciliation of effective tax rate	**%**	**2010**	**%**	**2009**
Profit before income tax		5,742		12,282
Income tax using the domestic corporation tax rate	25.50%	1,464	25.50%	3,132
Effect of tax rates in foreign jurisdictions	5.37%	309	3.73%	459
Non-deductible expenses	0.12%	7	0.15%	18
Other	0.01%	-	-0.35%	(43)
Total	**31.00%**	**1,780**	**29.03%**	**3,566**

6. Additional Notes

6.1 Commitments and contingent liabilities

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

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

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

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

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

	2010	2009
Non-credit substitute guarantees	5,473	5,893
Irrevocable letters of credit	5,768	10,542
Irrevocable commitments	7,320	6,550
Total	**18,561**	**22,985**

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

	2010	2009
The Netherlands	694	742
Turkey	8,237	10,241
Rest of Europe	9,622	9,185
Other	8	2,817
Total	**18,561**	**22,985**

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 2010, C Group companies consist of Demir Kyrgyz International Bank, C Faktoring A.Ş., C Yatırım Holding A.Ş., HCBG Holding B.V., C International Belgium SA and C International N.V. Halk group companies consist of Türkiye Halk Bankası A.Ş. and Halk Finansal Kiralama A.Ş.

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

The outstanding balances with related parties for the year ended December 31, 2010 are as follow:

	Parent companies	Other related parties	Key management and their relatives	Total
Assets				
Loans and receivables – banks	145,043	-	-	145,043
Loans and receivables – customers	-	31,749	-	31,749
Liabilities				
Due to banks	17,692	853	-	18,545
Deposits from customers	4,456	624	421	5,501
of which received cash collaterals for loans	4,007	-	-	4,007
Contingent liabilities				
Letter of credits	-	60	-	60
Guarantees	-	-	1,955	1,955

The income and expenses in respect of related parties included in the financial statements for the year 2010 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Interest income	3,720	1,985	-	5,705
Interest expense	263	10	144	417
Commission income	218	20	15	253
Commission expense	352	39	4	395

The outstanding balances with related parties for the year ended December 31, 2009 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Assets				
Loans and receivables – banks	51,735	-	-	51,735
Loans and receivables – customers	-	42,472	9	42,481
Liabilities				
Due to banks	554	74	-	628
Deposits from customers	10,385	801	11,300	22,486
of which received cash collaterals for loans	4,007	9,221	-	13,228
Contingent liabilities				
Letter of credits	27	160	-	187
Guarantees	-	-	1,822	1,822

The income and expenses in respect of related parties included in the financial statements for the year 2009 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Interest income	4,807	2,894	4	7,705
Interest expense	535	37	425	997
Commission income	25	27	-	52
Commission expense	111	-	-	111

6.3 Capital adequacy

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

DHB Bank's total own funds, the capital ratio and the Tier 1 capital figures as of December 31, 2010 and the previous year are as follows:

	2010		2009	
	Required	**Actual**	**Required**	**Actual**
Total capital	120,156	201,505	126,030	196,890
Total capital ratio	8.00%	13.42%	8.00%	12.50%
Tier 1 capital	116,402	197,751	122,170	193,030
Tier 1 ratio	7.75%	13.17%	7.75%	12.25%
Solvency ratio	**13.42%**		**12.50%**	

6.4 Fair value measurement of assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction on the measurement date. The fair value of the marketable securities and derivatives that are traded on an organized exchange is measured on the basis of quoted prices. An existing quotation of the financial instrument gives the best evidence for fair value.

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

The estimated fair value at any particular point in time depends on prevailing circumstances and is not always strictly comparable with the information provided by different financial institutions. The bank regu-

larly performs a review of valuations in light of available pricing evidence and other market data.
Other securities belonging to the investment portfolio are stated at market value taking the average mid-quotes at year-end from five price contributors that have actively and regularly provided quotes during the relevant trading period.

	31 December 2010		31 December 2009	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets				
Cash with central banks	25,878	25,878	249,307	249,307
Financial assets held for trading	5,431	5,431	17,513	17,513
Available for sale financial assets	393,297	393,297	252,651	252,651
Securities held to maturity	115,409	115,313	232,999	232,770
Loans and receivables – banks	878,542	860,378	594,653	581,517
Loans and receivables – customers	337,937	351,416	636,847	659,657
Total	**1,756,494**	**1,751,713**	**1,983,970**	**1,993,415**
Liabilities				
Due to banks	163,833	163,833	30,074	30,074
Financial liabilities held for trading	17,991	17,991	20,773	20,773
Deposits from customers	1,408,622	1,408,622	1,746,924	1,746,924
Total	**1,590,446**	**1,590,446**	**1,797,771**	**1,797,771**

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs either directly (prices) or indirectly (derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques based on significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the observable inputs have a significant effect on the instrument's valuation.

Fair value hierarchy for financial instruments as at 31 December 2010

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	-	5,431	-	**5,431**
Available for sale financial assets	393,297	-	-	**393,297**
Financial liabilities				
Financial liabilities held for trading	-	17,991	-	**17,991**
Other liabilities - EBRD put option	-	10,331	-	**10,331**

Fair value hierarchy for financial instruments as at 31 December 2009

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	-	17,513	-	**17,513**
Available for sale financial assets	252,651	-	-	**252,651**
Financial liabilities				
Financial liabilities held for trading	-	20,773	-	**20,773**
Other liabilities - EBRD put option	-	9,449	-	**9,449**

6.5 Subsequent events

DHB Bank signed a share purchase agreement with Halkbank on November 26, 2010 regarding the transfer of 66.56% of EC Bank shares from DHB Bank to Halkbank. According to the agreement DHB Bank will also be obliged to buy another 25% of EC Bank shares from EBRD by exercising its call option and to sell them to Halkbank at a pre-determined price per share.

The additional 25% of EC Bank shares have already been recognized by DHB Bank in accordance with EU-IFRS. According to EU-IFRS, if a put option granted to the minority shareholders provides for settlement in cash or in another financial asset by the entity then the entity should recognize a liability for the present value of the exercise price of the option. DHB Bank used the Anticipated Acquisition Method which accounts such written put options as an anticipated acquisition of the underlying minority interests as if the put option had been exercised already. This is independent of how the exercise price is determined (fixed or variable) and how likely the exercise of the option. DHB Bank recognized its financial liabilities regarding the put option of EBRD for EC Bank shares in accordance with EU-IFRS and the 25% shares of EBRD starting from the date of the initial transaction, which would increase its share in EC Bank to 91.56%.

The total sale/purchase price of the 91.56% of EC Bank shares is set at EUR 19.5 million. Subsequent to the date of the agreement any positive or negative impact on the profitability or asset quality of EC Bank will not have an impact on the share sale/purchase price.

All other terms and conditions of the acquisition are mutually agreed by both parties as stated in the signed agreement. Turkish Banking Regulatory and Supervisory Agency (BRSA) and National Bank of the Republic of Macedonia (NBRM) already approved the sale & purchase and the transaction is expected to be fully completed within a short period of time.

7. Risk Management

Effective risk management and capital management are fundamental to the bank's business and play 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 most significant being credit risk related to loans and receivables.

The bank's bank-wide risk management approach is supported by organizational structure, policies and procedures as well as methods for identifying, measuring, assessing and controlling 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 a key competency. Our measurement models and techniques are continually subject to assessment for appropriateness and reliability. For those risk types that are difficult to quantify, the bank places greater emphasis on qualitative risk factors and assessment of activities to gauge the overall level of risks to ensure that they are within approved risk appetite.

Risk types and their management

Credit risk

Credit risk is the risk of encountering loss associated with an obligor's inability or unwillingness to fulfill its obligations towards DHB Bank. Losses associated with credit risk include either the actual default of repayment or a loss of value in the financial assets caused by the decrease in its respective credit quality. Credit risk stems from various forms of lending to customers, but also from counterparty risk, transfer risk and settlement risk. The bank is exposed to credit risk mainly through its wholesale and retail lending activities.

The management of credit risk covers the whole lending process, from target market definition to the collection of lending proceeds, as well as credit portfolio management. DHB Bank applies thorough approval procedures for loans and advances supported by an internal credit rating system, consistent credit risk exposure measurements and appropriate pricing policy.

The bank ensures that credit quality is not compromised for growth by applying separate limits for all lending activities, which are approved by the Supervisory Board in accordance with the credit approval procedures. Wholesale loans are granted by the Supervisory Board. However, for flexibility and responsiveness the Credit Committee has approval authority to a certain amount. As for retail credits, the acceptance criteria are drawn up and reviewed separately by the Retail Loans Department 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 level. Credit monitoring is carried out at individual borrower level by the Credit Appraisal and Risk Management Department, which conducts credit reviews and reports to the Credit Committee on a regular basis. Credit risk assessment at the portfolio level is also conducted periodically by the Financial Risk Modeling & Assessment Department, which reports directly to the Managing Board.

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

- evaluation of credit requests;
- review of the quality of debtors relative to facilities provided;
- analysis of country risks and economic sectors;
- measurement of concentration on a sectoral and geographical basis;
- large customer group exposures;
- impaired assets and impairment allowances.

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

Credit exposure

The bank's credit exposure is calculated on the basis of items on and off the balance sheet with credit risk. The credit exposure relating to lending activities comprises items subject to credit risk that form part of the bank's core banking business, whereas the exposure 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:

	2010	2009
Cash with central banks	25,878	249,307
Financial assets held for trading	5,431	17,513
Available for sale financial assets	393,297	252,651
Securities held to maturity	115,409	232,999
Loans and receivables - banks	878,542	594,653
Loans and receivables - customers	337,937	636,847
Total on-balance sheet items	**1,756,494**	**1,983,970**
Contingent liabilities L/G, CDS*	20,474	95,893
Contingent liabilities L/C	5,767	10,542
Irrevocable commitments	7,320	6,550
Total off-balance sheet items	**33,561**	**112,985**
Total credit risk	**1,790,055**	**2,096,955**

** Contingent liabilities are disclosed in a broader sense in this section by including the nominal amount of CDS in the respective total.*

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

Collateral and other credit enhancement

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

The following table shows the amounts and types of collateral:

	Cash with central banks	Financial assets held for trading	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Contingent liabilities L/G, CDS	Contingent liabilities L/C	Irrevocable commitments	Total 2010
Securities guaranteed by governments	–	–	6,521	–	–	–	–	–	–	6,521
Loans guaranteed by banks	–	–	–	–	–	1,003	–	–	–	1,003
Loans guaranteed by mortgage	–	–	–	–	–	31,481	1,419	480	–	33,380
Loans guaranteed by cash collateral	–	–	–	–	–	4,080	409	–	–	4,489
Loans guaranteed by third parties	–	–	–	–	–	53,448	–	–	–	53,448
Others/unsecured	25,878	5,431	386,776	115,409	878,542	247,925	18,646	5,287	7,320	1,691,214
Total	**25,878**	**5,431**	**393,297**	**115,409**	**878,542**	**337,937**	**20,474**	**5,767**	**7,320**	**1,790,055**

	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	Contingent liabilities L/G, CDS	Contingent liabilities L/C	Irrevocable commitments	Total 2009
Loans guaranteed by banks	–	–	–	–	–	174	1,412	9,984	772	12,342
Loans guaranteed by mortgage	–	–	–	–	–	119,887	1,031	–	–	120,918
Loans guaranteed by cash collateral	–	–	–	–	–	15,622	459	–	–	16,081
Loans guaranteed by third parties	–	–	–	–	–	136,743	–	–	–	136,743
Others/unsecured	249,307	17,513	252,651	232,999	594,653	364,421	92,991	558	5,778	1,810,871
Total	**249,307**	**17,513**	**252,651**	**232,999**	**594,653**	**636,847**	**95,893**	**10,542**	**6,550**	**2,096,955**

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. As part of its credit risk management, the bank has established internal concentration limits that are monitored on a regular basis, including limits for exposures to both portfolios and single obligors.

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

	Cash with central banks	Financial assets held for trading	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Commitments and contingent liabilities	Total 2010	%
Turkey	-	216	20,324	34,295	690,907	289,981	8,238	1,043,961	58.3%
Russia	-	-	79,043	41,613	62,845	-	-	183,501	10.3%
The Netherlands [i]	23,629	-	36,796	18,240	24,020	13,887	694	117,266	6.6%
United States of America	-	1,091	94,841	-	762	-	-	96,694	5.4%
United Kingdom	-	3,711	40,507	-	18,348	8,961	205	71,732	4.0%
Italy	-	-	11,445	-	-	-	15,137	26,582	1.5%
Belgium	-	-	-	-	6,214	17,647	1,961	25,822	1.4%
Greece	-	-	14,307	10,486	-	-	-	24,793	1.4%
Azerbaijan	-	-	-	-	20,364	-	-	20,364	1.1%
Germany	2,249	413	5,372	-	5,273	6,056	1	19,364	1.1%
Switzerland	-	-	10,047	-	740	984	-	11,771	0.7%
Macedonia	-	-	-	-	2	-	7,257	7,259	0.4%
Multilateral Development Banks	-	-	-	-	30,258	-	-	30,258	1.7%
Others	-	-	80,615	10,775	18,809	421	68	110,688	6.1%
Total	**25,878**	**5,431**	**393,297**	**115,409**	**878,542**	**337,937**	**33,561**	**1,790,055**	**100.0%**

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

	Cash with central banks	Financial assets held for trading	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Commitments and contingent liabilities	Total 2009	%
Turkey	-	-	-	52,680	384,196	431,232	10,241	878,349	41.9%
The Netherlands [i]	236,421	6	30,912	48,031	12,211	20,812	20,742	369,135	17.6%
Russia	-	-	-	88,372	65,421	21,058	-	174,851	8.3%
Macedonia	8,736	6,731	-	2,857	5	51,745	4,949	75,023	3.6%
United States of America	-	1,604	50,470	-	8,954	11,052	-	72,080	3.4%
Israel	-	-	-	15,129	46,120	4,813	-	66,062	3.2%
Germany	2,074	2,797	8,602	-	7,522	9,442	35,004	65,441	3.1%
United Kingdom	-	1,372	24,569	-	12,521	10,412	12,137	61,011	2.9%
Italy	-	-	19,097	9,426	11,852	-	15,232	55,607	2.7%
Belgium	2,076	239	-	-	5,624	34,024	1,834	43,797	2.1%
Saudi Arabia	-	-	-	-	-	27,854	2,810	30,664	1.5%
Switzerland	-	2,173	8,066	-	2,030	9,023	10,000	31,292	1.4%
Multilateral Development Banks	-	-	-	-	13,942	-	-	13,942	0.7%
Others	-	2,591	110,935	16,504	24,255	5,380	36	159,701	7.6%
Total	**249,307**	**17,513**	**252,651**	**232,999**	**594,653**	**636,847**	**112,985**	**2,096,955**	**100.0%**

[i] Balances with ECB are classified in The Netherlands.

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

	2010		2009	
Sectors	**On-balance**	**Off-balance**	**On-balance**	**Off-balance**
Financial institutions and insurance	168,033	15,205	143,070	90,524
Construction and infrastructure	31,334	5,233	92,317	10,061
Communications and post	20,342	3,031	21,171	2,810
Metals	19,542	206	71,191	2,141
Energy	16,019	-	45,585	-
Media and advertising	12,790	-	18,658	49
Food & beverage	12,165	25	28,305	49
Petroleum refining & other related industries	8,719	-	14,081	-
Tourism	4,233	199	50,175	193
Mining and quarrying	-	-	19,442	90
Others	8,226	3,748	50,783	4,303
Total	**301,403**	**27,647**	**554,778**	**110,220**
Private individuals / self- employed	43,183	5,914	89,780	2,823
Total	**344,586**	**33,561**	**644,558**	**113,043**
Allowances for impairment	(6,649)	-	(7,711)	(58)
Total loans and receivables - customers	**337,937**	**33,561**	**636,847**	**112,985**

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

Credit quality of financial assets

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

	2010	**2009**
Neither past due nor impaired	1,784,280	2,078,550
Past due but not impaired	182	11,015
Impaired	15,841	22,922
Provisions	(10,248)	(15,532)
Total	**1,790,055**	**2,096,955**

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

	2010	2009
Investment grade	614,190	862,583
Non-investment grade	875,783	628,478
Unrated	300,082	605,894
Total	**1,790,055**	**2,096,955**

The creditworthiness of the customers that are not rated by external rating agencies is assessed with reference to the bank's internal credit rating system, which reflects the probability of default by an obligor. The borrower rating is based on many factors derived from a financial and non-financial analysis of the borrower.

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

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

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

Ageing of financial assets that are past due but not impaired	**2010**	**2009**
Past due up to 30 days	138	2,702
Past due 31 - 60 days	20	176
Past due 61 - 90 days	12	182
Past due over 90 days and under re-negotiated terms	12	7,955
Total	**182**	**11,015**

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

Provisions for loan losses are set aside for estimated losses on outstanding loans for which there is any doubt about the borrower's capacity to repay the principal and/or interest, and are determined through a combination of specific reviews, historical data and estimates. Provisions for loan losses are determined separately for each exposure for wholesale loans, and according to a pre-defined model for retail loans.

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

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

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

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

The movements of the specific allowances for impairment for the year 2010 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Commitments and contingent liabilities	Total
Opening balance	-	508	5,621	7,499	58	13,686
Reclassification EC Bank transaction	-	-	-	(1,992)	-	(1,992)
Addition	521	-	-	1,312	-	1,833
Release	-	(508)	(2,948)	(182)	(58)	(3,696)
Write-off	-	-	(1,140)	(180)	-	(1,320)
Exchange rate movement	-	-	255	59	-	314
Closing balance	**521**	**-**	**1,788**	**6,516**	**-**	**8,825**

The movements of the IBNR allowances for impairment for the year 2010 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Commitments and contingent liabilities	Total
Opening balance	-	959	675	212	-	1,846
Addition	113	-	393	-	-	506
Release	-	(851)	-	(78)	-	(929)
Closing balance	**113**	**108**	**1,068**	**134**	**-**	**1,423**

The movements of the specific allowances for impairment for the year 2009 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Commitments and contingent liabilities	Total
Opening balance	63	527	3,099	7,774	-	11,463
Addition	-	22	3,542	3,003	58	6,625
Release	(35)	-	(675)	(3,085)	-	(3,795)
Write-off	(28)	-	-	(156)	-	(184)
Exchange rate movement	-	(41)	(345)	(37)	-	(423)
Closing balance	**-**	**508**	**5,621**	**7,499**	**58**	**13,686**

The movements of the IBNR allowances for impairment for the year 2009 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Commitments and contingent liabilities	Total
Opening balance	-	-	3,093	2,281	-	5,374
Addition	-	959	-	-	-	959
Release	-	-	(2,418)	(2,069)	-	(4,487)
Closing balance	**-**	**959**	**675**	**212**	**-**	**1,846**

The balance of total provisions for impaired assets decreased from 15.5 million in 2009 to 10.2 million in 2010 as credit conditions in the bank's key markets have shown improvements. Although provisions for loan losses are considered adequate, the use of different methods and assumptions could produce different provisions for loan losses, and amendments may be required in the future as a consequence of changes in the expected loss, the value of collateral and other economic events.

Provisions against a particular impaired loan may be released where there is improvement in the quality of the loan. The bank's write-off policies are determined on a case by case basis. For restructured loans, the policy enables reclassification of a restructured loan into a performing loan when a certain number of repayments are executed.

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

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 cost or loss. 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 the availability of various funding sources to meet actual and contingent liabilities during both stable and adverse conditions.

The Treasury Department is responsible for managing the liquidity risk of the bank and evaluating the respective positions on a daily basis. 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. Furthermore, the impact of possible unforeseen occurrences on the bank's liquidity situation is assessed regularly utilizing scenario analyses. Liquidity, defined as available versus required, is reported to DNB on a monthly basis.

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

December 31, 2010	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 year	Total
Assets						
Cash and balances with central banks	26,849	-	-	-	-	26,849
Financial assets held for trading	-	5,307	124	-	-	5,431
Available for sale financial assets	-	5,015	13,285	345,168	29,829	393,297
Securities held to maturity	-	16,373	28,453	68,810	1,773	115,409
Loans and receivables - banks	11,292	195,267	477,966	182,617	11,400	878,542
Loans and receivables - customers	10,713	154,797	48,826	111,969	11,632	337,937
Property and equipment	14,283	-	-	-	-	14,283
Intangible assets	27	-	-	-	-	27
Current tax assets	4,798	-	-	-	-	4,798
Deferred tax assets	1,442	-	-	-	-	1,442
Other assets	2,217	-	-	-	-	2,217
Assets held for sale	133,619	-	-	-	-	133,619
Total assets	**205,240**	**376,759**	**568,654**	**708,564**	**54,634**	**1,913,851**
Liabilities						
Due to banks	2,541	161,292	-	-	-	163,833
Financial liabilities held for trading	-	6,829	845	8,578	1,739	17,991
Deposits from customers	839,845	102,320	209,641	256,816	-	1,408,622
Provisions	-	-	3,070	-	-	3,070
Current tax liabilities	68	-	-	-	-	68
Deferred tax liabilities	1,840	-	-	-	-	1,840
Other liabilities	20,447	-	-	-	-	20,447
Liabilities held for sale	103,940	-	-	-	-	103,940
Total liabilities	**968,681**	**270,441**	**213,556**	**265,394**	**1,739**	**1,719,811**
Net liquidity gap	(763,441)	106,318	355,098	443,170	52,895	194,040
Net liquidity cumulative gap	(763,441)	(657,123)	(302,025)	141,145	194,040	

The immediately available liquidity of DHB Bank consisting of cash and the ECB eligible securities valued after the ECB haircuts as of year-end 2010 was EUR 259.6 million, representing 13.6% of the balance sheet size.

December 31, 2009	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 year	Total
Assets						
Cash and balances with central banks	252,092	–	–	–	–	252,092
Financial assets held for trading	–	6,836	5,220	3,789	1,668	17,513
Available for sale financial assets	411	–	7,558	244,682	–	252,651
Securities held to maturity	2,857	40,606	47,781	112,073	29,682	232,999
Loans and receivables - banks	17,218	38,006	473,624	55,348	10,457	594,653
Loans and receivables - customers	25,094	90,338	186,595	213,021	121,799	636,847
Property and equipment	28,749	–	–	–	–	28,749
Intangible assets	1,096	–	–	–	–	1,096
Current tax assets	3,103	–	–	–	–	3,103
Deferred tax assets	2,009	–	–	–	–	2,009
Other assets	4,737	–	–	–	–	4,737
Total assets	**337,366**	**175,786**	**720,778**	**628,913**	**163,606**	**2,026,449**
Liabilities						
Due to banks	3,079	4,022	3,826	19,147	–	30,074
Financial liabilities held for trading	–	11,739	3,932	4,235	867	20,773
Deposits from customers	1,102,050	177,418	227,729	239,727	–	1,746,924
Provisions	5,645	–	–	–	–	5,645
Current tax liabilities	259	–	–	–	–	259
Deferred tax liabilities	2,194	–	–	–	–	2,194
Other liabilities	22,744	–	–	–	–	22,744
Total liabilities	**1,135,971**	**193,179**	**235,487**	**263,109**	**867**	**1,828,613**
Net liquidity gap	(798,605)	(17,393)	485,291	365,804	162,739	197,836
Net liquidity cumulative gap	(798,605)	(815,998)	(330,707)	35,097	197,836	

Market risk

Market risk is the exposure to an adverse impact on the market value of portfolios and financial instruments caused by changes in market prices and rates. Market risk is identified, measured, and monitored by Financial Risk Modeling & Assessment Department, a risk management function independent from the lines of business working in partnership with the business segments. The unit seeks to recommend efficient risk/return decisions and reduce volatility in the operating performance, and to present the bank's market risk profile to the management. The bank makes use of a combination of risk, earnings and regulatory parameters to manage market risk.

Price risk

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

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

The bank sets VaR limits for total market risk, which is further allocated into foreign exchange and other price risks limits. ALCO reviews and approves the overall structure of the VaR limits.

Trading book being absent as at December 31, 2010, 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 10 days holding period.

VaR of FX position	**2010**	**2009**
Max	(361)	(197)
Min	(3)	(2)
Average	(26)	(23)
End of year	(14)	(20)

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

Interest rate risk

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

To evaluate interest rate risk from an earnings perspective, we use scenario analyses involving various shifts in market rates in relevant currencies. Assuming a constant balance sheet position and an instantaneous upward 1% parallel movement in market rates, the sensitivity of the net interest earnings over a time period of one year is shown in the following table for the year ending December 31, 2010 and December 31, 2009 respectively:

	Within year 2010			End of Year 2010
Sensitivity 1 Year Earning	Min	Max	Average	
100 bps instantaneous increase	1,941	3,842	2,930	3,120
	Within year 2009			**End of Year 2009**
Sensitivity 2 Year Earning	Min	Max	Average	
100 bps instantaneous increase	408	6,092	2,276	2,000

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

Apart from the scenario-based analysis, the bank also estimates the effects of interest rate movements on the economic value of equity. The sensitivity of the economic value of equity using an upward movement of 100 basis points, and ignoring all option elements, is presented in the following table for the year ending December 31, 2010 and December 31, 2009 respectively.

	Within year 2010			End of Year 2010
Sensitivity of economic value of equity to interest rate movements	Min	Max	Average	
100 bps instantaneous increase	81	4,375	2,657	2,727
`				
	Within year 2009			**End of Year 2009**
Sensitivity of economic value of equity to interest rate movements	Min	Max	Average	
100 bps instantaneous increase	(2,179)	4,619	262	614

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 and USD rates since significant amounts of assets are generated and booked in USD. While currency risk is almost fully avoided through FX swap transactions, open positions are monitored and reviewed by the Asset & Liability Management Committee, taking action where necessary. The management sets out the limits according to net foreign currency position rules determined by the Dutch Central Bank (DNB).

December 31, 2010	EUR	USD	TRY	GBP	CHF	Others	Total
Cash and balances with central banks	26,816	29	–	4	–	–	26,849
Financial assets held for trading	5,431	–	–	–	–	–	5,431
Available for sale financial assets	302,842	90,455	–	–	–	–	393,297
Securities held to maturity	48,543	66,866	–	–	–	–	115,409
Loans and receivables - banks	807,648	69,267	128	675	740	84	878,542
Loans and receivables - customers	113,806	81,922	139,511	2,698	–	–	337,937
Property and equipment	14,283	–	–	–	–	–	14,283
Intangible assets	27	–	–	–	–	–	27
Current tax assets	4,798	–	–	–	–	–	4,798
Deferred tax assets	1,442	–	–	–	–	–	1,442
Other assets	2,217	–	–	–	–	–	2,217
Assets held for sale	133,619	–	–	–	–	–	133,619
Total assets	**1,461,472**	**308,539**	**139,639**	**3,377**	**740**	**84**	**1,913,851**
Due to banks	136,576	16,227	10,150	163	717	–	163,833
Financial liabilities held for trading	5,810	12,181	–	–	–	–	17,991
Deposits from customers	1,401,915	6,136	384	170	3	14	1,408,622
Provisions	3,070	–	–	–	–	–	3,070
Current tax liabilities	68	–	–	–	–	–	68
Deferred tax liabilities	1,840	–	–	–	–	–	1,840
Other liabilities	20,436	–	11	–	–	–	20,447
Liabilities held for sale	103,940	–	–	–	–	–	103,940
Total non-equity liabilities	**1,673,655**	**34,544**	**10,545**	**333**	**720**	**14**	**1,719,811**
Net gap	(212,183)	273,995	129,094	3,044	20	70	194,040
Net open currency position after FX and interest rate swaps	(188)	122	(25)	2	19	70	

December 31, 2009	EUR	USD	TRY	GBP	CHF	Others	Total
Cash and balances with central banks	246,803	56	–	24	36	5,173	252,092
Financial assets held for trading	14,613	219	894	–	–	1,787	17,513
Available for sale financial assets	252,240		–	–	–	411	252,651
Securities held to maturity	64,657	166,380	–	–	–	1,962	232,999
Loans and receivables - banks	457,314	135,033	302	1,372	430	202	594,653
Loans and receivables - customers	370,079	243,838	2,954	258	85	19,633	636,847
Property and equipment	14,996	–	–	–	–	13,753	28,749
Intangible assets	37	–	–	–	–	1,059	1,096
Current tax assets	2,960	–	–	–	–	143	3,103
Deferred tax assets	2,009	–	–	–	–	–	2,009
Other assets	2,102	–	–	–	–	2,635	4,737
Total assets	**1,427,810**	**545,526**	**4,150**	**1,654**	**551**	**46,758**	**2,026,449**
Due to banks	23,872	142	2,738	139	47	3,136	30,074
Financial liabilities held for trading	14,433	6,340	–	–	–	–	20,773
Deposits from customers	1,707,329	12,466	608	158	275	26,088	1,746,924
Provisions	4,246	–	–	1,267	–	132	5,645
Current tax liabilities	259	–	–	–	–	–	259
Deferred tax liabilities	1,779	–	–	–	–	415	2,194
Other liabilities	21,596	–	–	–	–	1,148	22,744
Total non-equity liabilities	**1,773,514**	**18,948**	**3,346**	**1,564**	**322**	**30,919**	**1,828,613**
Net gap	(345,704)	526,578	804	90	229	15,839	197,836
Net open currency position after FX and interest rate swaps	5,080	177	(114)	90	(39)	5,194)	

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 and 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 and focuses on IT-related risks in the management of operational risk, and ensures a continuous workflow under probable disruptions.

As part of the continuous efforts to improve its operational risk management, the bank continued its Operational Risk & Control Assessment Program in 2010. The project adopted a structured approach based on a risk and self-assessment control methodology. The goal of the ongoing self-assessment process is for each business to identify the key operational risks specific to its environment and evaluate the degree to which it maintains appropriate controls. Action plans are developed for identified issues, enabling the bank to improve its existing control measures and implement new measures where necessary.

Legal, compliance and reputation risk

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

The reputation risk management framework is embedded in the policy and governance structure of the bank. Attention to reputation has always been a key aspect of the bank's practices, and maintenance of the bank's reputation is regarded as a responsibility of all staff members of the bank. The Managing Board takes 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.

DHB Bank

Company Financial Statements Annual Report for the year ended December 31, 2010

Rotterdam, The Netherlands

Company statement of financial position

(in thousands of EUR)	**2010**	**2009**
ASSETS		
Cash and balances with central banks	26,849	242,036
Financial assets held for trading	5,431	8,191
Available for sale financial assets	393,297	249,994
Securities held to maturity	115,409	230,142
Loans and receivables – banks	888,686	597,973
Loans and receivables – customers	338,523	584,622
Investments	17,705	18,440
Property and equipment	14,283	14,996
Intangible assets	27	29
Current tax assets	4,857	2,960
Deferred tax assets	1,442	2,009
Other assets	1,913	1,543
Total assets	**1,808,422**	**1,952,935**
LIABILITIES		
Due to banks	163,962	9,755
Financial liabilities held for trading	17,991	20,773
Deposits from customers	1,408,753	1,697,231
Provisions	3,070	5,513
Current tax liabilities	–	259
Deferred tax liabilities	1,840	1,779
Other liabilities	20,426	21,545
Total liabilities	**1,616,042**	**1,756,855**
EQUITY		
Share capital	113,445	113,445
Retained earnings	82,721	77,855
Other reserves	(3,786)	4,780
Total equity	**192,380**	**196,080**
Total equity and liabilities	**1,808,422**	**1,952,935**
Commitments and contingent liabilities	11,304	18,036

Company income statement

(in thousands of EUR)	**2010**	**2009**
Net income of the parent company	5,182	9,731
Net income participating interests after taxes	(1,094)	(911)
Net income	**4,088**	**8,820**

Notes to the company financial statements

Summary of significant accounting policies

Basis of preparation

The company financial statements of Demir-Halk Bank (Nederland) N.V. have been prepared in accordance with accounting principles in The Netherlands as embodied in Part 9 of Book 2 of The Netherlands Civil Code. Based on article 2:362.8 of The Netherlands Civil Code, the valuation principles applied are based on International Financial Reporting Standards (IFRS), as used for the preparation of the consolidated financial statements of the bank.

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

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

Investments

Investments of DHB Bank in subsidiaries are stated at its net asset value, determined on the basis of EU-IFRS.

DHB Bank acquired 66.56% of EC Bank shares at August 31, 2008 and recognized these shares as investments. Additionally, by the time of the acquisition of majority shares of EC Bank in Macedonia, DHB Bank has signed a 'Put and Call Option Agreement' with European Bank for Reconstruction and Development (EBRD) in respect to EBRD's remaining 25% share in EC Bank.

According to EU-IFRS, if a put option granted to the minority shareholders provides for settlement in cash or in another financial asset by the entity then the entity should recognize a liability for the present value of the exercise price of the option and therefore recognize the additional shares in the subsidiary. DHB Bank recognized its financial liabilities regarding the put option of EBRD for EC Bank shares in accordance with EU-IFRS and the 25% shares of EBRD starting from the date of the initial transaction, which increased its share in EC Bank to 91.56%. For its company balance sheet DHB Bank used a consistent approach and recognized 91.56 % of EC Bank shares as its investment.

First time adoption of IFRS

The group companies have applied IFRS 1 'First Time Adoption of International Financial Reporting Standards', in preparing these separate financial statements. The transition date is January 1, 2009 and an opening IFRS balance sheet has been prepared as of that date.

Participating interests in group companies consist of DHB Hypotheken & Verzekeringen B.V., Best CreditLine B.V., Maaslust 9 Monumenten B.V. and Best Properties B.V. and the company Stichting Bewaarfonds in The Netherlands and EC Bank in Macedonia.

	2010	2009
Participating interests in group companies		
Development:		
Opening balance	18,440	19,039
• Capital investment	383	338
• Capital divestment	(7)	–
• Exchange rate movement	(17)	(26)
• Net profit subsidiaries	(1,094)	(911)
Closing balance	**17,705**	**18,440**

DHB Bank guarantees all liabilities of DHB Hypotheken & Verzekeringen B.V., Best CreditLine B.V., Maaslust 9 Monumenten B.V., Best Properties B.V. and the company Stichting Bewaarfonds by giving a 403 declaration.

Rotterdam, March 31, 2011

Supervisory Board:

Theodoor Joseph Bark (Chairman since December 17, 2010)
Mehmet Emin Özcan (since June 1, 2010)
Dr. Nurzahit Keskin
Drs. Jan Th. Groosmuller
İsmail Hasan Akçakayalıoğlu
Hans J.Ph.Risch

Managing Board:

Kayhan Acardağ
Abram Rutgers

Other Information

Profit appropriation

The profit appropriation has been proposed in conformity with article 21 of the Articles of Association, which states:

1. The company may make distributions to the shareholders and other persons entitled to the distributable profits only to the extent that the company's shareholders' equity exceeds the paid-up and called-up part of the company's capital, plus the reserves which must be maintained under the law.
2. The profits evidenced by the profit and loss accounts adopted by the general meeting of shareholders shall be at the disposal of the general meeting of shareholders.
3. The management may resolve to distribute an interim dividend against the dividend to be expected in respect of the financial year concerned, if the requirement of paragraph 1 has been met and this is evidenced by an interim net equity statement, showing the position of the own equity on, at the earliest, the first day of the third month prior to the month in which the resolution to make a distribution is announced.
4. There shall be no distribution of profits in favor of the company on the shares of depositary receipts issued therefore which the company has acquired in its own capital.
5. In computing the distribution of profits, the shares or depositary receipts issued therefore on which no distribution shall be made in favor of the company in pursuance of the provisions of paragraph 4 above, shall be disregarded.
6. The right to receive dividend shall be precluded by the lapse of five years, to be calculated from the day on which such a distribution became payable.

Prior to approval by the General Meeting of Shareholders, the Board proposes that the net profit of 4,088 be distributed as follows:

Dividend	–
Addition to the 'retained earnings'	4,088
	4,088

Independent auditor's report

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

Report on the financial statements

We have audited the accompanying financial statements 2010 of Demir-Halk Bank (Nederland) N.V., Rotterdam. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company balance sheet as at 31 December 2010, the company profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

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

Auditor's responsibility

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

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

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

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Demir-Halk Bank (Nederland) N.V. as at 31 December 2010 and

of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of The Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Demir-Halk Bank (Nederland) N.V. as at 31 December 2010 and of its result for the year then ended in accordance with Part 9 of Book 2 of The Netherlands Civil Code.

Report on other legal and regulatory requirements

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

Amstelveen, April 1, 2011

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