

## COMPLIANCE WITH THE CAPITAL REQUIREMENTS DIRECTIVE (CRD IV)

According to article 96 of the fourth Capital Requirements Directive (CRD IV), institutions are required to set out a statement on their website on how they comply with the requirements of articles 88 to 95 of the Directive.

Article 134b of the Prudential Measures Decree / Dutch Financial Services Act (“DFSA”) has implemented the requirements of article 96 CRD IV in Dutch law.

Accordingly, with this document Demir-Halk Bank (Nederland) NV (hereafter referred to as DHB Bank) explains how it complies with Article 134b of the Prudential Measures Decree and Article 96 CRD IV, centred around three classifications, namely 1- Governance and Nomination, 2- Remuneration Requirements and 3- Reporting.

### Governance and Nomination

#### Governance

*Articles 88 and 91 of CRD IV set requirements in relation to governance arrangements and the management body including its role and responsibilities, composition and proficiency*

DHB Bank has a two-tier management structure consisting of the Managing Board, which is the statutory executive body (bestuur), and the Supervisory Board (raad van commissarissen), which is composed of non-executive directors.

#### **A- Managing Board**

The Managing Board (MB) of DHB Bank consists of three members with extensive knowledge and expertise in the banking sector. All the members have long-term, different but complementary and long-term backgrounds in the banking sector and with awareness pertaining to a bank’s economic and social roles.

The MB is responsible for the day-to-day management of the bank, for the development and implementation of strategies, risk strategy and internal governance, and for the fulfilment of the bank’s obligations towards regulatory bodies. Furthermore, the MB sees it as an important responsibility to ensure the integrity of the bank’s accounting and financial reporting systems, and not to compromise on the financial and operational controls of the bank, including compliance with the relevant laws and regulations.

All the deliberations, strategic planning and day-to-day management of the MB are conducted on a collegial basis, resulting in unanimous resolutions, also with a view towards balancing the interest of all of the bank’s stakeholders. Adhering to these guiding principles, the MB frequently consults the senior management of the bank as well, and a majority of the resolutions are taken following discussions and deliberations at various bank committee meetings. Apart from such daily meetings, the MB also convenes at least once a month to discuss the generic agenda items.

Safeguarding the continuity of the bank and balancing the interests of all the stakeholders, including the bank’s clients, are the major principles guiding the decisions of the Managing Board. To this end, the MB ensures a balanced assessment of the commercial interests of the bank and the risks to be taken, taking into account the approved risk appetite of the bank.

All the deliberations, strategic planning and day-to-day management of the MB are conducted on a collegial basis. Based on these guiding principles, the MB frequently consults the senior management of the bank as well, and the majority of decisions are taken following discussions and deliberations at various bank committee meetings. In addition, apart from regularly discussing subjects related to the day-to-day management of the bank, the MB regularly meets at least once a month to consider, deliberate and take decisions on subjects adhering to a predetermined generic agenda.

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

Approved (and revised time to time) by the Supervisory Board, DHB Bank has in place a Managing Board Policy that clearly determines the responsibilities, authorities and duties of the MB. This Policy gives, in addition to legal and statutory requirements, rules related to the management of the Bank and more in particular the collective responsibility of the MB and its respective members and the cooperation with the Board of Supervisory Board members.

## **B- Supervisory Board**

The Supervisory Board (SB), half of whose members are independent<sup>1</sup>, is responsible for

the supervision of the policy of the Managing Board, for the supervision of the general course of affairs and risk management, and for assessing and approving the strategies and budget proposed by the Managing Board; these responsibilities, authorities composition and profile of the SB, among others, are defined in the Supervisory Board Policy.

The overriding responsibility of the SB is trying to find a just and reasonable balance between the interests of all stakeholders while putting the clients' interest first. It has always been the foremost goal of this bank to service its clientele well. As part of its working routine, the SB regularly meets with the MB. The main matters discussed in these meetings include the regulatory environment and requirements and other major issues, specifically the bank's business model, budgeting, risk appetite and risk management, among others.

The SB conducts its activities either with all its members or via its sub-committees that are set up for particular fields and that are comprised of members particularly specialized in these fields. Decisions taken in these committees are subsequently submitted to the SB for final approval or for information purposes, depending on the committees' functions and authorities. These committees, over which more can be procured from DHB Bank's annual reports, are:

- Supervisory Board Credit Committee
- Risk and Audit Committee
- Remuneration and Compensation Committee
- Related Party Transactions Committee
- Nomination Committee

Overall, the SB and its committees, in close communication with the MB, ensure the full implementation of the (updated) Dutch Banking Code and Future Oriented Banking in the bank in both text and spirit.

The SB members also annually provide the chairman of the SB with a written self-evaluation

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<sup>1</sup> In case of a tie vote, the chairman decides

of their performance as a SB member of the bank. In addition to the annual self-assessment, the functioning of the SB and the performance of

its members are assessed under independent external supervision once every three years.

### **Nomination**

*Article 88.2 of CRD IV stipulates requirements in relation to Nomination*

Whenever a vacancy arises in the SB, the Nomination Committee of the SB, after drawing up an individual profile for the new member - and considering the required qualifications and expertise as mentioned in the chapter "Profile for Supervisory Board Members" of the SB Policy -, searches for appropriate candidates for the vacant position. Following this process, the candidate is proposed by the SB to the General Meeting of Shareholders for appointment.

Whenever a vacancy arises in the MB, the Nomination Committee, after drawing up an individual profile for the new MB member and considering the required qualifications and

expertise as mentioned in the Managing Board Policy in the chapter "Profile for Managing Board Members", will search for appropriate candidates for the vacant position. Following the search process, a candidate will be proposed to the SB, and subsequent to the SB's approval, to the General Meeting of Shareholders for appointment, taking into account the MB's written opinion.

The members of the Nomination Committee are appointed and dismissed by the SB.

### **Remuneration**

*Articles 92 to and including 95 of CRD IV provide for requirements as to the remuneration policies for the managing board, supervisory board and other identified staff of institutions*

Designed by the SB, DHB Bank's Remuneration Policy, which possesses a clear and non-ambiguous characteristic, was approved by the General Meeting of Shareholders (GMS) in April 2011, further developed in 2012 and revised in 2015 with respect to new regulations in this area. It is composed of 4 sub-policies that have separate stipulations for the members of the MB, for the members of senior staff in general, for senior staff engaged in risk management and control functions, and for other staff members (identified staff).

The body overseeing the remuneration of the MB members is the GMS with the recommendation of the SB. With the prior approval of the SB, the MB decides on the remuneration for the senior staff in general and senior staff engaged in risk management and control functions. The MB is

authorized to independently arrange the remuneration of the other staff members.

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

The remuneration of SB and MB members is reported in the annual reports of the bank. As per the bank's Remuneration Policy, *"The variable remuneration of the members of the MB is linked to predefined, assessable and influenceable criteria, taking into account the performance of the member of the MB concerned and the results of the Bank as a whole. The most important expectations regarding the performance of the members of the MB are*

*sustainable long-term financial strength of the Bank, sustainable earnings at levels of return expected by the SB and application of sound Risk Management practices, including – but not limited to – the avoidance of unnecessary reputational risk, rather than increasing short-term profits. A*

*substantial portion, and in any event at least 40% of the variable remuneration has to be conditional and deferred over a period of at least three years which is consistent with the business cycle, the nature of the business, its risks and the activities of the member of the MB concerned".*

### **Reporting**

*Articles 89 and 90 of CRD IV cover country-by country reporting requirements and the obligation to disclose the return on assets*

DHB Bank discloses in its annual reports on a consolidated basis i) the name(s), nature of activities and geographical location, ii) turnover, iii) number of employees, iv) profit or loss before tax (*DHB Bank never reported loss since its establishment*) v) tax on profit or loss. DHB Bank never received public subsidies, neither did it have recourse to.

DHB Bank also discloses in its annual reports, among the key indicators, its return on assets, calculated as their net profit divided by their total balance sheet. These are available under the 'Key Indicators' sub-section of 'Financial Review' chapter of the Report of the Managing Board.

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DHB Bank's annual reports are available in its website under the below link:

<https://www.dhbbank.com/Home/Investor-Relations/Annual-reports.aspx>