CAPITAL ADEQUACY AND

RISK MANAGEMENT REPORT 2021

Pillar 3

June 2022

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1. Introduction

The purpose of this document is to provide relevant information about the capital position and risk profile of Demir-Halk Bank (Nederland) N.V. (hereafter referred to as DHB Bank) in the interest of a greater transparency towards third parties and to ensure compliance with the disclosure requirements established under the European Union's Capital Requirements Regulation (CRR and CRR2) and Capital Requirements Directive (CRD IV and CRD V). This disclosure document has been prepared by DHB Bank in accordance with the requirements of Pillar 3 set out in Articles 431-455 of the CRR. The scope of application of the Pillar 3 requirements is confined to DHB Bank and its branches. Unless otherwise stated, all figures are as of the bank's financial year-end, 31 December 2021.

The Pillar 3 disclosures are subject to rigorous internal controls to ensure the correctness of the information and compliance with disclosure requirements.

DHB Bank is a Dutch bank that operates internationally. The shareholders are HCBG Holding B.V., which owns 70% and Türkiye Halk Bankası A.Ş., which owns 30%. It funds its operations to a large extent via retail deposits collected in the Netherlands and Germany while its lending is focused on wholesale placements, mainly in the European Economic Area and Turkey. In conformity with the bank's business model, the primary clients of the bank in the wholesale segment are corporates, and, to a lesser extent, banks, while sovereign exposures account for only a very small portion of the total.

DHB Bank adopted the Standardised Approach for credit risk, market risk and credit valuation adjustment, and the Basic Indicator Approach for operational risk. The disclosures in this document are based on these approaches.

The Bank also publishes additional information in its annual report that can be found on its website: www.dhbbank.com.

2. Background

Public disclosure (also referred as Pillar 3) which provides market participants with information on applied rules, own funds, risk analyses and thus the capital adequacy has been introduced first with Basel framework and has been incorporated into European law in two parts: (i) publication of the Capital Requirements Directive IV (CRD IV/Directive 2013/36/EU), which is amended by Capital Requirements Directive V (CRD V/Directive (EU) 2019/878) and (ii) the Capital Requirements Regulation (CRR/Regulation [EU] Nr. 575/2013), which is amended by the Capital Requirements Regulation 2 (CRR2/Regulation [EU] Nr. 2019/876). CRR/CRD IV and CRR2/CRD V regulations were published in the Official Journal of the European Union on 27 June 2013 and 20 May 2019, respectively. Part 8 of CRR includes additional provisions on regulatory disclosure for credit institutions. The CRR and CRD are legally enforced by Dutch law by the Financial Supervision Act (Wft, Wet Financieel Toezicht). In general, CRR2 and CRD V are applicable since 28 June 2021.

Developments in disclosure requirements

The BCBS published in December 2018 updated Pillar 3 disclosure requirements. These requirements, together with the updates published in January 2015 and March 2017, complete the Pillar 3 framework.

For disclosure requirements, EBA published its final draft comprehensive Implementing Technical Standards (ITS) on institutions' Pillar 3 disclosures and revised final draft ITS on supervisory reporting (Framework 3.0) on 24 June 2020, with reference dates for the first disclosure as 30 June 2021.

DHB Bank has incorporated the requirements applicable in the Pillar 3 document and changes required under CRR2/CRDV. DHB Bank closely monitors the ongoing regulatory developments and assess their impact.

Developments in macro-economic environment

Although a gradual normalization is experienced after the pandemic thanks to the global vaccination efforts and also thanks to the extraordinary financial measures implemented globally, uncertainty about when the pandemic can be fully controlled on a global basis makes predicting a short-term outlook difficult. DHB Bank's overall asset quality is expected to remain healthy thanks to the pro-active lending and monitoring practices of the bank, which were further strengthened during the COVID-19 pandemic. The bank's solvency ratio and liquidity buffers are solid and the bank continually monitors with top-down and bottom-up analysis of its portfolio. Besides this, the bank performs operation and business continuity risk assessment on impact of COVID-19.

However, the global economic recovery, coupled with positive outlook and improved pandemic conditions was impacted by the Russia-Ukraine war. Besides the humanitarian aspect, this war disrupted global balances in terms of energy and food prices, which, in turn, fuelled inflation with rising interest rates. Considering the bank's high solvency, strong liquidity as well as the short maturity of assets that gives the bank flexibility to adjust its asset composition swiftly, and the significantly reduced Turkish exposure - including no expectation of any material asset quality issues regarding Russia and Ukraine related developments – the bank is confident that its financial position would comfortably withstand any possible deterioration in the external environment.

3. Risk Management Framework

3.1 Risk Governance and Culture

DHB Bank's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of the major risks taken or faced in its business activities. There is a culture of risk awareness and personal responsibility where collaboration, discussion, escalation and sharing of information are essential. DHB Bank's risk governance structure is based on the "Three Lines of Defense" model for managing the risks inherent in its business, with appropriate risk management oversight. DHB Bank is exposed to mainly credit risk in its business activities. Other relatively important risk areas, like in other banks, are liquidity risk, interest rate risk and operational risk.

Table 1 - Three Lines of Defense

Risk Governance		
First line	**Second Line**	**Third line**
Business Groups and Support Departments	**Risk Function, Compliance, Legal & Internal Control, Information Security**	**Internal Audit Department**
• Own and manage risks and internal controls • Primary responsibility for day to day risk management • Design and execution of processes to respond to the risk present	• Monitor risk and control in support of management • Assist in risk appetite, strategies, policies and structures for managing risk • Provide oversight, support to first line and reporting of risk management	• Provide independent assurance to the board and senior management of risks and controls by first and second line

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

The Bank's risk management framework is based on the risk strategy and the risk appetite, which are integrated with the risk organisation, policies and methods. This framework aims to safeguard the Bank's desired risk profile and steer risk management processes in line with the risk appetite of the Bank.

Table 2 - Risk Management Framework

Annual strategic planning and process, including risk appetite			
Policies and standards			
Identification, assessment and management of risk	Risk measurement and modelling	Risk reporting	Risk events
Monitoring, oversight and independent assurance			
People and risk governance			

'Risk Appetite' is defined as the level and types of risk the Bank is willing to undertake within the boundaries of its risk capacity to achieve its strategic objectives. The Supervisory Board formally approves the Bank's Risk Appetite Statement (RAS) proposed by the Managing Board and exercises its oversight of risk management principally through the Board's Risk & Audit Committee (RAC),

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

Formal risk governance processes have been established in the Bank; the management of risk is guided and monitored by a number of committees. Within the governance structure, Credit Committee (CC), Asset & Liability Management Committee (ALCO) and Organization & Control Committee (OCC) oversee particular risks. Risk Management Committee (RMC) oversees the management and control of the Bank's risks on an aggregate level, in addition to the committees and specialized functions that focus on specific risk areas. RMC also discusses and ultimately endorses the methodology and outcomes of the ICAAP and the ILAAP based on the reports by the Risk Management Department (RMD).

IT related risk factors are controlled and monitored by different departments and committees. The access control to the core banking application resides jointly on System Analysis team and Internal Control Unit, while technical control is exercised by the IT Department. Information security in the broadest sense (including access control, technical control and business continuity policies and activities) is ensured by the Information Security Department (IS). IS and IT units are part of the IT & IS Steering Committee, a platform for communication and decision on IT-related procedures and measures.

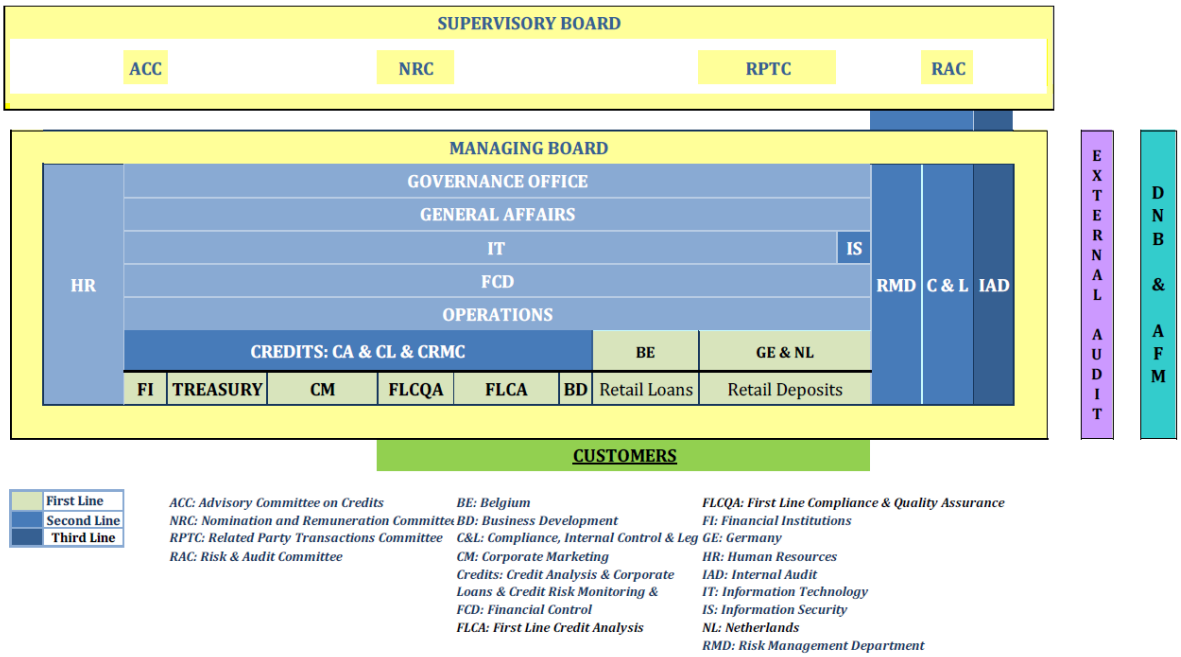
In the framework of compliance, Head of Compliance and Legal Affairs Department, besides compliance and legal monitoring, is responsible for the incident as part of the Incident Response Team (IRT) and the complaint management systems. In addition to the immediate benefits, the ultimate aim for maintaining these systems is gathering sufficient data needed to model operational risks.

Control with respect to the non-financial risks is carried out by the Internal Control Unit (ICU) and the internal and the external auditors. The ICU executes predefined operational controls daily, weekly, monthly or quarterly depending on the risks attributed to the concerned activities. The internal and external auditors also execute their inspections on the risk management systems, policies and practices. Finally the Compliance Officer, who reports directly to the Managing Board, and has a direct communication line to the Chairman of the Risk and Audit Committee and Chairman of the Supervisory Board, is responsible for integrity and compliance in the broadest context.

Assessment in lieu with the adopted risk appetite statement concerning both financial risks and non-financial risks are reported to the RMC. The Managing Board is responsible for reporting to the RAC and the Supervisory Board. With this structure, a consistent segregation of duties is achieved between risk generating, measuring, controlling and reporting units. The independent organisational positions of the RMD, IAD and CLD, with a direct information line to the RAC, also ensure an effective control in the respective fields.

The risk governance at DHB Bank is depicted in the following figure:

Table 3 – DHB Bank Risk Organization



3.2 Risk Appetite

The risk appetite framework describes the types of risk and their magnitude that the Bank is prepared to take in executing its strategy. Risk appetite is central to an integrated approach to risk controls and capital management. It also supports the bank in achieving its strategic objectives for all stakeholders, including but not limited to shareholders, depositors, customers and employees as well as being a key element of meeting the Bank's obligations under the supervisory review and evaluation process.

The risk appetite is articulated by the Managing Board through a comprehensive set of metrics. Thresholds are established to measure the performance of the business against its risk appetite. The articulation of risk appetite is also linked to the results of a comprehensive risk assessment, which is periodically performed during ICAAP and ILAAP. In addition, the Bank also uses stress testing and scenario analysis to formulate risk appetite, especially in liquidity and capital adequacy management.

The Risk Appetite Statement (RAS) is discussed and re-evaluated annually by the Supervisory Board's Risk & Audit Committee to enable the alignment of the Bank's strategy with the chosen risk appetite. RAS can also be revised during the year whenever there are material changes in the Bank's strategy or business environment.

Periodic risk assessment and reporting of inherent risks in the Bank's activities is part of the risk management framework to allow for an aggregated view of risks. Both qualitative and quantitative targets are actively monitored, managed and mitigated by the Managing Board, Risk Management Committee and Risk & Audit Committee, to ensure that the performance of business activities remains within pre-determined risk tolerance levels. Risk appetite adopted by the Bank is communicated to the assistant general managers, head of departments and country managers. By communicating within the organisation and embedding it in the internal processes, the Bank encourages a more conscious risk taking behaviour and reinforces risk culture within the organisation. A strong and

widespread risk culture is in its turn an essential catalyst that elevates a risk appetite statement from a set of words into a statement of action.

4. Capital Management Framework

The Bank's risk environment requires continual monitoring and assessment in order to identify and manage complex interactions. The risk governance and ownership, the risk appetite as well as the scope and nature of monitoring and reporting processes that DHB Bank has put in place are aimed at meeting these challenges.

Furthermore, DHB Bank ensures that it has adequate own resources to cover unexpected losses arising from discretionary risks such as credit risk and market risk, or non-discretionary risks, which are risks arising by virtue of its operations, such as operational risk and reputation risk etc. DHB Bank essentially has two approaches for the calculation of its capital need; a regulatory and an internal approach. The regulatory approach is largely based on fixed, uniform rules for covering the Bank's risks in accordance with the regulatory requirements. The internal approach sets capital adequacy targets and uses the Bank's risk appetite along with its risk profile and business plans as a basis. Other determining factors are expectations and/or requirements of the stakeholders as well as the position of the bank in its operating markets. As a consequence, the internal approach encompasses the regulatory approach in order to be comprehensive, effective and consistent.

The requirements/expectations of regulators concerning capital adequacy are not only driven by the regulatory requirements for standard Pillar 1 and Pillar 2 risks, but also by a capital add-on requirement introduced in the Netherlands in July 2010 to achieve a certain prudential objective, namely to reduce the banks' credit risk concentration in emerging countries. The Bank manages capital in accordance with prudential rules set out under CRD IV/V, and relevant rules issued by DNB.

The internal capital management approach is embedded in a formal ICAAP whose regulatory framework is rooted in the CRD IV. It consists of a number of interlinked components that form part of management and decision-making processes such as the Bank's risk appetite, capital and risk management frameworks, and stress testing. Risk management department performs the ICAAP by which the Managing Board examines the bank's risk profile from both regulatory and economic capital viewpoints and ensures that the level of available capital;

i. Exceeds the bank's minimum regulatory capital requirements by a predetermined margin,
ii. Remains sufficient to support the bank's risk profile,
iii. Remains consistent with the bank's strategic goal,
iv. Is sufficient to absorb potential losses under severe stress scenarios.

Although the regulatory approach and constraints have become more dominant as indicated above, the ICAAP retains its relevance as an integral part of risk management since it ensures a coherent link between the bank's risk profile, its risk management and capital adequacy. ICAAP also promotes a continuous monitoring of the risk environment and an integrated evaluation of various risks and their

interactions. It represents a bank-wide approach to deal with all material risks and all business activities of DHB Bank.

The process itself starts with risk identification, assessment and measurement, which involves all relevant departments. The definition of risks is largely adopted from Basel Committee on Banking Supervision published documents, European Union regulations and requirements, European Banking Authority technical standards, guidelines and recommendations, and DNB's Financial Institutions Risk Manual (FIRM). The Bank thoroughly explains all related risks, mitigation and control measures along with monitoring and management aspects as an integral part of the ICAAP.

The table below illustrates a summary of the risk appetite and methodologies under the ICAAP framework:

Table 4 - Summary of risk appetite and Pillar 2 capital assignment per risk type for FYE 2021

Risk area	Risk type	Risk Appetite*	Regulatory reference, benchmark and method for risk evaluation	Capital requirement calculation approach	
				Pillar 1	Pillar 2
Credit Risk (CR)	Default and rating migration	Medium	Standardized Approach (SA), periodical credit portfolio risk assessment, provisioning and stress testing	✓	
	Underestimation of CR in the SA	Medium	Qualitative assessment and adjustment		✓
	Country risk	Medium	Policy Rule on country concentration		✓
	Credit concentration	Medium	Based on PRA methodology, corrected for Policy Rule on country concentration		✓
	Climate	Medium	Quantitative and qualitative review		No add-on
Market Risk (MR)	Trading risk	Low	Standardized Approach, Value-at-risk model (VaR) and Limits	✓	
	FX risk	Low	Standardized Approach, Value-at-risk model (VaR) and Limits	✓	
	Underestimation of MR in the SA	Low			No add-on
	Interest Rate Risk in the Banking Book	Low	(Duration) Gap analysis, Earnings-at-Risk and Capital-at-Risk models		✓
Liquidity Risk		Low	Addressed in Internal Liquidity Adequacy Assessment Process (ILAAP)		No add-on
Operational Risk (OR)	IS/IT related risks	Low to Medium	Basic Indicator Approach	✓	
	Non-IT related risks	Low			
	Underestimation of OR under SA	Low	Qualitative review		No add-on
Other Risks	Legal	Low	Qualitative review		No add-on
	Integrity, compliance and reputational risk	Low to Medium			
	Business (incl. strategy)	Low	Policy rule on business model		
	Outsourcing	Low	Qualitative review		
	Pension	Low			
	Model	Low			

** Risk appetite is scaled up here according to: Low, Medium and High. Based on periodical risk assessments, any temporary deviation from the prescribed appetite level is reported, acknowledged and treated by the management under the supervision of the Risk & Audit Committee of the SB.*

The projected capital position is subjected to stress testing to determine the impact on the Bank's position should a severe economic downturn materialise. These stress testing scenarios consider not only changes in the macroeconomic environment but also the key risks and vulnerabilities within the Bank's business model. Stress testing scenarios are developed based on DNB's recommendations and

workshops with representation from various business units including the Managing Board. By incorporating appropriate stress testing and capital planning, ICAAP reflects internal measures to ensure that the Bank is adequately capitalised now and in the future. Outcomes of the stress tests are also used as early warning indicators to evaluate the adequacy of the Bank's Recovery Plan. Recovery Plan sets out the possible key measures to be taken by a bank in case of a near-default situation – without assuming the availability of publicly funded (emergency) support – in order to emerge from a severe crisis independently and with its core business intact.

The Bank continually develops its capital management framework by benchmarking its ICAAP and stress testing methodology against recommended good practices. As the regulation and supervision of financial institutions are currently undergoing a period of significant change in response to the global financial crisis and the ensuing financial, market and economic environment, the Bank has dedicated considerable time to monitor policy actions that may influence its capital position and capital management framework. Refinement of the internal methodology has been performed regularly since its first implementation in 2007/2008.

The primary purposes of the Bank's capital management framework, policies and practices are to support its business strategy and to ensure that it is sufficiently capitalised to withstand even severe macroeconomic downturns.

The following table presents the overview of key metrics for the end of 2020 and each quarter-end of 2021.

Table 5 - EU KM1 - Key metrics

Key Metrics	2021 Q4	2021 Q3	2021 Q2	2021 Q1	2020
Available own funds amounts (EUR '000)					
Common Equity Tier 1 (CET1) capital	222,921	244,778	244,675	237,417	239,881
Tier 1 capital	222,921	244,778	244,675	237,417	239,881
Total capital	222,921	244,778	244,675	237,417	239,881
Risk-weighted exposure amounts (EUR '000)					
Total risk exposure amount	1,143,948	1,186,668	1,154,066	1,154,886	1,073,293
Capital ratios (as a percentage of risk-weighted exposure amount)					
Common Equity Tier 1 ratio (%)	19.49%	20.63%	21.20%	20.56%	22.35%
Tier 1 ratio (%)	19.49%	20.63%	21.20%	20.56%	22.35%
Total capital ratio (%)	19.49%	20.63%	21.20%	20.56%	22.35%
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%

Key Metrics	2021 Q4	2021 Q3	2021 Q2	2021 Q1	2020
Institution specific countercyclical capital buffer (%)	0.03%	0.03%	0.04%	0.04%	0.04%
Combined buffer requirement (%)	2.53%	2.53%	2.54%	2.54%	2.54%
Overall capital requirements (%)	17.53%	17.53%	17.54%	17.54%	17.54%
CET1 available after meeting the total SREP own funds requirements (%)	1.95%	3.09%	3.67%	3.02%	4.81%
Leverage ratio					
Total exposure measure (EUR '000)	1,815,587	1,750,307	1,681,780	1,634,715	1,531,327
Leverage ratio (%)	12.28%	13.98%	14.55%	14.52%	15.66%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
Total SREP leverage ratio requirements (%)	3%	3%	3%	3%	3%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
Leverage ratio buffer requirement (%)	3%	3%	3%	3%	3%
Overall leverage ratio requirement (%)	3%	3%	3%	3%	3%
Liquidity Coverage Ratio					
Total high-quality liquid assets (HQLA) (Weighted value) (EUR '000)	401,404	311,883	316,057	218,136	278,999
Cash outflows - Total weighted value (EUR '000)	125,262	107,757	128,430	89,972	109,642
Cash inflows - Total weighted value (EUR '000)	19,003	41,856	47,289	67,479	77,483
Total net cash outflows (adjusted value) (EUR '000)	106,258	65,901	81,141	22,493	32,159
Liquidity coverage ratio (%)	377.76%	473.26%	389.52%	969.79%	867.57%
Net Stable Funding Ratio					
Total available stable funding (EUR '000)	1,685,327	1,625,300	1,564,098	1,518,463	1,468,423
Total required stable funding (EUR '000)	995,529	1,014,674	959,923	989,394	891,058
NSFR ratio (%)	169.3%	160.2%	162.9%	153.5%	164.8%

4.1 Capital Base

DHB Bank's capital structure consists entirely of Tier 1 common capital - which includes paid-in capital and reserves.

The total capital base of DHB Bank is Euro 222.9 million at the end of 2021. The components of the capital base are presented in the table below.

Table 6 - EU CC1 - Composition of regulatory own funds

Own Fund Items	Amounts (EUR '000)
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	113,750
Paid up capital	113,750
Retained earnings	109,583
Accumulated other comprehensive income (and other reserves)	152
Funds for general banking risk	-
Minority interests (amount allowed in consolidated CET1)	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	223,485
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Additional value adjustments (negative amount)	-303
Intangible assets (net of related tax liability) (negative amount)	-261
Common Equity Tier 1 (CET1) capital	**222,921**

5 Pillar 1 Risks and Capital Requirements

This section describes DHB Bank's regulatory capital requirements that arise from Pillar 1 risks in the CRD IV/V, namely credit risk including counter party credit risk, credit valuation adjustment, market and operational risks as of 31 December 2021.

The regulatory minimum capital requirement is expressed as eight percent of total risk exposure amount (TREA). To calculate TREA according to the regulatory requirements, DHB Bank adopted the Standardised Approach (SA) for credit and market risk, and the Basic Indicator Approach for operational risk. The adopted approaches are consistent with the size, complexity and nature of the Bank's activities.

In order to calculate the regulatory capital requirements under the SA, the Bank uses external ratings from eligible external credit assessment institutions (ECAI). At the end of 2021, the ratings from 3 ECAIs are used: Fitch Ratings, Moody's and S&P Global Ratings. The ratings from other ECAIs are planned to be incorporated into credit risk management framework during 2022. These are applied to all relevant exposure classes in the SA. If more than one rating is available for a specific borrower, the selection criteria as set out in the CRR are applied in order to determine the relevant risk weight for the capital calculation.

The following standardised exposure classes apply to DHB Bank;

Sovereigns; Exposures to governments consist of sovereign governments, central monetary institutions and agencies guaranteed by a sovereign government. Sovereign exposures are risk

weighted based on their credit ratings. Exposures to central governments within the European Union are assigned a risk weight of 0%, where such claims are denominated and funded in the relevant domestic currency of that sovereign.

MDBs; this exposure class includes exposure to multilateral development banks (MDBs). Exposures to multilateral development banks that are not referred to in Articles 119(2) of CRR are treated in the same manner as exposures to institutions i.e. the risk weights are based on the ratings assigned to them by eligible rating agencies. The preferential treatment for short-term exposures as specified in Articles 119(2), 120(2) and 121(3) shall not be applied.

International Organizations; Exposures to international organizations include the exposures to the Union, the International Monetary Fund, the Bank for International Settlements, the European Financial Stability Facility and the European Stability Mechanism and are assigned a risk weight of 0%. The only international organization the bank is exposed to is the European Financial Stability Facility.

Banks; Exposures to banks relate to all claims on financial institutions authorised and supervised by the competent authorities and subject to prudential requirements comparable to those in the European Union. Exposures to a bank are risk weighted based on the ratings assigned to them by eligible rating agencies. Exposures to a bank of up to three months residual maturity for which a credit assessment by eligible rating agencies is available are assigned risk weights that are generally one category more favourable than the standard risk weights applied to banks exposures (see CRR Article 120).

Corporates; Exposures to corporates include exposures to large non-bank corporations as well as to small and medium-sized companies that do not meet the conditions of retail exposure. Exposures to corporates with external credit ratings by eligible rating agencies are assigned a risk weight from 20% to 150%. Exposures without external rating are assigned a risk weight of 100%.

Items associated with particularly high risk; this exposure class includes investments in venture capital firms, investments in AIFs, investments in private equity and speculative immovable property financing. Exposures in this class are assigned a risk weight of 150%.

Exposure secured on real estate property; this exposure class refers to the exposures or any part of an exposure secured by mortgages on immovable property. Exposures in this class are assigned a risk weight of 35%, if secured by mortgages on residential property and meet the conditions under CRR Article 125, and 50%, if secured on commercial immovable property and meet the conditions under CRR Article 126. The part of the exposures not secured on real estate property or not meeting the mentioned conditions are assigned a risk weight without any preferential treatment.

Retail; Exposures are classified as retail exposures upon meeting the conditions stipulated insolvency requirements for credit risk. Retail exposures are assigned a risk weight of 75%.

Exposure in default; this exposure class includes claims which are past due more than 90 days. Shorter past due items are included in the corresponding exposure classes mentioned above. The unsecured part of any past due item is assigned a risk weight of 150%, if value adjustment allowances are less than 20%, and 100% if value adjustments allowances are no less than 20% of the unsecured part.

Covered bonds; Exposures are classified as covered bonds and subject to preferential treatment if the conditions listed in CRR Article 129 are met. The covered bond exposure of the bank as of 31 December 2021 is assigned a risk weight of 10% based on given credit quality step.

Equity; non-debt exposures, debt exposure and other securities, partnerships, derivatives or other vehicles conveying a subordinated, residual claim on the assets or income of the issuer are classified as equity exposures. The bank's minor equity exposure to DHB Financial services is assigned a risk weight of 250% based on CRR Article 48(4).

Others; Other items consist of fixed assets, prepayments and other assets for which no counterparty can be determined. Other items are assigned a risk weight of 100%.

An overview of the capital requirements and the TREA at the year-ends of 2021 and 2020 divided into different risk types is presented in the table below.

Table 7 - EU OV1 - Overview of total risk exposure amounts

Risk Items	Total Risk Exposure Amount (TREA) (EUR '000)		Own Fund Requirements (EUR '000)
	2021	2020	2021
Credit risk based on standardised approach	1,067,891	996,541	85,431
Counterparty credit risk - CCR	6,023	2,994	482
Of which the standardised approach	4,195	2,377	336
Of which credit valuation adjustment - CVA	1,828	617	146
Position, foreign exchange and commodities risks	-	-	-
Operational risk based on basic indicator approach	70,035	73,758	5,603
Total	1,143,948	1,073,293	91,516

5.1 Credit Risk

Credit risk is the largest risk making up more than 93% of the total TREA at 31 December 2021. The information in this section is analysed in several dimensions to give an in-depth view of the distribution of the credit portfolio in different exposure classes, risk weights, geographies and industries.

5.1.1 Overview of credit risk management

DHB Bank manages credit risk in a coordinated manner at all relevant levels within the organisation.

A primary element of the credit approval process is a thorough risk assessment of the credit exposure associated with each obligor. An obligor is defined as a group of individual borrowers that are linked to one another by various criteria, including capital ownership, demonstrable control over business or other indication of group affiliation. The Bank measures and consolidates all claims on the same

obligor ("one obligor principle"), requiring the aggregation of all facilities (direct or contingent) to the borrower itself, its subsidiaries, parent and related affiliates.

The creditworthiness of an obligor is represented by an internal rating. While DHB Bank uses the standardised approach for credit risk, internal rating system has been further refined in order to strengthen the Bank's credit risk management system. In addition to the internal rating on obligor, the Bank's risk assessment procedures also take into consideration the risks specific to the type of credit facilities and the applicable risk mitigation factors.

DHB Bank dedicates considerable resources for controlling credit risk effectively. Credit monitoring is carried out through credit reviews on obligor level as well as on portfolio level by the Credit Analysis and Credit Risk Monitoring Control Departments which reports to the Credit Committee on a regular basis.

5.1.2 Credit risk profile

This section presents an overview of DHB Bank's credit risks. The following table depicts the credit exposures, before credit conversion factors and credit risk mitigations are applied, broken down into counterparty and product types at the end of 2021.

Table 8 - EU CR4 - Credit risk exposure and CRM effects (SA)

Exposure Items	Exposures before CCF and before CRM (EUR '000)		Exposures post CCF and before CRM (EUR '000)		TREAs and TREAs density (EUR '000)	
	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	Total Risk Exposure Amounts	TREAs density (%)
Central governments or central banks	415,358	-	446,854	-	150	0.03%
Regional government or local authorities	-	-	-	-	-	0.00%
Public sector entities	-	-	-	-	-	0.00%
Multilateral development banks	-	-	-	-	-	0.00%
International organisations	9,128	-	128	-	-	0.00%
Institutions	321,345	-	317,895	-	172,819	54.36%
Corporates	809,104	7,748	866,359	1,069	745,594	85.95%
Retail	132,728	23	230	-	172	75.00%
Secured by mortgages on immovable property	26,671	-	26,669	-	13,682	51.30%
Exposures in default	20,521	-	13,052	-	18,125	138.86%

Exposure Items	Exposures before CCF and before CRM (EUR '000)		Exposures post CCF and before CRM (EUR '000)		TREAs and TREAs density (EUR '000)	
	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	Total Risk Exposure Amounts	TREAs density (%)
Exposures associated with particularly high risk	74,712	-	74,676	-	112,014	150.00%
Covered bonds	3,186	-	3,186	-	319	10.00%
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	0.00%
Collective investment undertakings	-	-	-	-	-	0.00%
Equity	25	-	25	-	63	250.00%
Other items	9,753	-	64,628	315	9,147	14.09%
Total	1,822,529	7,771	1,813,702	1,383	1,072,086	59.07%

The next table provide the distribution of DHB Bank's total exposure by risk weight buckets at the end of 2021.

Table 9 - EU CR5 - Exposure risk weight distribution

Exposure Items	Risk weight (EUR '000)						Total
	0%-20%	20%-50%	50%-100%	100%-250%	250%-1250%	Others	
Central governments or central banks	415,358	-	-	-	-	-	415,358
Regional government or local authorities	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-
International organisations	9,128	-	-	-	-	-	9,128
Institutions	151,604	73,987	95,754	-	-	-	321,345
Corporates	21,770	42,653	752,428	-	-	-	816,851

Exposure Items	Risk weight (EUR '000)						Total
	0%-20%	20%-50%	50%-100%	100%-250%	250%-1250%	Others	
Retail exposures	-	-	132,751	-	-	-	132,751
Exposures secured by mortgages on immovable property	-	24,835	1,835	-	-	-	26,671
Exposures in default	-	-	8,591	11,930	-	-	20,521
Exposures associated with particularly high risk	-	-	-	74,712	-	-	74,712
Covered bonds	3,186	-	-	-	-	-	3,186
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
Units or shares in collective investment undertakings	-	-	-	-	-	-	-
Equity exposures	-	-	-	25	-	-	25
Other items	606	-	9,147	-	-	-	9,753
Total	601,652	141,475	1,000,507	86,666	-	-	1,830,300

5.1.3 Counterparty Risk and Derivatives

Derivatives are not only affected by the market risk but also by the counterparty risk measured within the calculation of TREA related to the credit risk. DHB Bank uses derivatives to manage interest rate and currency risks on an ongoing basis.

Counterparty risk is the risk that DHB Bank's counterparts in a derivative contract defaults prior to maturity of the contract and that DHB Bank has a claim on the counterpart at that time.

As per end of 2021, the main sources of counterparty risk were currency swaps and interest rate swaps as shown on table below.

Table 10 – EU CCR1 - Analysis of CCR exposure by approach and product

Derivative Contracts (EUR '000)	Replacement Cost (RC)	Potential Future Exposure (PFE)	Alpha	TREA
EU - Original Exposure Method (for derivatives)	1,050	6,795	1.4	4,042
Interest rate swaps	23	30		87
Foreign exchange swaps	1,028	6,764		3,954

DHB Bank uses original exposure method to derive the capital charge for counterparty credit risk. Counterparty credit exposure comprises the sum of current exposure (replacement cost) and potential future exposure. Namely, in accordance with CCR, the exposure value is calculated by using mark-to-market approach. While, the potential future exposure is an estimate that reflects possible changes in the market value of the individual contract during the remaining life of the contract, and is measured as the notional principal amount multiplied by a risk weight. The size of the risk weight depends on the contract's remaining lifetime and the underlying asset. Below table demonstrates the distribution of derivative exposure within risk weight buckets.

Table 11 - EU CCR3 – Standardised approach – CCR exposures by regulatory exposure class and risk weights

Exposure classes (EUR '000)	Risk weight				Total exposure value
	0%-20%	20%-75%	75%-150%	Others	
Central governments or central banks	-	-	-	-	-
Regional government or local authorities	-	-	-	-	-
Public sector entities	-	-	-	-	-
Multilateral development banks	-	-	-	-	-
International organisations	-	-	-	-	-
Institutions	4,920	6,011	-	-	10,930
Corporates	-	-	52	-	52
Retail	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-
Other items	-	-	-	-	-
Total exposure value	-	-	-	-	10,983

Moreover, together with CCR own fund requirements explained above, the derivative transactions made with central counterparties are subject to CVA calculation. Below table shows the total exposure value and corresponding TREA which factors in CVA calculation. The bank calculates the CVA charge based on standardised method.

Table 12 - EU CCR2 - Transactions subject to own funds requirements for CVA risk

CVA methodologies (EUR '000)	Exposure value	TREA
Total transactions subject to the Advanced method	-	-
(i) VaR component (including the 3× multiplier)	-	-
(ii) stressed VaR component (including the 3× multiplier)	-	-
Transactions subject to the Standardised method	7,569	1,828
Transactions subject to the Alternative approach (Based on the Original Exposure Method)	-	-
Total transactions subject to own funds requirements for CVA risk	7,569	1,828

In addition, the bank applies limits to mitigate counterparty risk similar to any other credit risk. Furthermore, the Bank enters into collateral agreements with all major counterparties.

5.1.4 Credit risk mitigation

DHB Bank uses a variety of instruments to mitigate and reduce credit risk on its lending. The most essential of these is to assess, at the outset, the ability of an obligor to service the proposed level of borrowing without distress. As a result, depending on the customer's standing and the type of product, credit facilities may be granted on an unsecured basis. However, DHB Bank usually obtains collaterals for the loans granted. Collateral is considered as credit risk mitigation even if it does not affect the regulatory capital adequacy calculations for the respective exposure. The internal facility rating assignment process also includes the assessment and valuation of collaterals among other factors.

Besides cash collaterals, the Bank also accepts credit protection mainly in the form of mortgages, third party (customer) cheques, promissory notes, assignment of receivables, insurance or bank guarantees. In the cases of insurance and bank guarantee, risk mitigation is effected in the form of substituting the risk of the counterparty with the risk of the provider of credit protection. However, this shift only takes place when the risk weighting of the guarantor is better than that of the obligor and other prudential conditions are met.

The following table gives information on the credit risk mitigation for regulatory capital calculation as per end of 2021.

Table 13 - EU CR3 - Credit risk mitigation techniques

Exposure Items	Unsecured carrying amount (EUR '000)	Secured carrying amount (EUR '000)	Of which secured by collateral	Of which secured by financial guarantees	
					Of which secured by credit derivatives
Loans and advances	670,279	479,945	283,263	145,527	0
Debt securities	250,386	5,126	985	0	
Total	920,665	485,071	284,247	145,527	0
Of which non-performing exposures	54,695	47,695	46,882	814	0
Of which defaulted	54,695	47,695			

5.1.5 Credit Quality

The information presented in this section uses financial statement values and is largely sourced from the 2021 Annual Report of DHB Bank.

An assessment is made at each balance sheet date to test whether there is objective evidence that a specific financial asset or group of financial assets may be impaired ('loss event'). Developments that lead to loss events may include:

- A breach of contract, such as default in the payment of interest or principal;
- Significant financial difficulty of the issuer or obligor;
- Restructuring of the loan where a concession is granted due to the borrower's financial difficulty.

If such evidence exists, an impairment loss is recognised in the statement of income.

The overall credit quality of DHB Bank's financial assets is shown in detail through the table below as per end of 2021.

Table 14 - EU CR1 - Performing and non-performing exposures and related provisions

	Gross carrying amount/nominal amount (EUR '000)						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (EUR '000)						Accumulated partial write-off (EUR '000)	Collateral and financial guarantees received (EUR '000)	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
Cash balances at central banks and other demand deposits	386,438	386,416	22	0	0	0	0	0	0	0	0	0	0	0	0
Loans and advances	1,104,356	1,016,129	88,227	54,695	0	54,695	-1,358	-774	-584	-7,469	0	-7,469	0	394,860	33,929
Central banks	6,999	6,999	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit institutions	143,326	143,326	0	0	0	0	-2	-2	0	0	0	0	0	0	0
Other financial corporations	53,936	47,315	6,621	23,971	0	23,971	-56	-19	-37	-3,336	0	-3,336	0	5,359	17,859
Non-financial corporations	747,328	666,064	81,264	28,779	0	28,779	-1,197	-655	-542	-3,743	0	-3,743	0	256,813	14,599
Of which SMEs	0	0	0	544	0	544	0	0	0	0	0	0	0	0	544

	Gross carrying amount/nominal amount (EUR '000)						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (EUR '000)						Accumulated partial write-off (EUR '000)	Collateral and financial guarantees received (EUR '000)	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
Households	152,767	152,425	342	1,945	0	1,945	-103	-98	-5	-390	0	-390	0	132,689	1,471
Debt securities	255,513	255,513	0	0	0	0	-1	-1	0	0	0	0	0	985	0
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	24,271	24,271	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit institutions	167,158	167,158	0	0	0	0	-1	-1	0	0	0	0	0	0	0
Other financial corporations	34,771	34,771	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-financial corporations	29,313	29,313	0	0	0	0	0	0	0	0	0	0	0	985	0
Off-balance-sheet exposures	7,771	7,771	0	0	0	0	5	5	0	0	0	0	0	0	0
Total	1,754,078	1,665,829	88,249	54,695	0	54,695	-1,354	-771	-584	-7,469	0	-7,469	0	395,845	33,929

The following table summarizes the maturity distribution of on-balance sheet exposures excluding cash balances as end of 2021.

Table 15 - EU CR1-A - Maturity of exposures

	Net exposure value (EUR '000)					
	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
Loans and advances	**0**	430,590	546,344	92,178	0.8	1,069,112
Debt securities	**0**	80,319	175,193	0	0.0	255,512
Total	0	510,908	721,537	92,178	0.8	1,324,624

Building upon the Table 9 and Table 10, the following table shows the inflows and outflows realised on non-performing exposure loans and advances during the year of 2021.

Table 16 - EU CR2a - Changes in the stock of non-performing loans and advances

	Gross carrying amount (EUR '000)
Initial stock of non-performing loans and advances	47,702
Inflows to non-performing portfolios	12,153
Outflows from non-performing portfolios	-5,160
Outflow to performing portfolio	-156
Outflow due to loan repayment, partial or total	-4,979
Outflow due to collateral liquidations	0
Outflow due to taking possession of collateral	0
Outflow due to sale of instruments	0
Outflow due to risk transfers	0
Outflows due to write-offs	-25
Outflow due to other situations	0
Outflow due to reclassification as held for sale	0
Final stock of non-performing loans and advances	54,695

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. The internal rating is based on many factors derived from both financial and non-financial assessments of the borrower. The internal rating system is an essential tool for managing and monitoring the credit risk of the Bank.

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

The bank is calculating the general provisions under IFRS 9 based on forward looking expected credit loss (ECL) methodology for the entire portfolio. Specific provision amounts 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 predefined model for retail loans. Provisions against a particular impaired loan may be released when there is improvement in the quality of the loan. The bank's write-off policies are determined on a case-to-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.

In scope of provision calculation, the bank's exposures are classified as Stage 1, Stage 2 or Stage 3 depending on the movement in credit quality of exposures.

Though provisions for loan losses are considered adequate, the use of different methods and assumptions could produce different provision amounts for loan losses, and amendments may be required in the future, as a consequence of changes in the estimated loss, the value of collateral and other economic events.

The following three tables aim to demonstrate the credit quality distribution of the bank by past due days, geography and industry, in a successive order.

Table 17 - EU CQ3 - Credit quality of performing and non-performing exposures by past due days

	Gross carrying amount/nominal amount (EUR '000)											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and advances	1,104,356	1,091,815	12,540	54,695	19,478	16,335	17,914	70	631	47	221	54,695
Central banks	6,999	6,999	-	-	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	143,326	143,326	-	-	-	-	-	-	-	-	-	-
Other financial corporations	53,936	53,936	-	23,971	6,112	-	17,859	-	-	-	-	23,971
Non-financial corporations	747,328	738,869	8,459	28,779	12,769	15,466	-	46	498	-	-	28,779
Of which SMEs	-	-	-	544	-	-	-	46	498	-	-	544
Households	152,767	148,685	4,082	1,945	597	869	55	24	133	47	221	1,945
Debt securities	255,513	255,513	-	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	24,271	24,271	-	-	-	-	-	-	-	-	-	-

	Gross carrying amount/nominal amount (EUR '000)											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Credit institutions	167,158	167,158	-	-	-	-	-	-	-	-	-	-
Other financial corporations	34,771	34,771	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	29,313	29,313	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	7,771											
Central banks	-											
General governments	-											
Credit institutions	-											
Other financial corporations	5,000											
Non-financial corporations	2,748											
Households	23											
Total	1,367,639	1,347,328	12,540	54,695	19,478	16,335	17,914	70	631	47	221	54,695

Table 18 - EU CQ4 - Quality of non-performing exposures by geography

	Gross carrying/nominal amount (EUR '000)				Accumulated impairment (EUR '000)	Provisions on off-balance-sheet commitments and financial guarantees given (EUR '000)	Accumulated negative changes in fair value due to credit risk on non-performing exposures (EUR '000)
		Of which non-performing		Of which subject to impairment			
			Of which defaulted				
On-balance-sheet exposures							
The Netherlands	607,019	20,480	20,480	607,019	-1,899		0
Germany	247,584	6,112	6,112	247,584	-3,437		0
Belgium	139,511	1,282	1,282	139,511	-93		0
Turkey	152,630	472	472	152,630	-577		0
Other countries	654,258	26,348	26,348	654,258	-2,822		0
Off-balance-sheet exposures							
The Netherlands	111	0	0			92	
Germany	962	0	0			716	
Belgium	1,180	0	0			3,661	
Turkey	5,000	0	0			0	
Other countries	7,771	0	0			51	
Total	1,816,025	54,695	54,695	1,801,002	-8,827	4,520	0

Table 19 - EU CQ5 - Credit quality of loans and advances to non-financial corporations by industry

	Gross carrying amount (EUR '000)				Accumulated impairment (EUR '000)	Accumulated negative changes in fair value due to credit risk on non-performing exposures (EUR '000)
		Of which non-performing		Of which loans and advances subject to impairment		
			Of which defaulted			
Agriculture, forestry and fishing	0	0	0	0	0	0
Mining and quarrying	0	0	0	0	0	0
Manufacturing	211,661	472	472	211,661	-774	0
Electricity, gas, steam and air conditioning supply	44,284	10,761	10,761	44,284	-1,926	0
Water supply	0	0	0	0	0	0
Construction	192,474	15,466	15,466	192,474	-144	0
Wholesale and retail trade	61,421	1,536	1,536	61,421	-1,561	0
Transport and storage	83,347	0	0	83,347	-187	0
Accommodation and food service activities	15,779	498	498	15,779	-186	0
Information and communication	14,965	0	0	14,965	-14	0
Financial and insurance actvities	0	0	0	0	0	0
Real estate activities	62,039	46	46	62,039	-77	0
Professional, scientific and technical activities	44,715	0	0	44,715	-33	0

	Gross carrying amount (EUR '000)				Accumulated impairment (EUR '000)	Accumulated negative changes in fair value due to credit risk on non-performing exposures (EUR '000)
		Of which non-performing		Of which loans and advances subject to impairment		
			Of which defaulted			
Administrative and support service activities	31,135	0	0	31,135	-21	0
Public administration and defense, compulsory social security	0	0	0	0	0	0
Education	0	0	0	0	0	0
Human health services and social work activities	14,231	0	0	14,231	-17	0
Arts, entertainment and recreation	57	0	0	57	0	0
Other services	0	0	0	0	0	0
Total	776,107	28,779	28,779	776,107	-4,939	0

Finally, the following table details the collateral valuations underlying the loans and advances, as of end of 2021.

Table 20 - EU CQ6 - Collateral valuation - loans and advances

	Loans and advances	Performing	Non-performing				
			Of which past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days	Of which: past due > 7 years
Gross carrying amount (EUR '000)	1,159,051	1,091,815	12,540	54,695	19,478	35,217	16,335
Of which secured	464,178	410,102	12,538	41,536	6,781	34,802	16,335
Of which secured with immovable property	202,710	155,829	4,336	46,882	12,352	34,529	16,120
Of which instruments with LTV higher than 60% and lower or equal to 80%	53,247	35,388		17,859	-	17,859	
Of which instruments with LTV higher than 80% and lower or equal to 100%	47,612	47,612		-	-	-	
Of which instruments with LTV higher than 100%	62,246	34,392		27,854	12,352	15,502	
Accumulated impairment for secured assets	-4,007	-628	-49	-3,380	-3,291	-89	-
Collateral							
Financial guarantees received	145,527	144,713	3,723	814	541	273	-

Forbearance

A forborne asset is any contract which has been entered into with an obligor which is in or about to face financial difficulty, and which has been refinanced or modified on terms and conditions that DHB Bank would not have accepted (concession) if the obligor had been financially healthy. Forbearance measures consist of concessions (favourable terms) towards obligors facing or about to face difficulties in meeting its financial commitments with the intention of bringing them back within their repayment capacity. Within this context, forborne exposures relates to the restructured exposures against which forbearance measures have been extended. The following tables show the credit quality of forborne exposures as of end of 2021.

Table 21 - EU CQ1 - Credit quality of forborne exposures

	Gross carrying amount/nominal amount of exposures with forbearance measures (EUR '000)				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (EUR '000)		Collateral received and financial guarantees received on forborne exposures (EUR '000)	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
			Of which defaulted	Of which impaired				
Cash balances at central banks and other demand deposits	0	0	0	0	0	0	0	0
Loans and advances	21,818	41,065	41,065	41,018	-158	-4,865	36,273	31,941
Central banks	0	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial corporations	4,370	23,971	23,971	23,971	-24	-3,336	20,979	17,859
Non-financial corporations	17,448	17,047	17,047	17,047	-134	-1,486	15,294	14,082
Households	0	47	47	0	0	-43	0	0

	Gross carrying amount/nominal amount of exposures with forbearance measures (EUR '000)				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (EUR '000)		Collateral received and financial guarantees received on forborne exposures (EUR '000)	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
			Of which defaulted	Of which impaired				
Debt Securities	0	0	0	0	0	0	0	0
Loan commitments given	0	0	0	0	0	0	0	0
Total	21,818	41,065	41,065	41,018	-158	-4,865	36,273	31,941

Table 22 - EU CQ2 - Quality of forbearance

	Gross carrying amount of forborne exposures (EUR '000)
Loans and advances that have been forborne more than twice	0
Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	41,065

COVID -19 exposed some customers to operating and liquidity risks due to their vulnerability to the risk associated to revenue pressures. Business disruptions due to potential prolonged duration of the pandemic, required the customers to have sufficient liquidity buffer to alleviate further performance deterioration. During the course of 2020, some corporate customers had requested payment holidays in accordance with EBA measures for banks to support their customers. As of December 2020, the total outstanding balance of such exposure was around Euro 12.8 million. The existing repayment holidays were not additionally extended in 2021. The remaining outstanding balance of such exposure was only EUR 30 thousand as of December 2021.

Majority of customers have resumed their normal operations and business activity in accordance with the new normal conditions in 2021. There were no additional payment holidays requested by customers in 2021. However, it may take some time for some companies operating in vulnerable sectors to fully recover their businesses. The bank continued to monitor the major exposure in vulnerable sectors and the previously provided payment holidays through quarterly portfolio risk reports. In addition to portfolio level monitoring, assessment of impact of Covid-19 became a standard procedure in the credit assessment of obligors. As such, 'Impact of Covid-19 Pandemic' was added to credit report templates as a separate section. DHB Bank continues to evaluate any proposed modification of loan facility including but not limited to proposed renewal of limits, extension of existing loans and loan restructuring/rescheduling as well as annual reviews of term loan facilities in accordance with its applicable policy and procedures for credit risk assessment. Simultaneously, the unlikeliness to pay (UTP) indicators, early warning indicators/watch lists (EW/WL) and forbearance measures are tested according to the applicable EBA guidelines.

Regarding the Russia-Ukraine war, DHB Bank does not have direct exposure to Russia and an approximate EUR 8 million exposure to Ukraine as of 31 December 2021 (reduced to EUR 6.3 million as of April 2022 thanks to collections), which is guaranteed by the borrower's strong parent entity outside Ukraine. The initial impact assessment made on the overall portfolio indicates that DHB Bank does not expect material negative impact in its asset quality due to Russia-Ukraine related developments.

5.2 Market Risk

DHB Bank uses the Standardised Approach to capture the market risk capital requirement. As of end of 2021, there is no capital requirement for market risk. Foreign currency risk in the bank is managed generally by using derivatives to reduce currency exposures to acceptable levels. After taking into account foreign currency derivatives, the Bank has no material net exposure to foreign exchange rate fluctuations.

The Bank uses a combination of value-at-risk (VaR) model and stress tests to monitor the risk arising from open foreign currency positions representing the net value of assets, liabilities and derivatives in foreign currency. The internal VaR model and risk limits are used only for risk management purposes and not regulatory capital measurement purposes.

5.3 Operational Risk

The Bank defines operational risk as the potential for incurring losses in relation to employees, technology, system failure (including non-availability) and frauds. It excludes legal, compliance, business and reputation risk.

The capital requirement for operational risk is calculated at DHB Bank according to the Basic Indicator Approach. Under this approach, the capital requirement for operational risk is equal to 15% of the three- year average gross income, which results in a capital requirement for operational risk of Euro 5.6 million at 31 December 2021, as shown in the below table.

Table 23 - EU OR1 - Operational risk own funds requirements and risk-weighted exposure amounts

Banking activities (EUR '000)	Relevant indicator			Own funds requirements	Total Risk Exposure Amount
	Year-3	Year-2	Last year		
Banking activities subject to basic indicator approach (BIA)	43,568	34,009	34,478	5,603	70,035
Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches					
Subject to TSA:					
Subject to ASA:					
Banking activities subject to advanced measurement approaches AMA					

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, and can never be eliminated entirely. However, shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk. For the purpose of mitigating operational risk, since 2007 DHB Bank has implemented a risk self-assessment program called ORCA, which stands for Operational Risk and Control Assessment.

The main aim of this program is to enhance the risk awareness in the Bank and minimise operational risk at every stage of daily activities. The ORCA program covers all units of the Bank and involves all staff in developing a strong control environment. This program focuses on different areas of operational risks (IT related risks, process related risk, staff related risks and external risks) according to the specific business activities, business lines, departments and countries.

With the guidance of Risk Management Department, all units proceed through a predefined route to identify risks by using tools such as questionnaires, interviews and workshops; estimate their potential impact, and devise an action plan suitable to the size and nature of those risks. As a permanent self-improvement initiative, the program cycle foresees continuous monitoring and periodical independent review of the involved risks and respective measures in response to changing activities and operating environments.

6. Pillar 2 Risks

6.1 Interest rate risk in the banking book (IRRBB)

Interest rate risk in the banking book consists of exposures deriving from the balance sheet and is measured in several ways in accordance with the EBA guidelines (EBA/GL/2018/02) effective from 30 June 2019. The IRRBB is monitored and controlled both from a value perspective (such as using the economic value of equity and PV01 measure) and from an income perspective (sensitivity in net interest income, NII).

Through its management of interest rate risk, DHB Bank aims to hedge the effect of prospective interest rate movements that could reduce its future net interest income, while balancing the cost of such hedging activities on the current net revenue stream.

Regarding the income perspective, NII is exposed to external factors such as yield curve movements and competitive pressure. The NII risk depends on the overall business profile, especially mismatches between interest-bearing assets and liabilities in terms of volumes and repricing periods. Regarding the value perspective, EVE measures the loss in economic value of equity due shocks to yield curve. The IRRBB as measured by changes in EVE is minimised, since the bank's rate sensitive assets and liabilities are mostly floating rate, where the (duration) risk is lower. In general, DHB Bank aims to use matched currency funding and usually converts fixed rate instruments to floating rate to better manage the interest rate risk in the asset book.

The bank applies certain assumptions mainly for the instruments without maturity. Non-maturity interest rate sensitive assets and liabilities are bucketed in the short term. Non-maturing retail deposits (NMDs) are considered as core if they are stable and are unlikely to reprice even under significant changes in interest rate environment. Non-core deposits are considered as overnight deposits. Based on historical behavioural analysis, a maturity profile of core deposits is modelled with a maturity cap of 4.5 years. Based on the modelled maturity profile, the average behavioural maturity of total NMDs (core as well as non-core) is estimated to be around 9 months. The bank's equity is considered a non-interest sensitive component and is excluded from the interest rate risk computations.

The following table indicates the banking book's net NII sensitivity under upwards and downwards 200 basis points shock to the interest rates with 1 year horizon, at the end of 2021 and 2020.

Table 24 - NII 1 year horizon sensitivity summary

NII sensitivities by major currencies (EUR '000)	2021		2020	
	200 bps increase	200 bps decrease	200 bps increase	200 bps decrease
Euro	2,689	2,350	886	558
US Dollar	135	-135	-224	224
Other	4	-4	-24	24

NII sensitivities by major currencies (EUR '000)	2021		2020	
	200 bps increase	200 bps decrease	200 bps increase	200 bps decrease
Total	2,828	2,211	638	806

In addition to the regular monitoring of the interest rate risk using the above mentioned metrics, on a monthly basis DHB Bank performs stress testing to calculate the immediate net effect on the fair value (FV) of a range of shocks in rates, by currency. Furthermore, the Bank reports PV01 to measure changes in economic value resulting from a one basis point (0.01%) parallel rise in interest rates. The PV01 measure incorporates the entire rate sensitive segment of the balance sheet for the bank and is classified into appropriate buckets.

As per the regulatory requirements, interest rate risk reporting also include the measurement of the 'outlier criterion', which refers to the maximum loss of market value expressed as a percentage of capital base in the event of a parallel rate hike or drop of 200 basis points. The 'outlier criterion' is subject to an internal threshold of 5%. The following table shows a range of severe interest rate shocks with positions at the end of 2021 and 2020. At 31 December 2021, the standard instantaneous parallel shock of 200 bps leads to a potential decrease of Euro 3.55 million, or 1.48% of the capital base. In terms of the outlier criterion, the Bank's interest rate risk position is at a risk level that is considered low in view of the 5% threshold mentioned above.

Table 25 - Fair value of equity sensitivity summary

Fair value sensitivity to interest rate shocks (EUR '000)	2021			2020		
	200 bps increase	200 bps decrease	PV01	200 bps increase	200 bps decrease	PV01
Euro	-3,424	2,440	-17	-6,921	2,646	-35
US Dollar	-95	60	-0	-37	8	-
Other	-29	13	-0	-23	5	-
Total	-3,548	2,513	-18	-6,980	2,659	-35
Equity value (IFRS)	240,409			247,683		
Standard 200 bps shock as % of the equity	-1.48%			-2.82%		

Another regulatory requirement for interest rate risk of the non-trading book activities is the implementation of the supervisory shock scenarios and the common modelling and parametric assumptions defined in CRD Article 98. The following table summarizes the outcome of supervisory shock scenarios.

Table 26 - EU IRRBB1 - Interest rate risks of non-trading book activities

	Supervisory shock scenarios	Changes of the economic value of equity (EUR '000)		Changes of the net interest income (EUR '000)	
		Current period	Last period	Current period	Last period
1	Parallel up	-3,548	-6,980	2,828	886
2	Parallel down	2,513	2,659	5,001	5,251
3	Steepener	-111	413		
4	Flattener	-1,295	-1,409		
5	Short rates up	-2,362	-3,390		
6	Short rates down	1,693	2,272		

6.2 Liquidity risk

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

a. Funding liquidity risk occurs when the Bank cannot fulfill its obligations as they come due without incurring excessive losses. Payments have to be executed on the day when they are due, or the Bank is declared illiquid if it fails to perform.

b. Market liquidity risk occurs when the Bank is unable to sell specific assets without losses.

In the aftermath of the latest global financial crisis, regulators have introduced stricter supervisory guidelines in many areas with regard to liquidity standards. The Netherlands is also among the first countries in the EU that has started to monitor and observe the local (Dutch) banks' compliance plan with Basel III.

Liquidity Coverage Ratio (LCR) became binding for all EU credit institutions in October 2015. Liquidity ratios (LCR and NSFR), the measure originated from the 2010 Basel Accord (Basel III), are both monitored within DHB Bank's risk framework.

The LCR regulation stipulates that banks must have a liquidity reserve that ensures a survival horizon of at least 30 calendar days in case of a severely stressed liquidity situation.

The Net Stable Funding Ratio (NSFR) is intended to ensure a sound funding structure by promoting an increase in long-dated funding. The NSFR regulation stipulates that at all times banks must have stable funding equal to the amount of their illiquid assets for one year ahead.

The liquidity and funding position of DHB Bank in 2021 comfortably met the requirements. As on 31 December 2021, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) were at 378% and 169%, respectively, well above the minimum regulatory requirements of 100%. The following tables show in detail the LCR and NSFR calculation balance sheet items in reporting perspective, in a successive order.

Table 27 - EU LIQ1 - Quantitative information of LCR

LCR Reporting Items	Total unweighted value (average) (EUR '000)				Total weighted value (average) (EUR '000)			
	2021 Q4	2021 Q3	2021 Q2	2021 Q1	2021 Q4	2021 Q3	2021 Q2	2021 Q1
High Quality Liquid Assets								
Total high-quality liquid assets (HQLA)					387,458	304,230	300,178	236,576
Cash Outflows								
Retail deposits and deposits from small business customers, of which:	758,821	684,331	627,165	628,267	46,405	38,367	34,087	34,392
Stable deposits	634,302	603,962	578,787	579,254	31,715	30,198	28,939	28,963
Less stable deposits	29,630	19,291	14,761	19,406	5,202	2,061	1,786	2,468
Unsecured wholesale funding	30,606	25,258	27,468	26,712	15,800	11,618	14,683	12,649
Operational deposits (all counterparties) and deposits in networks of cooperative banks	246	252	279	209	62	63	70	52
Non-operational deposits (all counterparties)	30,359	25,006	27,189	26,503	15,738	11,555	14,614	12,597
Unsecured debt	-	-	-	0	-	-	-	-
Additional requirements	3,610	3,013	2,957	2,556	3,610	3,013	2,957	2,556
Outflows related to derivative exposures and other collateral requirements	702	105	49	26	702	105	49	26
Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
Credit and liquidity facilities	-	-	-	-	-	-	-	-
Other contractual funding obligations	80,240	49,710	85,402	53,227	62,586	44,885	71,899	39,477
Other contingent funding obligations	13,833	8,333	26,667	18,800	12,833	7,333	25,667	17,800
Total cash outflows					125,262	-	-	-
Cash Inflows								

LCR Reporting Items	Total unweighted value (average) (EUR '000)				Total weighted value (average) (EUR '000)			
	2021 Q4	2021 Q3	2021 Q2	2021 Q1	2021 Q4	2021 Q3	2021 Q2	2021 Q1
Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
Inflows from fully performing exposures	65,055	36,443	80,237	62,573	50,264	28,200	57,471	43,365
Other cash inflows	7,904	9,579	4,233	6,721	7,904	9,579	4,233	6,721
Total cash inflows	72,960	46,021	84,471	69,294	58,169	37,778	61,704	50,086
Fully exempt inflows	-	-	-	-	-	-	-	-
Inflows subject to 90% cap	-	-	-	-	-	-	-	-
Inflows subject to 75% cap	72,960	46,021	84,471	69,294	58,169	37,778	61,704	50,086
Total Adjusted Value								
LIQUIDITY BUFFER					385,682	304,230	300,178	236,576
TOTAL NET CASH OUTFLOWS					83,066	67,438	87,589	56,787
LIQUIDITY COVERAGE RATIO					464.31%	451.13%	342.71%	416.60%

**The table shows the average figures on quarterly-basis based on the each month-end results.*

Table 28 - EU LIQ2 - Net stable funding ratio

NSFR Reporting Items	Unweighted value by residual maturity (EUR '000)			Weighted value (EUR '000)
	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items				
Capital items and instruments	-	-	230,117	230,117
Own funds	-	-	230,117	230,117
Other capital instruments	-	-	-	-
Retail deposits	923,405	105,010	286,259	1,212,063
Stable deposits	4,355	243	503	4,871
Less stable deposits	919,051	104,767	285,756	1,207,192
Wholesale funding:	11,233	480	223,758	229,614
Operational deposits	11,139	-	15,038	20,608
Other wholesale funding	94	480	208,720	209,006
Interdependent liabilities	-	-	-	-

NSFR Reporting Items	Unweighted value by residual maturity (EUR '000)			Weighted value (EUR '000)
	< 6 months	6 months to < 1yr	≥ 1yr	
Other liabilities:	850	16,955	5,054	13,532
NSFR derivative liabilities				
All other liabilities and capital instruments not included in the above categories	850	16,955	5,054	13,532
Total available stable funding (ASF)				1,685,327
Required stable funding (RSF) Items				
Total high-quality liquid assets (HQLA)				194,453
Assets encumbered for a residual maturity of one year or more in a cover pool	-	-	-	-
Deposits held at other financial institutions for operational purposes	2,350	-	-	1,175
Performing loans and securities:	268,964	125,154	705,881	744,633
Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut	-	-	-	-
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial	150,470	26,475	51,751	80,035
Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of	115,553	97,610	652,250	660,707
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-
Performing residential mortgages, of which:	10	-	1,880	1,891
With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	10	-	1,880	1,891
Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products	2,931	1,070	-	2,001
Interdependent assets	-	-	-	-
Other assets:	612	6,341	51,222	55,130
Physical traded commodities			-	-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-
NSFR derivative assets	124	-	-	124
NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-
All other assets not included in the above categories	488	6,341	51,222	55,130
Off-balance sheet items	1,476	-	1,295	139

NSFR Reporting Items	Unweighted value by residual maturity (EUR '000)			Weighted value (EUR '000)
	< 6 months	6 months to < 1yr	≥ 1yr	
Total RSF				995,529
Net Stable Funding Ratio (%)				169.29%

Furthermore, DHB Bank also performs an internal liquidity adequacy assessment process (ILAAP) based on DNB's ILAAP Policy Rule and submits the required documentation to DNB for supervisory review and evaluation process (SREP). The internal process, governance and consultative dialogue with the supervisory body to meet the ILAAP rules are similar to the ICAAP mentioned above.

Policy statements that are part of the ILAAP package stipulate that DHB Bank's liquidity management reflects a conservative attitude towards liquidity risk. The Bank defines the liquidity risk appetite by setting limits for applied liquidity risk measures. The most central measure is the Survival Horizon, which defines the risk appetite by setting a minimum survival of 6 months under a combination of bank-specific and market-wide stress scenarios with limited mitigation actions[1]. Furthermore, to ensure funding in situations where DHB Bank is in urgent need of cash and the normal funding sources do not suffice, the Bank holds a liquidity buffer that consists of ECB eligible debt securities and highly liquid assets.

Please refer to the DHB Bank's Annual Report as of 31 December 2021 for a maturity distribution table.

Under the ICAAP framework, no capital was allocated to cover liquidity risk considering the strength of the Bank's liquid assets as mentioned above and the appropriateness of the Bank's current policies and measures.

According to European Banking Authority (EBA) Report on asset encumbrance, an asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

In certain cases, assets on DHB Bank's balance sheet are encumbered. The table below provides an overview of the bank's asset encumbrance position based on the CRR (Part Eight) and the related guidance from the EBA. All totals are reported using the median-of-the-sums method.

[1] The stress scenario used to measure compliance with the risk appetite framework includes among others an assumption of retail deposit outflows under a combination of bank-specific and market-wide stress amounting to respectively 25%, 35% and 40% in one-month , three-month and six-month periods along with significant haircuts on the bank's liquidity buffer.

Table 29 - EU AE1 - Encumbered and unencumbered assets

	Carrying amount of encumbered assets (EUR '000)		Fair value of encumbered assets (EUR '000)		Carrying amount of unencumbered assets (EUR '000)		Fair value of unencumbered assets (EUR '000)	
		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which eligible EHQLA and HQLA		of which eligible EHQLA and HQLA
Assets of the disclosing institution	236,056	76,825			1,567,067	413,560		
Equity instruments	0	0	0	0	0	0	0	0
Debt securities	224,389	65,158	224,384	65,130	31,123	27,121	31,139	27,138
of which: covered bonds	0	0	0	0	3,186	3,186	3,186	3,186
of which: securitisations	0	0	0	0	0	0	0	0
of which: issued by general governments	8,764	0	8,786	0	15,507	15,507	15,534	15,534
of which: issued by financial corporations	186,313	43,224	186,312	43,223	15,616	11,615	15,605	11,604
of which: issued by non-financial corporations	29,313	21,934	29,285	21,907	0	0	0	0
Other assets	0	0			10,948	0		

The following activities at DHB Bank give rise to encumbered assets:

- Collateral agreements (ISDA/CSA contracts) encumbered assets to secure derivative positions.
- Encumbered Syndication for TRS Funding
- Participation in Targeted longer-term refinancing operations (TLTRO) for which eligible assets are pledged as collateral

DHB Bank has a low level of asset encumbrance, as a result of prudent balance sheet management, whereby a variety of funding sources is readily available. The total asset encumbrance as per end of year 2021 was EUR 236 million.

The following table shows the encumbered assets along with their associated liabilities.

Table 30 - EU AE3 - Sources of encumbrance

	Matching liabilities, contingent liabilities or securities lent (EUR '000)	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered (EUR '000)
Carrying amount of selected financial liabilities	**212,817**	**236,056**

6.3 Concentration risk

DHB Bank deals with concentration risk by taking into account separately single name concentration, country concentration and sector concentration.

A main assumption used in the determination of the Pillar 1 risk weights is that the credit portfolio is well diversified. In practice, however, a portfolio is not necessarily fully diversified, causing the so-called concentration risk that is to be addressed under Pillar 2.

DHB Bank has a framework to measure concentration risk quantitatively and established an approach that links concentration risk levels to capital allocation within the ICAAP process in a conservative manner.

The Policy Rule on Maximising the Deposits and Exposures Ratio was introduced under the Act on Financial Supervision (hereafter referred to as New Business Model Policy Rule) in February 2014.

The Policy Rule requires Dutch banks to comply with a certain ratio between the banks' exposure outside the European Economic Area (EEA) and their deposits under the coverage of the Dutch deposit guarantee scheme, with the required ratio determined in relation to the respective banks' balance sheet size. DHB Bank is fully compliant with the Policy Rule and has deposits to exposures ratio of 12.5% at the end of 2021, which is well within the required limit of 25%. DHB Bank plans to maintain its share of lending activities towards the EEA, thus progressing in a direction that the bank had already started to pursue following the 2008 crisis in the context of its strategic alignment. This strategic path further strengthens the bank's standing by maintaining the diversification in its assets. It is notable that country risk diversification not only strengthens the Bank's risk position but also allows it to reduce Pillar 2 capital add-on requirements under the current capital regime.

The Bank also has to comply with the Large Exposure Rule as embedded in CRD IV/V, and with the above mentioned (referred to section 3.3 Capital Management Framework) policy rule on the treatment of concentration risk in emerging countries, introduced by DNB in July 2010, to reduce the credit concentration in emerging markets.

6.4 Other Risks

6.4.1 Legal, Compliance, Integrity and Reputation risk

Legal risk is the possibility that lawsuits, adverse judgments or contracts that turn out to be unenforceable can disrupt or adversely affect the operations of the Bank. The Compliance and Legal Department supports to manage legal risk. External legal advisors are also consulted wherever necessary. In addition, the Compliance Officer has a proactive role in this respect, aiming at reducing pro-actively the risk of compliance, as well as legal and eventual reputation risk.

Reputation risk is highly correlated with integrity and compliance risk management, which are embedded in the policies and corporate governance of the Bank. The Managing Board takes the necessary actions to establish a proper ethical culture within the Bank. The Bank's line management

is responsible for applying, monitoring and controlling the integrity policy and rules in their units, and reports to the Managing Board and the Compliance Officer. As a third line of defense, the Internal Audit Department also evaluates integrity issues in particular and compliance issues in general during its regular and specific audits. The three lines of defense of DHB Banks' governance framework are used to manage these risks effectively. These three lines of defense principles provide a clear division of activities and define roles and responsibilities for risk management at different levels within the bank.

6.4.2 Climate Risks

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

The ECB's Guide on climate-related and environmental risks[2] outlines the supervisory expectations for how climate and environmental risks may be embedded in all relevant bank practices, from a bank's risk management framework to its governance structure, risk appetite, business model and strategy, as well as its reporting and disclosures. Also, the Paris Agreement at G20 Summit highlights the importance of integrating climate related risks into the overall strategy of an institution. The bank, along with the above, has also considered the Good Practice document by DNB, 'Integration of climate-related risk considerations into banks' risk management'[3]. However, across the industry, climate change risk management is in the early stages of development, given amongst others significant uncertainties about climate change, an absence of market data and a lack of market practice on the measurement and monitoring of climate change risks. The banking industry attempts to improve its climate change risk management, which is reflected by an increasing number of publications on the topic, such as the ECB's report on 'The state of climate and environmental risk management in the banking sector'[4] published in November 2021.

In order to accomplish the development of robust approaches to managing and disclosing climate-related and environmental risks, the bank worked with a consultancy firm on climate change risk. To this end, several workshops were organized within DHB Bank to analyze the current situation (as is) and the future state (to be) of the bank with regards to the broader sustainability topic and specifically climate risk. The bank has formed a cross-functional team under the name "Project Genesis". The main aim of this project is to carry out the development and adoption of rules and principles regarding climate-related and environmental risks in the bank, within the context of a broader environmental,

[2] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.202011finalguideonclimate-relatedandenvironmentalrisks~58213f6564.en.pdf
[3] https://www.dnb.nl/media/jwtjyvfn/definitieve-versie-gp-en-qa-klimaatrisico-s-banken.pdf

[4] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.202111guideonclimate-relatedandenvironmentalrisks~4b25454055.en.pdf?4b9506e394f16a1bf41608fb5a85732e

social and governance ("ESG") agenda. The project will cover supervisory expectations relating to business models, strategy, governance, risk appetite, risk management and disclosure.

Management of climate risk

The bank acknowledged the importance of incorporating environmental related risks particularly in its lending strategy within the governance structure of managing credit risk. In this respect, the bank also incorporated the climate related risks, among other concentration metrics, in the Risk Appetite Statement 2022. The bank presents the portfolio level climate risk measurements (using externally available metrics like S&P Vulnerability Index) in MIS reports and risk assessments, and the climate-related physical risk analysis on annual basis in the credit portfolio risk report. The bank monitors the concentration in vulnerable sectors and geographies with high climate related risks, as well as mitigation measures, if applicable.

The currently monitored ESG metrics are sector-level and geography-level metrics, instead of customer-level metrics. This is the result of a lack of available quality data. One of the prioritized action points of "Project Genesis" is the development of an ESG scorecard on a customer-level with more granular approach which takes into account within-sector differences, geographic location and time horizon for each exposure.

The bank, in line with the recommended DNB guidelines and the Good Practice document 'Integration of climate-related risk considerations into banks' risk management', assesses the physical consequences of climate change (physical risks) as well as the consequences of a transition to a climate neutral economy (transition risks). The bank includes the physical risk impact in its stress testing framework by incorporating defaults and credit downgrades of clients in vulnerable sectors and geographies. For transition risk, the bank has gauged the impact on its portfolio over longer term horizon, and conducted a separate generalized analysis.

Risk Management Department is involved in identifying and measuring the climate related risks that the bank faces and suggests to the management various techniques to quantify and regularly monitor the portfolio. In this context, the bank has adopted to use the vulnerability index developed by S&P to measure climate risks at portfolio level. This index makes use of different variables that take into account both the effects of climate change, as well as the related countries' economic resilience.

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

The bank works on incorporating the climate risk in its governance and strategy, and explicitly cover the consideration of the climate related risks e.g. physical risks (risks for the financial sector arising as a result of increased damage and losses from natural phenomena including high temperatures, storms, precipitation, drought and flooding) and transition risks (arising as a result of the transition to a carbon-neutral economy) in the credit proposals and decision, as well as in the ICAAP. The bank considers climate risk as part of the bank's Internal Capital Adequacy Assessment Process (ICAAP) and stress test framework.

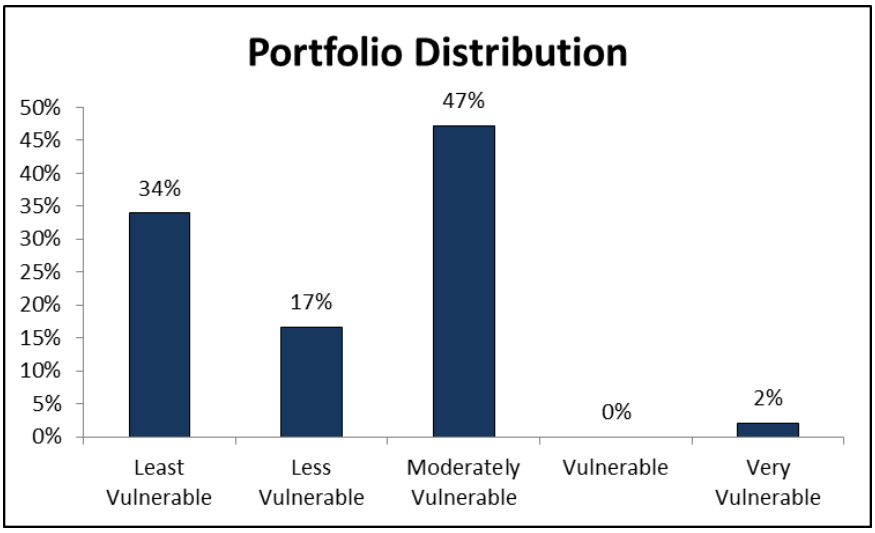
Risk assessment

In addition to the limits defined in the Risk Appetite Statement 2022 and the climate-related physical risk analysis described in the previous paragraphs, a generalized top-down climate risk assessment is implemented. The physical risks are covered by means of a vulnerability index based assessment and an analysis on flooding risk in the Netherlands. The transition risks are covered by means of a carbon-emissions based assessment.

Physical risks

The bank has applied certain standardized measures to assess climate risks at portfolio level. It has adopted to use the vulnerability index developed by S&P[5]. This index makes use of different variables that take into account both the effects of climate change, as well as the related countries' economic resilience. Based on the year-end 2021 portfolio, the bank's exposures to countries by 'vulnerability' classification is summarized in the below diagram:

Figure 1 - Exposures to Countries by Climate Risk Vulnerability Classification



According to the above distribution, the portfolio level vulnerability score as of year-end 2021 has been determined as 2.20 (Less Vulnerable), based on the weighted average calculation**.** DHB Bank intends to maintain this score below 3 (Moderately vulnerable) and has incorporated this Climate Risk dimension in its Risk Appetite Statement.

Transition risk

The "Guide on climate-related and environmental risks" from ECB[6] defines transition risk as "financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy." In view of this, DHB Bank attempts to link the climate

[5] https://www.maalot.co.il/publications/gmr20140518110900.pdf
[6] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.202011finalguideonclimate-relatedandenvironmentalrisks~58213f6564.en.pdf

risk in the portfolio with the carbon emission on sector basis. Since the emissions data for clients is not readily available yet, the bank relies on sectoral carbon-emissions data from Eurostat[7] on NACE code level as a preliminary analysis. The bank performed the analysis based on the following 2 metrics:

i. Total exposures to high emissions sectors

The sectors with the highest emission are identified as "C – Manufacturing", "H - Transportation and storage" and "D - Electricity, gas, steam and air conditioning supply", which are together responsible for more than 80% of the total carbon emissions.

ii. Carbon-emissions exposure index

The carbon-emissions exposure index methodology captures the emissions intensity of the portfolio according to the sectors to which it is most exposed and according to the emission shares of those sectors. The index is calculated according to the following methodology[8]: the relative portfolio share of each NACE sector is multiplied with the sectoral carbon emission share. The result of the multiplication are then aggregated across all sectors in the portfolio to arrive at the carbon-emissions exposure index.

Furthermore, the "Waterproof?" report warns financial institutions against new risks that may emerge from green bubbles. The document draws attention to green bonds and investment loans for renewable energy investments. The bank does not have any green bonds in its portfolio. In principle, DHB Bank provides investment loans for renewal energy only if there is a fixed price guarantee from the state to mitigate market price risk.

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

In addition to the mentioned other risks, the bank also evaluates IT related risks, outsourcing risk, payment service related risks, staff related risks, pension risk and external risk under operational risk section of ICAAP report. Furthermore, other non-financial risk such as modelling risk, business model risk and strategic risk are also evaluated in ICAAP report. These risks are not capitalized by means of the conservative management approach of the bank, which is based on the use of qualitative measurement methods, coupled with the permanent monitoring of the relevant developments.

7. Capital Buffers

DHB Bank is subject to the capital buffer requirements that are applicable since 2016.

[7] https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=env_ac_ainah_r2&lang=en
[8] https://link.springer.com/article/10.1007/s10584-017-2095-9

The capital conservation buffer (CCB) is a capital buffer of a bank's total exposures that needs to be met with an additional amount of required capital. The effect of CCB is particularly significant. It is currently at 2.5% since beginning of 2019.

The institution specific countercyclical capital buffer (CCyB) is part of a set of macro prudential instruments, designed to help counter pro-cyclicality in the financial system. Capital should be accumulated when cyclical systemic risk is judged to be increasing, creating buffers that increase the resilience of the banking sector during periods of stress when losses materialise.

DHB Bank's exposures in countries which have set a countercyclical buffer rate greater than zero is relatively small, resulting in countercyclical buffer requirement of 0.03% in 2021. The table below gives an overview of the exposure distribution for the countries along with the countercyclical buffer requirement.

Table 31 - EU CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the CCyB

Breakdown by country	Exposure Amount (SA) (EUR '000)	Own Fund Requirement Amount (EUR '000)	Total Risk Exposure Amount (EUR '000)	Own Fund Requirement Rate	Countercyclical Buffer Rate
Bulgaria	55,571	4,967	62,092	6.78%	0.50%
Czech republic	-	-	-		0.50%
Hong Kong	-	-	-		1.00%
Luxembourg	2	0	1	0.00%	0.50%
Norway	-	-	-		1.00%
Total	55,573	4,967	62,093	6.78%	

Table 32 - EU CCyB2 - Amount of institution specific countercyclical buffer rate

Capital Buffer Items	Value
Total risk exposure amount (EUR '000)	1,143,948
Institution specific countercyclical capital buffer rate	0.03%
Institution specific countercyclical capital buffer requirement (EUR '000)	388

8. Capital Adequacy Conclusion

DHB Bank is committed to exceed its capital adequacy targets on a continuous basis. Overall risk position and capital level are constantly monitored and adjusted, if necessary, to meet the capital requirement from regulatory and economic perspectives. DHB Bank's capital base and capital ratios exceed the regulatory minimum requirements outlined in CRR/CRD. Considering the results of capital

adequacy stress testing, and business expectations, the Bank's assessment is that the buffers held for regulatory and economic capital purposes are sufficient. Capital ratio in 2021 was more than twice the minimum regulatory capital ratio requirement of 8%. Owing to its straightforward business model and strategies as well as to its robust equity base, the bank does not make use of hybrid capital instruments.

9. Leverage Ratio

Since January 2014, the CRR/CRR2 and CRD IV/V rules have required credit institutions to calculate, report and monitor their leverage ratios, defined as tier 1 capital as a percentage of total exposure.

In January 2015, the requirements for calculating the leverage ratio were redefined and issued by the European Commission in Delegated Act EU 2015/62.

The leverage ratio is based on the relationship between Tier 1 capital and the unweighted total of all on-balance-sheet and off-balance-sheet asset items (including derivatives).

DHB Bank takes the leverage ratio requirements into account for optimisation of its portfolio. The risk of excessive leverage is addressed by including the leverage ratio in the internal planning and control process. Based on the business and risk strategy, an internal target ratio is specified as an additional key risk indicator, supplementing the capital ratios. DHB Bank calculates its Leverage ratio on a quarterly basis and the changes in the leverage ratio are subject to regular monitoring.

The following tables show in detail the bank's leverage ratio calculation items based on CRR/CRD IV regulation as per end of 2021.

Table 33 - EU LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

Exposure Items	Exposure Amount (EUR '000)
Total assets as per published financial statements	1,803,187
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	25
(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	-
(Adjustment for temporary exemption of exposures to central banks (if applicable))	-
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) CRR)	-
Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	-
Adjustment for eligible cash pooling transactions	-

Exposure Items	Exposure Amount (EUR '000)
Adjustment for derivative financial instruments	10,021
Adjustment for securities financing transactions (SFTs)	-
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,885
(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-
(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-
(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR)	-
Other adjustments	469
Total exposure measure	1,815,587

Table 34 - EU LR3 - LRSpl: Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

Exposure Items	Exposure Amount (EUR '000)
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	1,801,953
Trading book exposures	13,635
Banking book exposures, of which:	1,801,953
Covered bonds	3,186
Exposures treated as sovereigns	446,981
Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns	-
Institutions	306,198
Secured by mortgages of immovable properties	26,669
Retail exposures	230
Corporates	866,307
Exposures in default	13,052

Exposure Items	Exposure Amount (EUR '000)
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	139,330

10. Remuneration

DHB Banks's current Remuneration Policy was approved in the General Meeting of Shareholders (GMS) in April 2011, further developed in 2012, and lastly revised in 2017 with respect to the new regulations in this area. It is also subject to annual review and was last reviewed in April 2021.

It is composed of four sub-policies that have separate stipulations for the members of the Management Board (MB), for the members of senior staff in general, for senior staff engaged in risk management and control functions, and for other staff members. The body overseeing the remuneration of the MB members is the General Meeting of Shareholders (GMS) with the recommendation of the Supervisory Board (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 authorised 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 organisation. The remuneration of the SB and MB members is reported in the annual reports of the bank.

Table 35 - Remuneration summary

	MB Supervisory function	MB Management function & Other Senior Management	Other identified staff	Total Staff
Fixed Remuneration				
Number of identified staff	0	8	16	118
Total fixed remuneration (EUR '000)	0	1,841	2,706	11,558
Variable Remuneration				
Total variable remuneration (EUR '000)	0	0	0	298
Total remuneration (EUR '000)	0	1,841	2,706	11,855