# CAPITAL ADEQUACY AND

# RISK MANAGEMENT REPORT 2022

## Pillar 3

June 2023

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## 1. Introduction

The purpose of this document is to provide relevant information about the capital position and risk profile of DHB Bank 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 2022.

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**

The deteriorating economic outlook with an extra pressure on energy-intensive sectors is a significant risk factor in the financial sector. Refinancing problems with higher financing cost and lower economic output might create additional stress on the credit quality of banks' corporate loan books. While the crisis so far has not had a material impact on payment obligations of borrowers to which DHB Bank has direct exposure, the bank continued to monitor the exposures in vulnerable sectors through quarterly portfolio risk reports in order to undertake timely measures when deemed necessary.

Worsening economic outlook, including impact of the high inflation environment, the war in Ukraine and in a broader context geopolitical developments will be the major risk factor in upcoming period. Management will therefore continue to steer the bank cautiously. Regarding bank and corporate exposures, 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 as required. Borrowers will continue to be selected among those with high credit standings, and strict credit underwriting processes will be maintained with additional credit enhancements where needed. Management will not compromise on rigorous risk monitoring processes. Even after considering the implications of the crisis and pandemic from the perspectives of solvency, liquidity, operational risk, credit risk, market risk, loan loss provisioning, the bank did not face any significant challenges in 2022. The bank will continue to operate in prudent manner in this uncertain macroeconomic environment closely monitor and proactively manage its capital and liquidity position.

## 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.

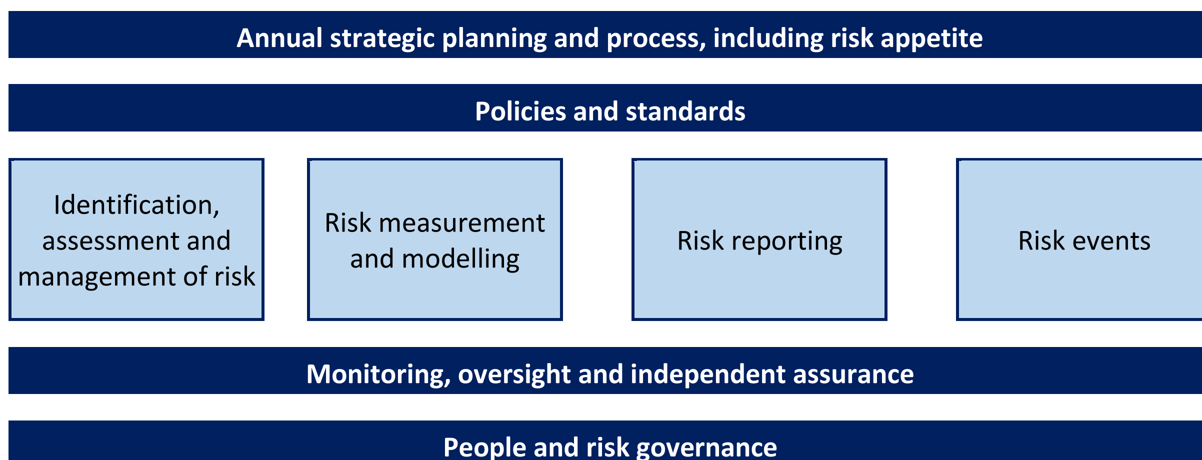
*Table 1 - Three Lines of Defense*

| 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<br>• Primary responsibility for day to day risk management<br>• Design and execution of processes to respond to the risk present | • Monitor risk and control in support of management<br>• Assist in risk appetite, strategies, policies and structures for managing risk<br>• 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*



‘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) and Asset & Liability Management Committee (ALCO) 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 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.

### 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 3 - Summary of risk appetite and Pillar 2 capital assignment per risk type for FYE 2022*

| 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 | | ✓ |
| **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 | ✓ | |
| | Market value deviation in investment portfolio | Medium | | | 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 |
| **Climate Risk** | Credit Risk | Medium | Quantitative and qualitative review | | No add-on |
| | Market Risk | | | | |
| | Liquidity Risk | | | | |
| | Operational and other risks | | 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 | Revised policy rule on business model | | |
| | Outsourcing | Low | Qualitative review | | |
| | Pension | Low | | | |
| | Data Quality | 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 2021 and each quarter-end of 2022.

*Table 4 - EU KM1 - Key metrics*

| **Key Metrics** | **2022 Q4** | **2022 Q3** | **2022 Q2** | **2022 Q1** | **2021** |
|---|---|---|---|---|---|
| **Available own funds amounts (EUR '000)** | | | | | |
| Common Equity Tier 1 (CET1) capital | 223,745 | 217,912 | 219,371 | 221,309 | 222,921 |
| Tier 1 capital | 223,745 | 217,912 | 219,371 | 221,309 | 222,921 |
| Total capital | 223,745 | 217,912 | 219,371 | 221,309 | 222,921 |
| **Risk-weighted exposure amounts (EUR '000)** | | | | | |
| Total risk exposure amount | 1,185,095 | 1,122,595 | 1,159,297 | 1,097,137 | 1,143,948 |
| **Capital ratios (as a percentage of risk-weighted exposure amount)** | | | | | |
| Common Equity Tier 1 ratio (%) | 18.88% | 19.41% | 18.92% | 20.17% | 19.49% |
| Tier 1 ratio (%) | 18.88% | 19.41% | 18.92% | 20.17% | 19.49% |
| Total capital ratio (%) | 18.88% | 19.41% | 18.92% | 20.17% | 19.49% |

| Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount) | | | | | |
|---|---|---|---|---|---|
| Additional own funds requirements to address risks other than the risk of excessive leverage (%) | 5.70% | 6.00% | 6.00% | 6.00% | 6.00% |
| of which: to be made up of CET1 capital (percentage points) | 3.20% | 3.40% | 3.40% | 3.40% | 3.40% |
| of which: to be made up of Tier 1 capital (percentage points) | 4.30% | 4.50% | 4.50% | 4.50% | 4.50% |
| Total SREP own funds requirements (%) | 13.70% | 14.00% | 14.00% | 14.00% | 14.00% |
| **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% |
| Institution specific countercyclical capital buffer (%) | 0.13% | 0.03% | 0.03% | 0.03% | 0.03% |
| Combined buffer requirement (%) | 2.63% | 2.53% | 2.53% | 2.53% | 2.53% |
| Overall capital requirements (%) | 16.33% | 16.53% | 16.53% | 16.53% | 16.53% |
| CET1 available after meeting the total SREP own funds requirements (%) | 5.18% | 5.41% | 4.92% | 6.17% | 5.49% |
| **Leverage ratio** | | | | | |
| Total exposure measure (EUR '000) | 1,740,636 | 1,741,503 | 1,761,803 | 1,819,983 | 1,815,587 |
| Leverage ratio (%) | 12.85% | 12.51% | 12.45% | 12.16% | 12.28% |
| **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) | 287,917 | 273,276 | 291,236 | 364,524 | 401,404 |
| Cash outflows - Total weighted value (EUR '000) | 85,031 | 105,890 | 153,709 | 127,218 | 125,262 |
| Cash inflows - Total weighted value (EUR '000) | 23,460 | 37,618 | 54,102 | 36,348 | 19,003 |
| Total net cash outflows (adjusted value) (EUR '000) | 61,571 | 68,272 | 99,607 | 90,870 | 106,258 |
| Liquidity coverage ratio (%) | 467.62% | 400.28% | 292.38% | 401.15% | 377.76% |
| **Net Stable Funding Ratio** | | | | | |
| Total available stable funding (EUR '000) | 1,472,157 | 1,542,066 | 1,563,896 | 1,674,847 | 1,685,327 |
| Total required stable funding (EUR '000) | 1,026,250 | 1,082,898 | 1,071,857 | 1,027,197 | 995,529 |
| NSFR ratio (%) | 143.45% | 142.40% | 145.91% | 163.05% | 169.29% |

## 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 223.4 million at the end of 2022. The components of the capital base are presented in the table below.

*Table 5 - 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 | 115,195 |
| Accumulated other comprehensive income (and other reserves) | -4,870 |
| Funds for general banking risk | - |
| Minority interests (amount allowed in consolidated CET1) | - |
| Common Equity Tier 1 (CET1) capital before regulatory adjustments | 224,075 |
| **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | |
| Additional value adjustments (negative amount) | -153 |
| Intangible assets (net of related tax liability) (negative amount) | -177 |
| **Common Equity Tier 1 (CET1) capital** | **223,745** |

## 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 2022.

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). 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 2022 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 2022 and 2021 divided into different risk types is presented in the table below.

*Table 6 - EU OV1 - Overview of total risk exposure amounts*

| Risk Items | Total Risk Exposure Amount (TREA) (EUR '000) | | Own Fund Requirements (EUR '000) |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| **Credit risk based on standardised approach (excluding CCR)** | 1,106,200 | 1,067,891 | 88,496 |
| **Counterparty credit risk - CCR** | 11,400 | 6,023 | 912 |
| Of which the standardised approach | 6,439 | 4,195 | 515 |
| Of which credit valuation adjustment – CVA | 4,961 | 1,828 | 397 |
| **Position, foreign exchange and commodities risks based on standardised approach (Market risk)** | 0 | 0 | 0 |
| **Operational risk based on basic indicator approach** | 67,495 | 70,035 | 5,400 |
| **Total** | **1,185,095** | **1,143,948** | **94,808** |

## 5.1 Credit Risk

Credit risk is the largest risk making up more than 93% of the total TREA at 31 December 2022. 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 2022.

*Table 7 - 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 | 332,159 | - | 371,563 | - | 355 | 0.10% |
| Regional government or local authorities | - | - | - | - | - | 0.00% |
| Public sector entities | - | - | - | - | - | 0.00% |
| Multilateral development banks | - | - | - | - | - | 0.00% |
| International organisations | 9,094 | - | 93 | - | - | 0.00% |
| Institutions | 187,836 | - | 173,532 | - | 64,454 | 37.14% |
| Corporates | 941,007 | 13,841 | 1,022,824 | 3,595 | 926,056 | 90.22% |
| Retail | 139,067 | 19 | 66 | - | 50 | 75.00% |
| Secured by mortgages on immovable property | 25,246 | - | 25,244 | - | 12,901 | 51.10% |
| Exposures in default | 6,714 | - | 2,445 | - | 2,688 | 109.95% |
| Exposures associated with particularly high risk | 67,594 | - | 63,589 | - | 95,383 | 150.00% |
| Covered bonds | 9,368 | - | 9,368 | - | 937 | 10.00% |
| Institutions and corporates with a short- | - | - | - | - | - | 0.00% |
| Collective investment undertakings | - | - | - | - | - | 0.00% |
| Equity | 25 | - | 25 | - | 63 | 250.00% |

| 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 (%) |
| Other items | 10,495 | - | 51,447 | 312 | 9,753 | 18.84% |
| **Total** | **1,728,604** | **13,860** | **1,720,195** | **3,908** | **1,112,639** | **64.53%** |

The next table provide the distribution of DHB Bank's total exposure by risk weight buckets at the end of 2022.

*Table 8 - 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 | 332,159 | - | - | - | - | - | 332,159 |
| Regional government or local authorities | - | - | - | - | - | - | - |
| Public sector entities | - | - | - | - | - | - | - |
| Multilateral development banks | - | - | - | - | - | - | - |
| International organisations | 9,094 | - | - | - | - | - | 9,094 |
| Institutions | 154,021 | 42,621 | 7,101 | - | - | - | 203,743 |
| Corporates | 16,212 | 22,862 | 915,776 | - | - | - | 954,851 |
| Retail exposures | - | - | 139,086 | - | - | - | 139,086 |
| Exposures secured by mortgages on immovable | - | 23,938 | 1,308 | - | - | - | 25,246 |
| Exposures in default | - | - | 6,227 | 487 | - | - | 6,714 |
| Exposures associated with particularly high risk | - | - | - | 67,594 | - | - | 67,594 |
| Covered bonds | 9,368 | - | - | - | - | - | 9,368 |
| Exposures to institutions and corporates with a short-term credit assessment | - | - | - | - | - | - | - |
| Units or shares in collective investment undertakings | - | - | - | - | - | - | - |
| Equity exposures | - | - | - | 25 | - | - | 25 |
| Other items | 742 | - | 9,753 | - | - | - | 10,495 |
| **Total** | **521,596** | **89,421** | **1,079,252** | **68,106** | **-** | **-** | **1,758,374** |

### 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 2022, the main sources of counterparty risk were currency swaps and interest rate swaps as shown on table below.

*Table 9 – 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)** | 3,247 | 8,118 | 1.4 | 6,439 |
| Interest rate swaps | 1,733 | 245 | | 562 |
| Foreign exchange swaps | 1,514 | 7,872 | | 5,878 |

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 10 - 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** | 2,309 | 10,848 | - | - | 13,157 |

| Exposure classes (EUR '000) | Risk weight | | | | Total exposure value |
|---|---|---|---|---|---|
| | 0%-20% | 20%-75% | 75%-150% | Others | |
| **Corporates** | - | - | 4 | - | 4 |
| **Retail** | - | - | - | - | - |
| **Institutions and corporates with a short-term credit assessment** | - | - | - | - | - |
| **Other items** | - | - | - | - | - |
| **Total exposure value** | **2,309** | **10,848** | **4** | **-** | **13,160** |

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 11 - 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** | 8,673 | 4,961 |
| **Transactions subject to the Alternative approach (Based on the Original Exposure Method)** | - | - |
| **Total transactions subject to own funds requirements for CVA risk** | **8,673** | **4,961** |

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 2022.

*Table 12 - 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** | 674,812 | 518,330 | 338,925 | 153,017 | 0 |
| **Debt securities** | 244,794 | 0 | 1,125 | 0 | |
| **Total** | **919,606** | **518,330** | **340,050** | **153,017** | **0** |
| Of which non-performing exposures | 6,239 | 31,714 | 30,508 | 1,206 | 0 |
| Of which defaulted | 6,239 | 31,714 | | | |

### 5.1.5 Credit Quality

The information presented in this section uses financial statement values and is largely sourced from the 2022 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 2022.

*Table 13 - 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** | 270,909 | 270,414 | 495 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Loans and advances** | 1,163,582 | 997,690 | 165,892 | 37,953 | 0 | 37,953 | -4,050 | -2,243 | -1,807 | -4,343 | 0 | -4,343 | 0 | 460,228 | 31,714 |
| Central banks | 0 | 0 | 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 | 55,243 | 48,142 | 7,101 | 0 | 0 | 0 | -49 | -21 | -28 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other financial corporations | 96,633 | 82,396 | 14,236 | 21,104 | 0 | 21,104 | -244 | -100 | -144 | -3,591 | 0 | -3,591 | 0 | 7,758 | 15,632 |
| Non-financial corporations | 851,984 | 707,521 | 144,463 | 14,772 | 0 | 14,772 | -3,714 | -2,079 | -1,635 | -382 | 0 | -382 | 0 | 314,347 | 14,390 |
| Of which SMEs | 0 | 0 | 0 | 15 | 0 | 15 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 15 |

| | 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 | 159,722 | 159,630 | 92 | 2,077 | 0 | 2,077 | -43 | -42 | -1 | -370 | 0 | -370 | 0 | 138,124 | 1,693 |
| **Debt securities** | 244,809 | 244,809 | 0 | 0 | 0 | 0 | -15 | -15 | 0 | 0 | 0 | 0 | 0 | 1,125 | 0 |
| Central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| General governments | 64,176 | 64,176 | 0 | 0 | 0 | 0 | -4 | -4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Credit institutions | 135,046 | 135,046 | 0 | 0 | 0 | 0 | -1 | -1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other financial corporations | 29,555 | 29,555 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-financial corporations | 16,031 | 16,031 | 0 | 0 | 0 | 0 | -10 | -10 | 0 | 0 | 0 | 0 | 0 | 1,125 | 0 |
| **Off-balance-sheet exposures** | 13,860 | 13,254 | 606 | 0 | 0 | 0 | 44 | 40 | 4 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **1,693,160** | **1,526,167** | **166,993** | **37,953** | **0** | **37,953** | **-4,021** | **-2,218** | **-1,803** | **-4,343** | **0** | **-4,343** | **0** | **461,353** | **31,714** |

The following table summarizes the maturity distribution of on-balance sheet exposures excluding cash balances as end of 2022.

*Table 14 - 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** | 471,577 | 602,825 | 118,735 | 5.3 | 1,193,142 |
| **Debt securities** | **0** | 49,656 | 195,137 | 0 | 0.0 | 244,794 |
| **Total** | 0 | **521,233** | **797,962** | **118,735** | **5.3** | **1,437,935** |

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 2022.

*Table 15 - 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** | 54,695 |
| Inflows to non-performing portfolios | 1,185 |
| Outflows from non-performing portfolios | -17,927 |
| Outflow to performing portfolio | -169 |
| Outflow due to loan repayment, partial or total | -16,271 |
| 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 | -1,487 |
| Outflow due to other situations | 0 |
| Outflow due to reclassification as held for sale | 0 |
| **Final stock of non-performing loans and advances** | **37,953** |

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 16 - 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** | 1,163,582 | 1,157,129 | 6,454 | 37,953 | 37,090 | 434 | 37 | 67 | 71 | 49 | 206 | 37,953 |
| Central banks | - | - | - | - | - | - | - | - | - | - | - | - |
| General governments | - | - | - | - | - | - | - | - | - | - | - | - |
| Credit institutions | 55,243 | 55,243 | - | - | - | - | - | - | - | - | - | - |
| Other financial corporations | 96,633 | 96,633 | - | 21,104 | 21,104 | - | - | - | - | - | - | 21,104 |
| Non-financial corporations | 851,984 | 849,140 | 2,844 | 14,772 | 14,756 | - | - | 15 | - | - | - | 14,772 |
| Of which SMEs | - | - | - | 15 | - | - | - | 15 | - | - | - | 15 |
| Households | 159,722 | 156,112 | 3,610 | 2,077 | 1,229 | 434 | 37 | 51 | 71 | 49 | 206 | 2,077 |
| **Debt securities** | 244,809 | 244,809 | - | - | - | - | - | - | - | - | - | - |
| Central banks | - | - | - | - | - | - | - | - | - | - | - | - |
| General governments | 64,176 | 64,176 | - | - | - | - | - | - | - | - | - | - |

| | 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 | 135,046 | 135,046 | - | - | - | - | - | - | - | - | - | - |
| Other financial corporations | 29,555 | 29,555 | - | - | - | - | - | - | - | - | - | - |
| Non-financial corporations | 16,031 | 16,031 | - | - | - | - | - | - | - | - | - | - |
| **Off-balance-sheet exposures** | 13,860 | | | | | | | | | | | |
| Central banks | - | | | | | | | | | | | |
| General governments | - | | | | | | | | | | | |
| Credit institutions | - | | | | | | | | | | | |
| Other financial corporations | 6,000 | | | | | | | | | | | |
| Non-financial corporations | 7,841 | | | | | | | | | | | |
| Households | 19 | | | | | | | | | | | |
| **Total** | **1,422,250** | **1,401,937** | **6,454** | **37,953** | **37,090** | **434** | **37** | **67** | **71** | **49** | **206** | **37,953** |

*Table 17 - 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 | 463,749 | 16,491 | 16,491 | 463,749 | -688 | | 0 |
| Germany | 231,754 | 5,473 | 5,473 | 231,754 | -4,005 | | 0 |
| Belgium | 152,940 | 1,233 | 1,233 | 152,940 | -84 | | 0 |
| Turkey | 48,282 | 382 | 382 | 48,282 | -734 | | 0 |
| Other countries | 820,528 | 14,374 | 14,374 | 693,456 | -2,898 | | 0 |
| **Off-balance-sheet exposures** | | | | | | | |
| The Netherlands | 171 | 0 | 0 | | | 301 | |
| Germany | 5,990 | 0 | 0 | | | 35,298 | |
| Belgium | 1,180 | 0 | 0 | | | 8,706 | |
| Turkey | 6,000 | 0 | 0 | | | 0 | |
| Other countries | 519 | 0 | 0 | | | 1,406 | |
| **Total** | **1,731,113** | **37,953** | **37,953** | **1,590,182** | **-8,409** | **45,711** | **0** |

*Table 18 - 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** | 244,120 | 382 | 382 | 244,120 | -1,441 | 0 |
| **Electricity, gas, steam and air conditioning supply** | 34,902 | 0 | 0 | 34,902 | -367 | 0 |
| **Water supply** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Construction** | 184,415 | 14,374 | 14,374 | 184,415 | -526 | 0 |
| **Wholesale and retail trade** | 84,405 | 0 | 0 | 84,405 | -291 | 0 |
| **Transport and storage** | 151,754 | 0 | 0 | 151,754 | -648 | 0 |
| **Accommodation and food service activities** | 14,374 | 0 | 0 | 14,374 | -329 | 0 |
| **Information and communication** | 13,453 | 0 | 0 | 13,453 | -3 | 0 |
| **Financial and insurance activities** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Real estate activities** | 52,633 | 15 | 15 | 52,633 | -132 | 0 |
| **Professional, scientific and technical activities** | 30,028 | 0 | 0 | 30,028 | -130 | 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** | 32,203 | 0 | 0 | 32,203 | -207 | 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** | 6,523 | 0 | 0 | 6,523 | -19 | 0 |
| **Arts, entertainment and recreation** | 17,946 | 0 | 0 | 17,946 | -3 | 0 |
| **Other services** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **866,756** | **14,772** | **14,772** | **866,756** | **-4,096** | **0** |

Finally, the following table details the collateral valuations underlying the loans and advances, as of end of 2022.

*Table 19 - 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)** | 1,201,535 | 1,163,582 | 6,454 | 37,953 | 37,090 | 864 | 434 |
| Of which secured | 519,950 | 474,767 | 6,454 | 31,714 | 31,235 | 479 | 434 |
| Of which secured with immovable property | 197,275 | 166,767 | 14 | 30,508 | 30,493 | 15 | - |
| Of which instruments with LTV higher than 60% and lower or equal to 80% | 15,660 | 28 | | 15,632 | 15,632 | - | |
| Of which instruments with LTV higher than 80% and lower or equal to 100% | 78,263 | 63,889 | | 14,374 | 14,374 | - | |
| Of which instruments with LTV higher than 100% | 19,645 | 19,645 | | - | - | - | |
| Accumulated impairment for secured assets | -1,620 | -1,546 | -0 | -75 | - | -75 | - |
| **Collateral** | | | | | | | |
| Financial guarantees received | 153,017 | 151,811 | 3,595 | 1,206 | 742 | 464 | - |

## 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 2022.

*Table 20 - 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** | 20,978 | 35,565 | 35,565 | 35,565 | -311 | -3,659 | 34,342 | 30,021 |
| 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 | 416 | 21,104 | 21,104 | 21,104 | -1 | -3,591 | 15,632 | 15,632 |
| Non-financial corporations | 20,562 | 14,390 | 14,390 | 14,390 | -310 | 0 | 18,710 | 14,390 |
| Households | 0 | 71 | 71 | 71 | 0 | -67 | 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** | **20,978** | **35,565** | **35,565** | **35,565** | **-311** | **-3,659** | **34,342** | **30,021** |

*Table 21 - 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 | 35,565 |

Deteriorated economic outlook with an extra pressure on energy-intensive sectors is a significant risk factor in financial sector. Refinancing problems with higher financing cost and lower economic output might create additional stress on credit quality of banks' corporate loan books. While the crisis so far has not had a material impact on payment obligations of borrowers to which DHB Bank has direct exposure (renewable energy sector exposure in Ukraine, Euro 3.6 million), the bank continued to monitor the exposures in vulnerable sectors through quarterly portfolio risk reports in order to undertake timely measures when deemed necessary.

In addition to portfolio level monitoring, assessment of the impacts of Russia - Ukraine War and consequential energy crisis in addition to COVID-19 pandemic became a part of the credit assessment of obligors. A forward looking assessment of individual customer has been performed through early warning indicators/watch lists (EW/WL) and the unlikeliness to pay (UTP) indicators. 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 UTP indicators, EW/WL and forbearance measures are tested according to the applicable EBA guidelines.

Worsening economic outlook with possible impacts of high inflation, the war in Ukraine, pandemic-related lockdowns and supply chain disruptions will be the major risk factor in upcoming period. Management will therefore continue to steer the bank cautiously. Regarding bank and corporate exposures, 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. Borrowers will continue to be selected among those with high credit standings, and strict credit underwriting processes will be maintained with additional credit enhancements where needed. Management will not compromise on rigorous risk monitoring processes. Even after considering the implications of the crisis and pandemic from the perspectives of solvency, liquidity, operational risk, credit risk, market risk, loan loss provisioning, the bank did not face any significant challenges in 2022. The bank will continue to operate in prudent manner in this uncertain macroeconomic environment closely monitor and proactively manage its capital and liquidity position.

### 5.2 Market Risk

DHB Bank uses the Standardised Approach to capture the market risk capital requirement. As of end of 2022, 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 5.4 million at 31 December 2022, as shown in the below table.

*Table 22 - 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) | 34,009 | 34,478 | 39,504 | 5,400 | 67,495 |
| 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 is one of the fundamental risks in banking. Since interest is the most important source of income, DHB Bank pays special attention to managing the interest rate risk.

The bank manages interest rate risk by using derivatives to convert fixed rate lending into floating rate receivables. This hedging approach ensures that interest rate risk between lending and funding in each currency remains low. 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.

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. 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).

DHB Bank identifies different components of interest rate risk: gap risk, basis risk, option risk and credit spread risk.

**Gap risk** is the risk that arises from a difference in the timing of rate changes in interest rate sensitive instruments. Gap risk covers both repricing risk and yield curve risk. Within DHB Bank, gap risk is to a large extent mitigated by using interest rate swaps to convert fixed rate lending into floating rate receivables.

**Basis risk** arises from the impact of relative changes in interest rates on instruments that have similar tenors but are priced using different interest rate indices. A majority of DHB Bank's liabilities are in Euro while there are some exposures in USD denomination within total assets as well. DHB Bank's exposure to USD denominated assets is equal to Euro 173 million as per 31 December 2022. In this context, there is potential exposure to interest rate risk due to the mismatch of the base interest rates in USD and Euro. The impact is mitigated by DHB Bank's hedging activities. Foreign-currency assets are hedged with cross currency interest rate swaps. However, a potential basis risk arises from a mismatch in, for example, notional, repricing dates or maturity dates between the USD assets and the related swaps. DHB Bank's exposure to other foreign currencies is very limited. As a result, a structural mismatch from these assets is immaterial.

**Option risk** is the result of options, where the institution or its customer can alter the level and timing of cash flows arising from interest rate sensitive products. For DHB Bank, option risk is present in non-maturing deposits (NMDs), also referred to as (variable rate) savings accounts. In the case of NMDs, clients have the option to withdraw deposits without penalty at any point in time while DHB Bank has the option to change the deposit rate at any point in time.

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 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 8.5 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 2022 and 2021.

*Table 23 - NII 1 year horizon sensitivity summary*

| NII sensitivities by major currencies (EUR '000) | 2022 | | 2021 | |
|---|---|---|---|---|
| | 200 bps increase | 200 bps decrease | 200 bps increase | 200 bps decrease |
| **Euro** | -1,410 | -93 | 2,689 | 2,350 |
| **US Dollar** | 225 | -225 | 135 | -135 |
| **Other** | 10 | -10 | 4 | -4 |
| **Total** | **-1,174** | **-328** | **2,828** | **2,211** |

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 2022 and 2021. At 31 December 2022, the standard instantaneous parallel shock of 200 bps leads to a potential decrease of Euro 6.07 million, or 2.71% 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 24 - Fair value of equity sensitivity summary*

| Fair value sensitivity to interest rate shocks (EUR '000) | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | 200 bps increase | 200 bps decrease | PV01 | 200 bps increase | 200 bps decrease | PV01 |
| **Euro** | -5,964 | 2,712 | -30 | -3,424 | 2,440 | -17 |
| **US Dollar** | -89 | 37 | -0 | -95 | 60 | -0 |
| **Other** | -19 | 10 | -0 | -29 | 13 | -0 |
| **Total** | **-6,071** | **2,760** | **-30** | **-3,548** | **2,513** | **-18** |

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 25 - 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** | -6,071 | -3,548 | -1,174 | 2,828 |
| 2 | **Parallel down** | 2,760 | 2,513 | -328 | 5,001 |
| 3 | **Steepener** | -621 | -111 | | |
| 4 | **Flattener** | -2,649 | -1,295 | | |
| 5 | **Short rates up** | -4,398 | -2,362 | | |
| 6 | **Short rates down** | 1,136 | 1,693 | | |

## 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 fulfil 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 2022 comfortably met the requirements. As on 31 December 2022, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) were at 468% and 143%, 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 26 - EU LIQ1 - Quantitative information of LCR*

| LCR Reporting Items | Total unweighted value (average) (EUR '000) | | | | Total weighted value (average) (EUR '000) | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 Q4 | 2022 Q3 | 2022 Q2 | 2022 Q1 | 2022 Q4 | 2022 Q3 | 2022 Q2 | 2022 Q1 |
| **High Quality Liquid Assets** | | | | | | | | |
| Total high-quality liquid assets (HQLA) | | | | | 275,378 | 302,273 | 329,259 | 368,128 |
| **Cash Outflows** | | | | | | | | |
| Retail deposits and deposits from small business | 697,353 | 708,574 | 736,621 | 768,707 | 39,132 | 39,595 | 42,336 | 44,769 |
| Stable deposits | 634,548 | 641,144 | 644,831 | 652,313 | 31,727 | 32,057 | 32,242 | 32,616 |
| Less stable deposits | 58,049 | 63,700 | 87,219 | 110,124 | 7,405 | 7,538 | 10,094 | 12,153 |
| Unsecured wholesale funding | - | - | - | - | - | - | - | - |
| Operational deposits (all counterparties) and deposits in networks of cooperative | 348 | 785 | 133 | 104 | 87 | 196 | 33 | 26 |
| Non-operational deposits (all counterparties) | 33,623 | 42,801 | 42,827 | 28,501 | 15,461 | 18,015 | 21,197 | 13,736 |

| LCR Reporting Items | Total unweighted value (average) (EUR '000) | | | | Total weighted value (average) (EUR '000) | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 Q4 | 2022 Q3 | 2022 Q2 | 2022 Q1 | 2022 Q4 | 2022 Q3 | 2022 Q2 | 2022 Q1 |
| Unsecured debt | - | - | - | 0 | - | - | - | - |
| Additional requirements | - | - | - | - | - | - | - | - |
| Outflows related to derivative exposures and other collateral requirements | 8,371 | 8,184 | 8,442 | 3,032 | 8,371 | 8,184 | 8,442 | 3,032 |
| Outflows related to loss of funding on debt products | - | - | - | - | - | - | - | - |
| Credit and liquidity facilities | - | - | - | - | - | - | - | - |
| Other contractual funding obligations | 8,833 | 4,333 | 11,733 | 2,667 | 7,833 | 3,333 | 10,733 | 1,667 |
| Other contingent funding obligations | 56,163 | 51,923 | 95,860 | 74,270 | 51,445 | 43,097 | 78,809 | 54,006 |
| Total cash outflows | | | | | 122,330 | 112,421 | 161,551 | 117,236 |
| **Cash Inflows** | | | | | | | | |
| Secured lending (e.g. reverse repos) | - | - | - | - | - | - | - | - |
| Inflows from fully performing exposures | 55,720 | 44,659 | 75,715 | 61,547 | 40,664 | 33,511 | 62,654 | 42,344 |
| Other cash inflows | 5,460 | 4,489 | 6,885 | 6,759 | 5,460 | 4,489 | 6,885 | 6,759 |
| Total cash inflows | 61,180 | 49,147 | 82,600 | 68,306 | 46,123 | 38,000 | 69,539 | 49,103 |
| Fully exempt inflows | - | - | - | - | - | - | - | - |
| Inflows subject to 90% cap | - | - | - | - | - | - | - | - |
| Inflows subject to 75% cap | | | | | 46,123 | 38,000 | 69,539 | 49,103 |
| **Total Adjusted Value** | | | | | | | | |
| **LIQUIDITY BUFFER** | | | | | 275,378 | 302,273 | 329,259 | 368,128 |
| **TOTAL NET CASH OUTFLOWS** | | | | | 76,207 | 74,421 | 92,011 | 68,134 |
| **LIQUIDITY COVERAGE RATIO** | | | | | 361.36% | 406.17% | 357.85% | 540.30% |

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

*Table 27 - 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 | - | - | 222,807 | 222,807 |
| Own funds | - | - | 222,807 | 222,807 |
| Other capital instruments | - | - | - | - |
| Retail deposits | 834,414 | 146,445 | 223,055 | 1,105,894 |
| Stable deposits | 1,113 | 194 | 785 | 2,027 |
| Less stable deposits | 833,301 | 146,251 | 222,270 | 1,103,867 |
| Wholesale funding: | 154,434 | - | 114,582 | 129,432 |
| Operational deposits | 9,169 | - | - | 4,584 |
| Other wholesale funding | 145,265 | - | 114,582 | 124,848 |
| Interdependent liabilities | - | - | - | - |
| Other liabilities: | 7,047 | 11,267 | 8,391 | 14,024 |
| NSFR derivative liabilities | | | | |
| All other liabilities and capital instruments not included in the above categories | 7,047 | 11,267 | 8,391 | 14,024 |
| **Total available stable funding (ASF)** | | | | 1,472,157 |
| **Required stable funding (RSF) Items** | | | | |
| Total high-quality liquid assets (HQLA) | | | | 201,687 |
| Assets encumbered for a residual maturity of one year or more in a cover pool | - | - | - | 201,547 |
| Deposits held at other financial institutions for operational purposes | 78,537 | 22,952 | 18,948 | 1,463 |
| Performing loans and securities: | 278,568 | 172,364 | 674,447 | 770,443 |
| Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to | - | - | - | - |
| Performing securities financing transactions with financial customer collateralised by other assets and loans | 75,611 | 22,952 | 18,948 | 37,985 |
| Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to | 202,957 | 146,466 | 650,998 | 728,060 |
| With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for | - | - | - | - |
| Performing residential mortgages, of which: | - | 8 | 4,500 | 2,929 |
| With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for | - | 8 | 4,500 | 2,929 |

| NSFR Reporting Items | Unweighted value by residual maturity (EUR '000) | | | Weighted value (EUR '000) |
|---|---|---|---|---|
| | < 6 months | 6 months to < 1yr | ≥ 1yr | |
| 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 | - | 2,938 | - | 1,469 |
| Interdependent assets | - | - | - | - |
| Other assets: | 15,086 | 12,293 | 30,842 | 52,263 |
| Physical traded commodities | | | - | - |
| Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs | - | - | - | - |
| NSFR derivative assets | 11,415 | - | - | 9,762 |
| NSFR derivative liabilities before deduction of variation margin posted | - | - | - | - |
| All other assets not included in the above categories | 3,672 | 12,293 | 30,842 | 42,500 |
| Off-balance sheet items | - | 5,065 | 2,795 | 393 |
| **Total RSF** | | | | 1,026,250 |
| **Net Stable Funding Ratio (%)** | | | | 143.45% |

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 7 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 2022 for a maturity distribution table.

[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.

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.

*Table 28 - 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** | 248,130 | 111,573 | | | 1,474,312 | 301,727 | | |
| Equity instruments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt securities | 211,038 | 111,573 | 198,204 | 98,777 | 33,756 | 30,818 | 32,487 | 29,558 |
| of which: covered bonds | 7,365 | 7,365 | 7,309 | 7,309 | 2,003 | 2,003 | 1,989 | 1,989 |
| of which: securitisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| of which: issued by general governments | 35,358 | 35,358 | 25,015 | 25,015 | 28,815 | 28,815 | 27,568 | 27,568 |
| of which: issued by financial corporations | 162,597 | 63,132 | 160,900 | 61,473 | 2,003 | 2,003 | 1,989 | 1,989 |
| of which: issued by non-financial corporations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other assets | 0 | 0 | - | - | 13,597 | 0 | - | - |

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

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

The total asset encumbrance as per end of year 2022 was EUR 248 million. The bank's current level of asset encumbrance is mainly driven by pledged assets for TLTRO funding, which has been utilized to benefit from attractive funding conditions to stimulate lending to the real economy in the Eurozone.

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

*Table 29 - 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** | **217,947** | **248,130** |

### 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 was requiring 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 11.1% at the end of 2022, which is well within the required limit of 25%.

However, as informed by DNB the rule is revoked as of 1 January 2023 and instead the share of exposures in non-investment grade countries in total balance sheet will be monitored. Accordingly, DHB Bank plans to maintain its share of lending activities towards the EEA as well as other investment grade countries, 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 4 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 outlines the supervisory expectations for how climate and environmental risks (C&E 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, several other publications such as the EBA's report on 'Management and supervision of ESG risks for credit institutions and investment firms' and the Good Practice document by DNB highlighting the importance of integrating C&E risks into the overall risk management and strategy of an institution are considered by the bank. However, across the industry, climate change risk management is still evolving, given significant uncertainties about climate change, challenges in reaching comprehensive market data and having a common 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 Good practices for climate-related and environmental risk management published in November 2022.

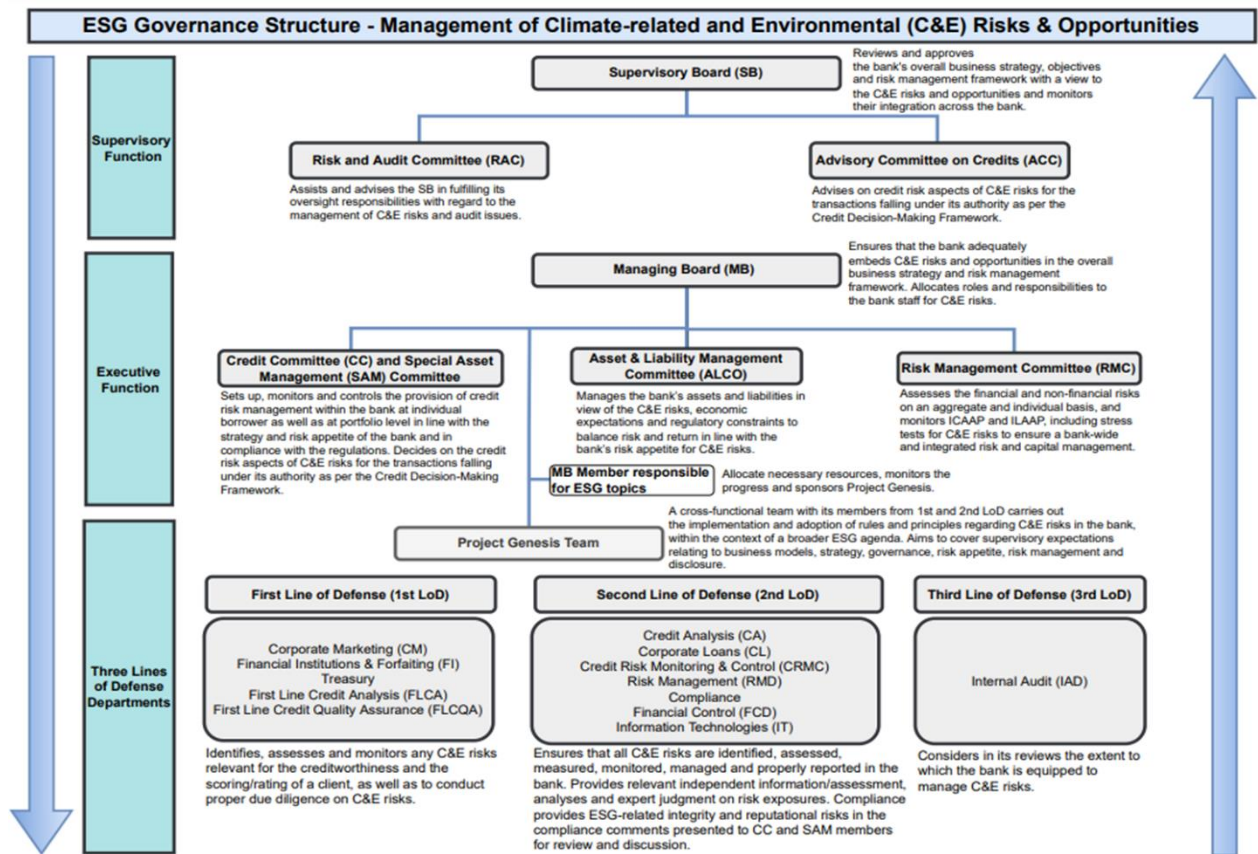
In order to accomplish the development of robust approaches to managing and disclosing C&E risks, the bank initially worked with a consultancy firm on climate change risk and performed several workshops to analyse the situation (as is) and the future state (to be) of the bank with regard to the broader sustainability topic and specifically climate risk. This step is followed by forming a cross-functional team under the name "Project Genesis" in mid-February 2022 which aims to carry out the development and adoption of rules and principles regarding C&E risks in the bank, within the context of a broader environmental, social and governance ("ESG") agenda. The project covers supervisory expectations related to business models, strategy, governance, risk appetite, risk management and disclosure. The project team has started its actions with a detailed gap analysis between the bank's existing practices and the expectations listed in ECB's 'Guide on climate-related and environmental risks' and prepared an action plan list to meet the expectations. With the important milestones achieved by the project team during the course of 2022, the bank will continue to make progress on meeting the regulatory and supervisory expectations.

- **Governance and Strategy**

The bank acknowledges the importance of integrating C&E risks into the overall governance and strategy of the bank. In this respect, the bank has completed the development of the governance arrangements document for the management of C&E risks and conducted a business environment assessment in line with the supervisory expectations. In addition to these actions, the general roles and responsibilities of the three lines of defense departments are also defined as per the governance arrangements document.

In its governance arrangements document, the bank defines C&E governance model to reflect an integrated governance structure that allows the involvement of the supervisory and executive governing bodies as well as the three lines of defense departments in the process and steering on both the opportunities and risks stemming from climate change in the business strategy and risk appetite. The model is depicted as follows to define a clear distinction between the lines, ensure accountability, develop a common understanding and meet regulatory expectations.

*Figure 1 - ESG Governance Structure*




In addition to the governance document, the main functions, as well as specific roles and responsibilities of the three lines of defense departments, are further detailed in a separate document dedicated for this purpose covering the credit risk management process.

As an essential step for integrating C&E risks into the bank's overall governance and strategy, the bank has also conducted a business environment assessment in the third quarter of 2022 to identify potential C&E risks and opportunities as well as their impact areas and transmission channels and develop further guidance for the bank's business model and strategy with respect to these risks and opportunities. In this assessment, the bank's business environment is scanned with a view of the prevailing economic and financial environment, main financial highlights, potential impact areas, and assessment scopes of C&E risks. Moreover, geographies, sectors, products, and services vulnerable to C&E risks, mapping of these risks to financial and non-financial risks with severity and time-horizon together with potential C&E opportunities that are also identified within this assessment. The identified risk and opportunities have been used as an input for the materiality assessments performed to assess the possible impact of C&E risks on different risk types.

Furthermore, to increase the awareness and add value to the bank's ESG integration journey, the bank has also made progress with the issuance of ESG newsletter inside the organization and organizing internal ESG workshops. The purpose of the ESG workshops is to share the know-how the project team gained with colleagues across the organization. The newsletter and workshops are planned to be continued on a regular basis.

- **Risk Assessment and Management**

Assessing the materiality of identified C&E risk drivers and integrating these risks into the risk management is another crucial step for developing a robust ESG framework. In this respect, the bank has managed to make significant process with developments such as the creation of Genesis ESG Tool and Questionnaires for more granular assessment of the corporate portfolio, re-designing of environment impact sections of credit report, credit decisions templates and enhancement of credit risk culture documents, performing materiality assessments of C&E risks for credit, market and liquidity risk dimensions and improvements on existing climate risk metrics under Risk Appetite Statement.

***Development of Genesis ESG Tool and Questionnaire to achieve a granular assessment***

The lack of available quality data is one of the main challenges financial institutions face when improving their climate risk management framework. The same challenge is also valid for the bank, so an excel-based tool (Genesis ESG Tool) was developed for the scorecard methodology to be used for granular assessment of physical and transition risks and classify the borrowers in the corporate portfolio as per their ESG risks. In parallel with the development of this tool, the bank has also configured a questionnaire (Genesis ESG Questionnaire) to gather and evidence corporate credit customers' ESG-related inputs that will also feed Genesis ESG Tool.

In this tool, physical and transition risk assessments work with a combination of automated scores derived from external databases[2] to the extent possible based on the country, province, and sectors. The automated scores are accompanied by customer-specific information (to be) derived from the ESG Questionnaire and reviewed by the bank’s staff. The questionnaire covers general and sector-specific questions for specific sectors such as shipping, real estate, and construction. Information/input by customers is intended to help understand their ESG management strategies and feed the Genesis ESG tool to assign a final ESG score. Finally, scores are determined through the overlay section with the underlying rationale in case of upgrades and downgrades in line with the pre-determined ranges for related risk indicators. C&E risk drivers covered under physical and transition risk of the tool are droughts / extreme heat, floods / sea level rises, storms / hurricanes, biodiversity loss / land use change and water stress for physical risks, and policy / regulation, technology, market sentiment, water / waste-water management, and waste and pollution for transition risks.

In addition to the developments toward a more granular climate risk assessment on the borrower level, the bank has also re-designed the environmental impact section in the 1st and 2nd line credit report templates to demonstrate the assessment of C&E risk drivers for the credit portfolio in a more structured manner with the sub-sections of "physical risk", "transition risk" and "overall assessment". The customer’s repayment capacity and creditworthiness are initially assessed by 1st line of defense departments and independently reviewed by 2nd line of defense departments considering ESG Factors and risks. In parallel with this change in the credit report templates, the credit decision template has

[2] Water Risk Filter (WRF) published by World Wildlife Fund (WWF), ThinkHazard Platform by the Global Facility for Disaster Reduction and Recovery, Moody's Heat Map

also been re-designed to cover the overall ESG assessment/classification as "Low, Moderate, or High" in the credit decisions.

***Climate-related and Environmental Risks Materiality Assessments***

As referred to under Governance and Strategy section above, geographies, sectors, products, and services vulnerable to C&E risks, mapping of these risks to financial and non-financial risks with severity and time-horizon together with potential C&E opportunities are identified with performed business environment assessment. These identified risks create a basis for evaluating their materiality on other risk dimensions, namely credit, liquidity, market, operational, reputational and liability risks.

In this regard, the bank has started performing materiality assessments in the fourth quarter of 2022 to identify material C&E risks that need to be managed and included in climate risk scenario analyses, stress testing and C&E risks-related disclosures.

As one of the bank's most critical risks and given its share in total assets, the initial focus for materiality assessment has been on loans and advances to the bank's corporate portfolio, hence on credit risk. By making use of the scores derived from Genesis ESG Tool and materiality threshold and materiality impact scoring methodology unique to the bank, the bank has performed the materiality assessment on credit risk and incorporated identified risk drivers into its climate risk scenario analysis and stress testing framework.

From the market risk perspective, since the bank has no trading portfolio – meaning no equity or commodity-related exposure – it's exposed to limited market risk through bond positions classified as FVOCI and monitored at fair value. In this regard, the materiality assessment on market risk has been performed by using the ESG risk rating classifications of respective issuers provided by well-known third-party ESG rating agencies.

From the liquidity risk perspective, ESG risk variables can impact contractual cash flow structure and liquidity buffers by directly or indirectly affecting a financial institution's capacity to collect its lending or raise liquidity through market operations. In order to assess the materiality of direct transmission of C&E risks into liquidity risk, the bank based its methodology on the total retail deposit amount for which the depositor is a resident in an area with 'High Flood Risk' classification[3] and the impact of a potential deposit run-off from these depositors on the bank's liquidity position. For the indirect ways, the bank makes use of its C&E risk materiality assessments for other risk dimensions to evaluate the potential impact on its liquidity buffer.

The C&E risk drivers identified under materiality assessments have been incorporated into the bank's climate risk scenario analysis and stress testing analysis in ICAAP to the extent possible which focuses on both transition and physical risks and estimates the impact on its portfolio over a longer-term horizon. In addition, the bank also includes the potential climate-related and environmental risks impact in its general stress testing framework by incorporating defaults and credit downgrades of clients in vulnerable sectors and geographies. The materiality assessments will be performed on a

[3] For this classification, the flood risk scenario input from ECB's Climate Risk Stress Test (CST) 2022 which classifies European countries with NUTS3 level breakdown based on their vulnerability for flood risk.

regular basis and the outputs of these assessments will be translated into the bank's business strategy and model in the upcoming period.

***Climate Risk Metrics reflected in the Risk Appetite Statement***

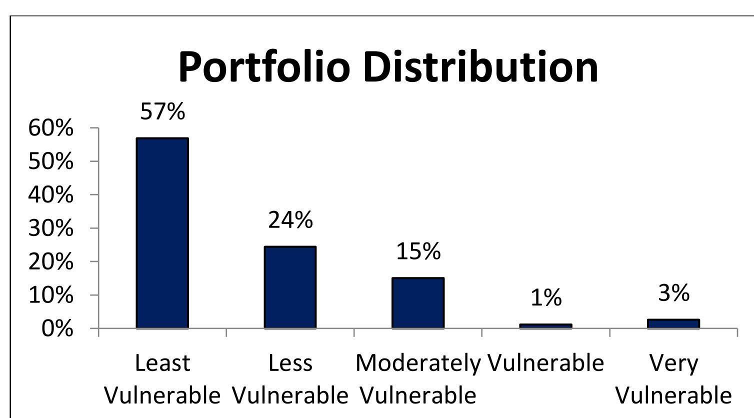
The climate risk dimension had been incorporated into the Risk Appetite Statement considering the importance of integrating these risks into its lending strategy within the governance structure of managing credit risk. The metrics monitored under the climate risk dimension are sector-level and geography-level metrics, while more granular metrics are planned to be incorporated in time as the bank has started to gather customer-level information via Questionnaire and perform detailed assessments on Genesis ESG Tool.

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 incorporated two metrics for the climate risk dimension, one for the portfolio's physical risk and the other for the transition risk vulnerabilities.

- **Physical risk in Risk Appetite Statement**

For the physical risk vulnerability, the bank makes use of the vulnerability index developed by Notre Dame University Global Adaptation Index (ND-GAIN)[4] to measure climate risks at the portfolio level. This index comprises two key dimensions of adaptation: vulnerability and readiness. While the vulnerability dimension measures a country's exposure, sensitivity and capacity to adapt to the adverse effects of climate change considering six life-supporting sectors – food, water, health, ecosystem service, human habitat, and infrastructure, readiness dimension measures a country's ability to leverage investments and convert them to adaptation actions. Based on the year-end 2022 portfolio, the bank's exposures to countries by 'vulnerability' classification are summarized in the below diagram:

*Figure 2 - Exposures to Countries by Climate Risk Vulnerability Classification*




According to the above distribution, the portfolio level vulnerability score as of year-end 2022 was as 1.68 (Least Vulnerable), based on the weighted average calculation.

[4] Rankings // Notre Dame Global Adaptation Initiative // University of Notre Dame (nd.edu)

- **Transition risk in Risk Appetite Statement**

The "Guide on climate-related and environmental risks" from ECB 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 risk in the portfolio with the carbon emission on sector basis. Since the client emissions data is not readily available, the bank relies on sectoral carbon-emissions data from Eurostat[5] on the 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

For total exposure to high emissions sectors, the sectors are identified on a sub-sector level to the extent possible using the emission account data[6]. Identified high-emission sectors are

- A - Agriculture, forestry and fishing
  - A01 - Crop and animal production, hunting and related service activities
- C - Manufacturing
  - C19 - Manufacture of coke and refined petroleum products
  - C20 - Manufacture of other non-metallic mineral products
  - C23 - Manufacture of basic metals
  - C24 - Manufacture of chemicals and chemical products
- D - Electricity, gas, steam and air conditioning supply[7]
- E - Water supply; sewerage, waste management and remediation activities
  - E37 – E39 - Sewerage, waste management, remediation activities
- H - Transportation and storage
  - H49 - Land transport and transport via pipelines
  - H50 - Water transport
  - H51 - Air transport

Identified high-emission sectors are together responsible for more than 80% of the total carbon emissions. The appetite level is set at "Medium", meaning that the bank aims to maintain the exposure to high-emission sectors below 25% of total portfolio.

ii. Portfolio emission intensity index

The Portfolio Emission Intensity Index captures the weighted average emissions intensity of the portfolio according to the sectors it is exposed to and the emission intensities of those sectors. For

[5] https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=env_ac_ainah_r2&lang=en

[6] The sectors are classified based on NACE Codes which are also used in EuroStat database. The main sectors are 21 sectors identified with the first letter of NACE Code, also referred as Level 1 in the database. The sub-sectors refer to distinguished components of the main sectors and identified with the letter and following numbers, also referred as Level 2 in the database. The emission data is not available on sub-sector level for some of the main sectors, most importantly "D - Electricity, gas, steam and air conditioning supply".

[7] Due to the lack of sub-sector level emission data, all exposures for which NACE code starts with D except renewable energy exposures are considered.

this calculation, the bank uses the emission intensities of each NACE sector[8], similar to the high-emission sector calculation the sub-sector emission intensities are taken into account to the extent possible. By multiplying the total exposure to a sector and estimated emission intensity per euro of gross value added for related sector, the bank reaches a proxy emission figure it finances with its total exposure to that sector. The result of the multiplications are aggregated across all sectors to reach the total emission figure which is then divided by the total exposure amount to calculate the Portfolio Emission Intensity Index. The index represents a proxy for GHG emission gram per euro of the bank's exposure.

***The EU Taxonomy and Corporate Sustainability Reporting Directive***

The EU Taxonomy (Regulation (EU) 2020/852), a classification system establishing a list of environmentally sustainable economic activities, is being implemented in parts, and while non-financial institutions meeting certain criteria will have to report on their EU Taxonomy-alignment in 2023, financial institutions will have to do so in 2024. In this regard, DHB Bank continues to collect information from its non-financial counterparties via ESG questionnaire and monitor their Taxonomy-alignment disclosures in order to continue its engagement with the counterparties covered by the Regulation for the goal of enhanced Taxonomy-alignment monitoring.

In parallel with the introduction of Corporate Sustainability Reporting Directive (Directive (EU) 2022/2464, CSRD), the availability and quality of the data are expected to increase in time, and the bank will further improve and enrich Taxonomy-alignment monitoring and disclosures requirements accordingly.

In addition, 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 of 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.

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.

## 7. Capital Buffers

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

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.

[8] Emission intensity of a NACE sector represents an average GHG emission gram per euro of gross value added by related sector. The Portfolio Emission Intensity Index calculation assumes that a loan granted to the customer directly translated into the same amount of gross value added.

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 0.13% in 2022. The table below gives an overview of the exposure distribution for the countries along with the countercyclical buffer requirement.

*Table 30 - 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 |
|---|---|---|---|---|---|
| **Romania** | 63,625 | 5,090 | 63,625 | 6.05% | 0.50% |
| **Bulgaria** | 58,431 | 5,166 | 64,577 | 6.14% | 1.00% |
| **United Kingdom** | 46,204 | 3,594 | 44,920 | 4.27% | 1.00% |
| **Denmark** | 174 | 14 | 174 | 0.02% | 2.00% |
| **Total** | **168,434** | **13,864** | **173,296** | **16.49%** | |

*Table 31 - EU CCyB2 - Amount of institution specific countercyclical buffer rate*

| Capital Buffer Items | Value |
|---|---|
| **Total risk exposure amount (EUR '000)** | 1,185,095 |
| **Institution specific countercyclical capital buffer rate** | 0.13% |
| **Institution specific countercyclical capital buffer requirement (EUR '000)** | 1,597 |

## 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.

Based on the result of the ECB Supervisory Review and Evaluation Process (SREP) carried out in 2022 with 2021 year-end financials, DHB Bank is required to maintain a total SREP capital requirement of 13.7%, excluding combined buffer requirements and Pillar 2 capital guidance. The breakdown and overview of the capital requirements is as follows:

*Table 32 - Summary and breakdown of capital requirements*

<table>
<tr><th colspan="2">Prudential Requirements</th><th>Ratio</th></tr>
<tr><td rowspan="3">Pillar 1</td><td>Minimum CET1 requirement</td><td>4.5%</td></tr>
<tr><td>AT1 requirement</td><td>1.5%</td></tr>
<tr><td>Tier 2 capital requirement</td><td>2.0%</td></tr>
<tr><td>Pillar 2</td><td>CET1 capital requirement</td><td>5.7%</td></tr>
<tr><td colspan="2">Total SREP Capital Requirement</td><td>13.7%</td></tr>
<tr><td rowspan="2">Combined Buffer Requirement</td><td>Capital conservation buffer</td><td>2.5%</td></tr>
<tr><td>Countercyclical capital buffer</td><td>0.1%</td></tr>
<tr><td colspan="2">Overall Capital Requirement</td><td>16.3%</td></tr>
<tr><td colspan="2">Pillar 2 Guidance</td><td>0.9%</td></tr>
<tr><td colspan="2">Total Capital Requirement</td><td>17.2%</td></tr>
</table>

It should be noted that CET1 capital requirement under Pillar 2 has been decreased from 6% in SREP 2021 to 5.7% in SREP 2022. In addition, Pillar 2 Guidance of 0.9% which should be made up entirely of CET1 capital is not a legally binding requirement, instead it is a bank-specific recommendation by regulatory authority indicating the level of capital expected to be maintained in addition to binding requirements to serve as a buffer for the bank to withstand stress. As referred also under Section 4.1, DHB Bank's capital structure consists entirely of CET1 capital - which includes paid-in capital and reserves. The bank's CET1 overall capital requirement is 10.3%[9], while CET1 total capital requirement is 11.2% considering additional Pillar 2 Guidance of 0.9%.

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. DHB Bank's CET1 capital ratio as of 31 December 2022 is 18.88%, more than twice the minimum regulatory capital ratio requirement of 8% and comfortably exceeds applicable regulatory requirements. 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.

[9] CET1 overall capital requirement is calculated as the sum of 56.25% of Pillar 1 requirement (8%), 56.25% of Pillar 2 requirement (5.7%) and combined buffer requirement of 2.6%.

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 CRR2/CRD V regulation as per end of 2022.

*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** | 1,722,612 |
| **Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation** | - |
| **(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** | - |
| **Adjustment for derivative financial instruments** | 11,365 |
| **Adjustment for securities financing transactions (SFTs)** | - |
| **Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)** | 4,530 |
| **(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** | 2,130 |

| Exposure Items | Exposure Amount (EUR '000) |
|---|---|
| Total exposure measure | 1,740,636 |

*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: | 1,720,195 |
| Trading book exposures | - |
| Banking book exposures, of which: | 1,720,195 |
| Covered bonds | 9,368 |
| Exposures treated as sovereigns | 371,656 |
| Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns | - |
| Institutions | 173,532 |
| Secured by mortgages of immovable properties | 25,244 |
| Retail exposures | 66 |
| Corporates | 1,022,824 |
| Exposures in default | 2,445 |
| Other exposures (eg equity, securitisations, and other non-credit obligation assets) | 115,060 |

## 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 2022.

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 | 0 | 0 | 0 |
| Total fixed remuneration (EUR '000) | 0 | 2,001 | 2,904 | 12,548 |
| **Variable Remuneration** | | | | |
| Total variable remuneration (EUR '000) | 0 | 0 | 0 | 938 |
| **Total remuneration (EUR '000)** | **0** | **2,001** | **2,904** | **13,486** |