Annual Report **2020**

Financial Statements of DHB Bank for the Year 2020

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

ABOUT DHB BANK

1

About DHB Bank

1. Outline | Demir-Halk Bank (Nederland) N.V. – hereafter referred to as DHB Bank – was established as a commercial bank under Dutch law in 1992. Headquartered in Rotterdam, the bank conducts its activities through locations in the Netherlands, Germany, Belgium and Istanbul. It is a self-reliant and mature organization that possesses all the necessary functions to conduct its operations independently with a total of 112 staff. As of year-end 2020, the bank's balance sheet size and equity were EUR 1,528.2 million and EUR 247.7 million respectively. The bank's business overview is presented under the section 'DHB Bank Overview' of this annual report.

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

HCBG Holding B.V., whose principal business activity is to act as a financial holding company, is 100% owned by Dr. Halit Cıngıllıoğlu. In addition to DHB Bank, the holding has 38.5% shares in Access Financial Services IFN S.A. Romania, 37.17% shares in C International (Nederland) N.V., 9.7% shares in C Faktoring A.Ş. in Turkey, and 7.5% in Demir Kyrgyz International Bank O.J.S.C.

Türkiye Halk Bankası A.Ş. (Halkbank), with around EUR 75 billion in balance sheet size, is one of the largest banks by assets in Turkey; its main shareholder is the Turkish Sovereign Wealth Fund with a 75.29% stake, while 24.70% is free float, and the remainder is held by minority shareholders. Halkbank, which has established itself as the leading bank for financing SMEs in Turkey, continues its mission to contribute to the country's economic development. Halkbank possesses various subsidiaries and affiliated companies in Turkey, mainly in the financial sector, as well as other bank subsidiaries in Macedonia and Serbia and an affiliate bank in Hungary.

In 2020, DHB Bank continued its operations by creating value for all its stakeholders while living up to its economic and social responsibilities.

FINANCIAL HIGHLIGHTS	**2020** *(EUR 000)*	**2019** *(EUR 000)*
Total assets	1,528,193	1,550,533
Loans and receivables – banks	157,742	139,986
Loans and receivables – customers	874,614	961,943
Due to banks	126,072	112,766
Deposits from customers	1,145,782	1,187,478
Total equity	247,683	239,735
Net interest income	35,379	46,627
Net fee and commission income	411	1,474
Result on financial transactions*	(803)	(4,237)
Net profit	7,196	15,672
Non-performing exposures (NPE) ratio	3.14%	1.67%
NPE coverage ratio**	61.0%	15.4%
Solvency ratio***	22.35%	19.79%
Number of employees	112	111
Number of locations	7	7

* *The result on financial transactions represents mainly the cost of swap transactions (that are not designated for hedge accounting purposes) conducted by the bank for funding its loans in USD denomination.*
** *Collateral values are taken into account in the calculation of NPE coverage ratio.*
*** *The solvency ratios exclude the annual net profits for the respective years.*

2. Mission Statement

Delivering quality through transparent and fairly priced products and services to our clients in a select number of countries in order to foster mutually beneficial long-term relationships for sustainable business success in favour of all our stakeholders.

3. Vision Statement

Being an international bank of choice in the niche markets where we operate, a trusted partner for our customers, a valuable investment for our shareholders, a preferred employer for our staff, and a good corporate citizen for society.

REPORT OF THE SUPERVISORY BOARD

2

Report of the Supervisory Board

We are pleased to present the report of the Supervisory Board (SB/the Board) and the financial statements of DHB Bank for the year ending 31 December 2020.

These financial statements were prepared by the Managing Board (MB) and have been audited by Deloitte Accountants B.V. The external auditors' unqualified report is attached to the annual accounts.

4. Proposals to the Annual General Meeting of Shareholders

We propose to the annual General Meeting of Shareholders (GMS) to adopt the financial statements for 2020 and to adopt the proposal for the appropriation of the financial result. The proposal is to retain the net profit for the financial year 2020 in the bank for reconsidering dividend distribution in September 2021, depending on the evaluation of the prevailing economic situation. We consider this approach as prudent in line with the recommendations of the supervisory authorities.

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

5. Overview of the Supervisory Board

DHB Bank's Supervisory Board, consisting of six members, is organized as a body with collegial working practices. Its members have complementary and diverse qualifications as well as specific individual expertise in various banking fields.

The SB considers the benefit of all DHB Bank's stakeholders its guiding principle and strives to facilitate the bank's providing added value and appropriate services to its clients. The new rules and regulations that were introduced in the banking sector over the past decade continued to require great effort on the part of the MB and the SB so as to align the bank's activities accordingly, and to keep the stakeholders informed timely and comprehensively.

To this end, as part of its working schedule, the SB regularly meets with the MB. The SB convenes pursuant to a meeting schedule determined before the beginning of each year. Until 2020, in-person meetings were held at least 5 times per year, and separate teleconferences were usually being organized once or twice per month for credit matters and any urgent agenda items. The corona outbreak changed the working paradigm globally. Accordingly, DHB Bank also exclusively used video conferencing tools for the SB meetings in 2020. All these meetings are being attended by all the SB members and MB members, barring a few negligible exceptions.

The main matters discussed during the SB meetings usually include the regulatory, financial and economic environment and requirements, the bank's business model and overall strategy, budget, financial developments, risk appetite and risk management, compliance, and credit matters. Succession planning is another subject of attention for the SB.

These topics, along with other bank-specific subjects, were also covered extensively in the regular management reports as well as in the reports of the second line of defence units, including Risk Management Department and Compliance & Legal Department, and the reports of the internal and external auditors.

The SB fulfils some of its responsibilities via committees, namely the Risk & Audit Committee, the Related Party Transactions Committee, the Nomination & Remuneration

[1] *All these proposals were unanimously approved by the annual General Meeting of Shareholders on 6 May 2021.*

Committee and the Advisory Committee on Credits. More information on the SB and its composition and functioning, including the duties of the committees, their composition, and the main items discussed, is contained in the section Corporate Governance of this annual report.

6. Corporate Governance and Compliance

Appropriate corporate governance is of great importance to any institution, and it is explicitly codified and implemented at DHB Bank in accordance with the rules and regulations introduced in the past years. The Dutch Corporate Governance Code is not applicable to DHB Bank because it is not a listed company. However, the bank has adopted the Code's relevant requirements, including provisions related to internal risk management, compliance and internal audit. A dedicated 'Corporate Governance' section in this annual report comprehensively explains the respective practices at the bank.

In 2020, the SB and its committees continued to closely monitor compliance with regulatory requirements. The EU's 5th Anti Money Laundering (AML) Directive, which expanded the provisions of the previous one, and DNB's "Best Practice on Tax Integrity Risk" issued in 2019 have led the bank to devote substantial attention to the related stipulations.

Based on thematic examinations that the Dutch Central Bank (De Nederlandsche Bank – DNB) conducted in 2018 and its report in early 2019 with respect to KYC and AML matters, the MB embarked on an extensive project to strengthen the compliance framework with an improvement plan, including the subjects of systemic integrity risk analysis (SIRA), customer due diligence (CDD) documentation, transaction monitoring and reporting. Taking into account the increasing regulatory requirements and supervisory standards, the MB has chosen to work in consultation with professional third parties on a number of selected topics to strengthen the bank's compliance in all aspects, using three lines of defence model. The SB believes that there is a significant improvement in the overall compliance environment of the bank. Progress in the implementation of the improvement plan, which is expected to be completed in the course of 2021, and subject to validation by an acknowledged third party, has been shared with DNB on a periodic basis. Continuing progress is being monitored by the SB.

DHB Bank has continued full compliance – in both text and spirit – with the stipulations of the Future-oriented Banking (FoB) guidance that was introduced in the Netherlands by the Dutch Banking Association in 2015. FoB comprises a social charter, an updated Banking Code and rules of conduct associated with the bankers' oath; it is intended to achieve an ethical, customer-oriented and sustainable banking sector in the Netherlands. The SB stands behind the guidance and stipulations of this package and supports DHB Bank applying these in its activities. The bank is also fully compliant with the new Dutch Banking Code; detailed information is provided on the bank's website.

DHB Bank also follows naturally the guidelines of EBA on all the relevant subjects to its operations and applies them to the extent possible in the framework of proportionality principle.

7. Risk management, audit and internal control systems

The effectiveness of DHB Bank's internal risk management and control systems is an important area of interest for the Board. The primary function of the Risk and Audit Committee (RAC), whose members have sound knowledge of and experience in risk management, audit and internal control, is to monitor the effectiveness of the related systems.

The periodic meetings of the RAC are also attended by the MB members, by the heads of the Internal Audit, Compliance & Legal, Credit Analysis and Risk Management Departments, and by representatives of DHB Bank's external auditors, Deloitte Accountants B.V. Although not required, SB members who are not members of the RAC also routinely participate in RAC meetings as observers; this practice ensures that all the members are adequately informed on all the relevant risk management subjects of the bank and thus facilitates decision making on risk management matters.

Subjects regularly reviewed during RAC meetings are financial reporting, matters related to internal audit findings and recommendations, internal control systems and risk management policies and practices, regulatory correspondence, quarterly credit portfolio risk reports, corporate governance and its applications, compliance, the assessment of the bank's risk appetite and its risk profile in the various risk dimensions, financial control and information security as well as related incident reports. The external auditors' periodic reports also constitute an agenda item of the RAC, as does following up on the recommendations of the internal and external auditors.

The risk appetite of the bank as proposed by the MB and approved by the SB covers various risk dimensions including capital adequacy, liquidity, credit risks and concentration, market risks, operational risk, IT and information security, integrity and reputation risk, as well as compliance with regulations. For each risk type, the risk appetite is aligned with DHB Bank's business model and strategy, and with its respective expertise and experience. Benefiting from the experience and feedback received since the inception of the Risk Appetite Statement (RAS) in 2010, risk appetite statements have been continually adapted to bank-specific and general regulatory requirements and to the developments in the environment. In line with DNB's recommendations in their regular on-site-inspection on credit risk in 2020, the bank made improvements for RAS 2021 including increased granularity in risk sub-dimensions in general as well as integrity risks, and actions for risk mitigation in case of need. Periodic assessments by the Risk Management Department, which were reviewed by the RAC, showed that the bank's risk profile generally remained within the risk levels established in the risk appetite statement throughout 2020, and that any (temporary) deviations were adequately explained and addressed.

The independent organizational position of the Compliance & Legal Department, Internal Audit Department and Risk Management Department, which all have a direct information line to the RAC, also ensures effective control in the respective fields and supports these departments' independence.

The SB and the Supervisory Board Credit Committee (replaced by the Advisory Committee on Credits early in 2021, with different guidelines) regularly convened to assess and provide advice on the credit proposals brought forward by the bank in line with the existing escalation procedure.

In terms of risk absorption capacity, DHB Bank has a robust capital buffer by international standards, to weather unexpected local and/or regional crises. A sticky retail deposit base, combined with the bank's liquid assets and the short average duration of the loan portfolio, enables DHB Bank to withstand possible liquidity squeezes in the market under plausible stress scenarios. This position is a result of and is supported by the bank's internal capital adequacy assessment process (ICAAP) and its internal liquidity adequacy assessment process (ILAAP). DNB supervisors have informed the bank that, due to the coronavirus pandemic, its ICAAP and ILAAP requirements would remain unchanged for the 2020 supervisory review and evaluation process (SREP) cycle until the completion of the new cycle in 2021.

The bank's Recovery Plan sets out the possible key measures to be taken by DHB Bank in case of a near-default scenario – without assuming the availability of publicly funded support – in order to emerge from a severe crisis independently and with its core business intact. Guidelines published by EBA on this subject are taken into account in the Recovery Plan. The SB and RAC consider that the measures envisioned therein provide adequate comfort regarding the preparedness of the bank against possible severe crises.

The Covid-19 outbreak that began in the first quarter of 2020 has greatly impacted the world economy and the financial environment. The SB closely oversees matters pertaining to this outbreak and its potential impact on the bank, all the while confidently observing once more the bank's flexibility in adapting to challenges of different nature as proven throughout its history. The current strong liquidity position and capital base of the bank has provided additional comfort in this respect. The SB is also pleased to observe that the home-working environment implemented throughout the bank proved very efficient and did not cause any interruption in the bank's operations and services.

In 2020, DNB shared their findings related to its (remote) on-site-inspection (OSI) that they conducted on credit risk. In view of the bank's proven track record, the SB believes that the improvement plan follow up actions in this respect will further solidify some aspects of the bank's credit risk management practices going forward.

The SB values the bank's prudence concerning sound operations and active risk management and maintains its view that internal risk governance is adequately designed and efficiently working at DHB Bank. The SB also appreciates the constructive and effective dialogue that the MB has established with DNB. The SB members as well, jointly and/or separately, effectively interacted with DNB delegates on some occasions in 2020 to discuss regulatory and financial matters in relation to DHB Bank.

8. Strategy

The SB monitors the development regarding the bank's business model and the manner in which the MB implements the long-term value creation strategy. This is accomplished through SB meetings and reports prepared by the MB.

In the past years, the MB had developed and implemented certain measures to further streamline the bank's organizational structure and reduce its cost base.

These measures yielded positive results without affecting the business model of the bank and its risk appetite, and helped maintain the bank's profitability in a continuing negative/zero benchmark interest rates environment with increasing direct and indirect regulatory costs.

Joint strategy sessions initiated by the SB and MB two years ago yielded a consensus that no significant changes were required to the bank's core strategy. The latter is focused on traditional banking; that is, principally retail deposits funding mostly wholesale lending to prime corporates and banks – predominantly in the European Economic Area – as well as a small fully insured retail loan portfolio in Belgium that is planned to grow. The SB, the MB and the shareholders are in agreement on the strategic direction of DHB Bank with gradual diversification commensurate with the bank's competences.

The SB also monitored the bank's continued adherence to the requirements of the Policy Rule on Maximizing the Deposits and Exposures Ratio under the Act on Financial Supervision. This had guided the bank to expand more in the European Economic Area over the past years. The SB appreciates the MB's intensive efforts for meeting and exceeding the relevant asset and liability diversification targets and furthering the bank's position and prospect in this context. In 2020, intensive commercial activities with sound operations and active risk management, supported by careful policy development and implementation, have continued to bring about a generally satisfactory performance of the bank against the backdrop of a global economic crisis due to the corona pandemic.

The SB considers strategy review a continuing process that requires regular attention under changing market circumstances. The SB will continue its strategic oversight concerning the business model and activities of the bank on the basis of sound risk parameters, including strong solvency and liquidity levels in compliance with the regulatory requirements and in alignment with the approved 2021 risk appetite statement.

9. Financial Performance

In the challenging and demanding environment of the past years, DHB Bank has succeeded in maintaining its sound business profile, even with a higher level of liquidity and capital adequacy, with clear-cut directions and working principles to focus on asset quality rather than higher profitability. Intense regulatory and supervisory requirements, coupled with a low yield environment, continued in 2020, but the devastating corona pandemic outweighed these in its effects on the markets. The SB assesses the bank's performance as satisfactory given the extraordinary circumstances of 2020.

Over the years, DHB Bank has shifted its focus on the EEA (close to 80% of the balance sheet) and significantly limited its exposure to Turkey (less than 10% of the balance sheet). The bank carried very high liquid assets and retained strong solvency throughout the year as a precautionary stance and continued to maintain a reasonable NPE ratio, given the extraordinary circumstances of 2020. The SB regards this performance, which was delivered thanks to DHB Bank's strong risk management principles and discipline, its overall organizational governance, its operational structure, and its flexibility in quickly adapting to environmental changes, as satisfactory.

The SB has continued to closely monitor the political, financial and economic developments in the Eurozone and in Turkey, along with the bank's general exposures and investment profile in terms of size, borrower segments and geographical coverage. The significant depreciation of the TRY against hard currencies and the political developments in Turkey over the past few years were a particular attention area for the SB members as well; the Board appreciates DHB Bank's capability to swiftly adjust the asset composition and the MB's prompt action where needed.

During 2020, DHB Bank was in frequent dialogue with DNB concerning regular supervisory subjects but also special topics such as compliance, credit risk management, liquidity and market risk, including interest rate risk in the banking book, management. The SB closely followed the outcomes of these supervisory initiatives that prompted the bank to further refine its policies, methodologies and practices.

10. Related Party Transactions

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

11. Self-Evaluation

The SB members annually provide the chairman of the SB with a written self-evaluation of their performance in relation to their functions in the bank. The scope of this evaluation is comprehensive, including the involvement and contribution of each member, their cultural fit, their self-development, the effectiveness of the lifelong learning, and the relationship between the Supervisory Board and the Managing Board and the pursuit of the bank's interests.

In addition to these self-evaluations, according to the Supervisory Board Policy, the functioning of the SB is evaluated under independent supervision once every three years. Based on the members' self-assessments and individual interviews conducted with an external party expert on corporate governance as a facilitator, the independent evaluation of the SB took place in the last quarter of 2020. The outcome of this evaluation, which was positive overall, was discussed in detail among the members with the facilitator in a special session in December, and subsequently with the MB members in January 2021.

Both the self-evaluations and external assessment enable the SB members to examine their own and each other's views on the functioning of the Board. The SB is of the opinion that these evaluations strengthen the cooperation within the Board and help the members adapt to the continually changing banking environment by providing an additional open and congenial discussion platform. Lifelong learning sessions are useful to facilitate this adaptation; however, corona pandemic conditions with strict lockdowns and travel bans in 2020 hindered respective activities in this respect. By adopting a video-conference based working mode, a number of learning sessions have already been implemented in the beginning of 2021 with a focus on new regulatory items, including climate-related and environmental risk management.

Through the Nomination & Remuneration Committee, the SB evaluates both the functioning of the MB as a whole and that of the individual MB members, including the achievements of their individual and collective targets.

12. Board composition

Ms Liana Mirea, who had joined the bank in 2016, was not available for a new term upon the expiry of her mandate on 19 January 2020. We would like to express our sincere appreciation for the contributions that she made to DHB Bank during her term in office.

The Nomination & Remuneration Committee (NRC) had convened several times in 2019 in relation to the upcoming vacancies and recommended to the SB the appointment of a new candidate selected by the NRC based on the required qualifications for SB members as a replacement for Ms Mirea. Following his approval by the SB, the shareholders, and DNB as the supervisory authority, Mr Kemal Cıngıllıoğlu joined the Board on 29 January 2020 as a member related to HCBG Holding BV. The SB welcomes Mr Cıngıllıoğlu who had been an observer on the Board since 2013.

For further details on the background of the SB members, please refer to the Corporate Governance section in this annual report.

13. Shareholders, Management, Staff, Clients and Partners

We would like to thank our shareholders for their continuous commitment toward the bank since its establishment and particularly during the past years' globally volatile environment. The founding shareholders, Dr Halit Cıngıllıoğlu as the ultimate beneficiary majority owner and Türkiye Halk Bankası A.Ş. as our valued minority shareholder, have continued to support DHB Bank in the reporting period under review. The SB's open and constructive dialogue with the shareholders will continue in 2021 concerning the bank's strategic activities, in the interests of all stakeholders.

We express our appreciation for the dedication of DHB Bank's management and staff in ensuring a sound operational set-up in a difficult year and thank them for their overall performance during the year under review in a challenging economic and regulatory setting.

Finally, we would like to thank all our clients and partners for the confidence they continue to place in DHB Bank.

Rotterdam, 6 May 2021

Frederik-Jan Umbgrove (Chairman)
Nesrin Koçu-de Groot
Maarten Klessens
Onur Bilgin
Ariel Hasson
Kemal Cıngıllıoğlu

REPORT OF THE **MANAGING** BOARD

3

Report of the Managing Board

14. 2020 Highlights

DHB Bank's balance sheet closed the year 2020 with EUR 1,528.2 million, representing a minor (1.4%) decrease compared to the previous year. This negligible decrease was a reflection of asset & liability management preferences implemented deliberately by the MB under the corona pandemic conditions.

On the asset side, corporate loans declined by 11% and bank loans were increased by 13%. Cash was lower by 16%; though it continued to represent a relatively high portion of the assets with 14% of the balance sheet. Retail loans more or less maintained their levels while securities increased by 42% (to represent 16.8% of the assets). There were minor changes in other asset classes.

On the liability side, customer deposits are lowered by 3.5% with minor changes in other liability items.

The equity increased by 3.3% to reach EUR 247.7 million (a considerably high 16.2% of the balance sheet total), which is the result of retaining the entire net profit of 2019 upon the recommendation of the supervisory authorities towards the banks in general in 2020 - despite the bank's 100% dividend distribution policy.

Thanks to conducting an active asset and liability management also in 2020 while operating within the boundaries of the risk appetite, the bank closed the year with a EUR 13.8 million operating profit before impairment and before tax. This is lower than the previous year, inevitably, as the result of the extremely cautious and pro-active positioning of the bank against the impacts of the corona pandemic, in particular by keeping a very high daily average cash balance. Combined with lower total operating income, slightly lower operational expenses and higher impairment charges than in 2019, the 2020 profit after tax amounted to EUR 7.2 million compared with EUR 15.7 million in 2019.

On the operational side, the negative effect of Covid-19 on every aspect of social and economic life was a predominant factor, affecting also the bank like any other institution world-wide. The bank immediately switched to home-working mode quite early in 2020 to protect the employees' well-being while also arranging ICT facilities to ensure the continuity of the usual operations and customer services. Concerning credits, eligible customers were supported by applying official moratoria rules while a generally prudent approach was adopted in lending activities coupled with increased monitoring as well as reporting.

Overall, the Management is pleased to have steered the bank through an extraordinarily difficult period unscathed.

15. Shareholders

The MB values the shareholders' commitment to the bank since its establishment as demonstrated, among others, by occasional capital injections and frequent profit retentions. The MB members would like to extend their sincere appreciation for the shareholders' continued support in 2020.

Thanks to its strong capital position, DHB Bank had started to distribute 50% of annual net profit as dividend since 2012, and 100% since 2016. The MB assesses the current capital position of the bank as very strong, allowing to continue distributing dividend. However, in line with the recent recommendations of the ECB and of DNB, the MB had proposed to retain the entire net profit of 2019 in the bank (and evaluate the economic situation in October 2020, and later in January 2021) for reconsidering dividend distribution.

As a subsequent event to 2020, in agreement with the bank's dividend policy, in February 2021, DHB Bank distributed EUR 2 million from the 2019 net profit, based on the following ECB recommendation: *'The ECB expects dividends to remain below 15% of the cumulated profit for 2019-20 and not higher than 20 basis points of the*

Common Equity Tier 1 (CET1) ratio, whichever is lower. Banks that intend to pay dividends need to be profitable and have robust capital trajectories'. Considering the restriction related to CET1, the Managing Board proposes maintaining the 2020 net profit in the equity and consider reviewing distributing it in September 2021, parallel to the more recent ECB recommendation and depending on conditions then.

In 2018, Halkbank and DHB Bank signed a liquidity standby agreement in order to create a contingent liquidity facility for DHB Bank to weather even a very severe deterioration of market liquidity. This agreement, which was extended for one more year in 2020 allows DHB Bank to rely upon an immediate cash support from Halkbank for up to EUR 75 million, as a precautionary measure against a severe stress scenario. The MB would like to extend their gratitude to the management of Halkbank for this support.

The Managing Board members continued to consistently inform the shareholders about important developments in the bank in the course of 2020, via meetings, presentations, and other communication.

16. Lifelong Learning

The Senior General Manager, with inputs from his fellow Managing Board members, sets an annual lifelong learning programme for the MB at the beginning of each year. The MB members, in this framework, separately attended courses, forums, workshops and similar events on subjects such as tax integrity, use of technology, and climate change, to name a few.

The MB is of the opinion that lifelong learning sessions in 2020, although somewhat limited by the pandemic related restrictions, reinforced the already extensive knowledge base of its members and their ability to adapt to the ever-changing banking environment..

17. Corporate Governance & Risk Management

In order to keep the Report of the Managing Board concise and focus on developments/explanations related to the financial year 2020, corporate governance applications and the risk management set-up of DHB Bank are presented in this annual report under the section 'Corporate Governance'.

18. Environment

Traditionally, economic, financial and (geo) political developments in the European Economic Area (EEA) and Turkey define the main operating environment of the bank. The corona pandemic had severe implications for both like in all countries worldwide. This was coupled with rigorous regulatory requirements that continued to prevail in 2020. All these factors had and continue to have varying degrees of impacts on the bank.

Economic & Financial Environment

EEA

The economic environment in the EEA, where the bank has close to 80% of its assets, did not have any particular negative or positive impact on the bank's operations despite the expected 7% contraction in the region, because DHB Bank positioned itself cautiously against the implications of the pandemic. Notwithstanding the humanitarian tragedy side of this subject, the European governments and the ECB should be given due respect for the measures they have taken in trying to contain the crisis.

On the financial front, the European Central Bank' policy of low/negative interest rates continued, thus causing downward pressure on almost all types of yields in DHB Bank's asset generation activities.

Considering the magnitude of its exposures in the EEA, DHB Bank will continue to diligently monitor the political, economic and financial developments, including the consequences of Brexit, in this region.

Turkey

Turkish exposure used to represent the majority of the bank's assets in the past. It was continually reduced over the years and came down to 10% of the balance sheet at the end of 2020.

Several developments in the country starting in 2018, such as the accelerated depreciation of the lira, the deterioration in macro-economic indicators and the ensuing economic and financial difficulties, as well as geopolitical tensions in the region led the major rating agencies to further downgrade the country's rating that was in the sub-investment category. All of this prompted DHB Bank to further limit its Turkish exposure. After a partial recovery in the second half of 2019, the pandemic has reversed the trend in 2020, and it is expected that the Turkish economy will continue to face high FX rates, interest rates and inflation rates. The relatively insignificant economic growth of 2019 and in 2020 is expected to rebound in 2021, although sustaining a pace of its historical average performance of close to 5% in the following years might be challenging. Accordingly, DHB Bank will maintain Turkish exposure at less than 20% of the balance sheet and continue to cooperate with resilient companies and prime banks.

Regulatory & Supervisory Environment

The most significant regulatory requirements with implications for the activities of the bank are i) the Policy Rule on Maximizing the Deposits and Exposures Ratio under the Act on Financial Supervision (the Business Model Policy Rule), and ii) the Policy Rule on the Treatment of Concentration Risk in Emerging Countries (the Country Concentration Policy Rule). In summary, they guide Dutch banks towards more anchorage in the EEA and impose a higher capital charge for some exposures in the emerging markets.

In 2020, the Dutch Central Bank (De Nederlandsche Bank – DNB) initiated or followed up on a number of supervisions and system-wide thematic examinations (some via self-assessments or questionnaires), namely: transaction monitoring in the framework of tax and anti-money laundering, managing/monitoring terrorist financing risk, credit files review, on-site inspection on credit risk, IT risk assessment etc., all in addition to intensive reports, information and data requests aside the regular prudential reporting.

Based on thematic examinations that DNB conducted in 2018 and its report in early 2019 with respect to AML/CTF matters, the MB initiated an extensive project to strengthen the bank's compliance framework with an improvement plan, with a focus on customer tax integrity risks, including the subjects of systemic integrity risk analysis (SIRA), customer due diligence (CDD) documentation, transaction monitoring and reporting. Triggered by the increasing regulatory requirements and supervisory standards, Management opted to work in consultation with professional third parties on a number of selected topics to strengthen the bank's compliance in all aspects, using three lines of defence model. Significant efforts have been placed in these endeavors by all the layers of the bank, and the MB is pleased to observe that substantial improvement has been achieved. Progress in the implementation of the improvement plan, which has been subject to validation by an external third party has been shared with DNB on a periodic basis throughout the year. The improvement plan is expected to be completed in the course of 2021, along with further validation and DNB evaluation.

In 2020, DNB shared their findings from an on-site-inspection (OSI) that they conducted on credit risk. The MB has developed an improvement plan in this respect, which was acknowledged by DNB, and is to be completed in 2021. Progress reports are being shared with DNB periodically. Management is confident that the bank's credit risk management framework has a good track record, as evidenced by the low NPEs that DHB Bank reported throughout the years since its establishment, but also believes that the improvements to be implemented will refine the bank's credit practices going forward.

DHB Bank timely completed its annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) in the first quarter of 2020 by extending their coverage, including possible pandemic-related implications. DNB did not engage in the usual Supervisory Review and Evaluation Process (SREP) after the submission of the respective ICAAP and ILAAP, focusing instead on the risks and challenges related to Covid-19. Therefore, the latest SREP decisions from DNB remained valid and in force for the 2020 SREP cycle. DHB Bank continued to be in frequent contact with the supervisor that closely monitored the bank's capacity to absorb the potential impact of the pandemic-related risks over time.

DHB Bank is in compliance with all the capital adequacy ratios of the Basel III Accord as well as with the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). Considering the economic environment, DHB Bank continued to maintain a high liquidity level in the form of cash balances and ECB eligible securities. The bank did not need to make use of the capital and liquidity relief offered by ECB/ DNB in the form of i) operating below the level of capital as defined by the Pillar 2 Guidance (P2G) and the capital conservation buffer (CCB), and ii) operating below LCR.

On the other hand, the Management welcomes DNB's general measures (such as the postponement of some regular requests) that were aimed to provide operational relief and alleviate the supervisory burden to support banks in addressing operational challenges and allow them to focus on key operations.

Since 2016, DNB collects ex-ante contributions from Dutch banks to the Deposit Guarantee Scheme (DGS). The amount of an individual bank's contribution is calculated as a function of its risk profile and the amount of guaranteed deposits held at the bank. As per DNB's new guidelines, DHB Bank's reporting format has been updated to enhance Single Customer View.

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

19. Strategy

Long-term value creation rather than short-term profit is the foundation of DHB Bank's strategy. In alignment with this principle, the bank made considerable changes in its governance structure and processes in the past years. Due to the regulatory developments mentioned in the section above, particularly concerning the Business Model Policy Rule, DHB Bank refined its strategic alignment, which had originally begun in 2010, and attained a higher level of maturity as a result. This involved placing the bank's primary geographical focus on the EEA, as well as a marked shift from bank exposures towards non-banks. This is conducted in the framework of DHB Bank's customary stringent credit risk assessment, limit establishment and monitoring practices, aimed at preventing the bank from incurring excessive risks in search of higher leverage and return. An important feature of the bank's credit allocation principles is granting loans to obligors that stand out on their own financial and performance merits and sound projections; their parent companies' guarantees are also generally obtained as credit enhancement especially in the start-up phase.

In 2020, the bank continued to maintain the balance sheet size around EUR 1.5 billion. In the short to medium term, it will remain in the same range with slight variations depending on market circumstances and opportunities. Anchorage will be kept in the EEA on the asset side, and retail deposits will remain the main funding source. The past years' efforts in terms of geographical diversification bore results, thanks to which exposures to the EEA started to represent the largest share in the bank's portfolio since 2015, around 70% of the balance sheet since 2017 and close to 80% in 2020. In the process, the bank gained expertise in doing business in different jurisdictions. DHB Bank continued to put more emphasis on corporate clients instead of banks, while activities for further increasing retail lending also started to gain momentum. Turkey used to be a major market for DHB Bank. It still continues to account for a certain portion of the loan portfolio (around 10% of the balance sheet, with an average maturity of 8 months), despite the macro-economic and financial difficulties since 2018, thanks to the Management's experience in and in-depth knowledge of the country.

Credit risk management is an important facet of strategy. As at other banks, it remained a special focus area for DHB Bank. Periodic credit portfolio risk reports as well as supplementary credit risk related analyses were prepared by the Credit Analysis Department, so as to identify possible relevant risks in advance. Such reports are thoroughly reviewed at the meetings of the bank's governing bodies. Special country reports and reviews of topics like the impact of FX volatility on the bank's customers are also prepared in certain intervals. These analyses identify the potential impact of plausible adverse developments on customers, enabling the bank to take measures such as credit enhancements or to end relations with some customers where needed.

In the last quarter of 2018, a joint strategy review session had been organized with the SB and MB – with a financial consultancy firm as facilitator – to review the strategic direction of the bank and to explore possible threats and opportunities in the external environment and to adjust the bank's risk appetite, where needed. As a result, the SB and MB agreed to maintain DHB Bank's core business model in the short to medium term with gradual steps for further diversification. This stance also has the support of the bank's both shareholders.

In the particularly difficult and risky environment of 2020, DHB Bank pursued its strategy to maintain sustainable profitability in the face of a negative/low interest rate environment while not deviating from its prudent risk appetite for the benefit of all its stakeholders. The general strategic direction of DHB Bank is regularly covered in the meetings with DNB as part of their routine supervisory function. The financial results of the business strategy are reported to the SB within the governance structure of the bank monthly, along with updated information on non-financial business activities and developments.

DHB Bank will continue to capitalize on its expertise and experience in particular customer segments and geographies to achieve its business objectives instead of accepting greater risks with higher returns to seek higher profitability. This approach will continue to be the bank's strategic mainstay in the future.

Considering their natural investment interests, presentations are being made to the shareholders about twice a year to inform them about the strategic direction and performance of the bank.

The MB would like to reiterate its appreciation for the SB's valuable guidance with respect to the bank's long-term strategy and for the shareholders' support in this respect.

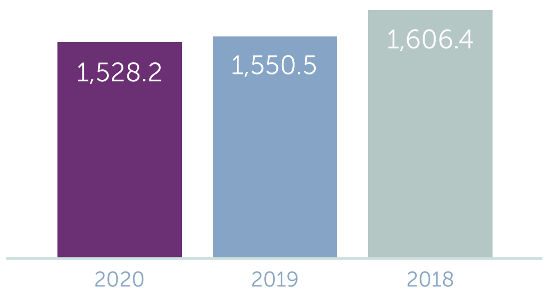
20. Risk Management

Detailed information on the bank's risk management framework is provided under the section 'Corporate Governance' of this annual report.

21. Financial Review

The 2020 financial statements of DHB Bank, which does not have subsidiaries, are prepared according to EU IFRS..

Balance Sheet - *EUR Million*

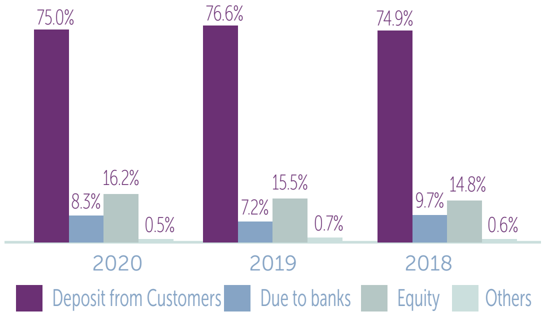


DHB Bank stands as a small-sized bank in the Dutch banking sector. It is capable of flexibly and swiftly adapting to changes in the economic and financial environment. This advantage is combined with a straightforward business model based on traditional banking. The bank closed 2020 with a balance sheet size of EUR 1,528.2 million. That is not significantly different from 2018/19 but about 17% lower than 2017, to enable the bank to maintain its asset quality in the face of adverse developments in its operating markets.

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

Liabilities

Breakdown of Liabilities



DHB Bank's external liabilities consist mainly of customer deposits. Wholesale funds account for a relatively small portion of the total. The share of total deposits from customers in the balance sheet remained in the same range, while wholesale funds have trended lower since 2018. Retail deposits are set to remain the primary funding source of the bank in the future.

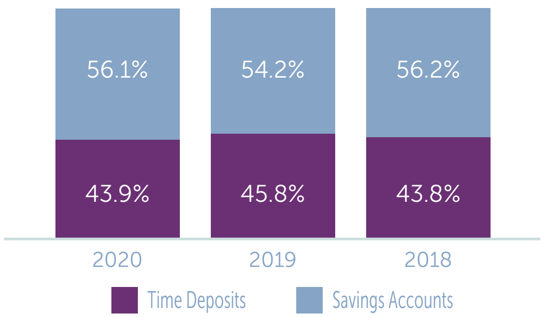
The bank's own funds have traditionally been at a very comfortable level by international standards, with a strong loss absorption capacity. This continued to be the case in 2020. Shareholders' equity stood at EUR 247.7 million as of year-end 2020, corresponding to a 16.2% of total liabilities, thus reflecting a very low leverage for the commercial banking sector.

In 2020, DHB Bank reported a very comfortable 22.4% total capital ratio excluding net profit of 2020, even higher than the previous year's 19.8%. This is equal to the Core Tier 1 capital ratio. Because of its straightforward business model and its robust equity base, the bank does not make use of hybrid capital instruments. In the calculations throughout the year, excluding the interim profit of 2020, the bank's capital ratio has always been above 20% during 2020.

DHB Bank applies the standardized approach for credit risk under Pillar 1 according to the Basel II Capital Accord. The capital adequacy assessment under Pillar 2 is regularly updated and taken into account in solvency calculations under ICAAP. In terms of financial transparency, additional disclosures are published on the web site of DHB Bank as required under Pillar 3. The bank's capital level is also adequate as per the requirements in the Netherlands that demand – compared to international Basel standards – additional capital for certain exposures in line with DNB's Country Concentration Policy Rule.

Deposits from customers, which overwhelmingly consist of retail deposits (with a very small portion of corporate deposits), were EUR 1,145.8 million (89.5% of non-equity liabilities) as of year-end 2020. Retail deposits are collected from the Netherlands and Germany via call centres and the internet. Time deposits constituted 43.9% of the total, while the remainder consisted of savings accounts (and a small number of current accounts) as of year-end 2020. Management considers this a healthy term structure for the bank's liabilities. 74.1% of total retail deposits were collected from Germany, 25.7% from the Netherlands, and the negligible remainder from Belgium, where deposit collection was terminated in 2016. In Belgium, only some time deposits remain that will be reimbursed to customers as they mature. With regard to customer service, Management is happy to observe that there were not many and important complaints from DHB Bank's customers, the most important asset of the bank.

Retail Funds by Maturity



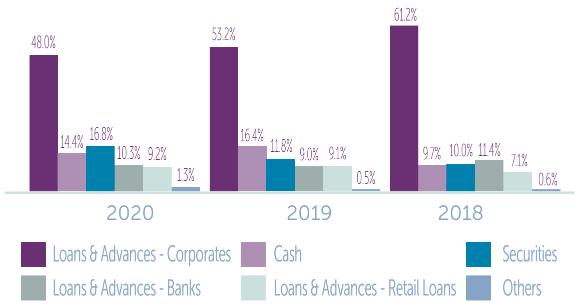
DHB Bank ranks at the mid-range of the market spectrum concerning offered deposit rates, with occasional deviations resulting from assets and liability management preferences.

The 'due to banks' item, as a wholesale funding source, amounts to 9.8% of non-equity liabilities with EUR 126.1 million. Nearly EUR 120 million of this item consists of funds obtained from the ECB under TLTRO.

Other liabilities, amounting to total EUR 8.2 million, consist of items such as financial liabilities held for trading, derivative financial instruments designated for hedge accounting, various provisions, accrued expenses, payables to suppliers, premium payables et cetera.

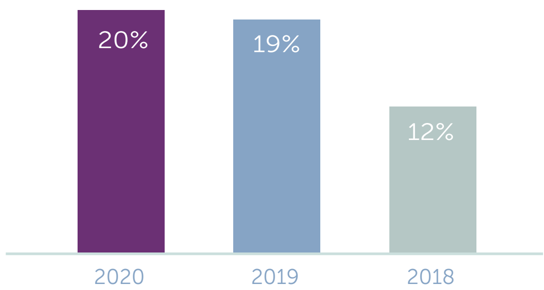
Assets

Breakdown of Assets

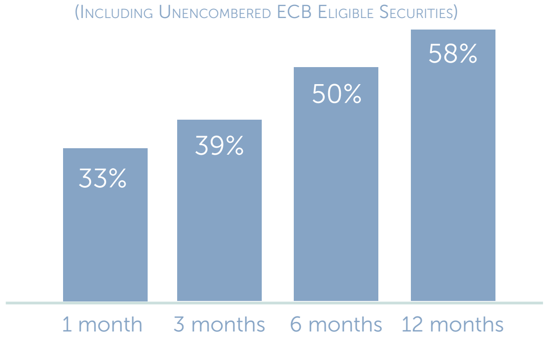


DHB Bank's interest-earning assets – except for EUR 219.5 million (cash) balances primarily with the European Central Bank that are carried at a negative interest rate – corresponded to 84.4% of the total balance sheet; they comprise corporate loans, securities investments, retail loans and bank placements – in order of size. Cash was voluntarily maintained high throughout the year, namely at around 16.4% of the balance sheet on average, so as to maintain high liquidity in an uncertain environment.

Immediate Liquidity % of Balance Sheet

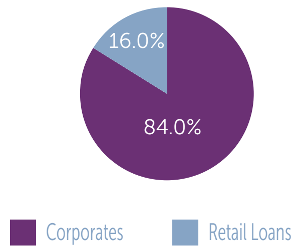


Maturity of Interest Earning Assets
(Including Unencombered ECB Eligible Securities)



The immediately available liquidity of DHB Bank was higher than the cash balance with approximate EUR 309 million, including the available– i.e., unencumbered – ECB-eligible securities after haircuts. This represents nearly 20% of the balance sheet total. The strong liquidity position of the bank is additionally supported by its asset structure with short tenors, as shown in the above table 'Maturity of Interest Earning Assets'.

Loans and Advances Customers - 2020

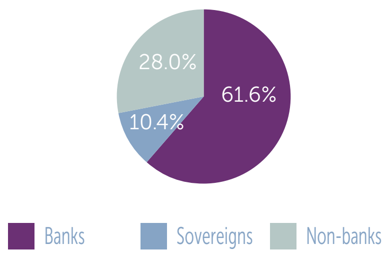


Loans and Advances – Corporates decreased by EUR 88.4 million in 2020 to close the year with EUR 729.6 million. This decrease is the result of the management decision to de-risk and maintain high solvency and liquidity in the face of the corona pandemic. Corporate loans continue, however, to constitute the main interest earning asset class of the bank with 48% of the balance sheet.

As a supplementary asset class, retail loans, which are fully insured by an A-rated renowned insurance company, remained unchanged at EUR 145 million in 2020, including a negligible amount of non-insured loans from the past. Their share within total loans and advances to customers slightly increased. Retail loans constituted 9.5% of the balance sheet in 2020.

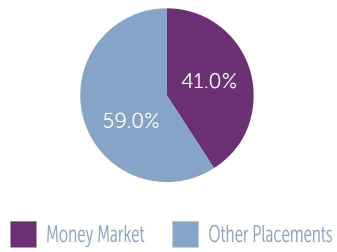
Securities investments, which are regarded as an important liquidity management tool, amounted to EUR 256.8 million at the end of 2020, about EUR 75 million higher than the previous year. About 85% of them were investment grade in the A- to AAA rating scale. A high proportion of the securities were ECB-eligible securities issued in EEA countries. About half of these securities were used for TLTRO funding with matching maturities, while the unencumbered portion served as a liquidity buffer.

Securities by Issuer - 2020



The item of 'Loans and Advances – Banks', including the portion classified as FVOCI (EUR 66.9 million) in the balance sheet, represented the fourth largest portion of DHB Bank's assets at the end of the year, with a total of EUR 157.7 million, or 10.3% of the balance sheet. This item does not include securities issued by banks, which are presented under the Securities item. The general trend in this asset class was a gradual decline over recent years, also as a consequence of the strategic alignment plan that envisaged expansion in corporate loans at the expense of bank loans. The level of bank loans in the balance sheet was also determined by risk management considerations because of their relatively safer nature – particularly with the top banks in DHB Bank's portfolio – as well as their short-term tenor and sell-ability in the secondary markets: 41% of bank loans are very short term money market placements and the majority of Other Placements consists of bank syndications.

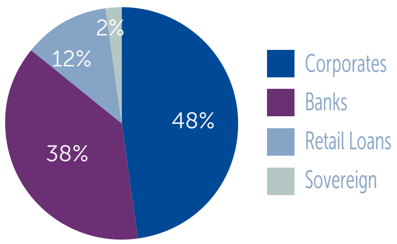
Loans and Advances Banks - 2020



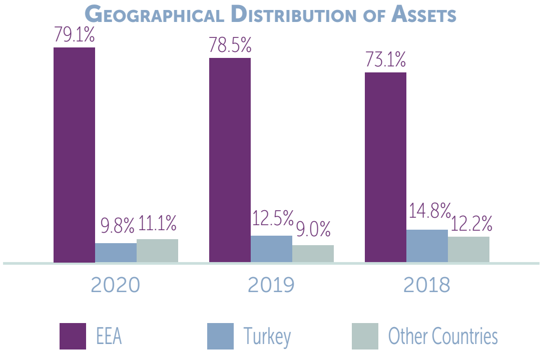
Depending on alternative opportunities, and as far as feasible given liquidity and capital requirements, bank loans – as well as securities – have a pivotal function: their balances are reduced or increased according to developments in non-bank loans and in the asset & liability management preferences of the bank.

The distribution of DHB Bank's assets reflects its efforts to increase diversification in terms of geography. Close to 80% of the bank's exposures originated from the EEA. This geographical distribution is a concrete result of the bank's continuous work towards expansion in the EEA. A majority of EEA assets were top quality exposures consisting of cash, securities, exposures to internationally operating banks, fully insured retail loans and the like, while the remainder possessed also strong credit enhancements. More than 50% of EEA exposures were to the Netherlands and Germany. Turkey accounts for 9.7% of exposures, continuing the downward trend of the last few years. The bank's other exposures were to 11 countries, the highest proportion of which was to the USA followed by Republic of North Macedonia and the UAE.

EEA Exposures - 2020



Geographical Distribution of Assets



Statement of Profit or Loss

DHB Bank's earnings model is straightforward: The key revenue driver is interest income supported by a relatively small contribution from commission income and occasional trading income, while the main expense items are staff expenses and administrative costs. If the "net cost of derivatives" were to be booked under interest expenses (as clarified in the Operating Income sub-section) to identify recurring profitability, net interest income would effectively account for 97% of total operating income, the remainder being other items such as result on financial transaction and commission income. As for the expense items, excluding impairment charges, staff expenses accounted for 64% of total operating expenses, with other administrative expenses making up 32% and depreciation & amortization expenses 4% (compared with 2019, percentage-wise, staff expenses slightly increased while other administrative expenses declined). Detailed information regarding various risk factors such as credit risk or market risks that might affect the earnings of the bank, and their management and hedging is presented in the financial statements part and corporate governance part of this annual report.

Operating Income

The negative base rates environment (Euribor and ECB deposit rates below zero) continued in 2020, which inevitably has an impact on the bank's income level; a slight decrease in funding costs did not have sufficient impact to compensate for this. The bank refraining from credit growth, and, on the contrary, opting for de-risking, had an additional negative effect on the income side, which a slight increase in some asset yields could not negate. Accordingly, net interest income amounted to EUR 35.4 million, lower than the previous year's EUR 46.6 million figure. The bank has reduced offered retail deposit interest rates several times throughout the year following market developments and the bank's preferences. It should also be noted that the bank kept an average EUR 239 million in cash balances (15.8% of the balance sheet) with the ECB throughout the year. The negative interest rate on these balances continued to have an adverse impact on the income side in excess of the mere opportunity cost.

On the other hand, to present an alternate picture of net interest income, the cost of swap transactions (which are formally reported under Result on Financial Transactions) could be reclassified under interest expense from an economic perspective, as they represent the cost of funding obtained through swap transactions for loans denominated in USD and TRY. These costs were EUR 1.7 million and EUR 4.3 million in 2020 and 2019 respectively, and when they are reclassified under interest expense, the picture of net interest income after cost of swaps is as follows, which reveals that the effective reduction in net interest income was slightly lower than reported in 2020.

EUR million	2020	2019
Reported Interest Income	41.9	55.1
Interest Expense	(6.5)	(8.5)
Cost of Swaps	(1.7)	(4.3)
Net Interest Income after Cost of Swaps	**33.7**	**42.3**

In the past the cost of swaps used to be much higher as funding was obtained in TRY for extending short-term Turkish Lira loans; As TRY loans are no longer provided as from the first half of 2019, there has been a significant decrease in the cost of swaps since then. Swaps are now mainly used to obtain USD funds for placements in that denomination.

Net fee and commission income was EUR 0.4 million in 2020, lower than the EUR 1.5 million of the previous year. Gross commission income mostly consists of brokerage fees for insurance intermediation in relation to retail lending.

Such transactions were temporarily halted in 2020 to provide these services via a subsidiary (established at the beginning of 2021). DHB Bank has largely terminated providing traditional banking services that generate commission revenues, such as money transfers and trade finance intermediation services, as their high administrative costs do not justify the returns; therefore, commission income does not represent an important revenue generation source for the bank. The commission expense item mainly represents fees related to banking services received in the course of daily operations, with a low yearly cost of EUR 0.2 million in 2020, more or less the same as in previous years.

The negative result of EUR 0.8 million on financial transactions includes the results from foreign currency exchange transactions, securities transactions, market valuation of FX swaps, cross currency swaps and interest rate swaps – all of them being gains – except for the aforementioned cost of swaps.

Due to the unfavourable effect of maintaining very high liquidity – at negative yields on the cash balance with the ECB and at very low yields on ECB eligible securities – as well as voluntary de-risking/ lower asset volumes, total operating income closed the year 2020 with EUR 34.8 million, lower than EUR 43.8 million in 2019.

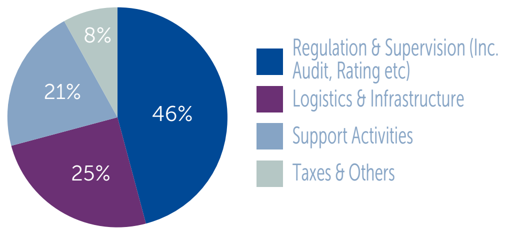
Operating Expense

Total operating expenses maintained their EUR 21.0 million level in 2020 similar to 2019, with decrease in other administrative expense balancing increase in staff expenses.

EUR million	2020	2019	Difference
Staff Expenses	13.4	12.1	1.3
Other Administrative Expenses	6.8	8.1	(1.3)
Depreciation & Amortization	0.8	0.8	0.0
Total Operating Expense	**21.0**	**21.0**	**-**

Staff expenses increased in the normal course of business. The decrease in other administrative expenses results mainly from lower expenses for support activities such as consultancy. The bulk of the consultancy services related to the strengthening of the bank's compliance framework was booked in 2019. Other savings are thanks to reductions in travel expenses (as a result of corona-inducted home working) and other logistics and infrastructure expenses.

Distribution of Other Administrative Expenses



Deposit Guarantee Scheme (DGS) premiums and Single Resolution Fund fees, Regulation and Supervision charges as well as similar charges such as for external audit etc. constitute the largest part of other administrative expenses with close to 46% of the total, with DGS premiums the highest among those categories.

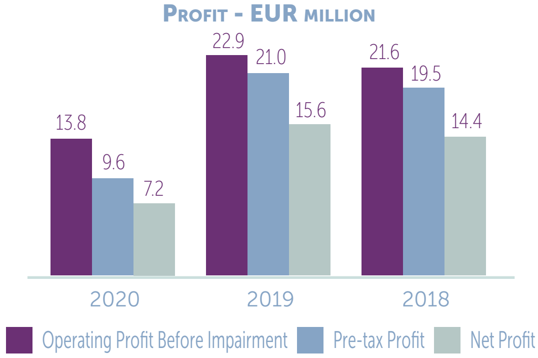
Operating result before impairment was EUR 13.8 million in 2020, below the EUR 22.9 million figure of the previous year, mainly due to the lower interest income outweighing savings in administrative expenses explained above.

The impairment charges were net EUR 4.2 million in 2020 (2019: EUR 1.9 million). The increase stemmed mainly from specific provisions for some corporate loans in the face of the corona pandemic and partly from ECL provisions in view of the macroeconomic parameters.

There were no activities in the area of research and development in 2020.

Result

Profit - EUR million



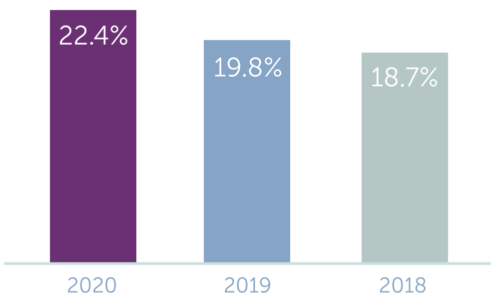
DHB Bank reported a pre-tax profit of EUR 9.6 million in 2020, corresponding to EUR 7.2 million on a net basis. Despite the decrease compared with the previous year's EUR 16.1 million net profit, Management is pleased to have steered the bank through an extraordinarily difficult and unprecedentedly risky global environment unharmed.

Key Indicators

Some of the key indicators related to DHB Bank's 2020 performance were as follows:

DHB Bank has always reported healthy capital adequacy ratios – a very high 22.4% at the end of the year under review, even when the 2020 net profit is not included in calculation, reflecting the bank's considerably low leverage in terms of risk weighted assets and its high loss absorption capacity. Low leverage was also demonstrated in nominal terms, with the bank's Tier 1-Capital over total on-balance and off-balance exposures at a high 16.2% (2019: 15.5%), which was intentionally maintained at this level by Management so as to preserve both solvency and asset quality.

Solvency



The cost to income ratio was realized as 59.2% at the end of 2020, inevitably higher than the previous year's 47.8% as explained above.

As of year-end 2020, total non-performing exposures (defined as exposures for which any of the principal, instalment or interest receivables are 90 days overdue) as a proportion of the bank's total exposures stood at 3.14% compared to 1.67% in 2019, due to the adverse economic developments resulting from the corona pandemic. Nevertheless, Management regards the NPE ratio as low in view of the related collaterals and projected cash flows and considering that the majority of the respective companies are still continuing their operations.

DHB Bank's net interest margin was realized as 2.60% for 2020, a decrease from 3.30% in 2019. This is a reflection of both a lower balance of interest earning assets and the high level and high cost of liquidity.

The bank's net return on shareholders' equity (ROE) was realized 3.0% in 2020, a reflection of the prevailing difficult environment.

22. Organization and Operations

DHB Bank has a centralized organizational and operational structure (the bank's organizational overview is presented under the section DHB Bank Overview of this annual report). The bank's wholesale banking activities, including credit decision processes and primary risk management functions as well as treasury activities and IT services are conducted via its head office in Rotterdam. The bank's units abroad focus mainly on deposit collection (in Germany), retail loans (in Belgium) and on corporate customer relations (in Turkey) and carry out local legal, compliance and liaison functions, among others.

Major developments at DHB Bank in 2020 from an organizational and operational perspective are presented below.

Covid-19 Pandemic

Closely monitoring developments related to the Covid-19 pandemic and its wide-ranging negative impacts has been crucial for Management to steer the bank cautiously in this unprecedented period. The pandemic has swiftly severed the production and flow of goods and services worldwide. These difficulties in the real economy - production and flow of goods and services - caused some companies and people to suspend fulfilling their obligations to financial institutions. The support of governments and accommodative policies of central banks designed to contain its negative economic and financial effects provided a cautious comfort. As part of its robust risk management, the bank applied a number of stress scenarios to anticipate the consequences of plausible events like outright defaults and possible delays in the collection of maturing assets in part or in full in order to assess the adequacy of its capital and liquidity. These stress tests revealed that DHB Bank would weather possible adverse scenarios, thanks to its very high liquidity and very strong capital base, and also the long-term relationships with its corporate customers. The bank has not faced so far and does not expect to face any material impact on its operations and financials in the subject period.

In the framework of its business continuity plan for its daily operations, DHB Bank swiftly adapted to the lockdown and related measures implemented by the governments in its countries of operations.

Encouraging home working by also providing full remote access of its staff to DHB Bank's core banking system and network, the bank did not encounter any disruption in its functioning and services that it provides to customers.

Video conferencing has also become a feature of the organization for all kinds of meetings.

Termination of Loro Account Services

In order to streamline its services from a cost-return perspective, and also considering the extreme workload associated with transaction monitoring in the framework of CDD activities, the bank completely terminated providing loro account services to its correspondents.

Information Technology and Information Security

In 2020, the Information Security (IS) and Information Technology (IT) departments continued their efforts to climb the maturity ladder for meeting the supervisory expectations as well as industry standards in line with advances in technology.

IT applications are being developed in order to be ready for PSD2 and to prepare for the upcoming consolidation of the Target2 and T2S platforms.

SWIFT-related software was upgraded to meet industry requirements, to continue being compliant with Swift CSCF control 2.2, to be ready for Swift Standards Release 2020 and for future upgrades as required for ISO 20022 migration and ESMIG.

A new workflow has been implemented in the platform of the bank's Head Office, enabling the automation of expense administration processes.

The bank has introduced a secure file exchange portal thanks to which documents can be safely exchanged with customers and third parties, including a password protection option. The secure transfer portal (Cryptshare) is also integrated with the bank's emailing system with different classification settings.

Business Continuity Plan (BCP) Tests

DHB Bank's annual BCP tests were successfully performed in 2020 in a pre-announced manner.

Aside from checking for dependence on individuals and for adequacy of the existing documentation, the scope was also to test all the systems and to ensure that the upgrades/migrations were in line with business requirements and work as intended. In case of disaster, the systems at the disaster recovery site can be recovered within the required MTTR (Mean time to recovery). It was also decided to have end-users use random workstations so as to check dependence on user PC.

PSD 2

As per PSD 2 requirements, in 2019, DHB Bank had developed and implemented an interface that enables third parties to efficiently access the account information of customers (subject to their consent) in order to offer payment services.

A first full connection was made with a third-party provider (TPP) upon their request; DHB Bank's customers will now be able – if they so choose – to access their information using the infrastructure of this TPP.

Internal Audit Self-Assessment

Internal Audit Department completed its self-assessment, whose validation was being processed by an independent external party as of the writing date of this report.

External Rating

Management decided to withdraw the bank's external rating by considering particularly that the bank is not currently tapping the markets for bond issues, syndications and the like based on its strategic outlook. Other wholesale funding from correspondent banks is also limited, and they, generally, tend to prefer their own internal rating system where applicable.

Outsourcing

The bank's outsourcing agreement template has been updated in line with requirements concerning the outsourcing of critical or important functions.

Organizational Changes & Human Resources

The Internal Control Unit has been linked to the Risk Management Department (RMD) instead of the Compliance & Legal Department.

A new Governance Officer position was created in view of the increasing regulatory and supervisory attention to governance matters.

A new Data Quality Officer position was created to further enhance data quality and reinforce the elementary data layer in the bank's core banking system, to ensure consistent, efficient and accurate external and internal reporting and meet the increasing demand in area.

In 2020, the gradual re-implementation of the E 360 performance evaluation system has started at the bank, beginning with top management and intended to cover the entire staff in 2021.

In the framework of the pension agreement between employers, employees and the government to move towards a sustainable and affordable pension system, the bank offered the option to staff to either remain in the bank's current defined benefit scheme or switch to the new defined contribution scheme with a temporary advantageous feature. Almost all the staff preferred to switch to the defined contribution scheme starting from 2021.

IBOR Transition Project

As interest rate benchmarks are being reformed as part of a global reform process, the bank has established a project team to work on complying with and adapting to the upcoming changes.

23. Expectations

Management assesses the bank's business model as able to weather the negative effects of the negative/low interest rate environment in the Eurozone that is expected to prevail for some more time. Management is also confident that the bank has a robust operational and organizational framework and strong governance to ensure a sustained commercial performance and solid risk management going forward.

As mentioned before, the bank does not expect to face any material impact on its operations and financials from the Covid-19 pandemic. DHB Bank expects a gradual normalization after the pandemic is contained thanks to the global vaccination efforts, albeit at a slower than anticipated pace, and also thanks to the extraordinary financial measures implemented globally, as visible in the projections of organizations such as ECB, IMF etc. Nevertheless, uncertainty about when the pandemic can be fully controlled on a global basis makes predicting a short-term outlook difficult. Management will therefore continue to steer the bank cautiously.

In the longer term, the bank estimates that the home-working environment will be the new paradigm for the majority of the financial and ICT institutions and plans to adapt to its operations, where possible.

ESG criteria and the management of climate risk are new and important attention areas. In this respect, the Management plans to refine the bank's lending operations progressively to be compliant with the new standards based on ECB's recently published guide on climate related and environmental risks. The bank arranged a lifelong learning on this subject early 2021 and responded to DNB's queries on this subject while preparing an implementation plan going forward in accordance with supervisory standards.

Considering the bank's asset composition, neither rapid expansion in corporate lending nor considerable balance sheet growth is anticipated. The bank aims to continue increasing the share of consumer loans, whose total is currently a small portion of interest-earning assets.

Apart from reference interest rates in Eurozone being at below zero level and negative yields on some strong sovereign bonds, credit spreads for high quality assets are expected to be narrow due to the combined effect of vast market liquidity, lenders' search for higher quality assets, despite the expected recovery on a global scale after a difficult 2020. This trend has been observed for some years for prime borrowers globally, and also in DHB Bank's markets. Accordingly, the financial environment is expected to continue putting pressure on the bank's profitability in terms of interest margin in the short-to-medium term. On the other hand, yields on FX loans to Turkey are expected to be relatively high, notwithstanding the fact that the bank has significantly reduced its exposures in the country.

In many Eurozone countries, including the Netherlands, for more than a decade, deposit interest rates have decoupled from Euribor rates, causing a significant discrepancy between funding costs and good quality asset lending rates, as a result of which funding costs are much higher than yields of low-risk investments for corresponding maturities. Following the outbreak of the pandemic, the ECB expanded its accommodative monetary policy, resulting in some sovereign bonds still being traded at negative interest rates. This phenomenon, which has been prevailing for the past few years, is expected to continue for some more time before policy rates once again trend upwards – in parallel to the forecast economic recovery in the Eurozone.

Considering also the continued pressure on the cost side from the regulatory compliance front, Management expects the profitability of the bank in 2021 to remain similar to 2020 while maintaining the bank's cautious positioning in terms of asset generation.

Regarding bank and corporate exposures, despite possible temporary increase in NPL ratio – without eventually anticipating any real loss - DHB Bank's overall impairment charge is expected to remain low thanks to pro-active 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, while strict credit underwriting processes will be maintained with additional credit enhancements where needed. Management will not compromise on rigorous risk monitoring processes.

In terms of geographical coverage in lending, the bank will continue to focus on the EEA, which has become its primary market over the past years.

Retail deposits – collected from Germany and the Netherlands – will continue to be the primary funding source of the bank's operations, followed by wholesale funds to a smaller extent. The retail deposit base – and its share in total liabilities – is planned to remain stable. Acquisition of wholesale funding will be limited depending on the bank's balance sheet size and asset/liability structure.

Liquidity and capital management will continue to be carried out in the context of ILAAP and ICAAP. Due to its strong capital base and highly liquid balance sheet, DHB Bank does not expect any adverse developments in this area. Thanks also to the presence of a Recovery Plan, Management does not expect the viability of the bank to be affected by any possible severe crisis, idiosyncratic or systemic. The Recovery Plan, ILAAP and ICAAP will continue to be maintained annually in dialogue with DNB.

With an efficient and effective in-house IT system, DHB Bank has no plans for major new investments in this area in the near future, except for exploring further strengthening the home-working environment and digitalization of retail customer relations. Software development efforts will be directed at further improving business efficiency and effectiveness, with a particular attention to the consumer loan process, and at enhancing reporting capabilities in line with the changing regulatory requirements and market standards.

DHB Bank will continue its activities on a stand-alone basis, with all its functions in place, though recourse will be made to outsourcing when needed. Management will continue to pay utmost attention to maintaining a controlled and sound operating environment, including in its relations with its outsourcing partners.

Systematic Integrity Risk Assessment (SIRA), CDD (customer due diligence), TM (transactions monitoring) and reporting will continue to be at the forefront of compliance while the knowledge of staff will be kept updated with trainings. DHB Bank will make further adjustments, if necessary, in response to any updates in the regulatory requirements and supervisory guidelines.

The bank's low risk appetite for almost all the risk dimensions will be maintained.

As a result of Management's strategic stance, a balance sheet size around EUR 1.5 billion is projected for 2021, with an asset and liability composition similar to 2020 and a capital adequacy ratio above 18% on average throughout the year.

24. Board and Staff

A characteristic of DHB Bank is the fact that an overwhelming majority of the employees and senior management have been serving the bank for very long years. This has brought about a collegial relationship, which helps the bank to function smoothly and adapt to changes swiftly.

The bank has been employing around 110 staff in the past few years. Although much change is not envisaged in human resources, in view of both lower credit spreads and rising compliance standards, Management plans to employ a few new staff members in 2021 both in the first and second line of defence units.

Throughout the year, facilitated by internal or external trainers, many staff members participated in joint trainings and workshops in the bank, and some attended external courses related to their business lines. Particular attention continued to be given to compliance with AML/CTF requirements, including customer tax integrity risk.

As Management, we would like to extend our heartfelt welcome to our new SB member Mr Kemal Cıngıllıoğlu who took office on 29 January 2020 and to convey once again our sincere gratitude to our Supervisory Board for their critical yet constructive oversight and valuable advice.

In a demanding year marked by a remote working set-up and challenging operational environment, we would like to offer our sincere thanks in particular to our bank's management team and staff for their contributions and dedication, which helped DHB Bank running smoothly without disruption in its activities and operations. A special thanks goes to our clients and partners who chose to work with us.

Having left close to 30 years behind, we are very appreciative of the continued commitment towards and confidence placed in the bank by our shareholders HCBG Holding – with Dr Halit Cingillioglu as ultimate beneficiary owner – and Halkbank, since DHB Bank's inception. We trust that we will continue together on a successful path, sustain profitability in 2021 and beyond, and further strengthen the bank's franchise to deliver added value to our clients and all other stakeholders in the years to come.

25. Conformity Statement

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

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

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

- DHB Bank 2020 Annual Accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of DHB Bank as a whole and
- DHB Bank 2020 Annual Report gives a true and fair view of the position at the balance sheet date, the development and performance of the business during the financial year 2020 of DHB Bank, together with a description of the principal risks DHB Bank is being confronted with.

Rotterdam, 6 May 2021

Kayhan Acardağ
Senior General Manager

Steven Prins
General Manager

Okan Balköse
General Manager

DHB BANK OVERVIEW

4

DHB Bank Overview

26. Business Overview

General Information

Starting its operations in 1992 with EUR 8.1 million (equivalent of NLG 17.8 million) in equity, the bank grew over the years – both with profit retention and occasional capital injections – to become a full-fledged commercial bank with an equity of EUR 248 million and asset size of approximately EUR 1.5 billion at the end of 2020. During this time span, the bank has, not once, successfully and independently weathered financially and economically turbulent times, both regional and global. Thus, DHB Bank has established that it possesses the organizational structure, operational infrastructure and human resources (with low turnover and long tenure of managers and staff members) to continue, now and in the future, on its path in long-term sustainable banking for the benefit of all its stakeholders.

The bank's relatively small size, centralized organization, and focused business areas with straightforward products and services are the main factors securing its flexibility in swiftly adapting to changing environments.

Business Model

DHB Bank's activities are anchored in traditional commercial banking, based primarily on funding by retail deposits (and some wholesale funding) and wholesale asset generation (with a relatively small retail loan portfolio). DHB Bank's business model and revenue stream are fully based on traditional banking transactions, and there is no reliance on any kind of speculative income. Therefore, the bank tries to minimize market risk by avoiding FX positions or interest rate positions, and derivative transactions are mainly undertaken for hedging purposes. Mindful of its mission and vision statements, the bank conducts its activities within the executive authority and responsibility of the Managing Board (MB), under the supervision of the Supervisory Board (SB), so that the ideas behind these statements permeate all the departments and functions of the organization.

- Retail Banking: DHB Bank's retail operations consist of retail deposits and consumer loans. Retail deposits are collected from Germany and the Netherlands via Internet and call centres.

  Retail deposits, which have already proved their stickiness in several globally or regionally stressed environments, constitute the main pillar of the bank's funding.

  As far as the product range is concerned, retail deposit products offered are current accounts (on a limited scale), savings deposits and time deposits (between 3-month and 5-year in different brackets). DHB Bank also offers floating rate term deposits and notice-period saving accounts to its customers in the Netherlands and Germany so as to meet the needs of different customer segments.

  Consumer lending occupies a relatively small portion of the assets. The marketing of consumer loans continues in Belgium in a completely insured setup using an A-rated insurance company. A very small part of the consumer loan portfolio includes Turkey Home Credits, a special mortgage product that was offered in the past to residents of European Union member countries for their residential purchases in Turkey. These loans are not insured, but collateralized.

  The bank does no longer provide any cash services.

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

In conformity with the bank's business model, the primary clients of the bank in the wholesale segment are corporates, and, to a lesser extent, banks, while sovereign exposures account for only a very small portion of the total.

Bilateral loans for working capital and project financing will continue to be the main product types in the corporate segment of wholesale asset generation. The bank does not offer FX/derivative intermediation services (only FX spot transactions) to its corporate and retail clients. In the financial institutions segment, bank loans, mostly in the form of syndicated facilities and partially bilateral loans, are extended on a selective basis with maturities generally shorter than one year. Thanks to their tradability in secondary markets, depending on market circumstances, syndicated facilities are also considered an asset & liability management tool. Securities/bonds transactions are carried out for the bank's own portfolio, since these asset types provide the dual benefit of being liquidity and investment tools; as of year-end 2020, almost 90% of the securities portfolio consisted of ECB eligible securities DHB Bank does not keep in principle a securities/bonds trading book. The bank is a member of Eurex, allowing it to access repo funding easily.

On the liabilities side, as part of its strategy, the bank maintains a certain portion of its funding in the form of wholesale funds. These funds consist primarily of repo funding for a large part in the form of deals closed with the ECB under the Targeted Longer Term Refinancing Operations (TLTRO).

Apart from handling securities investments and fulfilling its general role in assets and liabilities management, the Treasury Department continues to manage liquidity and market risk, which is separately monitored by the Risk Management Department.

Our Clients

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

Sources of Profit and Profit Prospects

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

Overall, the bank's activities deliver a positive net interest spread, though a portion of its assets consists of ECB eligible securities with very low - or even sometimes negative - yields. These securities are also held for liquidity management purposes and inevitably exert pressure on the ROE.

DHB Bank does not expect significant fluctuations in its recurring revenue base in 2020 given the current regulatory, economic and financial environment.

Competition and Stakeholder Perspective

DHB Bank has demonstrated that, thanks to its strategic alignment introduced at the end of 2010 and since refined in response to regulatory, economic and financial changes as well as shareholders expectations, it has the foundation and infrastructure to continue as a viable institution. The bank has a solid capital foundation and a sticky retail deposit base that has proved to be stable; a large portion of the bank's customers have remained loyal even during severe crisis situations in the financial markets. As for revenue generation activities, the aforementioned strategic alignment has ensured a more clear-cut and refined business model with a more precise definition of the target customer base (particularly corporate customers) that are expected to remain with the bank thanks to established relationships with them and to the quality of the offered services.

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

The shareholders (HCBG Holding B.V. and Türkiye Halk Bankası A.Ş.) have continuously demonstrated their strong commitment to DHB Bank since its establishment in 1992, in the early years in the form of cash injections into the capital, later on with high – and occasionally full – profit retention. In addition, DHB Bank has in place a EUR 75 million liquidity standby agreement with Türkiye Halk Bankası A.Ş., which can be utilized at its discretion in case of need.

Nature of the Organization

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

Risk Management & Scenario Analyses

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

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

27. Organizational Overview

DHB Bank is organized mainly around the three lines of business generating wholesale revenue: Corporate Marketing, Financial Institutions & Forfaiting and Treasury (Front Offices). Additionally, to a lesser extent the bank conducts consumer lending activities via its Belgium Branch.

The bank's Credit Committee has the authority to establish credit limits up to a certain amount, above which the advice of the SB is sought. Loans are granted to target customers – corporates and banks well as to sovereign entities in a geography covering primarily Europe.

All of the bank's operations are founded on the principles of checks and balances in the broader framework of three lines of defence. Transactions are processed by the different sections of the Operations Department, while functions such as the overall risk management and compliance applications, reporting and IT support services, are carried out by the bank's staff departments.

Summary information is provided below on the departments of DHB Bank.

Corporate Marketing Department (CM): CM is responsible for generating corporate customer loans by acquiring, retaining and managing the corporate customer portfolio. It maintains the relations with the corporate business partners of DHB Bank.

Financial Institutions & Forfaiting Department (FI): The main responsibilities of FI are to establish and maintain worldwide close relationships with correspondent banks, financial institutions and insurance companies, to oversee forfaiting activities (syndications buying and selling), to generate primary and secondary market bank assets and syndications, to explore new markets and countries for investment purposes, to create the banking related funding base for DHB Bank in line with the bank's strategy and to procure insurance as necessary for different assets classes of the bank.

Treasury Department: The Treasury Department is responsible for liquidity and market risk management and hedging activities as well as securities investments. Accordingly, the department conducts – for the bank's own portfolio, as intermediation is not offered to customers – money market lending, money market borrowing, securities purchase and sale activities, repo operations, currency exchanges and swaps and currency forwards. Treasury also assists the bank's interest rates and position management as well as its foreign exchange rates and position management.

Retail Banking: Retail banking is the predominant funding activity of the bank. Various savings and deposit products are offered using call centres and the Internet in the Netherlands and Germany with the support of the head office departments. Within retail banking, fully insured consumer loans are also among DHB's revenue generation activities, albeit with a comparatively limited volume. These activities are centralized in the Belgium country office of the bank.

Credit Analysis Department (CAD)/ Corporate Loans Department (CLD)/ Credit Risk Monitoring & Control Department (CRMC): CAD is responsible for the assessment of potential and present customers (corporate, bank and sovereigns) and prepares credit analysis reports whereas CLD handles the documentation and collateral parts of loan utilizations. CAD also monitors the financial situation of obligors, sectors & countries. CRMC ensures that individual utilizations are within approved limits and follows up periodically. All three departments carry out their respective tasks in accordance with the policies and procedures of DHB Bank for limit establishment and utilization, and ensure that credit practices are in compliance with regulations.

Operations Department: Different sections of the Operations Department ensure that front office transactions are properly handled and processed. Specifically, the department covers International Trade Services, Loan Operations, Treasury Back Office Transactions, and Retail Savings and Services.

The bank has a number of so-called staff departments, as follows:

Business Control Unit (BCU): BCU is responsible for budgeting, management information and reporting.

Compliance and Legal Affairs (CL): C&L is responsible for the compliance process and supervises the effectiveness and efficiency of this process. The Compliance Officer reports directly to the MB and also has a direct communication line to the Chairman of the SB. As a general rule, the Compliance Officer provides an independent evaluation of the bank's integrity risk policy and overviews special requirements concerning AML, KYC, CDD etc. The Compliance Officer (CO) has the responsibility to keep up with developments in relevant laws and legislations to guarantee the completeness and correctness of required compliance control in day-to-day business and adherence to the banking code. CO assists the management in assessing potential compliance issues. These issues are identified based on findings from regular reviews and risk analysis sessions, which are facilitated by CO. These risk analysis sessions are held regularly or whenever laws or regulations have changed. The AML Officer within the department is responsible for identifying, following up and reporting on unusual transactions related to anti money laundering and or fraud incidents while the Senior Internal Control Officer regularly reviews the bank's transactions to determine any potential hazards or breaches of conduct. Legal opinions are mostly procured externally from competent third parties while the legal counsel at the representative office in Turkey provides legal advice and opinions concerning the activities in Turkey, including related follow-ups.

Financial Control Department (FCD): FCD is responsible for the preparation of external reports such as the (consolidated) financial statements and prudential reports to DNB. The Accounting section within the department is responsible for nostro reconciliation, cost accounting and the monitoring of various accounts. The Data Quality Control section within the department is responsible for ensuring and sustaining data quality in business processes – with a particular focus on financial (risk) reporting – in order to adequately manage and supervise the bank's activities.

General Affairs Department (GAD): GAD is responsible for purchasing office supplies and services, as well as for the maintenance and control of the inventory and real estate.

Human Resources Department: The department is responsible for recruitment, staff development and training, for the execution of the remuneration policy and for salary and personnel administration.

Information Technology Department (IT): IT determines the data processing requirements of the bank and develops the IT strategy based on long term corporate goals. IT maintains current knowledge of new hardware and software and recommends upgrades where necessary to maintain efficient operations .The department plans computer and information systems to meet the bank's immediate and long-term needs, advises on the computer equipment, software and networks to be used, confirms and controls the purchasing of hardware and software for the needs of the head office departments and of all domestic and international locations of the bank.

Organized within IT, System Analysis (SA) is responsible for analysing the processes and operations of DHB Bank, participating in the development of projects and coordinating their implementation via the bank's core banking system Matrix. SA also prepares the specifications for applications and systems and coordinates the further development, testing and implementation of their assigned modules requested by other departments.

Governance Office (GO): GO supports the management of the bank in identifying, planning and coordinating corporate governance issues requiring attention. It combines and provides information pertaining to executive deliberations and oversees corporate governance applications within the bank for an efficient corporate structure.

Information Security (IS): The IS officer provides direction for the strategies related to information security. The IS officer also identifies and addresses potential exposures to accidental or intentional destruction, disclosure, modification or interruption of information, to cover the risk that financial and/or information loss might occur, and assists in the creation of procedures and guidelines to ensure that security and uninterrupted operations of DHB Bank's information systems are in place.

Internal Audit Department (IAD): IAD is responsible for monitoring the core processes and internal controls systems on behalf of management. IAD is independent of the other units and reports directly to the Managing Board. IAD also has a direct communication line to the Chairman of the Risk & Audit Committee (RAC) who maintains regular contact with the Head of IAD.

Risk Management Department (RMD): RMD is responsible for developing models for financial risks such as interest rate risk, liquidity risk etc., and monitors and reports on these risks on a periodic basis via the monthly management information (MIS) report. Along with financial risks, RMD compiles and assesses non-financial risks in coordination with the related departments and provides an integrated overview of risks within the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). RMD also assists the management in preparation of the risk appetite statement of the bank, in assessing the actual risk profile against the risk appetite statement approved by the Supervisory Board, and in reporting to the Risk & Audit Committee. The Head of RMD has a direct communication line to the Chairman of the Risk & Audit Committee (RAC).

CORPORATE GOVERNANCE

5

Corporate Governance

28. Introduction

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

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

29. Managing Board

Composition and Responsibilities

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

The MB is responsible for the day-to-day management of the bank, for the development and implementation of policies and long-term strategy, risk management and internal governance, for the fulfilment of the bank's obligations towards regulatory bodies, and for representing the bank. Furthermore, the MB sees it as an important responsibility to ensure the integrity of the bank's accounting and financial reporting systems, and not to compromise on the financial and operational controls of the bank, including compliance with the relevant laws and regulations. The MB's authority stems from the respective stipulations of DHB Bank's Articles of Association.

The MB is autonomous in the performance of its duties, notwithstanding the supervisory role of the SB. The MB keeps the SB informed – via regular and/or special reports and during SB meetings, to enable it to perform its duties. The MB always seeks the opinion of the SB on important subjects.

Safeguarding the continuity of the bank and balancing the interests of all the stakeholders, including the bank's clients, are the major principles guiding the decisions of the MB. To this end, the MB ensures a balanced assessment of the commercial interests of the bank and the inherent risks, taking into account the approved risk appetite of the bank. All the deliberations, strategic planning and day-to-day management of the MB are conducted on a collegial basis. Based on these guiding principles, the MB frequently consults the senior management of the bank as well, and the majority of decisions are taken following discussions and deliberations at various bank committee meetings as described below. In addition, apart from regularly discussing subjects related to the day-to-day management of the bank, the MB regularly meets at least once a month to consider, deliberate and take decisions on subjects by adhering to a predetermined generic agenda. Each MB member has one vote, and, in practice, almost all MB resolutions are taken on a unanimous basis.

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

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

Steven Prins	Kayhan Acardağ	Okan Balköse
Compliance & Legal	Financial Control	Corporate Marketing
Credit Departments[1]	Business Control	Financial Institutions
General Affairs	Risk Management	Treasury
Human Resources	Governance Office	
Retail Banking	Internal Audit	
	Operations	
	Information Technology	

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

Monitoring the operation of the internal risk management and control systems is a permanent agenda item for the MB. All material control measures relating to strategic, operational, compliance and reporting risks are areas of attention, to be discussed during the MB meetings and bank committees when relevant. Attention is given to observed weaknesses, irregularities and findings from the IAD, which presents its audit results to the MB and the RAC, as well as from the external auditor or, occasionally, the observations of DNB. The bank's set-up ensures that any flaws in the effectiveness of the internal risk management and control systems or any observations with an impact on the risk profile of the company are included in the reports.

Utmost care is taken jointly not to deviate from the risk appetite statement even in a volatile financial and economic environment. Temporary or potential deviations, if any, are generally discussed by the related committees, including the Risk & Audit Committee (RAC) of the Supervisory Board, in order to ensure the alignment of the risk profile and risk appetite of the bank.

According to Dutch governance regulations, a Managing Board or Supervisory Board will be deemed to have a balanced gender distribution if, of the seats occupied by individuals, at least 30% are occupied by women and at least 30% by men. DHB Bank's Managing Board was therefore deemed unbalanced. As there has not been a vacancy in the Managing Board during the reporting year, the situation remained the same and there was no natural opportunity to achieve a better gender distribution. In case of future vacancies, gender distribution will be an important aspect to consider in the selection criteria.

Committees

Going beyond the preparation and review of detailed management information system reports, the MB carries out risk management and ensures an overall controlled environment through a continuous process handled via different committees of the bank where most of the relevant decisions are reached. At least one general manager is the member or the chair of these committees (except SART), and in some cases all three are members. The other members of the committees are senior managers of the bank relevant to the committee's mission.

Asset & Liability Management Committee (ALCO): ALCO manages the bank's assets and liabilities taking into account economic expectations and regulatory constraints to balance risk and return. The committee determines the mix of assets and liabilities as well as the measures for financial risk management, including market risk, interest rate and liquidity risk. ALCO has the responsibility to ensure that all decisions conform to the bank's risk appetite and to the levels of exposures as determined by the Credit Committee and the Risk Management Committee.

In addition to the weekly ALCO meetings, usually twice a year an extended ALCO and activity alignment meeting is organized with the participation of all the senior management of the bank, including the heads of departments. The focus of these meetings, apart from the usual ALCO subjects, is on reviewing the activities/projects of the bank for the year and aligning the departments in their implementation.

Complaint Committee (CoC): CoC sets up and monitors an efficient and effective complaint process for the customers, while evaluating and deciding on the complaints presented to the Committee.

Compliance Committee (ComCo): On the face of increased regulations, ComCo was set up as a working group to ensure a highly coordinated and robust implementation of all applicable regulatory requirements in the bank's relevant workflows.

Credit Committee (CC): CC sets up, monitors and controls the provision of credit risk management within

[1] *Comprised of: Credit Analysis, Credit Risk Monitoring & Control and Corporate Loans*

the bank at individual borrower as well as at portfolio level in line with the strategy and risk appetite of the bank and in compliance with the regulations.

Information Technology & Information Systems Steering Committee: The committee plans and steers the information technology and information system functions within the bank in alignment with the business strategies.

Liquidity Crisis Management Committee: This committee would convene in case of a liquidity crisis event (according to criteria described in the liquidity funding plan); its responsibilities include anticipating and managing the resolution of possible serious liquidity problems with the ultimate aim to protect depositors, creditors and shareholders.

Organization & Control Committee (OCC): The mission of OCC is to improve control, efficiency and effectiveness in the bank by providing a platform for reviewing the organizational structure, operational & administrative systems and procedures as well as work processes and client services and supplying supporting documentation.

Risk Management Committee (RMC): RMC assesses the financial and non-financial risks on an aggregate and individual basis, and monitors ICAAP and ILAAP to ensure a bank-wide and integrated risk and capital management.

(Information) Security Assessment and Response Team (SART): As a vital part of the IT & IS governance structure, SART focuses on information security issues to ensure the proactive assessment of and immediate response to cyber threats to the bank.

Principles

The working guidelines of the MB are centred around the below principles, all in the framework of the bank's approved risk appetite:

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

Secondary Positions of Managing Board Members

The MB members of DHB Bank do not have any position in another corporation either as an SB member or MB member.

In practice, there are no cases of a conflict of interest in the MB resolutions and management activities or of any appearance of such a conflict.

Information on the Members of the Managing Board

Mr Kayhan Acardağ
Senior General Manager

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

He started his career at the Board of Sworn Bank Auditors in Turkey, where he served as Sworn Bank Auditor until 1989. He joined Türkiye Halk Bankası AŞ in 1989 in the position of Advisor to the Chairman of the Supervisory Board, and subsequently served as Manager of the Fund Credits Department until 1993. Mr. Acardağ has held various executive positions at DHB Bank since its establishment and has been a member of the bank's Managing Board since 2004, and Senior General Manager since 2010.

Mr Steven W. Prins
General Manager

Born in 1965 in the Netherlands, Mr. Prins graduated from Hogere Economische School, Groningen, Department of Business Economics in 1987.

After graduation, he worked at Rabobank International, Utrecht between 1987 and 1994 first as financial analyst and subsequently as area manager in the fields of correspondent banking and trade finance. He gradually progressed to the CEO position of GE Artesia Bank, Amsterdam in 2004, subsequent to joining this bank in 1994 and after having worked at various managerial positions in the bank and being promoted in 2003 to the position of CFO and member of the Managing Board.

Mr Prins joined DHB Bank in November 2013 as member of the Managing Board.

Mr Okan Balköse
General Manager

Born in Turkey in 1970, Mr. Balköse graduated from Bilkent University, Department of Industrial Engineering in 1991, and received his master's degree from the same department in 1993. He also holds an MBA from Yeditepe University (2004).

He started his banking career in 1993, and, after serving in managerial positions in several financial institutions such as Iktisat Bankasi, Demirbank, Citibank and Eczacibasi UBP, he worked as the General Manager of Bank Pozitif Kredi ve Kalkinma Bankasi between 2004 -2013.

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

30. Supervisory Board

Composition and Responsibilities

The Supervisory Board (SB) of DHB Bank is composed of six members as of year-end 2020. In alignment with the Articles of Association, half of the members, including the chairman, are independent. In meetings of the Supervisory Board each member is entitled to cast one vote. In case of a tied vote, the chairman of the SB shall decide.

The SB is responsible for the supervision of the policy of the MB, for the supervision of the general course of affairs and risk management, and for assessing and approving the strategies and budget proposed by the MB. These responsibilities and authorities of the SB are defined in the Supervisory Board Policy. This policy also covers other aspects related to the supervision of the bank and in particular to the collective responsibility of the SB members. It is updated from time to time as needed. In addition, credit proposals by the Credit Committee of the bank – for amounts above its own authority level – require non-binding advice from the SB's Credit Advice Committee.

The overriding responsibility of the SB is to find a just and reasonable balance between the interests of all stakeholders while putting the clients' interest first. It has always been the foremost goal of this bank to service its clientele well. The shareholders of the bank believe that good service to the clients over time will propel the bank to prosper.

Supervisory Board Committees and Composition

The SB conducts its activities either with all its members or via its committees that are set up for particular fields and that are comprised of members particularly specialized in these fields. Decisions taken in these committees are subsequently submitted to the SB for final approval or for information purposes, depending on the committees' functions and authorities. These committees are:

Advisory Committee on Credits (ACC): The SB has delegated to the ACC its authority for providing non-binding advice on credit proposals for amounts and transaction types as stipulated in the bank's Policy on Credit Approval & Advice Authorities and Review Principles.

Nomination and Remuneration Committee (NRC): The NRC assists the SB in identifying, selecting and proposing candidates for vacancies in the SB and MB. NRC is also involved in succession planning at both bank level and SB level. In addition, this committees assists and advises the SB in fulfilling its responsibilities with regard to the remuneration and the assessment of the performance of the members of the MB, of the senior staff in general, and of the senior staff engaged in risk management and control functions in view of the related regulations and the policies of the bank.

Related Party Transactions Committee (RPTC): The RPTC reviews and grants pre-approval for transactions with i) Shareholders; ii) Managing Board Members; iii) Supervisory Board Members; iv) Companies in which a Shareholder holds an interest or has any position; v) Supervisory Board and Managing Board Members of companies referred to under (iv); vi) Close members of the family and relatives of a person referred to under (i) to (v); and vii) Companies in which a Supervisory Board Member holds an interest or has any position. The members of the RPTC are appointed from among the independent members of the SB.

Risk and Audit Committee (RAC): The RAC assists and advises the SB in fulfilling its oversight responsibilities with regard to risk and audit issues. The RAC discusses the bank's risk profile and assesses, at a strategic level, whether capital allocation and liquidity level are in line with the approved risk appetite, among other subjects. The RAC convenes periodically, at least three times a year.

	Risk & Audit Committee	Nomination & Remuneration Committee	Related Party Transactions Committee	Advisory Committee on Credits
Frederik-Jan Umbgrove	√	√ chair	√	
Nesrin Koçu-de Groot	√			
Maarten Klessens			√chair	√chair
Onur Bilgin		√		√
Ariel Hasson	√chair	√		
Kemal Cıngıllıoğlu		√		√

Principles

The SB and/or its committees regularly convene at least every month in the fulfilment of their duties, either in person or via teleconference (in 2021, it was entirely in the form of video conference). In its supervision, deliberations and decisions, the Board puts particular emphasis on risk management, on corporate governance, on the financial performance of the bank, on regulatory requirements, and on market developments. The SB in particular, spends ample time on discussing and reviewing the business model of the bank. This is in response to the requirements of the regulator and in the interests of all stakeholders. In awareness of its duty of care towards clients and of the bank's responsibility towards society, the SB aims to maintain a healthy and fair balance between all stakeholders' interests while keeping a low risk profile and conducting its duties within the boundaries set by the laws and regulations. If there are important changes in the regulatory environment, with implications for the business model of the bank, the SB and MB jointly or separately organize informative meetings with the shareholders both to provide them with more timely updates - beyond the annual general meetings of shareholders - and to have their opinions and support on the strategic direction and business model of DHB Bank.

Secondary Positions of Supervisory Board Members

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

Information on the Members of the Supervisory Board

Mr Frederik-Jan Umbgrove
Chairman

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

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

In 2008, Mr Umbgrove joined the Royal Bank of Scotland Group as Chief Credit Officer CEEMEA for this bank's Global Markets Division. He served as Chief Risk Officer and Member of the Managing Board of Amsterdam Trade Bank NV between 2010 and 2013 and as Group Risk Officer of Alfa Bank Group Holding between 2011 and 2013. He continued to work as an advisor on several projects in the financial world in the period 2014-2017, and since April 2018, he has been a non-executive member of the Board of Directors of Alpha Bank A.E. in Greece. In December 2019, Mr. Umbgrove joined the Supervisory Board of Lloyd's Bank GmbH in Germany as independent member.

On 12 April 2016, Mr Umbgrove joined the Supervisory Board of DHB Bank as independent member and chairman of the Supervisory Board Credit Committee (now Credit Advice Committee). Subsequently, he was elected chair or member of other Supervisory Board committees. In May 2018, he became the chairman of DHB Bank's Supervisory Board following the retirement of his predecessor.

Ms Nesrin Koçu-de Groot

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

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

Mrs Kocu-de Groot joined the Supervisory Board of DHB Bank in April 2015 as member related to HCBG Holding B.V. She is also the Chief Financial Officer of HCBG Holding B.V., Supervisory Board Member of C Faktoring AŞ, and Supervisory Board Member of Demir Kyrgyz International Bank, Bishkek.

Mr Maarten Klessens

Born in 1958, Mr Klessens holds a degree in Business Economics from Erasmus University and a postgraduate in Financial Economics from TIAS Tilburg University. He has followed several leadership programmes at Michigan University, IMD, Insead and IoD.

Mr Klessens started his career in 1984 with Unilever after which he moved to ABN. During his 22 year career at ABN AMRO, Mr Klessens has held a number of positions, including Relationship Management, Risk and Structured Finance. He was member of the Group Risk committee of ABN AMRO.

Following ABN AMRO, Mr Klessens moved to a Financial Advisory firm where he advised on financial (re-)structurings and solutions.

In 2011 he joined RBS Group where he became Deputy Head of Global Country Risk being responsible for country appetite setting and exposure management across the RBS Group and covering the macro economic and political analysis of countries. During these years there was special attention given to the financial stress in the Eurozone periphery and recommendations for the board to mitigate exposures. In this position he was an alternate member of the RBS Group Risk committee.

Mr Klessens is member of the Supervisory Boards of NatWest Markets NV since 2015 (currently vice-chairman of the SB and chair of Audit Committee) and member of the Supervisory Board of Bank of Africa Group SA since 2016, the latter as a nominee of FMO. He joined the SB of DHB Bank in June 2017 as independent member.

Mr Onur Bilgin

Born in 1981 in Ankara, Turkey Mr Bilgin graduated from Ankara University, Department of Business Administration and currently is continuing his studies at Law School of Marmara University to obtain a bachelor degree in law.

He began his professional career in 2006 as Assistant Specialist in Credit and Project Appraisal Department of Halkbank. In 2007, he started to work in International Banking and Structured Finance Department within the same institution. He held various positions in IFI Loans Division of International Banking Department during his term between 2007 and 2018. Since August 2018, he has been serving as Head of International Banking and Structured Finance Department in Halkbank.

Mr Bilgin joined the Supervisory Board of DHB Bank on 17 January 2019 as member related to Türkiye Halk Bankası A.Ş.

Mr Ariel Hasson

Born in 1973 in Israel, Ariel Hasson holds an MBA with Distinction from the Kellogg School of Management in Northwestern University, Illinois and a B.A., magna cum laude, in Economics and in Management from the Tel Aviv University.

Mr. Hasson was the CEO of Kardan NV until 2020, a dual listed company in the Euronext Amsterdam and the Tel Aviv Stock Exchange. Mr Hasson served as the CEO of Kardan Group as well as the Chairman of several of the group's subsidiaries. Prior to assuming the group CEO position, he headed the Financial Services arm of the group with several retail and SME banking focused subsidiaries in CEE countries. Mr. Hasson had previously served as an Executive Vice President with Bank Hapoalim and Head of the Emerging Markets banking. Mr Hasson also served as the Chief Advisor to the President and CEO of Bank Hapoalim.

Before joining Bank Hapoalim, Mr. Hasson had worked with the Boston Consulting Group (BCG) in the US. He advised Fortune 500 companies on various strategic projects. Aside his position at DHB Bank, Mr Hasson is the chairman of the Supervisory Board of TBI Bank Group.

Mr. Hasson joined the Supervisory Board of DHB Bank as independent member on 17 May 2019. He currently chairs the bank's Risk and Audit Committee.

Mr Kemal Cıngıllıoğlu

Born in Atlanta, USA in April 1985, Mr Cingillioglu holds a Bachelor of Arts degree in Economics from Boston University and a Postgraduate Degree in History of Art and Art World Practice from University of Glasgow (Christie's Education), awarded with Merit.

He has extensive experience both in the financial and non-financial sectors. He has worked in various different departments of banks, factoring and leasing companies - as an intern from early ages. He has been exposed to various businesses through the family office he manages in London, specializing in art investments.

Mr Cingillioglu joined the Supervisory Board of DHB Bank in January 2020 as member related to HCBG Holding B.V. Aside this position, Mr Cingillioglu is the Managing Director of Cingilli Collection, London, Director of HCBG Holding BV, Amsterdam, and an Advisory board member of Christie's Auction House.

31. Bankers' Oath

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

All the present SB and MB members as well as all DHB Bank employees took that pledge and signed the bankers' oath. Employees who joined DHB Bank in 2020 also took this oath within 3 months of joining the bank.

32. Clients First

Clients are at the centre of DHB Bank's activities. They are perceived as vital partners from the perspectives of business continuity and corporate social responsibility.

In the past several years, the global financial crisis and the perceived role that banks and other financial institutions worldwide have played in it have led to a widespread loss of confidence in the financial system on the part of its customers. So as to rebuild and strengthen this confidence, banks need to ensure that, more than ever, client relationships are developed on a long- term, sustainable basis. This is possible only if banks always have the client's best interest at heart. Accordingly, DHB Bank believes that only if the bank can consistently fulfil clients' real financial needs at fair terms will it be able to maintain their goodwill, resulting in continued business and sustainable profitability, in the interest of both parties. DHB Bank has always been committed to these principles.

DHB Bank takes into account the interests of all its customers ranging from individuals to corporates and financial institutions. The bank conducts all its activities on a fair and open basis, including all dealings with corporates and financial institutions. This is ensured by transparent and unequivocal negotiations and agreements in order to prevent reputational risk.

DHB Bank does not offer complex products, but still strives to avoid any asymmetry of information between its clients and the bank. This is especially important for products having a great impact on the customer's life. The bank is aware that under these circumstances, a particular responsibility falls on itself as the stronger, better-informed party in the relationship, to ascertain and act upon the real financial needs of the client. This is supported by clear, understandable and open communication. The bank puts the client's best interest first beyond a traditional customer care approach, DHB Bank strives to offer only products with sufficient added value for the client, and it ensures that easy channels are established for customers to direct any complaint straight to the bank and/or to the Ombudsman.

33. Policies and Procedures

In the course of 2020, DHB Bank continued to apply its strong corporate governance guidelines. The bank is committed to continuously enhancing its corporate governance and compliance structure in line with related developments in these fields.

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

Within the bank's organization, the Compliance & Legal Department plays an important role in corporate governance practices, while the Internal Audit Department assesses whether internal control measures have been designed properly, are present and are working effectively to assure the quality and effectiveness of the system of governance. The Governance Officer oversees and/or facilitates applications related to corporate governance.

Some particularities of the bank's corporate governance structure are set out in the below policies and documents. To ensure up-to-date practices in the bank's operations and activities, policies and procedures are placed on a periodic review schedule under the coordination of the Governance Officer.

- Articles of Association (AoA):
  The Articles of Association (AoA) of DHB Bank require that at least 50% of the SB members in office, including the chairman, are independent.

- Supervisory Board Policy:
  The stipulations of the AoA regarding the composition of the SB are also taken up in the SB Policy. It furthermore stipulates that, in the event of the 50% threshold being temporarily breached, the independent members will nevertheless have 50% of the votes in the decision-making. This policy includes stipulations pertaining to the required qualifications of the SB members and the chairman and to the diversity of the SB's composition. This policy additionally prescribes that any related party transactions take place at arms' length.

- Managing Board Policy:
  The managing board policy comprises stipulations related but not limited to corporate strategy, risk management, internal control, the financial reporting process, audit, and compliance; as well as the consideration of clients' interests and social responsibility. This policy includes stipulations pertaining to the required qualifications of the MB members and to the diversity of the MB's composition.

- Internal Audit Charter:
  The bank's Internal Audit Charter describes the mission and scope of work, responsibilities, accountability, authority and standards of the Internal Audit Department, and includes stipulations ensuring its independence and objectivity.

- Conflicts of Interest:
  The prevention of conflicts of interest is among the key elements of corporate governance. So as to ensure controlled and sound business operations, DHB Bank has a Policy on Conflict of Interest as a guideline. This policy covers measures to prevent (the appearance of) conflicts of interest and to prevent DHB Bank or its employees from performing acts that are contrary to generally accepted standards and might seriously damage confidence in DHB Bank or in the financial markets. Related principles and procedures are also detailed in the Related Party Transactions Committee Policy, the Related Party Credit Acceptance and Approval Procedure, the Procedure on Financial Services to Employees and Supervisory Board Members, and provisions on promotional gifts as included in the Code of Conduct (Staff Handbook).

- Social Responsibility:
  DHB Bank's Corporate Social Responsibility Policy covers the bank's adherence to the principles of social responsibility in all the decisions made and in all the activities undertaken. This policy aims to guide the bank in contributing to sustainable development, including the health and welfare of the society.

- Ethical Values:
  For the purpose of strengthening DHB Bank's corporate culture, the bank's staff handbook is kept updated to address more clearly the seven elements of an ethical culture, comprising the values of balancing interests, balanced actions, consistent actions, openness for discussion, leading by example, feasibility and transparency.

- Integrity:
  DHB Bank strives to adhere to the highest standards of integrity in all its transactions and relationships. To avoid integrity failures, the bank's integrity risk policy is based on ensuring that a general culture of high ethical standards prevails throughout the bank and that integrity risks are efficiently managed. The general approach is top-down, and the process starts with a strong ethical stance at the top.

- Duty of Care towards Clients:
  DHB Bank has substantiated its existing practices in this respect by adopting a Client First Policy, intended also as a guideline for the management and staff in decision- making and client interaction, so as to put the clients' best interest first. This policy also sets out the principles regarding product development and review, human resources policy and corporate culture, complaint procedures, and communication/transparency with clients. This last principle in particular is given special attention by the bank in all its relations and dealings with its clients. Management sees a client-centred approach as key to long-term

success of the bank and continually strives to make sure it is deeply ingrained in the corporate culture.

- Complaint Procedure:
  As part of its duty of care towards clients and in application of the client first principles, DHB Bank has in place a complaint procedure, designed to resolve any issue or problem brought forward by the customers. Customers can file their complaints via the bank's website, where they are also informed about their option of contacting the related authorities as well.

- Product Approval:
  In line with the requirements of the client first principle, DHB Bank introduced its Product Approval Procedure with more focus on the duty of care towards clients, among others. The Internal Audit Department is responsible for periodically checking whether the respective procedure works effectively in practice.

- Customer Due Diligence Policy:
  Since 2015, the bank has been continuously revising and updating its CDD policy to ensure adaptation to changing regulations and achieve a more efficient practice in this respect. This policy has been extensively updated recently in line with changes in the regulations.

In addition to these policies and practices, DHB Bank also has in place a wide range of policies, procedures and measures pertaining to various aspects of governance and compliance, such as Remuneration Policy, Information Security Policy, Business Continuity Policy, Lifelong Learning Policy, Compliance Policy, Policy on Credit Approval & Advice Authorities and Review Principles, Integrity Risks Policy, Dividend Policy and the like.

The independence of the compliance function at DHB Bank is ensured thanks to the direct access of the Compliance Officer to the RAC and to the Chairman of the SB. The Compliance Policy documents the authorities and duties of the Compliance Officer.

In 2020, DHB Bank continued to consistently apply its existing principle in relation to Know Your Customer and customer acceptance criteria.

34. Risk Governance and Management

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

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

Risk Governance & Management

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

The Risk Management Department (RMD) and the Compliance and Legal Department (CL) and Credit Departments form the second line of defence, together with the Information Security Department, which functions independently from the IT Department. They support the business units in their decision-making, but have sufficient independence and countervailing power to avoid risk concentrations.

The Internal Audit Department (IAD) as the third line of defence oversees and assesses the functioning and effectiveness of the first two lines.

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

Within the governance structure, and reporting to the MB, the Risk Management Committee (RMC) oversees both financial and non-financial risks on an aggregate, bank-wide level while specialized committees focus on specific risk areas such as credit risk, liquidity risk and market risk. All committees support the MB in fulfilling its responsibilities with regard to integrated risk management and provide oversight to the front offices, which are responsible for managing the risks in their activities within the approved risk limits and tolerance.

DHB Bank enhanced its Systematic Integrity Risk Analysis process by further identifying risks that are specific to DHB Bank and to assess applicable controls in conducting business activities.

With this general approach, the bank maintained its strong governance structure in 2020.

Operational Risk

The bank's regular Operational Risk and Control Assessment (ORCA) aims to effectively manage operational risks. It is a systematic process of identifying and assessing risks and determining the effectiveness of controls. ORCA is conducted by the risk owners, that is, each department assesses operational risks relevant to their function. Each risk dimension is then challenged by the Risk Management Department (and by the Information Security Officer for IT risks) before the risk registers are finalized.

Risk and Capital Management

DHB Bank's capital management framework, within the broader risk management system, aims to ensure that there is sufficient capital to adequately absorb all residual risks under usual business conditions and plausible stress scenarios, and to meet the bank's business objectives in full compliance with the regulatory requirements.

For European banks, new capital and liquidity requirements, as formulated by the Basel Committee in the form of the Basel III accord, are being implemented through the Capital Requirement Regulation (CRR) and the Capital Requirement Directive (CRD IV). DHB Bank was prepared in time to implement systems and methods to regularly monitor its compliance with the new rules.

The bank benefits from ongoing efforts to satisfy higher regulatory and supervisory standards not only with respect to capital management through its periodic internal capital adequacy assessment process (ICAAP), but also in relation to liquidity management through its internal liquidity adequacy assessment process (ILAAP) as required by the Liquidity Policy Rule of DNB.

The bank's recovery plan - adopted in early 2014 and updated annually - defines recovery options that are available to counter a near-default scenario. It assesses in detail whether the nature of the options is sufficiently robust, credible and varied to manage a wide range of shocks of different forms.

ICAAP, ILAAP, recovery plan and risk management practices separately and jointly point to the strong financial position of DHB Bank, which was also verified in real life by the bank weathering unscathed the severe crises – both local and global – that it was exposed to since its establishment.

Risk and Capital Management Disclosure

The CRD IV contains certain minimum disclosure requirements regarding risk and capital management in line with the Pillar 3 rules. Its goal is to encourage market discipline in disclosure in order to allow stakeholders to assess the bank's standing in terms of capital resources, capital adequacy, liquidity, overall risk profile, and risk management practices.

DHB Bank publishes its disclosures on its website. The next Pillar 3 disclosure will be available during the first half of 2021 based on 31 December 2020 figures.

Additional Disclosures

- **Risk Appetite and Key Risks**

As part of risk management, DHB Bank formulates its risk appetite that is documented and updated regularly. Defining, monitoring and adjusting risk appetite is considered the foundation of an effective risk management. The bank's risk appetite outlines the level and nature of risks that it is willing to accept in order to pursue its strategy on behalf of shareholders, commensurate with its risk management capacity and philosophy. Risk appetite also sets the boundaries for the acceptable risk profile.

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

Out of a total of 19 primary risk dimensions in 2020, the bank's risk appetite was determined as "low" for 13, "medium" for 5, and "medium-to-high" for 1 dimension. No risk dimension is determined as high. Their breakdown is presented below:

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

As per assessments conducted periodically by the independent Risk Management Department and reported to the management and the Risk & Audit Committee of the Supervisory Board, it was established that these risk appetite levels were mostly complied with during 2020. In cases where the actual risk profile tended to deviate from the risk appetite, the management took the necessary measures to return the risk profile to the level specified in the approved risk appetite in the related areas in due course and in consultation with the supervisory authorities, where needed. Within capital planning, capital is allocated for an overwhelming majority of the risk dimensions indicated above for an amount commensurate with their exposure/risk levels.

- **Monitoring, Assessment & Control Measures**

DHB Bank controls risk through its established and proven risk management framework, which proved its maturity and efficiency by enabling the bank to weather unscathed several regional and global crises that it was exposed to since its establishment, most recently, the 2008 global crisis, the following crisis in the Eurozone and the turbulence in Turkey in 2018. In all its activities, the bank places great emphasis on avoiding targeting short-term profits by disregarding long-term risk.

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

Periodic risk assessment reports prepared by the Risk Management Department cover the subject on a high level, comparing the status quo to the risk appetite statement. Similarly, market risk and interest rate risk (as well as liquidity risk) are managed daily by the Treasury Department, and monitored weekly at the ALCO meetings and monthly through the MIS Reports. MIS reports include reports on VaR on Trading Portfolio, VaR on Open Position, on Interest Rate Risk, on Asset & Liability Maturity Schedule, on Liquidity Stress Tests and other ILAAP / SREP Liquidity measures etc.

DHB Bank's liquidity and funding plan are based on policy statements resulting in various liquidity risk measures, limits and organisational procedures. The bank's liquidity risk management includes stress testing and a contingency plan. Stress testing is defined as the evaluation of potential effects on a bank's liquidity situation under a set of exceptional but plausible events. The stress testing framework also includes survival horizon metrics and has set the limit at six months for minimum survival under idiosyncratic, market-wide and hybrid stress scenarios without access to market funding. During 2020 DHB Bank continued to focus on prudent liquidity risk management, so as to maintain a diversified and strong funding base. DHB Bank had access to all the relevant financial markets and was able to actively carry out the necessary tests as described in the bank's funding plan.

DHB Bank being a commercial bank, credit risk is the constant risk dimension present in its activities. Accordingly, DHB Bank has in place very rigorous credit underwriting and monitoring policies and practices that allow controlling this risk. Apart from allocating ample capital for its credit exposures, the bank also uses collateralization for credit enhancement. In addition, the bank stringently avoids entering uncharted (market) territories for increasing short-term profits at the expense of incurring high credit risks. Depending on market developments, in order to determine and control various aspects of credit risk and take actions if necessary, the bank conducts special analyses and reports concerning its portfolio; some of the analyses performed in 2020 were the following: FX volatility and impact analysis related to hard currency appreciation against TRY, impact analysis of geopolitical and macro-economic developments particularly in Turkey, review of possible effects of Brexit on DHB Bank's activities.

DHB Bank is subject to country risk due to its international operations. Since the bank's establishment, Turkey had been the primary country of interest for DHB Bank thanks to the management's in-depth knowledge and experience in the country. As a matter of principle, the bank works with highly creditworthy, top tier Turkish corporates and banks having high financial standing and reputation while obtaining collaterals for some exposures. As a further risk mitigating factor, the bank sets aside additional capital to alleviate country risk. Furthermore, the bank has considerably decreased its exposure to Turkey, to less than 13% in 2020, and does not aim to exceed this level, by much, DHB Bank strives to maintain its focus on the EEA where it has its highest exposure. Insurance is occasionally procured from reliable counterparts to either mitigate risks or open room in the availabilities of limits to companies.

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

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

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

Starting the second half of 2017, uncertainties in Turkey and depreciation of the TRY against hard currencies had led Management to adopt a cautious stance towards asset generation and to maintain high liquidity. This continued throughout 2020 - with the TRY being at a weaker level than before against other currencies. DHB Bank closely monitored companies in its portfolio that might be vulnerable to devaluation risk via comprehensive assessments, which resulted in exiting some companies (Turkey exposures almost halved in 2018 and were further reduced in subsequent years), in obtaining credit enhancements from some and in restructuring some deals with companies assessed as viable but under temporary liquidity pressure.

This stance reflected the bank's traditional risk-averse approach in risk management.

- Improvements concerning DHB Bank's risk management system

For the past few years, DHB Bank has been continuously improving its risk management system and framework. Apart from the distinct classification of the three lines of defence model, several new reports have been developed, risk management practices have been more clearly defined, and the committees' roles, attention points and functions in relation to various risks have been enhanced. Noteworthy progress was made in the further formalization of the funding plan, the stress test methodology and the contingency plan within the context of ILAAP, ICAAP and Recovery Plan. The bank further improved the Risk Appetite Statement (RAS) for 2021, by increasing granularity in risk sub-dimensions, along with mapping to risk levels for each individual risk sub-dimensions to facilitate better monitoring, and by improvement in documentation of rationale for risk appetite limits, escalation process for breaches in limits and the action for risk mitigation.

The bank's credit risk management framework started to being further refined and strengthened following DNB's report in this respect.

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

35. Remuneration

The remuneration of the MB members, as well as that of senior staff members, including those engaged in risk management and control functions, and other staff members, is determined according to the bank's Remuneration Policy and Bonus Plan. This policy and plan are based on the applicable regulations and amongst others includes stipulations concerning fixed and variable remuneration, meeting financial and non-financial criteria for being eligible for a variable remuneration, where at least 50% of the variable remuneration is based on non-financial criteria, claw back and deferral payment rules.

As a general rule, variable remuneration does not exceed the maximum of 20% of the gross yearly fixed salary of DHB Bank employees, and consists of a 50% cash component and a 50% non-cash component. Part of the variable remuneration is granted unconditionally (60%), while the remaining part is granted pro rata over a period of 3 calendar years (deferred).

In financial statements of 2020, there exists a provision amounting to Euro 464,000 related to variable remuneration for DHB Bank members for their 2020 performance.

None of DHB Bank employees qualify as high earners, i.e., have a total annual remuneration of at least EUR 1 million.

36. Dutch Banking Code

The Dutch Banking Code, a revised version of which was adopted by the Dutch Banking Associations in 2014 as part of the Future Oriented Banking document, is applicable to DHB Bank. The Banking Code can be downloaded from the website of the Dutch Banking Association (www.nvb.nl). Its application to DHB Bank is described in "Implementation of the Dutch Banking Code at DHB Bank", available on the DHB Bank website (https://www.dhbbank.com).

Senior Management

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

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

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

Ms Fulya Baran
Assistant General Manager
Corporate Marketing

Mr İrfan Çetiner
Assistant General Manager
Treasury

Mr İbrahim Beydemir
Senior Financial Controller

Department Heads

Compliance & Internal Control & Legal Affairs
Ms Jet van Berchum

Corporate Customer Services and Processes
Mr Mustafa Beker

Corporate Loans
Mr Ozan Dereli

Credit Analysis
Mr Kerem Güder

Financial Control & Accounting
Mr Ercan Erdoğan

Financial Institutions
Ms Ayşın Atalay-de Jong

Forfaiting
Mr Gaspar Esteve Cuevas

General Affairs
Ms Kiraz Başaran

Governance Officer
Mr B. Affan Sağ

Human Resources
Ms Gülhan Develi

Information Security
Mr Dheeraj Katarya

Information Technology
Mr Nezih Engin

Internal Audit
Ms Nurşah Kayak

Operations
Ms Pınar Olierook-Türe

Risk Management
Mr Ali Kastrat

Foreign Main Branches & Representative Office

Germany
Ms Nuray Özbağcı
Country Manager

Belgium
Ms Monia Nasri
Country Manager

Istanbul Representative
Ms Fulya Baran

FINANCIAL STATEMENTS For the Year 2020

6

Statement of **Financial Position***

As at 31 December

(in thousands of EUR)	**Notes**	**2020**	**2019**
ASSETS			
Cash and balances with central banks	4.1	219,471	254,082
Financial assets at FVPL	4.2	6,137	1,473
Financial assets at FVOCI	4.3	292,732	240,018
Financial assets at amortized cost			
- Securities at amortized cost	4.4	30,924	40,476
- Loans and advances – banks	4.5	90,837	40,642
- Loans and advances – customers	4.6	874,614	961,943
Derivative financial instruments – hedge accounting	4.7	582	-
Property and equipment	4.8	3,543	3,841
Intangible assets	4.9	306	280
Current tax assets	4.10	2,703	118
Deferred tax assets	4.10	41	24
Other assets	4.11	6,303	7,636
Total assets		**1,528,193**	**1,550,533**
LIABILITIES			
Due to banks	4.12	126,072	112,766
Financial liabilities at FVPL	4.2	157	1,326
Deposits from customers	4.13	1,145,782	1,187,478
Derivative financial instruments – hedge accounting	4.7	48	-
Provisions *	4.14	1,782	1,610
Current tax liabilities	4.15	-	271
Deferred tax liabilities	4.15	528	254
Other liabilities *	4.16	6,141	7,093
Total liabilities		**1,280,510**	**1,310,798**
EQUITY			
Share capital	4.17	113,750	113,750
Revaluation reserves	4.18	1,531	791
Defined benefit obligation reserve	4.19	(43)	(43)
Retained earnings	4.20	125,249	109,565
Net profit		7,196	15,672
Total equity		**247,683**	**239,735**
Total equity and liabilities		**1,528,193**	**1,550,533**
Commitments and contingent liabilities	**6.1**	**1,544**	**1,512**

* *An amount of EUR 0.3 million has been reclassified from other liabilities to provisions in the comparative figures of 31 December 2019 to conform to the current year presentation.*

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

Statement of Profit or Loss

For the year ended 31 December

(in thousands of EUR)	**Notes**		**2020**		**2019**
Interest income		41,865		55,100	
Interest expense		(6,486)		(8,473)	
Net interest income	**5.1**		**35,379**		**46,627**
Fee and commission income		629		1,679	
Fee and commission expense		(218)		(205)	
Net fee and commission income	5.2		411		1,474
Result on financial transactions, net	5.3		(803)		(4,237)
Result on hedge accounting transactions, net	4.7		(232)		39
Other operating income	5.4		5		7
Total operating income			**34,760**		**43,910**
Administrative expenses:					
- Staff expenses	5.5	(13,380)		(12,059)	
- Other administrative expenses	5.6	(6,762)		(8,094)	
Total administrative expenses			(20,142)		(20,153)
Depreciation and amortization			(854)		(821)
Total operating expense			**(20,996)**		**(20,974)**
Operating profit before impairment			**13,764**		**22,936**
Net impairment charge on financial assets	5.7		(4,151)		(1,918)
Total expense			**(25,147)**		**(22,892)**
Operating profit before tax			**9,613**		**21,018**
Income tax expense	5.8		(2,417)		(5,346)
Net profit attributable to the shareholders			**7,196**		**15,672**

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

Statement of Comprehensive Income

For the year ended 31 December

(in thousands of EUR)	Notes	2020	2019
Net profit		7,196	15,672
Items that are or may be reclassified to statement of profit or loss			
Change in fair value of financial assets at FVOCI	4.18	608	384
Realized gains/losses on financial assets at FVOCI reclassified to statement of profit or loss	5.3	123	68
Items that will never be reclassified to the income statement			
Revaluation reserve-fair value of property	4.18	9	19
Re-measurement of defined benefit obligation reserve	4.18	-	-
Other comprehensive income		**740**	**471**
Total comprehensive income for the year		**7,936**	**16,143**

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

Statement of **Changes in Equity**

(in thousands of EUR)

	Share capital (Note 4.17)	Revaluation reserve*	Fair value reserve*	Defined benefit obligation reserve	Retained earnings	Net profit	Total
Balance at 1 January 2020	113,750	138	653	(43)	109,565	15,672	239,735
Change in revaluation reserve (Note 4.18)	-	9	-	-	-	-	9
Change in fair value reserve (Note 4.18)	-	-	731	-	-	-	731
Net profit for the year	-	-	-	-	-	7,196	7,196
Total comprehensive income	**-**	**9**	**731**	**-**	**-**	**7,196**	**7,936**
Transactions with owners, recorded directly in equity							
Transfer to / from retained earnings	-	-	-	-	15,684	(15,672)	12
Dividends paid (Note 5.9)	-	-	-	-	-	-	-
At 31 December 2020	**113,750**	**147**	**1,384**	**(43)**	**125,249**	**7,196**	**247,683**

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

(in thousands of EUR)

	Share capital (Note 4.17)	Revaluation reserve**	Fair value reserve**	Defined benefit obligation reserve	Retained earnings	Net profit	Total
Balance at 1 January 2019, as previously reported	113,750	119	201	(43)	109,635	14,443	238,105
Effect of change in accounting policy for initial application of IFRS 16 (Note 3.12)	-	-	-	-	(70)	-	(70)
Balance at 1 January 2019, as adjusted*	113,750	119	201	(43)	109,565	14,443	238,035
Change in revaluation reserve (Note 4.18)	-	19	-	-	-	-	19
Change in fair value reserve (Note 4.18)	-	-	452	-	-	-	452
Net profit for the year	-	-	-	-	-	15,672	15,672
Total comprehensive income	**-**	**19**	**452**	**-**	**-**	**15,672**	**16,143**
Transactions with owners, recorded directly in equity							
Dividends paid (Note 5.9)	-	-	-	-	-	(14,443)	(14,443)
At 31 December 2019	**113,750**	**138**	**653**	**(43)**	**109,565**	**15,672**	**239,735**

* *DHB Bank applies IFRS 16 using the modified approach, with the cumulative effect of initially applying the standard recognised in retained earnings at the date of initial application, i.e. 1 January 2019.*
** *The revaluation reserve and fair value reserve are part of the revaluation reserves caption presented in the statement of financial position.*

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

Statement of Cash Flows

As at 31 December *(in thousands of EUR)*	Notes	2020	2019
Cash flows from operating activities			
Net profit for the period		7,196	15,672
Adjustments for non-cash items included in profit:			
Depreciation for property and equipment	4.8	746	724
Amortization for intangible assets	4.9	108	97
Unrealized gains		(168)	414
Net impairment charge on financial assets	5.7	4,151	1,918
Provisions	4.14	172	189
Income tax expense	5.8	2,417	5,346
Changes in operating assets:			
Financial assets at FVPL	4.2	(4,560)	(564)
Loans and advances – banks	4.5	(50,116)	142,676
Loans and advances – customers	4.6	83,297	132,941
Derivative financial instruments – hedge accounting	4.7	(582)	-
Income tax assets	4.10	(2,602)	364
Other assets	4.11	1,333	761
Changes in operating liabilities:			
Due to banks	4.12	13,306	(42,794)
Deposits from customers	4.13	(41,696)	(16,509)
Financial liabilities at FVPL	4.2	(1,169)	(762)
Derivative financial liabilities – hedge accounting	4.7	48	(176)
Income tax liabilities	4.15	2,599	(776)
Other liabilities	4.16	(581)	507
Income tax paid		(5,020)	(5,096)
Net cash from/(used) in operating activities		**8,879**	**234,932**
Cash flows from investing activities			
Additions to securities at amortized cost	4.4	(5,909)	(15,312)
Additions to financial assets at FVOCI	4.3	(212,919)	(195,931)
Disposals and redemptions of securities at amortized cost	4.4	15,460	17,192
Disposals and redemptions of financial assets at FVOCI	4.3	160,801	72,869
Investments in property and equipment	4.8	(421)	(332)
Investments in intangible assets	4.9	(134)	(23)
Disposal of property and equipment	4.8	-	5
Net cash (used in)/from investing activities		**(43,122)**	**(121,532)**
Cash flows from financing activities			
Dividends paid	5.9	-	(14,443)
Lease payment		(368)	(467)
Net cash used in financing activities		**(368)**	**(14,910)**
Net (decrease)/increase in cash and cash equivalents		(34,611)	98,490
Cash and balances with central banks at 1 January		254,082	155,592
Cash and balances with central banks at 31 December	**4.1**	**219,471**	**254,082**
Operational cash flows from interest			
Interest received		49,355	58,813
Interest paid		(7,084)	(9,247)

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

Notes to the FINANCIAL STATEMENTS

7

Notes to the Financial Statements

1. Corporate Information

Demir-Halk Bank (Nederland) N.V. is a public limited company incorporated and domiciled in the Netherlands. Its registered office is at Weena 780 3014 DA Rotterdam, Netherlands.

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

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

2. Basis of Preparation

2.1 Compliance status

The financial statements of DHB Bank have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU IFRS) and in accordance with Part 9 of Book 2 of the Dutch Civil Code. The bank is registered in Rotterdam, the Netherlands (Chamber of Commerce number 24199853).

The financial statements for the year ended 31 December 2020 were prepared by the Managing Board and authorized for issue in accordance with a resolution of the Supervisory Board on 6 May 2021. The General Meeting of Shareholders may decide not to adopt the annual accounts, but may not amend these.

2.2 Basis of measurement

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

DHB Bank has considered the effects of Covid-19, and it has determined that they do not create a material uncertainty that raises significant doubt upon the bank's ability to continue as a going concern. DHB Bank has reflected, in the light of available information and developments, the possible effects of the Covid-19 outbreak to the forecasts that are used in the calculation of expected loan loss provisions. The estimations that were used in the calculation of expected loan loss provisions are disclosed in the explanations on impairment of financial assets. The bank has not faced so far and does not expect to face any material impact on its operations and financials in the subject period.

The financial statements are prepared under the going concern assumption.

2.3 Functional and presentation currency

The financial statements are presented in Euros (EUR), which is the functional currency of DHB Bank.

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

3. Summary of Significant Accounting Policies

3.1 Basis of reporting

The financial statements incorporate the assets, liabilities, income and expenses of DHB Bank. This note provides a list of the significant accounting policies adopted/will be adopted in the preparation of these financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.2 Foreign currency translation

Transaction and balances

DHB Bank prepares its financial statements in Euros, which is DHB Bank's functional and presentation currency.

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

3.3 Significant accounting estimates

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

DHB Bank reviews the estimates and underlying assumptions on an ongoing basis. The most significant use of judgments and estimates are made in the following areas:

- determination of fair values of non-quoted financial instruments, further explained in section 3.4.2 and 6.4
- determination of impairment losses on loans and advances, loan commitments and financial guarantee contracts, further explained in section 3.7
- determination of deferred tax assets and liabilities, further explained in section 3.15
- determination of fair value for financial assets at FVOCI, further explained in section 3.4.2

These items are explained in related sections.

3.4 Financial instruments – recognition and subsequent measurement

3.4.1 Recognition of financial instruments

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

Purchase of financial assets which require delivery of assets within a certain time frame generally established by regulation or convention in the marketplace are recognized on the settlement date, i.e. the date that DHB Bank receives or delivers the asset.

3.4.2 Classification and measurement of financial instruments

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

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

Following IFRS 13, the bank defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. If there is an active market for the asset or liability, the fair value represents the quoted price in that market. A market is considered active if transactions take place with sufficient frequency and volume.

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

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

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

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

3.4.2.1 Classification and measurement of financial instruments

Classification and measurement of financial assets are dependent on two criteria: business model and type of contractual cash flows of these assets (through the SPPI test). Both criteria are used to determine whether the financial assets are accounted for at amortised cost, at fair value with adjustments recognized at other comprehensive income (FVOCI), or in profit or loss (FVPL).

The combination of these two criteria (business model and the SPPI test) result in the composition of financial assets measured at amortised cost and at fair value.

Solely payment of principal and interest ('SPPI') assessment:
The contractual terms are tested for assessment of HCTS and FVOCI business models at initial recognition. The SPPI test covers interest rate and currency, contract features, prepayment, extension (additionally performance linked features for loans) analyses for the detailed SPPI assessment. 'Modification of cash flows' under IFRS 9 is reviewed considering deferral, cancellation, prepayment and extension conditions in the contracts. Modified time value of money assessment is performed through reasonable scenarios according to benchmark test.
Time value of money, credit risk, basic lending risks, holding costs for a period of time and profit margin (which is consistent with a basic lending agreement) are considered as interest. Additionally, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not bifurcated under IFRS 9.

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

a. Financial assets and liabilities at FVPL

This category includes securities held for trading, derivative contracts consisting of cross currency swaps and forward foreign exchange contracts, interest rate swaps, options on bonds and foreign currencies, futures on equities and credit default swaps and other assets that do not qualify for FVOCI and amortized cost. At initial measurement financial assets and liabilities FVPL are recorded in the statement of financial position at fair value and are subsequently measured also at fair value with changes being realized in the income statement under the item 'Result on financial transactions'. The positions with a positive fair value after re-measurement are recorded

Business model assessment:

Business model	How business is evaluated and reported and risk are managed	Measurement
HTC: Hold-to-collect (if passed SPPI test and fair value option is not applied)	The objective of the business model is to hold asset to collect contractual cash flows.	Amortized cost
HTCS: Hold to collect and sell (if passed SPPI test and fair value option is not applied), applicable for debt instruments	Both collecting contractual cash flows and sales are integral to achieving the objective of the business model.	Financial assets at FVOCI
Other business models (including held for trading)	The business model is neither hold-to-collect nor hold to collect and sell.	Financial assets at FVPL

Sales or expected sales of financial assets may be consistent with hold-to-collect business models if those sales are incidental to the business model (e.g. sales due to increase in credit risk, infrequent sales (significant), frequent sales (insignificant individually or in aggregate) or sales close to maturity). The bank reclassifies financial assets only when its business model of those assets changes.

under the item 'Financial assets at FVPL' whereas the positions with a negative fair value after re-measurement are recorded under the item 'Financial liabilities at FVPL'.

Fair value option:
As per reporting date DHB Bank has not designated financial assets or liabilities as at FVPL.

b. Amortized cost
Loans and advances
Loans and advances at amortized cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The objective of the DHB Banks's business model is to hold asset to collect contractual cash flows. At initial measurement this category is recorded in the statement of financial position at fair value (including transaction costs) and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. Losses arising from impairment are recognized in the income statement under 'Net impairment charge' and disclosed in the movement table under loans and advances.

Securities
Investments under this category are non-derivative, interest bearing securities such as government bonds, treasury bills and various debt instruments issued by banks and companies with fixed or determinable payments and fixed maturities. At recognition, it is assumed that DHB Bank has the positive intent and ability to hold these financial assets till maturity.

After initial measurement at fair value (including transaction costs), these investments are subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. Losses arising from impairment are recognized in the statement of profit or loss under 'Net impairment charge'.

c. Financial assets at FVOCI
Financial assets at FVOCI are non-derivative assets which represent a HTCS business model and where the assets' cash flows met SPPI test.

Financial assets at FVOCI consist of interest bearing securities and syndicated bank loans. DHB Bank has the intention to hold these assets and to sell them in response to needs for liquidity or changes in interest rates, exchange rates.

At initial measurement these are recorded in the statement of financial position at fair value including directly attributable transactions costs and are subsequently measured also at fair value. Unrealized gains and losses are recognized net of taxes through other comprehensive income under the item 'Fair value reserve' until the investment is sold or has matured. Interest income is calculated using the effective interest rate method and recognized in the statement of profit or loss under 'Interest income'.

Movements in the carrying amount are recognized at other comprehensive income, except for impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in the statement of profit or loss. When the financial asset is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of profit or loss under 'Result on financial transactions'.

d. Other financial liabilities
These are non-derivative financial liabilities ('Due to banks' and 'Deposits from customers'). At initial measurement this category is recorded in the balance sheet at fair value (including transaction costs) and is subsequently measured at amortized cost.

3.5 Derecognition of financial assets and liabilities

Financial assets
DHB Bank derecognizes a financial asset when:
- substantially all the risks and rewards of the asset, or the control of the asset were transferred;
- contractual rights to receive cash flows from the financial asset expired;
- rights to receive cash flows from the asset were retained but there exists an obligation to pay them in full without material delay to a third party under a specific arrangement transferring substantially all risks and rewards;
- rights to receive cash flows from the asset were transferred;

When DHB Bank has transferred its contractual rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of DHB Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that DHB Bank could be required to repay.

Where an existing financial asset is replaced by another to the same borrower on substantially different terms (10% difference), or the terms of an existing asset are substantially modified, such an exchange or modification is treated as a derecognition of the original asset and the recognition of a new asset, and the difference between the carrying amount and the consideration received is recognized in the statement of profit or loss.

When the modification does not result in the derecognition of that financial asset, a modification gain or loss is recognized in profit or loss for the difference between the carrying amount and the recalculated gross carrying amount of the financial asset (present value of the modified contractual cash flows that are discounted at the revised effective interest rate).

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms (10% difference), or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the carrying amounts and the consideration paid is recognized in the statement of profit or loss.

3.6 Offsetting financial assets and financial liabilities

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

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

The above ISDA and similar master arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the bank or the counterparties. In addition the bank and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously. These are disclosed in more detail in the Offsetting Financial Assets and financial liabilities section “6.5”.

3.7 Impairment of financial assets

IFRS 9 impairments apply to financial assets at amortised cost and financial assets at FVOCI; lease receivables, financial guarantee contracts and contract assets under IFRS 15. ECL is recognized in profit or loss before a loss event has occurred and applies to the entire portfolio under IFRS 9.

DHB Bank has partnered with an external consulting firm to develop and implement the loan loss calculation module that is based on standardized software from that consulting firm. This module includes an expected credit loss model that is tailored towards DHB Bank’s loan portfolio characteristics and enables automated calculation of the impairments using transaction data from DHB Bank’s source systems.

DHB Bank recognizes an ECL for the following financial instruments:

Financial assets at FVOCI
Financial assets at amortized cost
- Securities at amortized cost
- Loans and advances – banks
- Loans and advances – customers

Financial guarantee contracts and loan commitments

Impairment stages

The expected credit losses are grouped into the following stages:

- Stage 1: The expected credit losses stemming from possible defaults in the next twelve month period is recognized for the financial instruments without a significant increase in credit risk. Interest income is recognized by applying the effective interest rate on gross carrying amount.

  DHB Bank implemented payment moratoriums to the obligors operating in certain sectors to alleviate their financial stress that arose as a result of their temporary liquidity constraints due to the negative impact of Covid-19. DHB Bank’s moratorium was applied in connection with the EBA guidelines on legislative and non-legislative moratoria on loan repayments which clarify that payment moratoria do not trigger classification as forbearance or distressed restructuring if the measures taken are based on the applicable national law or on an industry or sector-wide private initiative agreed and applied broadly by the relevant credit institutions. The bank continues to closely monitor the developments from both systemic and individual borrower perspectives with regard to the Covid-19 pandemic.

- Stage 2: Lifetime expected credit loss ('Lifetime ECL') is recognized for the financial instruments with significantly increased credit risk. Interest income is recognized by applying the effective interest rate on gross carrying amount.

- Stage 3: Lifetime ECL is recognized for the credit-impaired financial instruments. Interest income for credit impaired instruments is recognized by applying the effective interest rate on net carrying amount instead of gross carrying amount.

Financial instruments classified as low credit risk
DHB Bank classifies these financial assets as low credit risk instruments:
- ECB eligible securities
- Risk of financial institutions located in countries with minimum BBB- rating (external or internal)

Low credit risk instruments exist in financial assets at FVOCI and securities at amortized cost. Lifetime ECL is not calculated for financial instruments classified as low credit risk.

Definition of default and credit impaired financial assets
DHB Bank considers a default to have occurred when one or more of the following events has/have taken place:

a) The obligor fails to pay in time the interest and/or instalments of principal and/or any other due financial obligation to DHB Bank within the cure period stipulated which is not longer than 90 days.

b) The obligor is considered to be unlikely to meet its contractual obligations to DHB Bank, the parent undertaking or any of its subsidiaries in full, without recourse by DHB Bank to actions such as realizing security.

Exposures are classified as defaulted and accordingly non-performing based on DHB Bank's assessment for each obligor in terms of debt service capacity due to unlikely to pay (UTP) events.

A financial asset is qualified as non-performing for the entire amount, not taking into account any available collateral, if it is in default status as a result of the default triggers. Furthermore, non-performing classification will be in place if a performing forborne exposure in a probation period receives an additional forbearance measures or becomes more than 30 days past due or is still in overdue status following the cure period of at least 12 months.

A non-performing financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured within IFRS framework.

DHB Bank considers the following exposures as non-performing:
- all defaulted exposures
- a performing forborne exposure in a probation period that was classified as non-performing at the time of the latest forbearance measure or as a consequence of entering the forbearance status and on which an additional forbearance measure is imposed; or
- a performing forborne exposure in a probation period that was classified as non-performing at the time of the latest forbearance measure or as a consequence of entering the forbearance status and becomes more than 30 days past due.

Exposures, which are defaulted and credit impaired in accordance with IFRS framework, are considered as non-performing exposures.

Watch-list exposures
DHB Bank uses early warning indicators (EWIs) for timely detection of increased credit risk in its portfolio. On identifying a triggered EWI event which may lead to further assessment and more frequent monitoring, DHB Bank considers placing exposures on Watch-List based on the delay in debt repayments, potential weaknesses in the financial standing of the obligors, difficulties in the repayment capacities or cash flows and other relevant potential factors which will create repayment problems.

Forborne exposures
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 calculation of ECLs

In order to determine ECLs DHB Bank will utilise Probability of Default (PD) x Loss Given Default (LGD) x Exposure at Default (EAD) models for Stage 1 and Stage 2 exposures in the scope. This effectively calculates an ECL for each future period, which is then discounted back to reporting date and summed. PD is the likelihood of a borrower defaulting on its financial obligation (as default and credit impaired), either over the next 12 months or remaining lifetime of the obligation. EAD is defined as total amount to be owed at the time of the default, either over the next 12 months or remaining lifetime of the obligation. LGD is the banks expectation on extent of the loss on a defaulted exposure. LGD varies by availability and type of the collateral. LGD is expressed as a percentage unit and indicates the loss if the default occurs over the next 12 months or remaining lifetime of the obligation.The bank calculates impairment under four segments: banks, corporates, sovereign and retail portfolios. Retail portfolio is followed under insured, uninsured and mortgage sub-portfolios. DHB Bank does not group any portfolio of assets for collective ECL calculation.

Time horizon applied in ECL calculation for overdraft loans is defined according to the Bank`s applied contractual period. Currently, internal rating model enables credit analysts' judgment in Credit Risk to be fed into the final rating. Rating buckets used in ECL loss calculation is determined according to DHB's portfolio distribution and internal rating scale.

The estimation of Credit Conversion Factors (CCF) are existing, standardized and widely accepted regulatory Basel values which are already applied by the bank and valid under IFRS 9. The LGDs are determined based on factors which impact the recoveries made post default. These vary by product type. For secured products, LGDs are mainly based on collateral type and value.

Incorporation of forward looking information

Forecasts of multiple future economic conditions (macroeconomic scenarios) are incorporated into the ECL models as probability weighted in order to determine the eventual expected credit losses. The scenarios depend on historical data of the forward looking indicators. DHB Bank utilises three macroeconomic scenarios for Stage 1 and Stage 2 financial assets, which are also used in stress testing, in the ECL model: a baseline scenario, a baseline minus and a baseline plus.

For Stage 3-credit impaired financial assets, the Bank uses scenario analyses, including forward looking information and weighted by judgment of credit risk department and the management, which are also probability weighted.

Expected unemployment rate and GDP are forward-looking indicators incorporated in the ECL model.

Considering the bank's portfolio, country distribution and business expectations as well as statistical significance, DHB Bank use weighted average of GDP growth of Turkey and European Union for corporate exposures, GDP growth of European Union for bank and sovereign exposures, unemployment rate for retail (Belgium for insured and Eurozone for uninsured portfolio and mortgage) segments. These are the most significant assumptions affecting the ECL allowance. The key inputs to the model are historical portfolio defaults along with credit quality changes, and macroeconomic forecasts for the related independent variables i.e. EU Real GDP growth, TR Real GDP growth, Belgium unemployment, Eurozone unemployment. The calculation for ECL is performed at a facility level using facility level characteristics like exposure, related PD, etc. For constructing the forward-looking model, a correlation analysis is performed to identify the macro-economic factors which should be used as independent variables, based on statistical significance.

DHB Bank has updated he macroeconomic expectations in the model to consider the effects of the Covid-19 pandemic situation. At the end of first quarter of 2020, the bank decided to use the ECB staff macroeconomic projections as recommended by ECB, as forward looking inputs to the model. This was due to general uncertainty with regard to the forward macroeconomic outlook. During 2020, it was observed that the macroeconomic forecast were substantially negative driven by reduced economic activity. The expected credit loss model was updated with the stressed probabilities of default which reflect the current pandemic situation. The increase in ECL provisions in the current year is mainly driven by the weakening in the forecasts for macroeconomic parameters.

The bank continues to monitors the macroeconomic forecasts and updates the ECL model variables on quarterly basis.

Write-off

DHB Bank may decide to write-off all or parts of a full provisioned exposure when debts are considered non-collectible or their continuation as bankable assets is not warranted. Classifying exposures as such is a final decisive step along a continuation of assets of progressively lesser quality and eventual provisioning. At the point of determination that a full provisioned asset is a total loss and when all recovery options are exhausted, it is written off and removed from the balance sheet. Such exposures are written off after all the necessary procedures have been completed and the amount of the loss has been determined. When any part of a claim is deemed uncollectible or forgiven, a write-off is charged to the allowance account. When a write-off is later recovered, the recovery is recognized in the statement of profit or loss.

Stage determination criteria

Main risk indicators of staging methodology are internal ratings, watch list/NPE decisions, and modifications. In order to allocate financial instruments in scope between the categories 12-month ECL (Stage 1), Lifetime ECL non-credit impaired (Stage 2) and Lifetime ECL credit-impaired (Stage 3) a framework of qualitative and quantitative factors have been developed.

Internal rating:

Internal rating model is used for determining credit risk of the obligors based on their financial and business performance. In the model, there are quantitative and qualitative sections for which data related to financial and business performance of obligors are introduced. The model aggregates an overall score based on weighted scores of quantitative and qualitative section depending on their potential influence on obligor's credit worthiness. As a last step, overall score is converted to internal rating based on pre-determined mapping of scores and ratings.

In order to allocate financial instruments between Stages 1 and 2, the Bank use criteria that are currently applied in the credit process, such as days past due status.

For exposures originated before 1 January 2016, PD comparison for the staging assessment is between the first available assigned PD after 1 January 2016 and at the reporting date. For exposures originated after 1 January 2016, PD on origination date will be compared with reporting date.

Additionally, as long as the exposure is not considered as default (or derecognized) and modifications in the exposure is not related to commercial reasons, a financial instrument should be transferred to Stage 2 if it meets one of the following criteria:

1. Past due: Exposures that are more than 30 days but less than 90 days past due at the reporting date.
2. Internal rating change: Internal rating downgrade of the obligor(s) to lower bucket at the reporting date compared to internal rating on the origination date
3. Watch list and performing forborne exposure classifications

The criteria for allocating a financial exposure to Stage 3 are fully aligned with the criteria for assigning a defaulted/ non-performing status.

Stage 2 exposures are transferred to Stage 1 if one or more of the following criteria is/are fulfilled;

a) Removal from watch-list classification.
b) Internal rating upgrade to same/higher bucket at the reporting date compared to internal rating on the origination date and there are no other signs of expected deterioration.
c) Removal from performing forborne classification following the cure periods in line with the criteria defined in the internal policy.

Stage 3 exposures are only transferred to Stage 2 when the following minimum conditions for reclassification to a non-defaulted status are met:

a) No trigger of default continues to apply to a previously defaulted exposure, where at least 3 consecutive months have passed since the moment that the conditions of default cease to be met. During the 3 months period, the behaviour and financial situation of the obligor are taken into account. After a 3-month period, if DHB Bank still considers that the obligor is unlikely to pay its obligations in full without recourse to realising security, the exposures will continue to be classified as defaulted until the improvement of the credit quality is factual and permanent.

b) For distressed restructuring cases (where the relevant forbearance measures are likely to result in a diminished financial obligation);
   1) At least 12 consecutive months pass during which no default conditions are met, counting from the latest of:
      (a) when concessions where extended,

(b) when the default was recorded,
(c) when any grace period in the restructured payment schedule ended and,

2) During which a material payment (equivalent to what was previously past due or written off) has been made by the obligor and,
3) During which payments have been made regularly according to the restructured payment schedule and,
4) There are no past due credit obligations related to the restructured payment schedule.

Additionally, the exposures may be considered to have ceased being non-performing forbearance if:

(a) extension of forbearance does not lead to the recognition of impairment or default,
(b) 1 year has passed since the forbearance measures were extended,
(c) there is no, following the forbearance measures, any past-due amount or concerns regarding the full repayment of the exposure according to the post forbearance conditions. The absence of concerns has to be determined after an analysis of the debtor's financial situation.

Recognition of impairment

ECL for financial assets at amortised cost is deducted from the gross carrying amount of the assets. For financial assets at FVOCI, ECL is recognized under other comprehensive income. ECL for commitments and contingent liabilities is recognized in provisions at the statement of financial position. Impairment losses are presented at statement of profit or loss.

3.8 Cash and cash equivalents

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

3.9 Repurchase transactions

Securities sold subject to repurchase agreements ('repos') are recorded in the statement of financial position in the items Financial assets at FVOCI (based on the business model) or Financial assets at amortized cost (based on the business model). The repurchase amounts are presented separately in the notes of the annual report.

The legal title of the securities is transferred to the lender and the borrowings are recorded in the statement of financial position item 'Due to banks'.

3.10 Property and equipment

Property in use by the bank is stated at fair value, being the market value, at the statement of financial position date. Increases in the carrying amount arising on revaluation of property in use by the bank are credited to the revaluation reserve in shareholders' equity, taking deferred tax liabilities into account. Decreases in the carrying amount that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the statement of profit or loss.

The fair values of property in use by the bank are based on periodic appraisals by independent experts and any interim adjustments.

Depreciation is recognized in the statement of profit or loss based on the fair value and the estimated useful life. Depreciation is calculated on a straight-line basis over their estimated useful lives as follows:

• Real estate	50 years
• Rebuilding cost real estate	10 years

Items of equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is recognized in the statement of profit or loss on a straight-line basis over their estimated useful lives as follows:

• Leasehold improvements	Over the term of respective leases or 10 years
• Right-of-use assets	3 - 10 years
• Furniture and fixtures	5 years
• Vehicles	5 years
• Office equipment and IT hardware	3 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Upon disposal or when no future economic benefits are expected from its use an item of property and equipment is derecognized. Gains and losses on derecognition of the asset are determined by comparing proceeds with carrying amount and are recognized in the statement of profit or loss under 'Other operating income' in the year the asset is derecognized.

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

Previously recognized impairment losses are reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In such a case, the carrying amount of the asset is increased to its recoverable amount.

3.11 Intangible assets

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

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful life, subject to a maximum of 10 years.

3.12 Leases

DHB Bank assesses whether the contract is, or contains, a lease, by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

DHB Bank accounts for each lease components within the contract as a lease separately from non-lease components of the contract.

Non-cancellable period of a lease is determined as the lease term, together with periods covered by an option to extend the lease if the Bank is reasonably certain to exercise that option.

Initial measurement of the lease liability
DHB Bank measures the lease liability initially at the present value of the lease payments that are not paid at that date. Lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, DHB Bank uses its incremental borrowing rate. The Bank has taken into account in the determination of the incremental borrowing rate, the condition as follows; by what rate would the Bank pay to borrow money to purchase the type of asset being leased also considering the asset, location and the lease term (yield curve).

For the variable lease payments that depend on consumer price index, the future lease payments are measured using the index as at the commencement date.

Subsequent measurement of the lease liability
DHB Bank measures the lease liability subsequently by:
- increasing the carrying amount to reflect interest on the lease liability,
- reducing the carrying amount to reflect the lease payments made; and,
- re-measuring the carrying amount to reflect any reassessment or lease modifications, such change in interest rate or the variable lease payment amounts.

Initial measurement of the right-of-use asset
DHB Bank measures the right-of-use asset initially at cost. The cost of right-of-use asset comprises the amount of the initial measurement of the lease liability and if any, the initial direct costs incurred by the Bank.

Subsequent measurement of the right-of-use asset
DHB Bank measures the right-of-use asset subsequently applying a cost model. To apply a cost model, the Bank measures the right-of-use asset at cost less any accumulated depreciation. The right-of-use asset is depreciated over the period of the lease using the straight line method and adjusted for any re-measurement of the lease liability.

Expenses related to short-term leases with a lease term of less than 12 months and leases of low-value assets are recognized on a straight line basis in the statement of profit or loss, as permitted by the standard.

Right-of-use assets are presented as part of property and equipment, while the lease liabilities are presented as part of other liabilities. Depreciation of the right-of-use assets is presented in depreciation and amortization expense, and the interest on lease liabilities is included in interest expense under the statement of profit or loss.

DHB Bank elects not to apply the requirements in paragraphs to short-term leases and leases for which the underlying asset is of low value. Short-term lease is defined as a lease that, at the commencement date, has a lease term of 12 months or less as per defined terms in IFRS 16. The Bank elects not to apply to leases for which the lease term ends within 12 months of the date of initial application (1 January 2019). In this case, the Bank will account for those leases in the same way as short-term leases. The Bank recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

3.13 Provisions

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

Provisions mainly consist of provisions for variable remuneration and ECL calculated for financial guarantee contracts.

Variable remuneration

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

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

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

The stock-based cash component is in the form of financial instruments called stock derivative rights (SDRs) whose value is derived from the value of the DHB Bank's net asset value. The stock-based cash component is also granted unconditionally (60%) and the remaining part (40%) is granted pro rata over a period of 3 calendar years (deferred). Furthermore, SDRs (whether deferred or unconditional) are subject to a retention period of 1 year after granting.

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

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

Other

This item relates to allowances for IFRS 9 expected credit loss for financial guarantee contracts.

3.14 Defined benefit plan – minimum guarantee

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

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

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

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

Changes in plan assets that effect Shareholders' equity and/or Net result, include mainly:

- return on plan assets using a high quality corporate bond rate at the start of the reporting period which are recognized as staff costs in the statement of profit or loss; and
- remeasurements which are recognized in Other comprehensive income (equity).

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

Changes in the defined benefit obligation that affects shareholders' equity and/or net result, include mainly:

- service cost which are recognized as staff costs in the statement of profit or loss;
- interest expenses using a high quality corporate bond rate at the start of the period which are recognized as staff costs in the statement of profit or loss; and
- remeasurements which are recognized in other comprehensive income (equity).

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

3.15 Income taxes

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

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

Deferred tax assets are recognized when it is probable that the future economic benefits resulting from the reversal of taxable temporary differences will flow to DHB Bank. Deferred tax liabilities are recognized for all taxable temporary differences that have arisen in relation with the core banking business. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient tax profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future tax profit will allow the deferred tax asset to be recovered.

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

Current tax and deferred tax relating to items recognized directly in equity are not recognized in the statement of profit or loss.

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

3.16 Recognition of income and expenses

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

a) Interest income and expense

Interest income or expense for financial instruments is recorded at the effective interest rate measured at amortized cost. Effective interest exactly takes into account all accrued interests and fees with interest character. These amounts are amortized through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial assets or financial liability.

All contractual terms of the financial instrument including any fees or incremental costs that are directly attributable to the instrument are taken into account for the calculation of the effective interest (except future credit losses). If a financial instrument is written down as a result of an impairment loss, the interest income is thereafter recognized using the rate of interest use to discount the future cash flows for the purpose of measuring the impairment loss. For assets measured at amortised cost, this interest rate would be the original effective interest rate and for Financial assets at FVOCI financial assets it would be the new effective interest rate computed based on the fair value at the date of impairment.

Even if the value of a certain financial asset or a group of similar financial assets has been impaired, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

b) Fee and commission income

DHB Bank applies IFRS 15 for recognition of revenue from contracts with customers, of which are composed of fee and commission income. After contracts and their performance obligations are identified, revenue is recognized as an amount that reflects the consideration to which the bank is entitled to in exchange for transferring services to customers. The transaction price is allocated to each performance obligation. Revenue is measured at the fair value of the consideration received, taking into account discounts and rebates. Revenue is recognized when a promised service is transferred to the customer. Fees and commission income are either recognized over time or at a point in time.

Over time: DHB Bank earns fees and commission income from various services provided to customers. Fees and commissions against services over a period of time relate to services on an ongoing basis and are recognized over time. These fees include account maintenance fees and financial analysis fee which are accounted under banking services.

At a point in time: Banking services which include fees for money transfers and other banking transaction services, cash loan commissions which are not considered part of the effective interest of the related financial instrument, letter of guarantees and letter of credits are recognized at a point in time.

c) Result on financial transactions

Result on financial transactions comprises the following items:

Foreign currency exchange transactions

Differences on foreign currency exchange transactions are recognized under 'Result on financial transactions'.

Securities held for trading

(Un)realized gains and losses regarding securities held for trading are recognized under 'Result on financial transactions'.

Financial assets at FVOCI

Gains and losses arising from disposals of financial assets at FVOCI are recognized under 'Result on financial transactions'.

Derivatives held for trading

Interest income and expenses and (un)realized gains and losses regarding derivatives held for trading are recognized under 'Result on financial transactions'. (Un) realized gains and losses on option trading transactions are included under 'Result on financial transactions'.

Further reference is made in section 3.4 Financial instruments – recognition and subsequent measurement.

3.17 Equity components

Legal reserve

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

Revaluation reserve

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

Fair value reserve

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

3.18 Cash flow statement

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

Movements in interbank deposits, loans and advances, and deposits from customers are included in the cash flow from operating activities. Investing activities cover purchases, sales, and redemptions in respect of the investment portfolio as well as investments in and sales of property and equipment and intangible assets. The issue of shares, the borrowing and repayment of subordinated loans and the payment of dividends are treated as financing activities.

3.19 Changes in IFRS-EU

On 1 January 2020, a number of changes to IFRS became effective under IFRS-EU. The following changes were applied and therefore adopted by DHB Bank:

Amendments to IFRS 3 (Definition of Business)

The implementation of these amendments have no impact on DHB Bank.

Amendments to IAS 1 and IAS 8 (Definition of Material)

DHB Bank has applied this amendments from 1 January 2020. The amendment to IAS 1 and IAS 8 is published in October 2015 to clarify definition of 'material'.

The implementation of these amendments do not have material impact on DHB Bank.

Amendments to IFRS 9, IAS 39 and IFRS 7 (Interest Rate Benchmark Reform) - Phase 1

DHB Bank has assessed the impact of "Amendments to IFRS 9, IAS 39 and IFRS 7" as of 1 January 2020. The amendments to IFRS 9, IAS 39 and IFRS 7 are published in September 2019 to modify specific hedge accounting requirements, so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. The changes mandatorily apply to all hedging relationships that are directly affected by the interest rate benchmark reform. If a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amended Standards, then discontinuation of hedge accounting is still required.

As a result of evaluations made, by taking the reliefs provided by the amendments into the consideration, no major impact is expected on financial statements due to related change and there is no hedge relation discontinued due to this reform.

This amendment does not have a material impact on profit or loss, or on the financial statements of DHB Bank.

Amendments to IFRS 16 (Covid-19-Related Rent Concessions)

The IASB issued an amendment to IFRS 16 that allows for a practical expedient to not treat a change in lease payments as lease modification. The amendment applies to lessee accounting only. As a lessee, DHB Bank has not obtained any lease concessions due to Covid-19.

This amendments do not have an impact on the financial statements of DHB Bank.

Amendments to References to the Conceptual Framework in IFRS Standards

The IASB issued amendments to Amendments to References to the Conceptual Framework in IFRS Standards to help preparers develop consistent accounting policies were no applicable standard in place and to assist all parties to understand and interpret the standards. The implementation of these amendments has no impact on DHB Bank.

3.20 Main changes in IFRS-EU applicable after 2020

The EU has no main changes on standards applicable after 2020.

3.21 Other changes in IFRS-EU applicable after 2020

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

Amendments to IFRS 9, IAS 39 and IFRS 7 (Interest Rate Benchmark Reform) - Phase 2

The IASB has published 'Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. DHB Bank is currently assessing the impact of this standard.

IFRS 17 Insurance contracts

IFRS 17 replaces the standard of IFRS 4 Insurance Contracts. The amendment is effective for annual periods beginning on or after 1 January 2021 (with one year possible IASB delay). DHB Bank is currently assessing the impact of this standard.

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

These standards and amendments do not have an impact on DHB Bank.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. DHB Bank is currently assessing the impact of this standard.

Amendments to IFRS 3 – Reference to the Conceptual Framework

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. DHB Bank is currently assessing the impact of this standard.

Amendments to IAS 16 – Property, Plant and Equipment— Proceeds before Intended Use

The amendments to IAS 16 Property, Plant and Equipment prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. The amendments are applied retrospectively for annual periods beginning on or after 1 January 2022, with early application permitted. DHB Bank is currently assessing the impact of this standard.

Amendments to IAS 37 – Onerous Contracts - Cost of Fulfilling a Contract

The amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets specify which costs a company includes when assessing whether a contract will be loss-making. The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted. DHB Bank is currently assessing the impact of this standard.

Annual Improvements to IFRS Standards 2018 - 2020

The annual improvements make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases. The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted. These standards and amendments do not have an impact on DHB Bank.

4. Statement Of Financial Position

4.1 Cash and balances with central banks

	2020	2019
Balances with central banks	219,471	254,082
Total	**219,471**	**254,082**

This item includes all legal tender and demand deposits held at the central bank in countries in which DHB Bank is established. Balances with the central bank include reserve deposits that are not available in daily operations, amounting to 8,260 (2019: 8,183).

DHB Bank continued to maintain high liquidity levels in the form of balances with ECB. These balances are kept for liquidity risk management purposes.

4.2 Financial assets & financial liabilities at FVPL

DHB Bank holds derivative financial instruments for general risk management purposes (used for economic hedges) as at 31 December 2020 and 2019. The positions with a positive/negative fair value after re-measurement are recorded under the items 'Financial assets at FVPL' and 'Financial liabilities at FVPL'.

The following table shows the financial assets at FVPL as of 31 December 2020 and 2019:

	2020		2019	
	Fair value	Notional	Fair value	Notional
Financial assets at FVPL				
Currency swaps	5,670	101,619	819	73,625
Interest rate swaps	56	2,339	82	3,106
Cross currency swaps	411	3,928	572	14,078
Total	**6,137**	**107,886**	**1,473**	**90,809**

The financial assets at FVPL relate to derivatives positions to hedge financial risks, which do not qualify for hedge accounting.

Currency swaps are mainly used to fund US Dollar and Turkish Lira assets while interest rate swaps and cross currency swaps are used to hedge interest rate risk and foreign currency risk positions related to US Dollar and Turkish Lira. Currency forwards are offered to select customers in main currencies whereby the currency risk is fully hedged by offsetting deals with bank counterparties.

All gains and losses from change in the fair values of financial assets at FVPL are recognized in the income statement under 'Result on financial transactions'.

The following table shows the financial liabilities at FVPL as of 31 December 2020 and 2019:

	2020		2019	
	Fair value	Notional	Fair value	Notional
Financial liabilities at FVPL				
Currency swaps	-	-	950	27,545
Interest rate swaps	157	26,250	243	44,728
Cross currency swaps	-	-	133	2,671
Total	**157**	**26,250**	**1,326**	**74,944**

These liabilities relate to derivatives positions to hedge financial risks, which do not qualify for hedge accounting.

4.3 Financial assets at FVOCI

	2020	2019
Loans and advances to banks	66,905	99,344
Debt securities issued by banks	149,020	68,818
Debt securities issued by corporates	71,711	50,811
Government (Eurobonds)	5,096	21,045
Total	**292,732**	**240,018**

From financial assets under this category, 190,661 (2019: 130,660) is under custody with DNB and serves as a pool of ECB eligible securities that can be used to obtain funding from the ECB, of which 129,606 (2019: 111,913) is blocked as a pledge for total funding amounting to 119,681 (2019: 101,514) as obtained from the ECB under the (Targeted) Long Term Refinancing Operations (TLTRO).

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

There are no subordinated securities at FVOCI (2019: none).

Financial assets at FVOCI developed as follows:

	2020	2019
At 1 January	**240,018**	**116,528**
Purchases	212,784	195,907
Sales	(136,546)	(27,303)
Redemptions	(21,312)	(44,495)
FX revaluations and accrued interests	(118)	596
Market value revaluations	(2,094)	(1,215)
At 31 December	**292,732**	**240,018**

4.4 Securities at amortized cost

	2020	2019
Government (Eurobonds)	21,316	21,314
Debt securities issued by banks	9,610	19,163
Subtotal	**30,926**	**40,477**
Impairment allowances	(2)	(1)
Total	**30,924**	**40,476**

From the securities at amortized cost 30,924 (2019: 31,038) is under custody with DNB and serves as a pool of ECB eligible securities that can be used to obtain funding from the ECB. From this amount there is none blocked as a pledge and the remaining of the total ECB eligible at amortized cost securities is freely available amounting to 30,924 (2019: 31,038).

There are no subordinated securities at amortized cost.

The securities at amortized cost developed as follows:

	2020	2019
At 1 January	**40,476**	**42,354**
Purchases	5,909	15,312
Redemptions	(14,928)	(16,620)
FX revaluations	157	(29)
Changes in accrued interest and (dis)agio	(689)	(543)
Impairment reversal/charges	(1)	2
At 31 December	**30,924**	**40,476**

4.5 Loans and advances – banks (amortized cost)

These are non-derivative exposures to banks classified as 'loans and advances' and also comprise exposures to central banks, which are not included in the item 'Cash and balances with central banks.' Bank loans that have a business model of HCTS are measured at FVOCI, and therefore these positions are reported under section 4.3.

	2020	2019
Money market placements	65,233	14,336
Other loans and advances	25,628	26,312
Subtotal	**90,861**	**40,648**
Impairment allowances	(24)	(6)
Total	**90,837**	**40,642**

The item 'Loans and advances – banks' includes pledged funds amounting to 8,382 (2019: 8,092) of which is none blocked as a pledge for wholesale borrowings from banks (2019: none), 1,383 (2019: 1,020) serve as collateral for several swap transactions and 6,998 (2019: 7,072) serve as collateral for non-financial transactions. The pledged fund transactions for swap transactions are conducted under terms based on the applicable ISDA Collateral Guidelines and CSA terms.

Placements with 'Other loans and advances' include the interest-free loan given to the Dutch Central Bank (DNB) in relation to DSB Bank amounting to 3,880 (2019: 3,880).

4.6 Loans and advances – customers (amortized cost)

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

	2020	2019
Retail loans	141,464	142,011
Commercial loans	741,992	825,647
Sub-total	**883,456**	**967,658**
Collective loan impairment allowances	(2,846)	(2,574)
Individual loan impairment allowances	(5,996)	(3,141)
Total	**874,614**	**961,943**

4.7 Hedge accounting

Accounting policy for hedge accounting
Derivatives held for asset-liability risk management purposes include all derivative assets and liabilities that are not classified as assets at FVPL and liabilities at FVPL.

Principal objective of DHB Bank's asset-liability management is to manage the bank's overall risk exposure through minimizing risk positions while maximizing earnings.

IFRS 9 allows entities to continue with the hedge accounting under IAS 39 after 31 December 2017. DHB Bank decided to continue applying IAS 39 for hedge accounting in their entirety and not to apply the EU carve-out. The bank implemented revised hedge accounting disclosures as required by IFRS 7 'Financial Instruments: Disclosures'.

Fair value hedges
As part of wider risk management of the bank is set out in Note 7, the bank's strategy is to apply fair value hedge accounting to keep its risks arising from interest rate sensitivities within limits.

DHB Bank manages the interest rate risk arising from fixed-rate loans and advances – customers by entering into interest rate swaps as hedging instruments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the statement of profit or loss under 'results on hedge accounting transactions', together with fair value adjustments to the hedged item attributable to the hedged risk. Dollar offset method is used comparing the change in fair value or cash flows of the hedging instrument with the change in fair value or cash flows of the hedged item attributable to the hedged risk.

Fair value hedge ineffectiveness within the 80% - 125% bandwidth is recognized in the statement of profit or loss under 'results on hedge accounting transactions' through the actual hedge adjustment. Ineffectiveness outside the 80% - 125% bandwidth is recognized by not posting a hedge adjustment to the hedged item. In this case, the hedge relationship is terminated and it is re-designated at the beginning of the next period if expected to be highly effective prospectively.

If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortised through the statement of profit or loss under 'result on hedge accounting transactions' over the remaining term of the hedged item or recognized directly when the hedged item is derecognized. For non-interest bearing instruments, the cumulative adjustment of the hedged item is recognized in profit or loss when the hedged item is derecognized.

The main sources of hedge ineffectiveness in fair value can arise from:
- difference in discount rates used for discounting,
- difference in the fixed rate of the swap and the loan rate.

Effect on Statement of Financial Position and Statement of Profit or Loss

Derivative financial instruments - hedge accounting

DHB Bank holds derivative financial instruments for general risk management purposes as at 31 December 2020 and 2019.

The fair value of derivatives designated as fair value hedges are as follows:

	2020			2019		
	Notional amounts	Fair values		Notional amounts	Fair values	
		Positive	Negative		Positive	Negative
Derivative financial instruments - Interest rate swaps						
Fair value hedges	33,140	582	48	-	-	-
Total	**33,140**	**582**	**48**	**-**	**-**	**-**

	2020			2019		
Fair value hedges	Carrying amount	Accumulated FV adjustments	Change in values of hedged item	Carrying amount	Accumulated FV adjustments	Change in values of hedged item
Hedged item						
Loans and advances - customers	22,598	(974)	(974)	-	-	-
Securities at amortized cost	10,867	(153)	(153)	-	-	-
Total	**33,465**	**(1,127)**	**(1,127)**	**-**	**-**	**-**

DHB Bank uses interest rate swaps to hedge the interest rate risk in fair value hedges. The average price of the interest rate swaps is %0.26 as at 31 December 2020 (2019: none).

Result on hedge accounting transactions

	2020	2019
Result on hedge accounting transactions	(232)	39
'Result on hedge accounting transactions' comprise the gains and losses from:	**2020**	**2019**
• fair value hedges on the hedging instrument	(196)	49
• fair value hedges on the hedged item	(36)	(10)
Total	**(232)**	**39**

These results are related to the fair value hedges. DHB Bank applies fair value hedge accounting to the interest rate risk arising from financial instruments at FVOCI or at amortized costs with fixed interest rates. DHB Bank uses interest rate swaps as a hedging instrument.

4.8 Property and equipment

The changes in book value of property and equipment in 2020 and 2019 are as follows:

	Buildings	Right-of-use assets	Other fixed assets	Total
Balance at 1 January 2020	**440**	**2,563**	**838**	**3,841**
Investments	-	282	139	421
Divestments	-	-	-	-
Depreciation	(11)	(456)	(279)	(746)
Revaluation	27	-	-	27
Re-measurement	-	-	-	-
Balance at 31 December 2020	**456**	**2,389**	**698**	**3,543**
Cost	617	3,295	2,329	6,241
Cumulative depreciation	(501)	(906)	(1,631)	(3,038)
Cumulative revaluations	340	-	-	340
Total	**456**	**2,389**	**698**	**3,543**

	Buildings	Right-of-use assets	Other fixed assets	Total
Balance at 1 January 2019, as previously reported	**415**	**-**	**843**	**1,258**
Effect of change in accounting policy for initial application of IFRS 16 (Note 3.12)	-	3,022	-	3,022
Balance at 1 January 2019, as adjusted	**415**	**3,022**	**843**	**4,280**
Investments	7	-	251	258
Divestments	-	-	(5)	(5)
Depreciation	(10)	(463)	(251)	(724)
Revaluation	28	-	-	28
Re-measurement	-	4	-	4
Balance at 31 December 2019	**440**	**2,563**	**838**	**3,841**
Cost	617	3,026	2,603	6,246
Cumulative depreciation	(490)	(463)	(1,765)	(2,718)
Cumulative revaluations	313	-	-	313
Total	**440**	**2,563**	**838**	**3,841**

The real estate consists of office premise located in Antwerp which was appraised by independent expert as per 31 December 2020. The total market value of the premise amounted to 456 (2019: 440). The carrying amount that would have been recognized if the assets had been carried under the cost model would amount to 203 (2019: 209).

DHB Bank does not have any restrictions on title, and property, plant and equipment pledged as security for liabilities (2019: none).

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

There were no assets held for sale as at 31 December 2020 and 31 December 2019.

4.9 Intangible assets

The changes in book value of intangibles are as follows:

	2020	2019
Balance at 1 January	**280**	**354**
Investments	134	23
Amortization	(108)	(97)
Balance at 31 December	**306**	**280**

Cost	4,775	4,642
Cumulative amortization	(4,469)	(4,362)
Total	**306**	**280**

This item mainly includes licenses. The investment amounting to 134 (2019: 23) relates mainly to expenses for banking software. There are no impairment on intangible assets.

4.10 Income tax assets

	2020	2019
Current tax assets	2,703	118
Deferred tax assets	41	24
Total	**2,744**	**142**

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

The movements in deferred tax assets are as follows in 2020:

	Balance at 1 January	Recognized in income statement	Recognized in other comprehensive income	Balance at 31 December
Employee benefits	24	17	-	41
Total	**24**	**17**	**-**	**41**

4.11 Other assets

	2020	2019
Prepayments	6,037	6,500
Other receivables	266	1,136
Total	**6,303**	**7,636**

Assets that due to their nature cannot be classified in specific statement of financial position items are presented under 'Other assets'.

4.12 Due to banks

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

	2020	2019
Current accounts	6,391	1,241
Borrowings	119,681	111,525
Total	**126,072**	**112,766**

The majority of the balance represents funds obtained through participation in the targeted longer-term refinancing operations (TLTRO), a program that aims to stimulate lending to the real economy in the Eurozone. The interest rate on the TLTROs is normally fixed over the operations' life at the benchmark rate of the European Central Bank. As per year-end 2020, DHB Bank holds EUR 120 million (start date 24 June 2020) in funding from the European Central Bank (ECB) under the fourth of seven series of third targeted longer-term refinancing operations (TLTRO III.4). With the condition that as of 31 March 2021, the bank's benchmark stock of eligible EEA loans exceeds a threshold of EUR 434 million in balance, retrospectively fixed interest rate for the first year of TLTRO (Main Refinancing Operations Rate – 50 bps) will be lowered to (Deposit Facility Rate – 50 bps. This discount qualifies as a government grant and is presented as negative interest expense in the income statement and deducted from the carrying amount in the statement of financial position.

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

The bank does not have pledge on the loans and advances (2019: none) and the due to banks (2019: none).

This statement of financial position item includes pledged deposits amounting to 6,391 (2019: 340) which serve as collateral for several swap transactions.

4.13 Deposits from customers

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

	2020	2019
Current accounts	26,828	34,079
Saving accounts	653,449	656,052
Time deposits	465,505	497,347
Total	**1,145,782**	**1,187,478**

This item includes pledged deposits amounting to 37,079 (2019: 23,491) which serve as collateral for loans or off-balance sheet credit instruments granted by DHB Bank.

4.14 Provisions

Provisions consist of the following items:

	2020	2019
Employee benefits	1,779	1,609
Other	3	1
Total	**1,782**	**1,610**

Other balance compromises impairment allowances calculated for financial guarantee contacts.

In 2020, DHB Bank concluded that an amount of EUR 0.3 million related to employee benefits at the financials of 31 December 2019 should be reported under provisions instead of other liabilities. Therefore it has been reclassified from other liabilities to provisions in the comparative figures of 31 December 2019 to conform to the current year presentation (before classification: EUR 1,310 as of 31 December 2019).

Employee benefits

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

	2020	2019
Opening balance	**1,609**	**1,120**
Addition through income statement	794	597
Utilization	(624)	(402)
Release	-	(20)
Other	-	314
Closing balance	**1,779**	**1,609**

Provisions for employee benefits consist of provisions related to the bank's variable remuneration for an amount of 1,618 (2019: 1,502) and to the defined benefit plan that is applicable for DHB Bank's Belgian staff of 128 (2019: 81), while 33 (2019: 26) is related to vitality leave.

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

Defined benefit plan

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

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

	2020	2019
Fair value of plan assets	891	809
Defined benefit obligation	1,019	890
Net defined benefit liability	**128**	**81**

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

	2020	2019
Opening balance of plan assets	**809**	**727**
Actual return on plan assets	24	24
Employer contribution	52	54
Plan participants' contributions	12	11
Benefits paid	(6)	(7)
Closing balance of plan assets	**891**	**809**
Opening balance of defined benefit obligation	**890**	**759**
Service cost	57	43
Interest cost	8	14
Plan participants' contributions	12	11
Actuarial gain/loss	59	70
Benefits paid	(7)	(7)
Closing balance of defined benefit obligation	**1,019**	**890**
Net defined benefit liability	**128**	**81**

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

	2020	2019
Discount rate:	0.32%	0.88%
Expected return on assets:	0.32%	0.88%
Expected rate of salary increases, including inflation:	1.00%	1.00%
Duration:	16.3	16.8
Retirement age:	65.0	65
Withdrawal rates per age category:		
o 20-29 years:	10.00%	10.00%
o 30-39 years:	8.00%	8.00%
o 30-49 years:	6.00%	6.00%
o 50-54 years:	4.00%	4.00%
o 55-64 years:	0.00%	0.00%

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

		Discount rate		Withdrawal
2020	Original	(0.5%)	0.5%	0%
Rates	0.32%	(0.18)%	0.82%	1%
Defined benefit obligation	1,004	1,048	971	977
Normal cost	66	73	61	891
Fair value of assets	891	891	891	891

		Discount rate		Withdrawal
2019	Original	-0.5%	0.5%	0%
Rates	0.88%	0.38%	1.38%	0%
Defined benefit obligation	880	912	856	929
Normal cost	61	67	60	68
Fair value of assets	809	809	809	809

Annual premiums are paid to the insurance company to cover the pension costs in accordance with the insurance contracts. For 2020 the expected contributions are none (2019: none), and the Bank does not have any estimated payments for 2021 (2020: none).

4.15 Income tax liabilities

	2020	2019
Current tax liabilities	-	271
Deferred tax liabilities	528	254
Total	**528**	**525**

Current tax liabilities include payables due to tax authorities.

According to our accounting policies all other comprehensive income items under equity should be presented net of tax effect. If these equity items show positive balance, tax effect has to be shown under deferred tax liabilities.

The movements in deferred tax liabilities in 2020 are as follows:

	Balance at 1 January	Recognized in income statement	Recognized in other comprehensive income	Balance at 31 December
Property and equipment – real estate valuation	68	(7)	-	61
Fair value reserve	181	-	280	461
Other	5	1	-	6
Total	**254**	**(6)**	**280**	**528**

4.16 Other liabilities

	2020	2019
Accrued expenses	2,049	1,982
Lease liabilities	2,068	2,154
Payables to suppliers	16	78
Other payables	2,008	2,879
Total	**6,141**	**7,093**

Other liabilities consist of accrued expenses, lease liabilities, various payables to the bank's suppliers and other payables that comprise withholding tax and wage tax payables, among others.

In 2020, DHB Bank concluded that an amount of EUR 0.3 million related to employee benefits at the financials of 31 December 2019 should be reported under provisions instead of other liabilities. Therefore it has been reclassified from other liabilities to provisions in the comparative figures of 31 December 2019 to conform to the current year presentation (before classification: EUR 7,393 as of 31 December 2019).

The movements in the lease liabilities in 2020 are as follows:

	2020
Opening balances	**2,154**
Additions	282
Payments	(368)
Total	**2,068**

Lease liabilities	**2020**	**2019**
Maturity analysis – contractual undiscounted cash flows		
Less than one year	401	409
One to two years	332	377
Three to four years	335	300
Four to five years	338	303
More than five years	716	861
Total undiscounted lease liabilities	**2,122**	**2,250**
Lease liabilities included in the statement of financial position at 31 December		
Current	381	383
Non-current	1,687	1,771

4.17 Share Capital

Referring to article 67, paragraph 1 of Book 2 of the Dutch Civil Code, the authorized capital amounts to EUR 227.5 million. According to the Articles of Association the shares are subdivided into 500,000 ordinary shares, out of which 250,000 shares have been issued and fully paid up. All of these instruments have a par value of EUR 455 (four hundred fifty five).

4.18 Revaluation Reserves

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

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

Fair value reserve
This reserve encompasses the unrealized gains and losses on securities classified as FVOCI excluding impairment losses, until the investment is derecognized or impaired.

4.19 Defined Benefit Obligation Reserve

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

4.20 Retained Earnings

Retained earnings can be freely distributed, except for an amount of 5,039 (2019: 1,105) related to the unrealized positive fair value on derivatives after tax effect that is included in the statement of profit or loss and to be treated as a legal reserve under Dutch corporate law.

5. Statement of Profit or Loss

5.1 Net interest income

	2020	2019
Interest income from:		
Loans and advances – customers	36,286	48,389
Loans and advances – banks	3,799	4,859
Financial assets at FVOCI	1,387	694
Cash and balances with central banks	414	416
Securities at amortized cost	113	653
Derivative financial instruments	(211)	-
Other interest income	77	89
Interest income	**41,865**	**55,100**
Interest expense from:		
Deposits from customers	5,488	7,192
Due to banks	971	1,250
Lease liabilities	24	30
Other interest expense	3	1
Interest expense	**6,486**	**8,473**
Total	**35,379**	**46,627**

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

For financial assets or financial liabilities that are not at FVPL, the total interest income amounts to 41,865 (2019: 55,100) and total interest expense amounts to 6,462 (2019: 8,473).

5.2 Net fee and commission income

	2020	2019
Banking services	460	1,223
Letter of guarantees	21	18
Cash loans	7	263
Letter of credits	-	92
Other fees and commissions	141	83
Sub-total	**629**	**1,679**
Fee and commission expense	218	205
Total	**411**	**1,474**

There is no fee and commission income and expense respectively from derivative financial instruments that are classified as FVPL.

Fee and commission income	2020			2019
	At a point in time	Over time	Total	Total
Belgium	286	-	286	1,053
Netherlands	273	65	338	618
Germany	4	1	5	8
Total	**563**	**66**	**629**	**1,679**

Fee and commission expense	2020	2019
Netherlands	218	205
Germany	-	-
Belgium	-	-
Total	**218**	**205**

5.3 Result on financial transactions

	2020	2019
Results from securities transactions	528	129
Results from FVOCI bank transactions	223	216
Results from derivatives transactions	(1,554)	(4,582)
Total	**(803)**	**(4,237)**

'Results from securities transactions' are unrealized fair value gains and losses of debt securities held in FVPL portfolio and realized fair value gains and losses from debt instruments held in FVOCI portfolio. In this item are also included the amounts transferred from equity to the income statement on the sale of financial assets at FVOCI.

'Results from FVOCI bank transactions' are realized fair value gains and losses of bank syndicated loans held in FVOCI portfolio.

'Results from derivatives transactions' reflect fair value results (including foreign currency translation results) on FX swap and cross currency swap transactions, which are concluded to positioning for loans and advances in other currencies, mainly USD and TRY. The differences between their spot rates and forward rates are amortized daily and recognized through the lifetime of the respective transactions.

Within the results from securities transactions, the following amounts were reclassified from equity to the statement of profit and loss in connection with the sale of securities that were part of the securities portfolio during 2020.

	2020	2019
Gross amounts (as recorded in statement of profit or loss)	164	91
Net amounts (as reclassified from equity)	123	68

5.4 Other operating income

	2020	2019
Other operating income	5	7

Other operating income consists of non-recurring income items, mainly related to the sale of real estates.

5.5 Staff expenses

	2020	2019
Wages and salaries	9,376	8,981
Pension costs	1,790	1,085
Other social security costs	1,348	1,347
Other staff costs	866	646
Total	**13,380**	**12,059**

Current number of full-time equivalents in 2020 is 111 (2019: 110).

	2020	2019
In the Netherlands	70	67
Outside the Netherlands	41	43
Total	**111**	**110**

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

The Managing Board compensation is as follows:

Total remuneration	2020	2019
Short-term employee benefits	1,670	1,591
Post-employment benefits	161	99
Total	**1,831**	**1,690**

Included in the short-term employee benefits is a variable remuneration of 194 (2019: 248).

5.6 Other administrative expenses

	2020	2019
Other administrative expenses	6,762	8,094

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

The expenses of the current and former members of the Supervisory Board amounted to 265 (2019: 295) in 2020, of which 250 (2019: 245) relates to the fixed remuneration and 15 (2019: 50) relates to the reimbursements of expenses.

Social charges in relation to the Supervisory Board are excluded from this and booked under personnel expenses.

Expenses related to short-term leases and leases of low-value assets are recognized in other administrative expenses and are amounted to 74 and 8, respectively (2019: 9 and 9, respectively).

This item also includes the expenses for audit and audit related services of Deloitte Accountants B.V.:

	2020	2019
Audit of financial statements	191	186
Audit related services	88	58
Total	**279**	**244**

In addition to the audit of the financial statements Deloitte Accountants B.V. provided the following services: an audit of the regulatory reporting to DNB (Corep/Finrep), agreed upon procedures regarding the interest rate risk report and Deposit Guarantee Scheme (DGS) report to DNB as well as the by Belgium law required audit/review of the Belgium Branch.

From 279, 95 was paid in 2020. The remainder is accrued in the statement of financial position as a liability.

5.7 Net impairment charge on financial assets

	2020	2019
Loans and advances amortized cost	4,015	1,896
Loans and advances at FVOCI	135	24
Financial guarantee contracts	1	-
Securities	-	(2)
Total	**4,151**	**1,918**

The increase stemmed mainly from specific provisions for some corporate loans in the face of the corona pandemic and partly from ECL provisions in view of the macroeconomic parameters.

5.8 Taxation

The Netherlands
Corporate income tax is levied at the rate of 25% (2019: 25%) on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2020. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies.

Germany
Profit is subject to trade tax, which is calculated based on rate of the local city. Trade tax is not deductible for the calculation of corporate tax at a statutory rate of 25%. The statutory solidarity tax is 5.5% on corporate tax. The effective tax rate is estimated at 31.36%.

Belgium
The statutory tax rate is 25% in Belgium. The effective tax rate is estimated at 25.67%.

Reconciliation of effective tax rate	**%**	**2020**	**%**	**2019**
Profit before income tax		9,613		21,018
Income tax using the domestic corporation tax rate	(25.00%)	(2,388)	(25.00%)	(5,255)
Effect of tax rates in foreign jurisdictions	(0.26%)	(25)	(0.28%)	(59)
Non-deductible expenses / tax exempt items	(0.13%)	(12)	(0.08%)	(17)
Other	0.08%	8	(0.07%)	(15)
Total	**(25.15%)**	**(2,417)**	**(25.43%)**	**(5,346)**

Income tax expense recognized in income statement	**2020**	**2019**
Current income tax expense	(2,441)	(5,382)
Deferred income tax expense	24	36
Total	**(2,417)**	**(5,346)**

Income tax related to components of other comprehensive income	2020	2019
Revaluation reserve	-	-
Fair value reserve	(280)	(114)
Total	**(280)**	**(114)**

5.9 Dividends

	2020	2019
Dividends proposed	-	-
Dividend per ordinary share	-	-

Dividend distribution is subject to approval by the Supervisory Board and General Meeting of Shareholders and depending on the no-objection decision of DNB as per the Dutch regulations.

6. Additional Notes

6.1 Commitments and contingent liabilities

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

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

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

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

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

	2020	2019
Non-credit substitute guarantees	1,544	1,512
Irrevocable letters of credit	-	-
Total	**1,544**	**1,512**

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

	2020	2019
The Netherlands	111	114
Rest of Europe	1,433	1,398
Total	**1,544**	**1,512**

6.2 Related parties

Parties are considered to be related, if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or if majority of the shares of the parties are owned by the same shareholder. The related parties consist of C Group, Halk Group, the members of the Supervisory Board and Managing Board of DHB Bank and their relatives. As of year-end 2020, C Group companies consist of Demir Kyrgyz International Bank, C Faktoring A.Ş., C Yatırım Holding A.Ş., C & C Art Holding Limited, HCBG Holding B.V., C International N.V, C Real Estate LLC, Access Financial Services – IFN S.A, C Art Holdings Limited, Cıngıllı Collection Limited, HC Family Financing Limited and Ideal Art (Suisse) SA. Halk Group companies consist of Türkiye Halk Bankası A.Ş., Türkiye Halk Bankası A.Ş. Bahrain branch, Halkbank AD Skopje, Halk Finansal Kiralama A.Ş, Halk Faktoring A.Ş and Halkbank AD Beograd.

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

Regarding the total loans to the related parties, loans are granted against cash collaterals amounting to 1,964 (2019: 2,145). There are no outstanding risks in 2020 against third party promissory notes/cheques (2019: none).

Further reference is made to note 5.5 for the key management personnel compensation.

The outstanding balances with related parties for the year ended 31 December 2020 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Assets				
Securities at amortized cost	-	-	-	**-**
Loans and advances – banks	54	8,570	-	**8,624**
Loans and advances – customers	-	1,994	-	**1,994**
Liabilities				
Due to banks	-	-	-	**-**
of which received cash collaterals for loans	-	-	-	**-**
Deposits from customers	6,189	2,408	9	**8,606**
of which received cash collaterals for loans	-	1,964	-	**1,964**
Commitments and contingent liabilities				
Letter of credits	-	-	-	**-**
Guarantees	-	17	-	**17**

The income and expenses in respect of related parties included in the financial statements for the year 2020 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Interest income	100	406	-	**506**
Interest expense	-	149	-	**149**
Commission income	5	13	-	**18**
Commission expense	102	9	-	**111**

The outstanding balances with related parties for the year ended 31 December 2019 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Assets				
Securities at amortized cost	9,439	-	-	**9,439**
Loans and advances – banks	-	5,052	-	**5,052**
Loans and advances – customers	-	2,179	-	**2,179**
Liabilities				
Due to banks	125	480	-	**605**
of which received cash collaterals for loans	-	-	-	**-**
Deposits from customers	11,475	2,568	30	**14,073**
of which received cash collaterals for loans	-	2,145	-	**2,145**
Commitments and contingent liabilities				
Letter of credits	-	-	-	**-**
Guarantees	3	17	-	**20**

The income and expenses in respect of related parties included in the financial statements for the year 2019 are as follows:

	Parent companies	Other related parties	Key management and their relatives	Total
Interest income	662	814	-	**1,476**
Interest expense	3	153	1	**157**
Commission income	2	28	-	**30**
Commission expense	115	2	-	**117**

6.3 Capital adequacy

The bank manages the adequacy of its own funds and makes adjustments in light of changes in economic conditions and regulatory requirements among others by adjusting the dividend payment to shareholders. The own funds is adequate to cover the credit risk of on-statement of financial position and off-statement of financial position items, market risks, the operational risk and other material risks considered relevant according to the bank's internal capital adequacy assessment process (ICAAP) and the supervisory review and evaluation process (SREP) by DNB. The bank's own funds are solely comprised of Common Equity Tier 1 (CET1) capital which is considered to have the highest loss absorbing capacity to cover unexpected loss.

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

CRDIV/CRR standards are in effect as of January 2014. The objective of CRDIV/CRR is to enhance the capital adequacy of the banking industry by making it more responsive to risk. Under CRDIV/CRR banks have the option to choose between various approaches ranging from standardized to advanced methods. DHB Bank applies the standardized approach for credit risk, market risk and operational risk.

DHB Bank's total own funds, the capital ratio/BIS ratio and the Tier 1 capital figures according to CRDIV/CRR Basel III Capital Accord as of 31 December 2020 and the previous year are as follows:

	2020		2019	
	Required	**Actual**	**Required**	**Actual**
Total capital	85,863	239,881	90,358	223,540
Total capital ratio / BIS ratio(*)	8.00%	22.35%	8.00%	19.79%
Tier 1 capital	48,298	239,881	50,826	223,540
Tier 1 capital ratio	4.50%	22.35%	4.50%	19.79%
Risk weighted assets		1,073,293		1,129,469

(*) 8.00% is the minimum requirement.

The total capital is based on the expectation that 100% of the net profit for the year 2020 is distributed as dividend as proposed by the Managing Board and adopted by the Supervisory Board and General Meeting of Shareholders, and subsequently depending on the no-objection decision of De Nederlandsche Bank (the Dutch Central Bank). If the entire net profit for the year 2020 would be taken into account, the actual total capital would be 247,078, while the total capital ratio / BIS ratio would be 23.02%.

6.4 Fair value measurement of assets and liabilities

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

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

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

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

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

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

	31 December 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Financial assets at amortized cost				
-Securities	30,924	30,999	40,476	40,611
-Loans and advances – banks	90,837	90,881	40,642	40,854
-Loans and advances – customers	874,614	892,084	961,943	985,411
Total	**996,375**	**1,013,964**	**1,043,061**	**1,066,876**
Liabilities				
Deposits from customers	1,145,782	1,160,418	1,187,478	1,201,383
Total	**1,145,782**	**1,160,418**	**1,187,478**	**1,201,383**

Certain financial instruments that are not carried at fair value are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These financial instruments include cash and balances with central banks and due to banks. These financial instruments are not included in the table above.

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

- *Level 1*: Quoted market price (unadjusted) in an active market for an identical instrument.

- *Level 2*: Valuation techniques based on observable inputs either directly (prices) or indirectly (derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

  When valuing the financial assets and liabilities, notably with regard to cross-currency interest rate derivatives, observable prices or model inputs are available. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. The principal techniques used to value these instruments are based on discounted cash flows.

  The principal inputs to these valuation techniques are:
  - Quoted interest rates in the swap and bond markets,
  - Foreign currency exchange rates from observable markets both for spot and forward contracts and futures,
  - Credit spreads mainly derived from prices of credit default swaps (CDS) or other credit-based instruments, such as debt securities.

- *Level 3:* Valuation techniques based on significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data. The bank has designated controls and processes for the determination of the fair value of its financial assets and liabilities. When unobservable inputs are used, management may determine a range of possible valuations based upon differing stress scenarios to determine the sensitivity associated with the valuation. As a final step, the bank considers the need for further adjustments to the calculated price to reflect assumptions that market participants would make.

In the case of DHB Bank, level 3 valuation is applied to buildings, which are carried out at least once per year by 1 or more certified external appraisers based on comparable methodology. For this approach comparable properties which are for sale in the market are identified and the reported sale price has been adjusted using a grid with the following parameters:

- Listing: this includes a negotiation margin of about 10%,
- Location: this varies from -5% up to +5% for comparable properties,
- State of repair: this varies from -10% up to 10% for comparable properties,
- Size: this varies from -5% up to +5% for comparable properties,
- Quality frontage: this varies from -5% up to +5% for comparable properties.

The adjustment of comparable correlates opposite compared to the subject property. For example, if the comparable property has a better location compared to Antwerp office building than adjustment will be negative. After all adjustments are determined, the comparable are weighted and valuation is finalized.

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

Fair value hierarchy for assets and liabilities measured at fair value

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

31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at FVPL	-	6,137	-	**6,137**
Financial assets at FVOCI	225,827	66,905	-	**292,732**
Derivative financial instruments – hedge accounting	-	582	-	**582**
Property and equipment – building	-	-	456	**456**
Total	**225,827**	**73,624**	**456**	**299,907**
Liabilities				
Financial liabilities held for trading	-	157	-	**157**
Derivative financial instruments – hedge accounting	-	48	-	**48**
Total	**-**	**205**	**-**	**205**

31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at FVPL	-	1,473	-	**1,473**
Financial assets at FVOCI	140,674	99,344	-	**240,018**
Derivative financial instruments – hedge accounting	-	-	-	**-**
Property and equipment – building	-	-	440	**440**
Total	**140,674**	**100,817**	**440**	**241,931**
Liabilities				
Financial liabilities held for trading	-	1,326	-	**1,326**
Derivative financial instruments – hedge accounting	-	-	-	**-**
Total	**-**	**1,326**	**-**	**1,326**

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

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

The following table shows the fair values of assets and liabilities not measured at fair value and analyses them by the level in the fair value hierarchy. Cash and balances with central banks, and due to banks are not shown as their fair value is indistinguishable from their carrying value.

31 December 2020	Level 1	Level 2	Level 3	Total
Assets				
-Securities at amortized cost	30,999	-	-	**30,999**
-Loans and advances – banks	-	90,881	-	**90,881**
-Loans and advances – customers	-	892,084	-	**892,084**
Total	**30,999**	**982,965**	**-**	**1,013,964**
Liabilities				
Deposits from customers	-	1,160,418	-	**1,160,418**
Total	**-**	**1,160,418**	**-**	**1,160,418**

31 December 2019	Level 1	Level 2	Level 3	Total
Assets				
-Securities at amortized cost	40,611	-	-	**40,611**
-Loans and advances – banks	-	40,854	-	**40,854**
-Loans and advances – customers	-	985,411	-	**985,411**
Total	**40,611**	**1,026,265**	**-**	**1,066,876**
Liabilities				
Deposits from customers	-	1,201,383	-	**1,201,383**
Total	**-**	**1,201,383**	**-**	**1,201,383**

Movements in level 3 financial assets measured at fair value

The following table shows a reconciliation of the opening and closing amounts of level 3 financial assets which are measured at fair value. These assets are buildings in own use. Further reference is made to Note 4.8.

	2020	2019
Balance at 1 January	**440**	**415**
Investments	-	7
Divestments	-	-
Depreciation	(11)	(10)
Revaluation	27	28
Balance at 31 December	**456**	**440**

As a result of depreciation with an amount of 11 is recognized under “Depreciation and amortization” in the statement of profit or loss and as a result of revaluation with an amount of 11 is recognized under “Retained earnings”. The tax amount of 7 is recognized under deferred tax liabilities.

6.5 Offsetting financial assets and financial liabilities

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

Financial assets and liabilities are offset per counterparty and the net amount is reported on the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The bank applies netting in the statement of financial position to derivative contracts with some counterparties for which the services of a central clearing house are used.

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

Legally enforceable master netting agreement have provisions that make offsetting exercisable only in the event of default, insolvency or bankruptcy of DHB Bank or counterparties. For some transactions, DHB Bank uses the ISDA (International Swaps and Derivatives Association) master netting arrangements. The Bank signs the ISDA master agreement together with a credit support annex (CSA) before they trade over the counter derivatives with each other. Eurex Clearing AG (Eurex Clearing) has been granted authorization as a Central Counterparty (CCP) under the European Market Infrastructure Regulation (EMIR) on 10 April 2014 and also gives the right to master netting agreements for some repo transactions.

The table presents the potential effect on DHB Bank's statement of financial position related to credit risk mitigation.

2020

	Gross amount	Offsetting counterparty position in the statement of financial position	Net amounts presented in the financial position	Cash collaterals pledged/ received	Financial instruments	Net amount
Financial Assets						
Derivative assets	6,137	-	6,137	(6,391)	-	(254)
Total	**6,137**	**-**	**6,137**	**(6,391)**	**-**	**(254)**
Financial Liabilities						
Derivative liabilities	157	-	157	(1,383)	-	(1,226)
Repo agreements	119,681	-	119,681	-	(119,681)	-
Total	**119,838**	**-**	**119,838**	**(1,383)**	**(119,681)**	**(1,226)**

2019

	Gross amount	Offsetting counterparty position in the statement of financial position	Net amounts presented in the financial position	Cash collaterals pledged/ received	Financial instruments	Net amount
Financial Assets						
Derivative assets	1,473	-	1,473	(340)	-	1,133
Total	**1,473**	**-**	**1,473**	**(340)**	**-**	**1,133**
Financial Liabilities						
Derivative liabilities	1,326	-	1,326	(1,020)	-	306
Repo agreements	101,514	-	101,514	-	(101,514)	-
Total	**102,840**	**-**	**102,840**	**(1,020)**	**(101,514)**	**306**

6.6 Transfer of financial assets

DHB Bank's financial assets that have been transferred, but do not qualify for derecognition are financial assets at FVOCI and financial assets at amortized cost used in sale and repurchase transactions.

	2020	**2019**
Gross carrying amount	**Sale and repurchase**	**Sale and repurchase**
Transferred assets not qualifying for derecognition		
Financial assets at FVOCI	129,606	111,913
Securities at amortized cost	-	-
Loans and advances	-	-
Associated liabilities		
Due to banks	119,681	101,514

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

From the financial assets at FVOCI and securities at amortized cost 221,585 (2019: 161,698) is under custody with DNB and serves as a pool of ECB eligible securities that can be used to obtain funding from the ECB, of which 129,606 (2019: 111,913) is pledged for total funding for an amount of 119,681 (2019: 101,514) as obtained from the ECB under the (Targeted) Long Term Refinancing Operations and none (2019: none) is under custody by other banks and is blocked as a pledge for other short term repo borrowings amounting to none (2019: none). There are 56,909 remaining freely available ECB eligible FVOCI assets (2019: 18,747) and securities at amortized cost of 30,924 (2019: 31,038) is in custody of DNB but freely available and will be pledged to DNB in case DHB Bank wants to draw down more funding from this DNB credit facility.

The pledged transactions with DNB are conducted in accordance with the general terms and conditions of DNB.

There is no pledge for total funding (2019: none) from loans and advances at amortized cost and none (2019: none) in the form of due to banks.

6.7 Subsequent events

A 100% subsidiary "DHB Financial Services BV" has been incorporated in January 2021 in Belgium for undertaking the intermediation of the Payment Protection Insurance linked to consumer credits granted by DHB Bank.

This service was provided directly by the bank's branch in Brussels previously.

In agreement with the bank's dividend policy, in February 2021, DHB Bank distributed EUR 2 million from the 2019 net profit.

7. Risk Management

Effective risk and capital management is fundamental to the bank's business and plays a crucial role in enabling management to operate successfully in a changing environment. Exposure to risk is inherent in providing financial services, and DHB Bank assumes a variety of risks in its ordinary business activities.

The bank's organization-wide risk management approach is supported by its organizational structure, policies and procedures as well as methods for assessing and managing risks. Furthermore, the risk management framework is supported by a strong risk culture at all levels. The maintenance of risk awareness in the organization is regarded as an essential component for DHB Bank's business strategies.

DHB Bank's ability to define risks is regarded as a key competency. Risks identified are measured and, to the extent possible, addressed in the overall risk management framework.

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

DHB Bank had satisfactory results for most of the examinations and self-assessments. Concerning the bank's compliance framework, in accordance with the critical remarks of DNB in its early 2019 report with respect to KYC and AML matters, including reporting to the FIU, the MB initiated an improvement plan to avoid possible regulatory measures by DNB. The respective plan covered various items including systemic integrity risk analysis (SIRA), customer due diligence (CDD) documentation, transaction monitoring and reporting. For the purpose of adopting the best practices, the MB also engaged external consultants in order to improve (among others) the aforementioned subject. Progress in the implementation of the most of the planned actions has been realized in 2020 under the oversight of the SB and shared with DNB on a periodical basis along with the validation reports prepared by an acknowledged third party. The rest of the planned actions is expected to be completed, together with the recommendations of the validating party, for an overall evaluation of DNB in the course of 2021. Concerning the bank's credit risk management, in accordance with the findings of DNB OSI-Team in its final report in July 2020, the MB initiated an improvement plan by adopting the supervisor's guidance regarding its design (policies and procedures), implementation (templates, processes, training, etc.) and validation of (control) effectiveness testing. For the purpose of adopting the best practices, the improvement plan is being carried out with a project management approach for its timely implementation. The Managing Board, as the ultimately accountable governing body of the bank, provides guidance in this respect, allocate necessary resources and monitor progress, under the oversight of the Supervisory Board. In this process the Managing Board periodically updates the Supervisory Board and report the progress to DNB on a quarterly basis and at the agreed milestones. The Internal Audit Department has a monitoring/ quality review function and will ultimately validate the implementation of the improvement plan with a (control) effectiveness testing. The Managing Board will subsequently submit the final report and the Internal Audit Report to DNB by 31 October 2021.

In the below sections DHB Bank's risk position is presented in detail. Given figures are according to fair value or amortized cost, net of allowances of impairment.

Risk types and their management

Credit risk

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

The bank's credit management covers the whole lending process, from loan application, assessment, processing, and monitoring up to credit portfolio management, and is based on guidelines and policies set forth by the Managing Board. DHB Bank places an emphasis on building long-term relationship with its customers on the basis of an understanding of customers' individual financial situation and general market environment.

The bank ensures that credit quality is not compromised for growth, and for this purpose applies separate limits for all the lending activities in accordance with the credit approval procedures. All loan decisions are made by the Credit Committee. The loans above a certain level are additionally subject to positive advice from the SBCC or full SB, depending on the respective amount. As for retail credits, the acceptance criteria is drawn up and reviewed separately under the approval authority granted by the Managing Board.

The bank dedicates considerable resources to controlling credit risk effectively. Operating under a sound credit administration, measurement, monitoring and reporting process, DHB Bank strives to maintain appropriate control over credit risk at portfolio, obligor group and individual facility levels. Credit monitoring is carried out at individual borrower, sector and country levels by the Credit Analysis Department, which conducts credit reviews and reports to the Credit Committee on a regular basis.

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

- Evaluation of credit requests,
- Review of the quality of debtors relative to facilities provided,
- Analysis of country risks and economic sectors,
- Measurement of sector and geography concentration,
- Exposures to large customer groups,
- Impaired assets and impairment allowances.

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

The bank has an enhanced internal rating system supports related departments to manage portfolio credit risks as well as individual credit risks based on determined guidelines and incorporate available public and private information in an advanced way in risk decisions to be taken.

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

Credit exposure

The bank's credit exposure is calculated on the basis of on-and-off balance sheet items that carry credit risk. Within the total credit exposure, items subject to credit risk are related to lending activities that form part of the bank's core banking business. On the other hand, exposure items subject to counterparty risk form part of the bank's derivatives, including hedging activities.

The following table shows the credit risk for the various components of the statement of financial position:

	2020	**2019**
Cash with central banks	219,471	254,082
Financial assets at FVPL	6,137	1,473
Financial assets at FVOCI	292,732	240,018
Financial assets at amortized cost		
-Securities at amortized cost	30,924	40,476
-Loans and advances – banks	90,837	40,642
-Loans and advances – customers	874,497	961,943
Derivative financial instruments - hedge accounting	582	-
Total on-balance sheet items	**1,515,180**	**1,538,634**

Contingent liabilities L/G	1,544	1,512
Contingent liabilities L/C	-	-
Total off-balance sheet items	**1,544**	**1,512**
Total credit risk	**1,516,724**	**1,540,146**

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

Collateral and other credit enhancement

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

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

31 December 2020	**Total credit risk**	Loans guaranteed by sovereigns	Loans guaranteed by banks	Loans guaranteed by mortgage	Loans guaranteed by securities	Loans guaranteed by cash collateral	Loans guaranteed by third parties	**Total collaterals obtained**	Collaterals to total credit risk
Cash with central banks	**219,471**	-	-	-	-	-	-	**-**	0%
Financial assets at FVPL	**6,137**	-	-	-	-	-	-	**-**	0%
Financial assets at FVOCI	**292,732**	5,000	-	-	-	-	-	**5,000**	2%
Financial assets at amortized cost									
-Securities at amortized cost	**30,924**	9,500	-	-	-	-	-	**9,500**	31%
-Loans and advances – banks	**90,837**	3,880	-	-	-	-	-	**3,880**	4%
-Loans and advances – customers	**874,497**	7,240	14,504	193,903	-	37,403	484,726	**737,776**	84%
Derivative financial instruments - hedge accounting	**582**	-	-	-	-	-	-	**-**	0%
Total on balance sheet items	**1,515,180**	**25,620**	**14,504**	**193,903**	**-**	**37,403**	**484,726**	**756,156**	**50%**
Contingent liabilities L/G	**1,544**	-	-	-	-	628	916	**1,544**	100%
Contingent liabilities L/C	**-**	-	-	-	-	-	-	**-**	0%
Total off-balance sheet items	**1,544**	**-**	**-**	**-**	**-**	**628**	**916**	**1,544**	**100%**
Total credit risk	**1,516,724**	**25,620**	**14,504**	**193,903**	**-**	**38,031**	**485,642**	**757,700**	**50%**

Significant changes in the quality of collateral due to deterioration or change in policy: none.

31 December 2019	Total credit risk	Loans guaranteed by sovereigns	Loans guaranteed by banks	Loans guaranteed by mortgage	Loans guaranteed by securities	Loans guaranteed by cash collateral	Loans guaranteed by third parties	Total collaterals obtained	Collaterals to total credit risk
Cash with central banks	**254,082**	-	-	-	-	-	-	**-**	0%
Financial assets at FVPL	**1,473**	-	-	-	-	-	-	**-**	0%
Financial assets at FVOCI	**240,018**	5,000	-	-	-	-	-	**5,000**	2%
Financial assets at amortized cost									
- Securities at amortized cost	**40,476**	9,500	-	-	-	-	-	**9,500**	23%
- Loans and advances – banks	**40,642**	3,880	-	-	-	-	-	**3,880**	10%
- Loans and advances – customers	**961,943**	13,689	8,501	250,453	-	24,422	522,947	**820,012**	85%
Total on balance sheet items	**1,538,634**	**32,069**	**8,501**	**250,453**	**-**	**24,422**	**522,947**	**838,392**	**54%**
Contingent liabilities L/G	**1,512**	-	-	-	-	631	881	**1,512**	100%
Contingent liabilities L/C	**-**	-	-	-	-	-	-	**-**	0%
Total off-balance sheet items	**1,512**	**-**	**-**	**-**	**-**	**631**	**881**	**1,512**	**100%**
Total credit risk	**1,540,146**	**32,069**	**8,501**	**250,453**	**-**	**25,053**	**523,828**	**839,904**	**55%**

Credit risk concentration

Concentrations of credit risk (either on- or off-statement of financial position) arise when exposures share similar characteristics due to which their ability to meet contractual obligations is likely to be affected in a similar way by changes in economic or other factors. The bank manages its portfolio especially for individual countries by determining the credit risk appetite and limit for each country on the basis of total exposure, country risk and outlook. Both limits and utilization at the obligor and the portfolio levels are monitored and reviewed periodically.

In line with the strategic realignment targets the bank continues to reduce its exposure to developing countries. Nevertheless, DHB Bank's largest exposure (excluding cash with central banks) remains to banks and companies in Turkey. As of year-end 2020 DHB Bank further reduced its exposure to Turkey compared to 2019 by around EUR 44 million (23%). Loans and advances to banks increased by EUR 50 million (123.5%) whereas loans and advances to customers decreased by EUR 87 million (9.1%) compared to the previous financial year. Financial assets at FVOCI increased by EUR 53 million (22%) whereas securities at amortized cost decreased by EUR 10 million (23.6%) compared to the previous financial year. The Covid-19 effects are explained in more detail in Note 3.7.

Notes to the **Financial Statements**

Country exposures are managed through internal limits set by the Supervisory Board, on which the monitoring process is based. In the following table, exposures are split by important exposure classes and main geographical areas, based on where the credit risk is referable, according to the ultimate ownership criterion:

31 December 2020	Cash with central banks	Financial assets at FVPL	Financial assets at FVOCI	Securities at amortized cost(*)	Loans and advances – banks(*)	Loans and advances – customers(*)	Derivatives financial instruments – hedge accounting	Commitments and contingent liabilities	Total	%
The Netherlands (**)	175,873	2,580	80,469	-	30,894	128,479	580	111	**418,986**	27.6%
Germany	43,598	887	35,582	-	39,077	121,475	-	916	**241,535**	15.9%
Turkey	-	-	85,310	-	58	62,552	-	-	**147,920**	9.8%
Belgium	-	2,202	-	-	5,474	138,645	-	-	**146,321**	9.6%
Bulgaria	-	-	-	-	-	56,970	-	-	**56,970**	3.8%
Romania	-	-	-	-	-	41,819	-	-	**41,819**	2.8%
France	-	-	25,803	9,610	-	6,350	-	-	**41,763**	2.8%
United States	-	-	-	-	-	41,674	-	-	**41,674**	2.7%
Hungary	-	-	-	-	-	39,961	-	-	**39,961**	2.6%
Macedonia	-	-	4,341	-	-	33,077	-	-	**37,418**	2.5%
Italy	-	-	3,257	-	313	30,458	-	-	**34,028**	2.2%
Spain	-	56	10,141	15,539	-	7,328	-	-	**33,064**	2.2%
Egypt	-	-	4,132	-	-	20,083	-	-	**24,215**	1.6%
United Arab Emirates	-	-	-	-	-	22,643	-	-	**22,643**	1.5%
Finland	-	-	22,245	-	-	-	-	-	**22,245**	1.5%
Slovenia	-	-	-	-	-	20,050	-	-	**20,050**	1.3%
Others	-	412	21,452	5,775	15,021	102,933	2	517	**146,112**	9.6%
Total	**219,471**	**6,137**	**292,732**	**30,924**	**90,837**	**874,497**	**582**	**1,544**	**1,516,724**	**100%**

(*) Financial assets at amortized cost
(**) Balances with ECB amounting to EUR 176 million are classified in the Netherlands.

31 December 2019	Cash with central banks	Financial assets at FVPL	Financial assets at FVOCI	Securities at amortized cost(*)	Loans and advances – banks(*)	Loans and advances – customers(*)	Derivatives financial instruments – hedge accounting	Commitments and contingent liabilities	Total	%
The Netherlands (**)	211,660	406	56,552	-	20,654	154,917	-	114	**444,303**	28.8%
Turkey	-	-	87,237	9,438	310	95,019	-	-	**192,004**	12.5%
Germany	42,421	209	36,866	-	2,227	104,729	-	881	**187,333**	12.2%
Belgium	1	204	-	-	402	137,595	-	-	**138,202**	9.0%
France	-	-	20,807	9,724	-	16,640	-	-	**47,171**	3.1%
Romania	-	-	-	-	-	44,145	-	-	**44,145**	2.9%
United States	-	-	-	-	-	48,084	-	-	**48,084**	3.1%
United Kingdom	-	572	-	-	1,756	42,620	-	-	**44,948**	2.9%
Malta	-	-	-	-	10,232	39,970	-	-	**50,202**	3.3%
Bulgaria	-	-	-	-	-	58,314	-	-	**58,314**	3.8%
Italy	-	-	-	-	7	37,240	-	-	**37,247**	2.4%
Hungary	-	-	-	-	-	31,571	-	-	**31,571**	2.0%
Macedonia	-	-	5,489	-	-	21,089	-	-	**26,578**	1.7%
Spain	-	82	-	16,076	-	7,986	-	-	**24,144**	1.6%
Finland	-	-	14,464	-	-	-	-	-	**14,464**	0.9%
Greece	-	-	-	-	-	13,093	-	-	**13,093**	0.9%
Others	-	-	18,603	5,238	5,054	108,931	-	517	**138,343**	8.9%
Total	**254,082**	**1,473**	**240,018**	**40,476**	**40,642**	**961,943**	**-**	**1,512**	**1,540,146**	**100.0%**

(*) Financial assets at amortized cost
(**) Balances with ECB amounting to EUR 212 million are classified in the Netherlands.

In the following table, loans and advances and the off-balance sheet exposures to non-bank customers are split by economic sectors.

	2020		2019	
Sectors	**On-balance**	**Off-balance**	**On-balance**	**Off-balance**
Manufacturing	209,948	916	180,545	881
Construction	124,247	-	119,691	-
Financial institutions and insurance	82,584	-	145,930	3
Real estate activities	75,014	-	91,836	-
Electricity, gas, steam and air conditioning supply	56,217	-	65,016	-
Transport and storage	36,850	-	58,647	-
Accommodation and food service activities	30,310	-	39,719	-
Professional, scientific and technical activities	28,885	-	21,040	-
Wholesale and retail trade	28,523	500	53,338	500
Administrative and support service activities	26,229	-	14,872	-
Human health services and social work activities	18,463	106	17,750	106
Information and communication	11,499	-	13,039	-
Arts, entertainment and recreation	8,935	-	1,791	-
Agriculture, forestry and fishing	-	-	-	-
Mining and quarrying	-	-	-	-
Water supply	-	-	-	-
Other services	-	-	-	-
Total	**737,704**	**1,522**	**823,214**	**1,490**
Private individuals / self- employed	145,635	22	144,444	22
Total	**883,339**	**1,544**	**967,658**	**1,512**
Collective loan impairment allowances	(2,846)	-	(2,574)	-
Individual loan impairment allowances	(5,996)	-	(3,141)	-
Total loans and advances – customers	**874,497**	**1,544**	**961,943**	**1,512**

Credit quality of financial assets

The bank performs monitoring of credit portfolio throughout the life cycle of the loan facility. Credits are classified into different categories in order to optimise monitoring and review of these loans.

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

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

As at 31 December 2020

Summary forbearance – Loans and receivables

	Performing assets			Non-performing assets				
Gross carrying amount	Modification of the contract	Refinancing	Total performing forborne assets	Modification of the contract	Refinancing	Total non-performing forborne assets	Total forborne assets	Forbearance ratio
1,041,222	28,807	-	28,807	36,811	-	36,811	65,618	6.3%

There are no loss allowances changed from lifetime ECL to 12-month ECL for modified financial assets.

As at 31 December 2019

Summary forbearance – Loans and receivables

	Performing assets			Non-performing assets				
Gross carrying amount	Modification of the contract	Refinancing	Total performing forborne assets	Modification of the contract	Refinancing	Total non-performing forborne assets	Total forborne assets	Forbearance ratio
1,008,306	59,574	-	59,574	2,816	-	2,816	62,390	6.2%

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

	2020	2019
Investment grade	**489,803**	**432,190**
AAA	236,256	265,494
AA+	-	-
AA	11,771	23,320
AA-	76,686	66,864
A+	41,874	21,323
A	49,311	3,660
A-	18,138	21,791
BBB+	45,860	16,076
BBB	-	-
BBB-	9,907	13,662
Non-investment grade	**117,704**	**127,490**
BB+	9,998	-
BB	-	-
BB-	7,850	15,490
B+	42,103	40,068
B	56,469	4,524
B-	1,284	67,408
Unrated	**909,217**	**980,466**
Total	**1,516,724**	**1,540,146**

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

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

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

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

	2020	2019
Investment grade	**647,455**	**557,477**
AAA	250,632	277,829
AA+	-	-
AA	4,026	11,145
AA-	35,271	37,957
A+	82,035	53,682
A	39,262	3,666
A-	54,028	27,204
BBB+	31,223	16,474
BBB	128,297	101,886
BBB-	22,681	27,634
Non-investment grade	**727,761**	**840,947**
BB+	39,071	49,925
BB	52,265	84,113
BB-	304,505	340,604
B+	77,814	105,071
B	36,267	22,332
B-	147,926	185,744
CCC	26,233	28,633
DDD	5,434	23,902
DD	342	623
D	37,904	-
Unrated	**141,508**	**141,722**
Total	**1,516,724**	**1,540,146**

	Gross carrying as at 31 December 2020	Gross amount as at 31 December 2019	Allowance as at 31 December 2020	Allowance as at 31 December 2019	Net Values as at 31 December 2020	Net Values as at 31 December 2019
Financial assets at FVOCI (*)	292,732	240,018	160	29	292,572	239,989
Stage 1	282,907	240,018	156	29	282,751	239,989
Stage 2	9,825	-	4	-	9,821	-
Stage 3	-	-	-	-	-	-
Financial assets at amortized cost-Total	1,005,242	1,048,784	8,867	5,723	996,375	1,043,061
- Securities at amortized cost	**30,925**	**40,478**	**1**	**2**	**30,924**	**40,476**
Stage 1	30,925	40,478	1	2	30,924	40,476
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
- Loans and advances - Banks	**90,861**	**40,648**	**24**	**6**	**90,837**	**40,642**
Stage 1	90,861	40,648	24	6	90,837	40,642
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
- Loans and advances - Customers	**883,456**	**967,658**	**8,842**	**5,715**	**874,614**	**961,943**
Stage 1	759,063	808,652	1,806	1,266	757,257	807,386
Stage 2	76,691	133,182	1,040	1,308	75,651	131,874
Stage 3	47,702	25,824	5,996	3,141	41,706	22,683
Financial guarantee contracts	1,544	1,512	3	1	1,541	1,511
Stage 1	1,544	1,512	3	1	1,541	1,511
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Total	1,299,518	1,290,314	9,030	5,753	1,290,488	1,284,561

The distribution of expected credit losses under a range of plausible scenarios (Base, Downside and Upside), along with their respective weights are presented in the following table. The table shows the impact of different scenario outcome on the expected credit losses.

Scenarios 31 December 2020	**Base**	**Downside**	**Upside**
Financial assets at FVOCI	126,221	352,478	5,335
Financial assets at amortized cost	2,539,452	4,636,650	1,696,152
Securities	1,013	4,230	-
Loans and advances	2,538,439	4,632,420	1,696,152
Financial guarantee contracts	2,408	5,010	1,429
Weighting assigned:	0.70	0.20	0.10

Scenarios 31 December 2019	**Base**	**Downside**	**Upside**
Financial assets at FVOCI	27,590	34,596	22,458
Financial assets at amortized cost	2,602,830	2,890,429	2,332,062
Securities	1,111	1,195	1,069
Loans and advances	2,601,719	2,889,234	2,330,993
Financial guarantee contracts	1,469	1,733	1,311
Weighting assigned:	0.70	0.20	0.10

5,996 amount of ECL based on individual assessments of credit analysts of the bank through different provision allocation scenarios based on cash flow analysis is added to Stage 3 financial assets.

	Financial assets at FVOCI		**Financial assets at amortized cost**			**Financial guarantee contracts**
***Rating grade,* 31 December 2020**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**
Investment grade (1 to 10)	56	4	43	-	-	-
Non-investment grade (11-18)	100	-	1,742	1,030	-	3
Non-performing grade (19 and higher)	-	-	-		5,378	-
Retail	-	-	46	10	618	-
Total	**156**	**4**	**1,831**	**1,040**	**5,996**	**3**

3,141 amount of ECL based on individual assessments of credit analysts of the bank through different provision allocation scenarios based on cash flow analysis is added to Stage 3 financial assets.

	Financial assets at FVOCI		**Financial assets at amortized cost**			**Financial guarantee contracts**
***Rating grade,* 31 December 2019**	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**
Investment grade (1 to 10)	11	-	23	-	-	-
Non-investment grade(11-18)	18	-	1,237	1,307	-	-
Non-performing grade (19 and higher)	-	-	-	-	2,591	-
Retail	-	-	15	-	550	-
Total	**29**	**-**	**1,275**	**1,307**	**3,141**	**-**

Purchased or originated financial asset(s) that are credit-impaired on initial recognition: none.

The movements of the individual allowances for impairments for the year 2020 and 2019 are as follows:

2020	Financial assets at FVOCI	Securities at amortized cost(*)	Loans and advances - banks(*)	Loans and advances - customers(*)	Total
Opening balance	-	-	-	3,141	3,141
Addition	-	-	-	3,099	**3,099**
Release	-	-	-	(246)	**(246)**
Write-off	-	-	-	-	**-**
Foreign exchange movement	-	-	-	2	**2**
Closing balance	-	-	-	5,996	5,996

(*) Financial assets at amortized cost

2019	Financial assets at FVOCI	Securities at amortized cost(*)	Loans and advances - banks(*)	Loans and advances - customers(*)	Total
Opening balance	-	-	-	9,725	9,725
Addition	-	-	-	1,872	**1,872**
Release	-	-	-	(586)	**(586)**
Write-off	-	-	-	(7,922)	**(7,922)**
Foreign exchange movement	-	-	-	52	**52**
Closing balance	-	-	-	3,141	3,141

(*) Financial assets at amortized cost

The movements of the collective allowances for impairment for the year 2020 and 2019 are as follows:

2020	Financial assets at FVOCI	Securities at amortized cost(*)	Loans and advances - banks(*)	Loans and advances - customers(*)	Total
Opening balance	-	1	6	2,574	2,581
Addition	-	-	21	1,534	**1,555**
Release	-	-	(3)	(1,256)	**(1,259)**
Foreign exchange and other movements	-	-	-	(6)	**(6)**
Closing balance	-	1	24	2,846	2,871

2019	Financial assets at FVOCI	Securities at amortized cost(*)	Loans and advances - banks(*)	Loans and advances - customers(*)	Total
Opening balance	-	3	17	1,939	1,959
Addition	-	1	4	1,463	**1,468**
Release	-	(3)	(14)	(973)	**(990)**
Foreign exchange and other movements	-	-	(1)	145	**144**
Closing balance	-	1	6	2,574	2,581

(*) Financial assets at amortized cost

The balance of individual allowances for impaired assets increased from EUR 3.1 million in 2019 to EUR 6 million in 2020 which is mainly due to additions during the year. Although provisions for estimated loan losses are considered adequate, the use of different methods and assumptions could produce different provisions for loan losses, and amendments may be required in the future as a consequence of changes in the expected loss, the value of collateral and other economic events. The Covid-19 impacts on impairments are explained in more detail in Note 3.7 and 5.7.

Provisions against a particular impaired loan may be released where there is improvement in the quality of the loan for Stage 3 loans. The bank's write-off decisions are determined on a case-by-case basis.

Loan impairment charges and allowances per stage:	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2020	**1,304**	**1,308**	**3,141**	**5,753**
Transfer to stage 1	-	456	(18)	**438**
Transfer to stage 2	(88)	-	-	**(88)**
Transfer to stage 3	-	(580)	2,930	**2,350**
Re-measurements	328	32	34	**394**
Originated	920	-	-	**920**
Matured	(256)	(147)	(45)	**(448)**
Reversal of impairment allowances	(217)	(25)	(49)	**(291)**
Write-offs	-	-	-	**-**
Recoveries	-	-	-	**-**
Other	(1)	-	3	**2**
Balance at year end	**1,990**	**1,044**	**5,996**	**9,030**

Financial assets at FVOCI	141	(6)	-	**135**
Securities at AC	-	-	-	**-**
Loans and advances - banks	17	-	-	**17**
Loans and advances - customers	342	1,317	2,339	**3,998**
Impairment charges / (releases) on loans and advances	**500**	**1,311**	**2,339**	**4,150**

Loan impairment charges and allowances per stage:	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2019	**1,141**	**824**	**9,725**	**11,690**
Transfer to stage 1	-	(101)	(6)	**(107)**
Transfer to stage 2	72	-	-	**72**
Transfer to stage 3	-	(14)	-	**(14)**
Re-measurements	223	544	656	**1,423**
Originated	449	195	-	**644**
Matured	(332)	(108)	(74)	**(514)**
Reversal of impairment allowances	(254)	(41)	(75)	**(370)**
Write-offs	-	-	(7,140)	**(7,140)**
Recoveries	-	-	-	**-**
Other	5	9	55	**69**
Balance at year end	**1,304**	**1,308**	**3,141**	**5,753**

Financial assets at FVOCI	24	-	-	**24**
Securities at AC	(2)	-	-	**(2)**
Loans and advances - banks	(10)	-	-	**(10)**
Loans and advances - customers	71	504	1,330	**1,905**
Impairment charges / (releases) on loans and advances	**83**	**504**	**1,330**	**1,917**

Liquidity risk

Regulatory requirements and expectations

In its liquidity risk management, the bank has taken into consideration the 2011 DNB Liquidity Regulation, the Basel III migration plan as well as the Decree on Prudential Rules under the Wft ("Policy Rule") on Internal Liquidity Adequacy Assessment Process (ILAAP) entered into force on 1 July 2011. The Policy Rule has been translated into the DNB Supervision Manual for ILAAP ("Manual") in July 2011.

The Manual describes principles for the ILAAP based on all relevant EBA (European Banking Authority) and BCBS (Basel Committee on Banking Supervision) documents on liquidity risk management. Compliance will be gauged against these EBA and BCBS papers. The evaluation of DHB Bank's ILAAP by DNB is part of the Supervisory Review and Evaluation Process (SREP).

The Basel Committee introduced the 30-day liquidity coverage ratio (LCR) to ensure short term resilience against liquidity disturbances and the net stable funding ratio (NSFR) to address longer-term structural liquidity disparities. The proposals are implemented through the capital requirement directive (CRD IV) for European banks. DHB Bank's liquidity ratios are higher than the minimum requirements set by DNB in its SREP decision 2020.

Within its ILAAP, the bank has set its short-term liquidity risk appetite in terms of the LCR target and has additionally set a target for a minimum survival period of 6 months based on an internally developed cash flow risk framework. The internal survival horizon metric is composed of liquidity buffer and funding gap risk and includes expected behavioural cash flows from contingent liquidity drivers under bank-specific, market-wide, and hybrid stress scenarios with limited mitigation activities.

Governance and management of liquidity risk

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

Liquidity risk is identified and evaluated in the bank through a combination of top-down and bottom-up risk assessment processes. The key top-down assessment process for liquidity risk is conducted as part of the quarterly bank-wide risk assessment, which is reflected in the risk assessment reports submitted also to the Supervisory Board Risk & Audit Committee. The top-down process focuses on broad risk drivers affecting liquidity risks and a forward-looking view of perceived threats over a longer horizon. The top-down approach is therefore closely linked with the ICAAP under Pillar 2 of the Capital Requirement Directive (CRD).

In both ALCO and the Risk Management Committee (RMC) meetings, top-down and bottom-up views of risk come together through a process of upward reporting of, and management response to, identified and emerging risks. This ensures that the bank's view of liquidity risk remains sensitive to emerging trends and common themes. Once a week, the ALCO Committee monitors liquidity trends, tracks historical and prospective on- and off-balance sheet liquidity obligations, and identifies and measures internal and external liquidity warning signals to allow the early detection of liquidity issues.
The Treasury Department is responsible for managing the liquidity risk in line with the guidance set by the ALCO and for compliance with the bank's liquidity risk limits determined by the bank. Along with the Treasury Department, the Risk Management Department develops the liquidity risk management framework, which consists of governance, policies and methodologies as well as guidelines for pricing the liquidity risk.

Liquidity risk management covers both short-term liquidity risk and long-term structural liquidity risk. With its stable customer deposit base and balanced composition of saving and time deposits, combined with relatively low average tenors of its banking assets, the bank has a healthy structural liquidity risk profile.

In order to manage short-term funding positions, the bank measures the funding gap risk which expresses the expected maximum accumulated need for raising liquidity in the course of the next 12 months. Cash flows from both on-balance sheet and off-balance sheet items are included. Funding gap risk is measured and limited for each currency and as a total figure for all currencies combined. To ensure funding in situations where the bank is in urgent need of cash and when the normal funding sources do not suffice, the bank holds a minimum liquidity buffer. The liquidity buffer largely consists of central bank eligible high-grade liquid securities that can be sold or used as collateral in funding operations.

The following table provides an overview that slots the balance sheet of the bank into maturity buckets based on the remaining contractual maturities. In this respect, with a conservative approach, the total amount of savings accounts is placed in the on-demand maturity bucket even though they traditionally demonstrated a stable pattern. In a similar approach, financial assets at FVOCI sale are placed in maturity buckets according to their respective maturities even though they are readily available as a source of liquidity.

31 December 2020	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Undefined	Total
Assets (undiscounted cash flows)							
Cash and balances with central banks	211,252	-	-	-	-	8,258	219,510
Financial assets at FVOCI	-	22,855	104,536	167,357	-	-	294,748
Financial assets at amortized cost							
-Securities at amortized cost	-	14,612	10,694	5,575	-	-	30,881
-Loans and advances – banks	8,833	64,738	10,953	2,617	3,880	-	91,021
-Loans and advances – customers	1	123,842	262,771	488,758	73,639	-	949,011
Other assets	-	-	-	-	-	12,896	12,896
Total assets (excluding derivatives)	**220,086**	**226,047**	**388,954**	**664,307**	**77,519**	**21,154**	**1,598,067**
Liabilities (undiscounted cash flows)							
Due to banks	-	40	6,391	119,681	-	-	126,112
Deposits from customers	680,277	82,853	170,564	215,693	921	-	1,150,308
Other liabilities	-	-	1,782	-	-	6,669	8,451
Total liabilities (excluding derivatives)	**680,277**	**82,893**	**178,737**	**335,374**	**921**	**6,669**	**1,284,871**

The immediately available liquidity of DHB Bank consisting of cash and the ECB eligible securities valued after the ECB haircuts as of year-end 2020 was EUR 298 million, representing 19.5% of the statement of financial position size.

31 December 2019	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 years	Undefined	Total
Assets (undiscounted cash flows)							
Cash and balances with central banks	245,952	-	-	-	-	8,183	254,135
Financial assets at FVOCI	-	5,595	116,924	116,586	1,542	-	240,647
Financial assets at amortized cost							
-Securities at amortized cost	-	9,639	5,790	25,160	-	-	40,589
-Loans and advances – banks	2,242	6,167	18,610	9,140	4,850	-	41,009
-Loans and advances – customers	1,382	161,567	269,278	524,934	89,035	-	1,046,196
Other assets	-	-	-	-	-	11,899	11,899
Total assets (excluding derivatives)	**249,576**	**182,968**	**410,602**	**675,820**	**95,427**	**20,082**	**1,634,475**
Liabilities (undiscounted cash flows)							
Due to banks	901	9,958	101,854	-	-	-	112,713
Deposits from customers	690,131	81,339	147,717	273,700	106	-	1,192,993
Other liabilities	-	-	1,610	-	-	7,618	9,228
Total liabilities (excluding derivatives)	**691,032**	**91,297**	**251,181**	**273,700**	**106**	**7,618**	**1,314,934**

The immediately available liquidity of DHB Bank consisting of cash and the ECB eligible securities valued after the ECB haircuts as of year-end 2019 was EUR 296 million, representing 19.1% of the statement of financial position size.

The following table presents gross settled receivables and payables related to the derivative financial instruments. The amounts disclosed in the table are the contractual undiscounted cash flows at 31 December 2020 and 2019.

31 December 2020	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest rate and cross-currency derivatives					
Derivatives used for trading					
Receivables	84,477	31,253	18,405	-	134,135
Payables	80,719	29,484	17,960	-	128,163
Derivatives used for hedging					
Receivables	-	2,633	30,507	-	33,140
Payables	-	2,445	29,920	-	32,365

31 December 2019	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Interest rate and cross-currency derivatives					
Derivatives used for trading					
Receivables	107,850	12,191	44,613	-	164,654
Payables	107,511	12,548	44,444	-	164,503
Derivatives used for hedging					
Receivables	-	-	-	-	-
Payables	-	-	-	-	-

Market risk

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

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

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

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

Over the last few years, the bank's market risk in trading book has mainly related to its FX open position, albeit on a small scale.

The following table reports the VaR of the bank's FX net open position based on historical simulation and EWMA for a confidence level of 99.9% and a 10 days holding period.

VaR of FX position	2020	2019
Max	(243)	(646)
Min	(2)	(1)
Average	(51)	(55)
End of year	(25)	(1)

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

Interest rate risk in the banking book

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

To evaluate interest rate risk from an earnings perspective, the bank uses scenario analyses involving various shifts in market rates in relevant currencies. Assuming a constant balance sheet position and an instantaneous shock of 2% parallel movement in market rates, the sensitivity of the net interest earnings by main currencies over a time period of one year is shown in the following table for the year ending 31 December 2020. For the year ending 31 December 2019 the sensitivity of the net earnings is presented based on 2% parallel movement in market rates:

Profit or loss sensitivity by major currencies at 31 December 2020

	Interest rate shock of +/- 200 bps	
	200 bps decrease	200 bps increase
EUR	558	886
USD	24	(24)
Others	224	(224)
Total	**806**	**638**

Profit or loss sensitivity by major currencies at 31 December 2019

	Interest rate shock of +/- 200 bps	
	200 bps decrease	200 bps increase
EUR	3,060	3,122
USD	58	(58)
Others	16	(16)
Total	**3,134**	**3,048**

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

Apart from the scenario-based analysis, the bank also estimates the effects of interest rate movements on the value of equity. The following table shows the effect of an instantaneous shock of various parallel movements in market rates for the year ending 31 December 2020 and 2019 respectively.

Fair value sensitivity to interest rate shocks at 31 December 2020 (in bps)	**-200**	**+200**
EUR	2,646	(6,921)
USD	8	(37)
Others	5	(22)
Total	**2,659**	**(6,980)**
Equity value (IFRS)	247,683	247,683
Standard 200 bps shock as % of the equity	1.07%	(2.82%)

Fair value sensitivity to interest rate shocks at 31 December 2019 (in bps)	**-200**	**+200**
EUR	1,770	(3,886)
USD	(3)	1
Others	107	(158)
Total	**1,874**	**(4,043)**
Equity value (IFRS)	239,735	239,735
Standard 200 bps shock as % of the equity	0.78%	(1.69%)

Currency risk

Foreign currency risk is the risk of changes in the fair value or the future cash flows of financial instruments resulting from changes in foreign currency exchange rates. The bank is exposed to currency risk, particularly to changes between EUR, USD and TRY rates. While currency risk is almost fully avoided through FX swap transactions, open positions are monitored and reviewed by the Asset & Liability Management Committee, so that action can be taken when necessary. Considering the derivative transactions, the open currency positions are at insignificant levels as of 31 December 2020. The management sets the limits for such positions according to the net foreign currency position rules determined by the Dutch Central Bank (DNB).

31 December 2020	EUR	USD	TRY	GBP	CHF	Others	Total
Cash and balances with central banks	219,471	-	-	-	-	-	**219,471**
Financial assets at FVPL	6,137	-	-	-	-	-	**6,137**
Financial assets at FVOCI	267,469	25,263	-	-	-	-	**292,732**
Financial Assets at amortized cost							
-Securities at amortized cost	30,924	-	-	-	-	-	**30,924**
-Loans and advances – banks	81,834	5,616	56	1,013	2	2,316	**90,837**
-Loans and advances – customers	790,407	68,731	-	2,962	-	12,514	**874,614**
Derivative financial instruments – hedge accounting	582	-	-	-	-	-	**582**
Property and equipment	3,543	-	-	-	-	-	**3,543**
Intangible assets	306	-	-	-	-	-	**306**
Current tax assets	2,703	-	-	-	-	-	**2,703**
Deferred tax assets	41	-	-	-	-	-	**41**
Other assets	6,302	-	1	-	-	-	**6,303**
Total assets	**1,409,719**	**99,610**	**57**	**3,975**	**2**	**14,830**	**1,528,193**
Due to banks	126,072	-	-	-	-	-	**126,072**
Financial liabilities held for trading	157	-	-	-	-	-	**157**
Deposits from customers	1,137,488	5,827	50	122	2	2,293	**1,145,782**
Derivative financial instruments – hedge accounting	48	-	-	-	-	-	**48**
Provisions	1,782	-	-	-	-	-	**1,782**
Current tax liabilities	-	-	-	-	-	-	**-**
Deferred tax liabilities	528	-	-	-	-	-	**528**
Other liabilities	5,957	184	-	-	-	-	**6,141**
Total non-equity liabilities	**1,272,032**	**6,011**	**50**	**122**	**2**	**2,293**	**1,280,510**
Net gap	137,687	93,599	7	3,853	-	12,537	**247,683**
Net open currency position after derivatives	(448)	379	8	(10)	-	71	**-**

31 December 2019	EUR	USD	TRY	GBP	CHF	Others	Total
Cash and balances with central banks	254,082	-	-	-	-	-	**254,082**
Financial assets at FVPL	1,473	-	-	-	-	-	**1,473**
Financial assets at FVOCI	235,494	4,524	-	-	-	-	**240,018**
Financial Assets at amortized cost		-	-	-	-	-	
-Securities at amortized cost	31,038	9,438	-	-	-	-	**40,476**
-Loans and advances – banks	37,782	1,297	297	1,265	1	-	**40,642**
-Loans and advances – customers	846,235	110,116	-	5,592	-	-	**961,943**
Derivative financial instruments – hedge accounting	-	-	-	-	-	-	**-**
Property and equipment	3,841	-	-	-	-	-	**3,841**
Intangible assets	280	-	-	-	-	-	**280**
Current tax assets	118	-	-	-	-	-	**118**
Deferred tax assets	24	-	-	-	-	-	**24**
Other assets	7,633	-	3	-	-	-	**7,636**
Total assets	**1,418,000**	**125,375**	**300**	**6,857**	**1**	**-**	**1,550,533**
Due to banks	112,489	102	-	175	-	-	**112,766**
Financial liabilities held for trading	243	964	-	119	-	-	**1,326**
Deposits from customers	1,172,930	14,264	187	96	1	-	**1,187,478**
Provisions	1,610	-	-	-	-	-	**1,610**
Derivative financial instruments – hedge accounting	-	-	-	-	-	-	**-**
Current tax liabilities	271	-	-	-	-	-	**271**
Deferred tax liabilities	254	-	-	-	-	-	**254**
Other liabilities	6,163	821	108	-	1	-	**7,093**
Total non-equity liabilities	**1,293,960**	**16,151**	**295**	**390**	**2**	**-**	**1,310,798**
Net gap	124,040	109,224	5	6,467	(1)	-	**239,735**
Net open currency position after derivatives	(55)	23	31	1	-	-	**-**

Operational risk

Operational risk is inherent in each of the bank's business and support activities, resulting from inadequate or failed internal processes, human resources and systems or external events.

DHB Bank pays the utmost attention to mitigating operational risk by maintaining a system of comprehensive internal policies and clear control procedures. The organizational framework of the bank, the segregation of duties between involved units, and independent control mechanisms are designed to provide a sound and well-controlled operational environment. An active business continuity plan is in place. It focuses on IT-related risks in the management of operational risk and ensures a continuous workflow under plausible disruptions.

As part of the continuous efforts to improve its operational risk management, the bank continued its Operational Risk & Control Assessment Program in 2020. The bank's operational risk management process involves a structured approach based on a risk and self-assessment control methodology. The goal of the ongoing self-assessment process is for each business unit to identify the key operational risks specific to its environment and evaluate the degree to which it maintains appropriate controls. Action plans are developed for identified issues, enabling the bank to improve its existing control measures and implement new measures where necessary.

Legal, compliance, integrity and reputation risk

The reputation and integrity risk management framework is embedded in the policy and governance structure of the bank, with the Managing Board being ultimately responsible. The three lines of defense of DHB's 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 DHB.

The front office departments have the primary responsibility for day-to-day reputation and integrity risk management; they form the first line of defense. They are accountable for identifying, recording, reporting and managing the risks that occur while conducting their activities, including originating loans and taking deposits, within applicable frameworks. They also ensure that the right controls and assessments are in place to mitigate the risks in line with the Risk Appetite. The second level of control, which embeds amongst other Compliance, Internal Control and Legal, is to make sure risks are properly identified, measured, managed and reported, if needed. In order to achieve that, they set policies and guidelines, facilitate implementations and operate control frameworks. Regulations continue to broaden and deepen; also the expectations of our regulators and the society at large are increasing. Compliance assists the first line and Managing Board with handling these challenges. Compliance has an independent reporting line to the Managing Board and the Supervisory Board.

The third level of control is with Internal Audit, with which department Compliance, Legal and Internal control, has an active working relationship.

8. Profit appropriation

Prior to approval by the General Meeting of Shareholders, the Board proposes that the net profit of 7,196 be retained as indicated here below:

Dividend 100%	-
Addition to the 'retained earnings'	7,196
	7,196

Rotterdam, 6 May 2021

Supervisory Board

Frederik-Jan Umbgrove
Onur Bilgin
Nesrin Koçu de Groot
Ariel Hasson
Maarten Klessens
Kemal Cıngıllıoğlu

Managing Board

Kayhan Acardağ
Steven Prins
Okan Balköse

Other INFORMATION

8

Independent **Auditor's Report**

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2020 INCLUDED IN THE ANNUAL REPORT

Our opinion

We have audited the accompanying financial statements 2020 of Demir-Halk Bank (Nederland) N.V. ("DHB Bank" or "the Company"), based in Rotterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Demir-Halk Bank (Nederland) N.V. as at 31 December 2020, and of its result and its cash flows for 2020 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The statement of financial position as at 31 December 2020
- The following statements for 2020: the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows.
- The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Demir-Halk Bank (Nederland) N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 1,000,000. The materiality is based on 0.5% of total equity. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of € 50,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

Demir-Halk Bank (Nederland) N.V. is at the head of a group of branches. The financial information of this group is included in the financial statements of Demir-Halk Bank (Nederland) N.V.

Our group audit mainly focused on significant group branches.

We have:

- Performed audit procedures ourselves for the German branch.
- Used the work of other auditors when auditing the financial information of the Belgian branch.

By performing the procedures mentioned above at group branches, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

Scope of fraud and non-compliance with laws and regulations within our audit

In accordance with the Dutch Standards on Auditing, we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatements, whether due to fraud or error. Non-compliance with law and regulation may result in fines, litigation or other consequences for DHB Bank that may have a material effect on the financial statements.

Consideration of fraud

In identifying potential risks of material misstatement due to fraud, we obtained an understanding of DHB Bank and its environment, including the entity's internal controls. We evaluated DHB Bank's fraud risk assessment and made inquiries with the Managing Board, those charged with governance and with others within DHB Bank, including but not limited to the Head of Compliance and Legal Affairs and the Head of Internal Audit. We evaluated several fraud risk factors to consider whether those factors indicated a risk of material misstatement due to fraud.

Following these procedures, and the presumed risks under the prevailing auditing standards, we considered the fraud risks in relation to management override of controls, including evaluating whether there was evidence of bias by the Managing Board, the executive leadership team and other members of management, which may represent a risk of material misstatement due to fraud. Furthermore, we identified and considered the fraud risk related to management override of controls.

As part of our audit procedures to respond to these fraud risks, we evaluated the design and implementation and, where considered appropriate, tested the operating effectiveness of the internal controls relevant to mitigate these risks. We performed substantive audit procedures, including detailed testing of journal entries, evaluating the accounting estimates for bias (including retrospective reviews of prior year's estimates, and the supporting documentation in relation to post-closing adjustments). We also incorporated elements of unpredictability in our audit. The procedures described are in line with the applicable auditing standards and are not primarily designed to detect fraud. Our procedures to address fraud risks did not result in a Key Audit Matter.

Consideration of compliance with laws and regulations

We assessed the laws and regulations relevant to DHB Bank through discussion with the Managing Board, those charged with governance and with others within DHB Bank, including but not limited to the Head of Compliance and Legal Affairs and the Head of Internal Audit, reading minutes and reports of internal audit and the correspondence with the regulators.

As a result of our risk assessment procedures, and while realizing that the effects from non-compliance could considerably vary, we considered adherence to (corporate) tax law and financial reporting regulations, the requirements under the International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code with a direct effect on the financial statements as an integrated part of our audit procedures, to the extent material for the related financial statements. We obtained sufficient appropriate audit evidence regarding provisions of those laws and regulations generally recognized to have a direct effect on the financial statements.

Apart from these, DHB Bank is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts and/or disclosures in the financial statements, for instance, through imposing fines or litigation. Given the nature of DHB Bank's business and the complexity of regulation, there is a risk of non-compliance with the requirements of such laws and regulations.

Our procedures are more limited with respect to these laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements. Compliance with these laws and regulations may be fundamental to the operating aspects of the business, to DHB Bank's ability to continue its business, or to avoid material penalties (e.g., compliance with the terms of operating licenses and permits or compliance with environmental regulations) and therefore non-compliance with such laws and regulations may have a material effect on the financial statements. Our responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements. Our procedures are limited to (i) inquiry of management, the Supervisory Board, the Managing Board and others within DHB Bank as to whether DHB Bank is in compliance with such laws and regulations and (ii) inspecting correspondence, if any, with the relevant licensing or regulatory authorities to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

Naturally, we remained alert to indications of (suspected) non-compliance throughout the audit.

Finally, we obtained written representations that all known instances of (suspected) fraud or non-compliance with laws and regulations have been disclosed to us.

Because of the characteristics of fraud, particularly when it involves sophisticated and carefully organized schemes to conceal it, such as forgery, intentional omissions, misrepresentation and collusion, an unavoidable risk remains that we may not detect all fraud during our audit.

We refer to the audit procedures as described in the separate Key Audit Matter in addressing the risk of regulatory compliance.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters

Impairment allowance for loans and advances to customers	
Description	**How the key audit matter was addressed in the audit**
DHB Bank recognizes a loss allowance for expected credit losses ("ECL") on the loans and advances to customers. At 31 December 2020 the loans and advances to customers amounted to EUR 883.5 million with an associated impairment allowance for an amount of EUR 8.8 million. The impairment allowance of stage 1 and stage 2 loans is calculated collectively. The impairment allowance on the stage 3 loans is calculated individually. Because of the inherent uncertainty and risks in a number of areas when determining the impairment allowance for the loans and advances to customers, the impairment allowance is an important area of judgement and estimates by the Managing Board. The Covid-19 pandemic further increases the estimation uncertainty following unprecedented economic circumstances. Due to the high estimation uncertainty on the impairment allowance for loans and advances to customers, we consider this a key audit matter for our audit. DHB Bank's disclosures concerning the impairment allowance for loans and advances to customers are included in note 3.7 Impairment of financial assets, note 4.6 Loans and advances - Customers and note 7 Risk Management of the financial statements.	Our procedures included testing the design, implementation and operating effectiveness of the key controls in the loan origination process. We obtained an understanding of the credit monitoring process and the provisioning process within DHB Bank. We evaluated the design and implementation and, where considered appropriate, the operating effectiveness of the controls related to the staging allocation, the ECL model updates and the timely recognition and measurement of the impairment allowances. For the collective impairment allowance, we tested the accuracy of the input data used by management to calculate the expected credit loss. With the use of internal specialists, we challenged management's assumptions regarding the macro-economic variables and the scenarios and weights applied in the ECL model. We assessed whether the impact of Covid-19 has appropriately been incorporated in the impairment allowance calculation. For individually assessed loan impairment allowances, we obtained corroborating and contradictory evidence to substantiate and challenge management's assertions regarding the reasonableness of the accounting estimates and the used assumptions in the individual impairment analysis. For a selection of loan exposures, we assessed whether DHB Bank correctly applied its provisioning and staging policy and in accordance with the criteria as defined in IFRS 9. Finally, we assessed whether the disclosures are accurate and in compliance with EU-IFRS requirements. ***Our observations*** The scope and nature of the procedures performed were appropriate and sufficient to address the key audit matter. Our procedures performed on the impairment allowance for loans and advances to customers did not result in any reportable matters.

Regulatory compliance	
Description	**How the key audit matter was addressed in the audit**
DHB Bank operates in a highly regulated environment and is required to comply with different laws and regulations in several jurisdictions. Some of these laws and regulations have a direct effect on the financial statements, others do not have a direct effect but set the provisions under which the entity is allowed to conduct its business. In 2019 the Dutch Central Bank reported to DHB Bank on its examination concerning DHB Bank's compliance framework. In 2020 DHB Bank continued to work on the actions as defined in their recovery plan, which had been prepared following the examination of the Dutch Central Bank. As non-compliance with laws and regulations may result in fines, litigations or have effect on the company's ability to continue is operations, we consider compliance with laws and regulations a key audit matter for our audit. DHB Bank's disclosure concerning regulatory compliance risks is included in note 7 Risk Management of the financial statements.	We obtained an understanding of the legal and regulatory requirements for DHB Bank. We assessed the activities, internal controls and procedures the company has in place to comply with those requirements. We obtained an understanding of the current status and timelines of the recovery plan, through inspection of progress reports and through inquiry with management and Head of Compliance. We assessed whether actions taken by management align with the observations of the regulator. We inspected correspondence with the regulator in order to validate managements' responses. We evaluated the impact of the compliance examination and recovery actions on the financial statements and we assessed the appropriateness of the disclosures based on the relevant facts and circumstances. Notwithstanding the foregoing, we are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations. ***Our observations*** Based on our procedures performed we assessed the appropriateness of the disclosures included in the financial statements, given the relevant facts and circumstances. We have no matters to report.

Reliability and continuity of the automated systems	
Description	**How the key audit matter was addressed in the audit**
An adequate infrastructure ensures the reliability and continuity of DHB Bank's business processes and financial reporting. In addition, the continuity of the operations is highly dependent on the IT-infrastructure as also explained in note 7 Risk Management of the financial statements. Therefore, we consider reliability and continuity of the automated systems a key audit matter during our audit.	We tested the reliability of the automated systems relevant for our audit of the financial statements. Furthermore, we tested the implementation of key controls ensuring that IT systems can be recovered in case disruptions occur. For this purpose, we made use of IT auditors within our audit team. These procedures included testing the design, implementation and operating effectiveness of the relevant general IT and application controls. ***Our observations*** For the purpose of our audit of the financial statements we have no matters to report.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

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

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Report of the Managing Board in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Engagement

We were engaged by the Supervisory Board as auditor of Demir-Halk Bank (Nederland) N.V. as of the year 2019 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group branches. Decisive were the size and/or the risk profile of the group branches or operations. On this basis, we selected group branches for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the Risk and Audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 6 May 2021

Deloitte Accountants B.V.

Signed by A. den Hertog

Profit **Appropriation**

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

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

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

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

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

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

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

DHB BANK LOCATIONS AND **CONTACT DETAILS**

9

Head Office

Visiting Address

Weena 780
3014 DA Rotterdam
Switchboard: +31 10 436 9151
General fax: +31 10 436 9252
Internet: www.dhbbank.com
e-mail: info@dhbbank.com

Mailing Address

P.O. Box 23294
3001 KG Rotterdam
SWIFT: DHBN NL 2R
Reuters Dealing : DHBN
Commercial Register: Rotterdam 24199853

Germany Operations

Germany Main Branch

Benrather Str. 8
40213 Düsseldorf
Telephone: +49 211 867 280
Fax: +49 211 867 2822
SWIFT: DHBN DE DD
e-mail: dusseldorf@dhbbank.com

Istanbul Representative Office

Süzer Plaza, Askerocağı Cad.
No: 15 K: 24 Oda: 2406
34367 Elmadağ, Şişli - İstanbul
Telephone: +90 212 292 1220
Fax: +90 212 292 1940
e-mail: IstRepOffice@dhbbank.com

Belgium Operations

Brussels Main Branch

66 Boulevard de l'Imperatrice
1000 Brussels
Telephone: +32 800 92 117
Fax: +32 2 219 8789
SWIFT: DHBN BE BB
e-mail: brussels@dhbbank.com

Antwerp Office

Britselei 10
2000 Antwerp
Telephone: +32 3 229 19 30
Fax: +32 3 231 12 29
e-mail: antwerp@dhbbank.com

Charleroi Office

Boulevard Audent 4
6000 Charleroi
Telephone: +32 71 30 68 03
Fax: +32 71 32 42 79
e-mail: charleroi@dhbbank.com

Liège Office

Boulevard de la Sauvenière 47
4000 Liège
Telephone: +32 4 222 95 21
Fax: +32 4 223 29 41
e-mail: liege@dhbbank.com

DHB Bank

DEMİR-HALK BANK (NEDERLAND) N.V.