HCBG Holding B.V.
Rotterdam

Financial statements 2012

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DIRECTORS' REPORT

We are pleased to present the financial statements of HCBG Holding B.V. for the year ending December 31, 2012. These financial statements have been prepared by the Directors of the Company and have subsequently been audited by KPMG Accountants N.V. Their report as referred to in the Articles of Association is attached to the annual accounts.

The principal business activity of the company is to act as a financial holding company. The company holds 70% of the outstanding shares of Demir-Halk Bank (Nederland) N.V., Rotterdam, where the remaining 30% is owned by Türkiye Halk Bankasi A.S. 2012 marked the 20th anniversary of Demir-Halk Bank (Nederland) N.V., foundation. The bank operates in the Netherlands, Germany, Belgium and Turkey. The bank has a successful track record for twenty years and has been able to weather the recent financial and economical turbulent times quite well, a living proof that it possesses the risk management, capital, liquidity, operational infrastructure and human resources to sustainably operate a commercial bank. DHB Bank is a relatively small-sized bank able to provide swiftly tailor made financial solutions to its clients which is greatly valued in these difficult financial and economic times.

HCBG Holding B.V. also owns 36.25% of the outstanding shares of Access Financial Services-IFN (Romania) S.A., Bucharest, a credit institution mainly focusing on factoring activities, which was established in 2007. Other shareholders are RP Explorer B.V. and the management of the company. AFS offers a wide range of services, consisting of various financial intermediations including: consumption credits, real estate financing, micro-financing, financing of trade transactions, discounting; issuance and processing of credit cards for customers.

HCBG Holding B.V. has additionally participations in C Faktoring A.S.-Turkey (9.73%) and in C International N.V.-Netherland (33.54%) as at the end of 2012 (30.11% as at the end of 2011).
C Faktoring A.S. is a company providing factoring services primarily with recourse to industrial and commercial companies, established in 2000 and C International N.V. is a public limited liability company regulated under Dutch law, established in year 2000.

As a subsequent event in 2013, the One-Tier Board Act entered into effect in the Netherlands on 1 January 2013. Among other stipulations, this new act indicates that a management 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. HCBG Holding has not achieved this target regarding gender diversity due to the limited number of members.

Please refer to the risk management paragraph of this report in order to see how the financial risks from the normal course of business are mitigated by the Management Board of the company .

As for year 2013, no material changes in the nature of the company's activities are expected. Finally no post-balance sheet events have occurred to date, which would materially affect the financial statements herewith presented. Management is confident that operational profitability at levels similar to the successful 2012 will be attained in 2013 and in a progressive trend in the following years.

Rotterdam, 24 May 2013

Managing Directors:

H. Cingillioglu

I.H. Akcakayalioglu

T.J. Bark

A CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(after appropriation of result)

ASSETS

	31 december 2012	31 december 2011
	€	€
	x 1.000	x 1.000
Cash and balances with central banks (1)	119,346	86,460
Financial assets held for trading (2)	3,777	122
Available for sale financial assets (3)	450,874	318,284
Securities held to maturity (4)	48,346	57,280
Loans and receivables — banks (5)	413,512	615,393
Loans and receivables—customers (6)	755,936	612,917
Derivative Financial instruments – hedge accounting 7)	570	-
Property and equipment (8)	11,708	12,163
Intangible assets (9)	51	19
Participations (10)	13,450	9,161
Current tax assets (11)	6,738	9,826
Deferred tax assets (11)	27	22
Other assets (12)	1,613	1,639
	1,825,948	1,723,286

LIABILITIES

	31 december 2012	31 december 2011
	€	€
	x 1.000	x 1.000
Due to banks (13)	211,459	180,940
Financial liabilities held for trading (2)	12,446	24,235
Deposits from customers (14)	1,329,423	1,296,666
Derivative financial instruments – Hedge accounting 7)	2,444	2,523
Provisions (15)	2,145	1,501
Current tax liabilities (16)	7,955	80
Deferred tax liabilities (16)	3,336	1,145
Other liabilities (17)	11,668	12,286
	1,580,876	1,519,376
Share capital (18)	93,500	93,500
Retained earnings	49,512	54,928
Other reserves	34,312	(265)
	177,324	148,163
Equity attributable to minority interests	67,748	55,747
Total equity	245,072	203,910
	1,825,948	1,723,286
Commitments and contingent liabilities (19)	14,511	18,108

B CONSOLIDATED INCOME STATEMENT

	2012		2011	
	€	€	€	€
Interest income	85,923		73,947	
Interest expense	(35,717)		(34,737)	
Net interest income (20)		50,206		39,210
Fee and commission income	9,551		8,623	
Fee and commission expense	(541)		(289)	
Net fee and commission income (21)		9,010		8,334
Result on financial transactions (22)		(15,760)		(10,320)
Result on hedge transactions (23)		(548)		6
Other operating income (24)		62		1,886
Total operating income		42,970		39,116
Staff costs (25)	(12,356)		(11,182)	
Other administrative expenses (26)	(6,481)		(5,455)	
		(18,837)		(16,637)
Depreciation and amortization		(594)		(689)
Net impairment charge (27)		(301)		(23,422)
Total operating expense		(19,732)		(40,748)
Result from ordinary activities before tax		23,238		(1,632)
Tax (28)		(5,579)		(202)
Result on participations		3,938		(1,606)
Result from ordinary activities after tax		**21,597**		**(3,440)**
Attributable to:				
Shareholders of the parent company		16,332		(3,847)
Minority interest		5,265		407

C CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the parent											
	Share capital	Share premium	Retained earnings	Legal reserves participations	Revaluation reserves	Cash Flow hedge reserve	Fair value reserve	Foreign Currency Translation Reserve	Consolidated net profit	Equity attributable to the parent	Minority interest	Total Equity
At January 1, 2011	**93,500**	**9,645**	**55,411**	**19**	**2,628**	**-**	**(5,225)**	**(142)**	**3,043**	**158,879**	**59,374**	**218,253**
Appropriation of prior year net profit			3,043						(3,043)	**-**		**-**
Change in revaluation reserve					144					**144**	(289)	**(145)**
Change in fair value reserve						16				**16**	7	**23**
Change in foreign currency translation reserve							(6,517)			**(6,517)**	(2,574)	**(9,091)**
Other movements								(828)		**(828)**	23	**(805)**
Net profit for the year			(3,847)							**(3,847)**	407	**(3,440)**
Total comprehensive income	**-**	**-**	**(3,847)**	**-**	**144**	**16**	**(6,517)**	**(828)**	**-**	**(11,032)**	**(2,426)**	**(13,458)**
Transactions with owners, recorded directly in equity												
Change in legal reserve participations			5	(5)						**-**		**-**
Dividend paid out			(753)							**(753)**		**(753)**
Transfer to/ from retained earnings			1,069							**1,069**	459	**1,528**
Movement due to sale of EC Bank										**-**	(1,660)	**(1,660)**
At December 31, 2011	**93,500**	**9,645**	**54,928**	**14**	**2,772**	**16**	**(11,742)**	**(970)**	**-**	**148,163**	**55,747**	**203,910**
At January 1, 2012	**93,500**	**9,645**	**54,928**	**14**	**2,772**	**16**	**(11,742)**	**(970)**	**-**	**148,163**	**55,747**	**203,910**
Appropriation of prior year net profit												
Change in revaluation reserve					(2,548)					**(2,548)**	(64)	**(2,612)**
Change in cash flow hedge reserve						239				**239**	102	**341**
Change in fair value reserve							15.930			**15,930**	6,674	**22,604**
Change in foreign currency translation reserve								106		**106**	-	**106**
Net profit for the year									16,332	**16,332**	5,265	**21,597**
Total comprehensive income	**-**	**-**	**-**	**-**	**(2,548)**	**239**	**15,930**	**106**	**16,332**	**30,059**	**11,977**	**42,036**
Transactions with owners, recorded directly in equity												
Change in legal reserve participations			14	21						**35**		**35**
Dividend paid out			(1,035)							**(1,035)**		**(1,035)**
Transfer to/ from retained earnings			(4,395)		4,642			(145)		**102**	24	**126**
At December 31, 2012	**93,500**	**9,645**	**49,512**	**35**	**4,866**	**255**	**4,188**	**(1,009)**	**16,332**	**177,324**	**67,748**	**245,072**

D CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of EUR)		2012		2011
Net profit		21,597		(3,440)
Currency translation reserve	106		(828)	
Fair value reserve	15,930		(6,517)	
Cash Flow hedge reserve	239		16	
Revaluation reserve	(2,548)		144	
Gains (losses) not recognized in income statement		13,727		(7,185)
Comprehensive income for the year		35,324		**(10,625)**
Attributable to:				
• owners of the parent		30,059		(11,032)
• non-controlling interest		5,265		407
Total comprehensive income for the year		**35,324**		**(10,625)**

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

E CONSOLIDATED CASH FLOW STATEMENT

	31 december 2012	31 december 2011
	€	€
	x 1.000	x 1.000
NET CASH FROM OPERATING ACTIVITIES	**144,108**	**(51,832)**
Net profit	21,597	(3,440)
Adjustments for :		
Depreciation and amortization for property and equipment	585	681
Depreciation and amortization for intangible assets	9	8
Provisions and impairment	301	23,422
Net change in provisions	644	(1,569)
Income tax expense	5,579	202
Change in financial assets held for trading	(1,397)	2,293
Change in loans and receivables — banks, not available on demand	201,667	265,560
Change in loans and receivables — customers	(142,000)	(276,461)
Change in income tax assets and other assets	3,108	130,514
Change in due to banks, not due on demand	30,518	17,108
Change in deposits from customers	31,606	(106,605)
Change in liabilities held for trading	(11,789)	6,267
Change in derivative financial instruments	(649)	2,523
Change in income tax liabilities and other liabilities	7,126	(109,256)
Exchange rate movements	-	-
Net interest income	(50,206)	(39,210)
Interest received	84,663	73,967
Interest paid	(34,115)	(34,757)
Income tax paid	(3,139)	(3,079)
NET CASH FROM INVESTING ACTIVITIES	**(123,971)**	**100,930**
Additions to financial investments	(321,697)	(214,705)
Disposals and redemptions of financial investments	217,919	320,110
Investments in property and equipment	(152)	(133)
Investments in intangible assets	(41)	-
Movement participations	(20,006)	(4,342)
Disposal of property and equipment	6	-
NET CASH FLOW FROM FINANCING ACTIVITIES	**12,750**	**(7,239)**
Movement in group equity	12,750	(7,239)
NET CASH FLOW	**32,887**	**41,859**
Cash and balances with central banks at January 1	86,460	44,601
Cash and balances with central banks at December 31	119,346	86,460
NET CHANGE IN CASH AND BALANCES WITH CENTRAL BANKS	**32,887**	**41,859**

F NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

HCBG Holding B.V. has an interest of 70% in Demir-Halk Bank (Nederland) N.V., 33,54% in C International (Nederland) N.V., 9.73% in C Faktoring (Turkey) A.Ş. and an interest of 36.25% in Access Financial Services-IFN (Romania) S.A.

The financial position of the Company is related to the economic developments in Turkey, CIS countries and the Eurozone 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 Company with respect to these developments.

The income statement in company's financial statements has been presented in abridged form pursuant to the provisions of Article 402, Part 9 of Book 2 of the Netherlands Civil Code.

2. BASIS OF PREPARATION

2.1 Compliance status

The consolidated financial statements of HCBG Holding B.V. and its subsidiaries ('the Company') 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').

2.2 Basis of measurement

The consolidated financial statements are prepared on a historical cost basis, except for available for sale investments, financial assets and liabilities held for trading, derivative financial instruments and property in use by the Company and its subsidiaries which have been measured at fair value.

2.3 Functional and presentation currency

The consolidated financial statements are presented in Euros, which is the functional currency of HCBG Holding B.V.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities, income and expenses of HCBG Holding B.V. and its subsidiaries DHB Bank, Access Financial Services-IFN S.A., C International N.V. and C Faktoring A.Ş. In accordance with EU-IFRS the company profit and loss account is also presented in an abbreviated form to show company results and results of subsidiaries.

Subsidiaries

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

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

Where no significant influence is exercised participations are valued under the equity method, but not lower than a nil value. With the valuation of participations any impairment in value is taken into account.

Non-controlling interests represent the portion of profit and loss and net assets not owned, directly or indirectly, by HCBG Holding B.V. and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Participations

	Statutory seat	%
- Demir-Halk Bank (Nederland) N.V.	Rotterdam	70
- Access Financial Services-IFN S.A.	Bucharest	36.25
- C International N.V.	Rotterdam	33.54
- C Faktoring A.Ş.	Istanbul	9.73

3.2 Foreign currency translation

Transaction and balances
HCBG Holding B.V. prepares its consolidated financial statements in Euros, which is HCBG Holding B.V.'s functional and presentation currency. The euro is the functional currency for all entities in the Group except Access Financial Services-IFN S.A. and C Faktoring A.Ş.

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

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

3.3 Significant accounting estimates

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

The Company reviews the estimates and underlying assumptions on an ongoing basis.

The most significant use of judgments and estimates are made in the following areas:
- determination of fair values of non-quoted financial instruments,
- determination of impairment losses on loans and receivables.

These items are explained in related sections.

3.4 Financial instruments – recognition and subsequent measurement

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

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

Measurement of financial instruments
Financial instruments are measured at amortized cost or fair value.

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

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

Where a market is not active and where quoted prices do not exist for a financial instrument the Company 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 the Company.

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

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

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

Classifications of financial instruments

HCBG Holding B.V. classifies financial assets and liabilities into the following measurement (valuation) categories:

a. Financial assets and liabilities held for trading:

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. At initial measurement financial assets and liabilities held for trading are recorded in the balance sheet at fair value and are subsequently re-measured also at fair value with changes being realized in the income statement under the item 'Result on financial transactions'. The positive fair value differences are recorded in assets under item 'Financial assets held for trading' and the negative fair value differences are recorded in liabilities under item 'Financial liabilities held for trading'.

b. Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company does not intend to make immediate short-term profits by selling loans and receivables. At initial measurement this category is recorded in the balance sheet at cost and is subsequently re-measured at amortized cost, using the effective yield method, less provision for impairment. The losses arising from impairment are recognized in the income statement under 'Net impairment charge' and disclosed in the movement table under loans and receivables.

c. Securities held to maturity:

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

After initial measurement at cost, held to maturity investments are subsequently measured at amortized cost using the effective yield method, less provision for impairment. The losses arising from impairment are recognized in the income statement under 'Net impairment charge'.

d. Available for sale financial assets:

Available for sale financial assets are non-derivative assets which do not qualify to be classified as financial assets held for trading, loans and receivables and held to maturity investments. Available for sale financial assets are interest bearing securities such as government bonds, treasury bills and various debt instruments issued by banks and companies. The Company has the intention to hold these assets for an indefinite period of time, however may also decide to sell them in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

At initial measurement these are recorded in the balance sheet at fair value including directly attributable transactions costs and are subsequently re-measured also at fair value. Unrealized gains and losses are recognized net of taxes directly in equity under the item 'Fair value reserve' until the investment is sold. Interest income is calculated using the effective interest method and recognized in the income statement under 'Interest income'. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement under 'Result on financial transactions'. The losses arising from impairment of such investments are also recognized in the income statement.

e. Derivative financial instruments – Hedge accounting

Derivatives held for assets-liability risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities. Principal objective of the Company's assets-liability management is to manage the Company's overall risk exposure through minimizing risk positions while maximizing earnings. Derivatives held for risk-management purposes are measured at fair value in the balance sheet.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the profit and loss account, together with fair value adjustments to the hedged item attributable to the hedged risk. 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 profit and loss account over the remaining term of the hedged item or recognised directly when the hedged item is derecognised. For non-interest bearing instruments, the cumulative adjustment of the hedged item is recognised in the profit and loss account only when the hedged item is derecognised.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity under the item 'cash flow hedge reserve'. The hedged item, which is designated as part of a cash flow hedge, does not change as far as the administrative processing is concerned. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Amounts accumulated in equity are recycled to the profit and loss account in the periods in which the hedged item affects net result. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the profit and loss account when a hedging instrument expires or is sold. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is transferred immediately to the profit and loss account.

f. Other financial liabilities

These are non-derivative financial liabilities ('Due to banks' and 'Deposits from customers') with fixed or determinable payments that are not quoted in an active market. At initial measurement this category is recorded in the balance sheet at cost and is subsequently re-measured at amortized cost.

3.5 Derecognition of financial assets and liabilities

Financial assets

The Company derecognizes a financial asset when:

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

When the Company 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 the Company'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 the Company could be required to repay.

Financial liabilities

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

3.6 Impairment of financial assets

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

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

(i) Loans and receivables due from banks and customers

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Loans together with the associated allowance accounts are written off when there is no realistic prospect of future recovery and the collateral has neither been realized nor transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. When any part of a claim is deemed uncollectible or forgiven, a write-off is charged to the allowance account. When a write-off is later recovered, the recovery is credited to the 'Net impairment charge'.

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

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

(ii) Held to maturity financial investments

For held to maturity investments the Company assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the 'Net impairment charge'.

(iii) Available for sale financial assets

For available for sale financial assets, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest based on market rates is accrued at the effective yield on the reduced carrying amount of the asset and is recorded as part of interest income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related

to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

3.7 Cash and cash equivalents

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

3.8 Property and equipment

Property in use by the Company and its subsidiaries is stated at fair value, being the market value, at the balance sheet 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 income statement.
The fair values of property in use by the Company and its subsidiaries are based on periodic appraisals by independent experts and any interim adjustments.

Depreciation is recognised in the income statement 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 600 months
- Rebuilding cost real estate 120 months

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

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

- Leasehold improvements Over the term of respective leases or 120 months
- Furniture and fixtures 60 months
- Vehicles 60 months
- Office equipment and IT hardware 36 months

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

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

3.9 Intangible assets

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

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

3.10 Impairment of non-financial assets

The Company assesses the non-financial assets carried at fair value, whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company 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 Provisions

Provisions mainly consist of provisions for defined benefit plan pension obligations, rent obligations for closed branches and provisions for reorganization.

Defined benefit plan pension obligations are calculated according to the projected unit credit method of actuarial cost allocation. Under this method, each plan member's benefits are funded as they would accrue, taking into account future salary increases. The total expected pension to which each plan member is entitled is broken down into units, each corresponding with a year of past or future credited service. For liabilities not covered by plan assets, there is an unfunded liability, for which a provision is created and presented in the balance sheet in the item 'Provisions'.

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

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

3.12 Income taxes

Current tax

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

Deferred income tax

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

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

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

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

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.

3.13 Recognition of income and expenses

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

a) Interest income and expense

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

All contractual terms of the financial instrument including any fees or incremental costs that are directly attributable to the instrument are taken into account for the calculation of the effective yield (except future credit losses). The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective yield and the change in carrying amount is recorded as interest income or expense.

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

b) Fee and commission income

The Company earns fees and commission income from various services provided to customers. Fees and commissions against services over a period of time are generally recognized on an accrual basis. These fees include cash loan commissions which are not considered part of the effective yield of the related financial instrument, non-cash loan commissions and other fees and commissions.

Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Management and service fees are recognized based on the applicable service contracts. Fees for bank transfers and other banking transaction services are recorded as income when collected.

c) Result on financial transactions

Result on financial transactions comprises the following items:

Foreign currency exchange transactions

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

Securities held for trading

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

Derivatives held for trading

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

Available for sale financial assets

Gains and losses arising from disposals of available for sale financial assets are recognized under 'Result on financial transactions'.

d) Hedge accounting

Gains and losses arising from hedge accounting transactions are recognized under 'Result on financial transactions' including the ineffective portion that qualifies as cash flow hedges. Further reference is made in section 3.4 Financial instruments – recognition and subsequent measurement.

3.14 Equity components

Legal reserve participations

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

Revaluation reserve

Revaluation reserve comprises the differences between the carrying amount and the fair value of property in use by the Company 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.

Cash flow hedge reserve

This item relates to the effective portion of the cumulative net change in the fair value of derivatives used for cash flow hedges.

Fair value reserve

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

Foreign currency translation reserve

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

3.15 Cash flow statement

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

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

3.16 New standards and interpretations not yet adopted

Many new standards, amendments to standards and interpretations are not yet effective, or have been endorsed by the EU, for the year ended December 31, 2012, and have not been applied in preparing these consolidated financial statements.

IFRS 9, Financial Instruments (effective 1 January 2015) covers classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortized cost and fair value. Financial assets are measured at amortized cost if they are held within a business model whose objective is to hold assets in order to collect contractual cash flows that are solely the payments of principal and interest on principal outstanding. All other financial assets are measured at fair value. These amendments eliminate the existing IAS 39 categories of held to maturity, available for sale, and loans and receivables. No amount recognized in other comprehensive income would ever be classified to profit or loss at a later date. Investments in equity instruments in respect of any entity

that does not elect to present fair value changes in other comprehensive income would be measured at fair value, with changes in fair value recognized in profit or loss. The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated. Instead, the hybrid financial instrument is assessed in its entirety to determine whether it should be measured at amortized cost or fair value. The Company started the process of evaluating the potential effect of this standard but is awaiting the finalisation of the limited amendments before the evaluation can be completed.

Amendments to IFRS 7 and IAS 32: Offsetting financial assets and financial liabilities

Amendments to IFRS 7 introduce disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective beginning on or after 1 January 2013.

Amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set off and when gross settlement is equivalent to net settlement. The amendments are effective beginning on or after 1 January 2014.
The Company is not expecting any material impact from the adoption of the amendments.

IFRS10: Consolidated Financial Statements, IFRS 11: Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2013)

IFRS 10 introduces a single control model which will apply to all investees to determine the scope of consolidation. IFRS 12 introduces a single disclosure standard for subsidiaries, joint arrangements, associates and structured entities within a comprehensive disclosure standard.
The Company is not expecting any material impact from the adoption of these standards.

IFRS 13: Fair Value Measurement (effective 1 January 2013)

IFRS 13 introduces a single source of guidance on how fair value is measured and new disclosure requirements such as including fair value hierarchy disclosures for non-financial assets/liabilities and disclosure on fair value measurements that are categorised in Level 3.
The Company is not expecting any material impact from the adoption of this standard.

IAS 19, Employee Benefits: The most significant change of the revised IAS 19 'Employee Benefits' relates to the accounting for defined benefit pension obligations and the corresponding plan assets. The amendments require immediate recognition in equity (i.e. in Other comprehensive income) of changes in the defined benefit obligation and in the fair value of plan assets due to actuarial gains and losses. The deferral of actuarial gains and losses through the 'corridor approach' is no longer allowed. As a related consequence, deferred actuarial gains and losses are no longer released to the profit and loss account. Furthermore, the amendments require the expected return on plan assets to be determined using a high-quality corporate bond rate, equal to the discount rate of the defined benefit obligation which is currently applied. The amendments also introduce a number of other changes and extended disclosure requirements. The implementation of the amendments to IAS 19 results in the recognition of accumulated actuarial gains and losses in equity as at 1 January 2013. As a result, the recognition of actuarial gains and losses in equity will create volatility in equity going forward. In the 2013 consolidated financial statements, the comparative figures for previous years will be restated to reflect the impact of the amendments to IAS 19. It is estimated that this amendment will decrease the equity by around 130 thousand.

1) CASH AND BALANCES WITH CENTRAL BANKS

	2012	2011
Cash in hand	1,224	3,385
Balances with central banks	118,122	83,075
Total	**119,346**	**86,460**

This item includes all legal tender, as well as demand deposits held at the central bank in countries in which the Company and its subsidiaries are established. Balances with central banks include reserve deposits which are not available in daily operations.

The Company and its subsidiaries continued to maintain relatively high liquidity levels in the form of balances with ECB. These balances are kept for liquidity risk management purposes.

2) FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

The following table shows the financial assets at fair value through profit or loss as of December 31, 2012 and 2011:

	2012		2011	
	Fair value	**Notional**	**Fair value**	**Notional**
Financial assets held for trading				
Currency swaps	3,243	253,660	-	-
Interest rate swaps	534	51,344	41	12,000
Credit default swaps	-	-	81	5,000
Total	**3,777**	**305,004**	**122**	**17,000**
Financial liabilities held for trading				
Currency swaps	1,129	315,147	7,143	315,766
Interest rate swaps	7,841	135,129	12,488	178,440
Credit default swaps	3,476	20,000	4,604	15,000
Total	**12,446**	**470,276**	**24,235**	**509,206**

The assets and liabilities held for trading relate to derivatives positions to hedge financial risks, which are not qualifying as hedging instrument in accounting sense. The derivatives held for trading should therefore be assessed on a total portfolio basis and not as stand-alone assets and liability classes.

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

When fair value of swaps is positive (negative), both fair value and corresponding notional amounts are reported as assets (liabilities). Notional amounts of the swaps increased by 249 million in 2012. Fair valuation of the swaps have improved in general, primarily attributable to lower Euro benchmark interest rates, shorter remaining maturity on swaps with negative replacement values and improved investor sentiments at the end of 2012 affecting the credit default swap position positively.

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

3) AVAILABLE FOR SALE FINANCIAL ASSETS

	2012	2011
Available for sale financial assets		
Debt securities issued by banks	421,204	290,718
Debt securities issued by corporates	16,099	17,143
Government (Euro)bonds	13,952	10,560
Subtotal	**451,255**	**318,421**
IBNR allowances for impairment	(381)	(137)
Total	**450,874**	**318,284**

Out of the total 239,329 (2011: 132,688) are used for the repo transactions. There are no subordinated available for sale financial assets.

The available for sale financial assets developed as follows:

	2012	2011
At January 1	**318,284**	**393,646**
Purchases	299,939	209,043
Sales	(129,718)	(261,100)
Redemptions	(57,431)	(2,000)
FX revaluations	(3,839)	4,398
Market value revaluations	23,883	(10,616)
Allowances for impairment	(244)	(15,087)
At December 31	**450,874**	**318,284**

In 2011 'Allowances for impairment' includes the negative implication due to the debt restructuring of Greek sovereign available for sale securities. In 2012 Private Sector Involvement deal concerning Greece debt restructuring has been concluded and settlement was completed.

4) SECURITIES HELD TO MATURITY

	2012	2011
Securities held to maturity		
Government (Euro)bonds	-	10,327
Debt securities issued by banks	37,847	54,421
Debt securities issued by corporates	10,582	-
Subtotal	**48,429**	**64,748**
Specific allowances for impairment	(15)	(7,383)
IBNR allowances for impairment	(68)	(85)
Total	**48,346**	**57,280**

Out of the total 20,174 (2011: 10,116) are used for the repo transactions. There are subordinated securities held to maturity amounting to 7,628 (2011: 8,472).

The securities held to maturity developed as follows:

	2012	2011
At January 1	**57,280**	**115,409**
Purchases	10,469	-
Sales	(7,626)	-
Redemptions	(11,477)	(49,779)
FX revaluations	(2,117)	1,466
Changes in accrued interest	1,308	(2,456)
Allowances for impairment	509	(7,360)
At December 31	**48,346**	**57,280**

In 2011 'Allowances for impairment' includes the negative implication due to the debt restructuring of Greek sovereign held to maturity securities. In 2012 Private Sector Involvement deal concerning Greece debt restructuring has been concluded and settlement was completed.

5) LOANS AND RECEIVABLES – BANKS

These are non-derivative exposures to banks classified as 'loans and receivables' and comprise also exposures to central banks, which are not included in the item 'Cash and balances with central banks'.

	2012	2011
Money market placements	18,531	34,573
Other loans and receivables	395,559	581,265
Subtotal	**414,090**	**615,838**
Specific allowances for impairment	(82)	-
IBNR allowances for impairment	(496)	(445)
Total	**413,512**	**615,393**

The item 'Loans and receivables - banks' includes pledged funds amounting to 12,063 (2011: 28,099), of which 9,903 (2011: 18,679) serve as collateral for some swap transactions and 2,160 (2011: 7,854) serve as collateral for Credit Default Swap transactions.

Placements with 'Other loans and receivables' include the interest-free loan given to the Dutch Central Bank (DNB) in relation to DSB Bank amounting to 9,167 (2011: 9,795).

There are no subordinated loans and receivables granted to banks.

6) LOANS AND RECEIVABLES – CUSTOMERS

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

	2012	2011
Retail loans	31,115	34,647
Commercial loans	732,011	585,365
Subtotal	**763,126**	**620,012**
Specific allowances for impairment	(6,872)	(6,998)
IBNR allowances for impairment	(318)	(97)
Total	**755,936**	**612,917**

There are no subordinated loans and receivables granted to customers.

7) DERIVATIVE FINANCIAL INSTRUMENTS - HEDGE ACCOUNTING

The subsidiary DHB Bank holds derivative financial instruments for general risk management purposes as at 31 December 2012 and 31 December 2011.

The fair value of derivatives designated as fair value and cash flow hedges are as follows:

	2012			**2011**		
	Notional	**Fair values**		**Notional**	**Fair values**	
	amounts	**Positive**	**Negative**	**amounts**	**Positive**	**Negative**
Interest rate swaps						
Fair value hedges	50,778	110	1,702	4,500	–	97
Cash flow hedges	62,283	460	742	111,576	–	2,426
Total	**113,061**	**570**	**2,444**	**116,076**	**–**	**2,523**

DHB Bank uses interest rate swaps to hedge the interest rate risk in fair value hedges.

DHB Bank uses plain interest rate and cross currency swaps to hedge future cash flows against interest rate risk and currency risk.

Following schedule indicates the time periods in which the hedged cash flows are expected to occur and when they are expected to affect the income statement:

31 December 2012	**Within 1 year**	**1-5 years**	**Over 5 years**
Cash inflows	21,107	10,658	–
Cash outflows	–	–	–
Total	**21,107**	**10,658**	**–**

During 2012 net result of 341 relating to the effective portion of cash flow hedges were recognized in 'Other comprehensive income'.

8) PROPERTY AND EQUIPMENT

The changes in book value of property and equipment in 2012 and 2011 are as follows:

	Buildings	Other fixed assets	Total
Balance at January 1, 2012	**11,698**	**465**	**12,163**
Investments	25	128	**153**
Divestments	-	(7)	**(7)**
Depreciation	(329)	(256)	**(585)**
Revaluation	(16)	-	**(16)**
Impairment	-	-	**-**
Balance at December 31, 2012	**11,378**	**330**	**11,708**
Cost	14,445	8,633	**23,078**
Cumulative depreciation and impairment	(7,056)	(8,303)	**(15,359)**
Cumulative revaluations	3,989	-	**3,989**
Balance at December 31, 2012	**11,378**	**330**	**11,708**

	Buildings	Other fixed assets	Total
Balance at January 1, 2011	**13,679**	**628**	**14,307**
Investments	13	121	**134**
Depreciation	(398)	(284)	**(682)**
Revaluation	(1,273)	-	**(1,273)**
Impairment	(323)	-	**(323)**
Balance at December 31, 2011	**11,698**	**465**	**12,163**
Cost	14,421	9,150	**23,571**
Cumulative depreciation and impairment	(7,051)	(8,685)	**(15,736)**
Cumulative revaluations	4,328	-	**4,328**
Balance at December 31, 2011	**11,698**	**465**	**12,163**

The real estate consists of office premises located in Rotterdam, the Hague, Dusseldorf, Brussels and Antwerp and are latest appraised separately by independent experts as per December 31, 2012.

The Company does not have any restrictions on title, and property, plant and equipment pledged as security for liabilities (2011: none).

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

9) INTANGIBLE ASSETS

The changes in book value of intangibles in 2012 and 2011 are as follows:

Balance at January 1, 2012	**19**
Investments	41
Amortization	(9)
Balance at December 31, 2012	**51**
Cost	4,357
Cumulative amortization	(4,306)
Balance at December 31, 2012	**51**

Balance at January 1, 2011	**27**
Investments	-
Amortization	(8)
Balance at December 31, 2011	**19**

Cost	4,378
Cumulative amortization	(4,359)
Balance at December 31, 2011	**19**

This item mainly includes computer software.

10) PARTICIPATIONS

	2012	**2011**
Access Financial Services IFN S.A. (36.25%)	1,787	1,628
C International N.V. (33.54) (2011: 30.11%)	4,030	640
C Faktoring A.Ş. (9.73%)	7,633	6,893
Total	**13,450**	**9,161**

Access Financial Services IFN S.A. (36.25%)	**2012**	**2011**
Balance as at January, 1	**1,628**	**1,511**
Result	199	129
Currency translation reserve	(40)	(12)
Balance as at December, 31	**1,787**	**1,628**

C International N.V. (33.54%) (2011: 30,11%)	**2012**	**2011**
Balance as at January, 1	**640**	**-**
Investment	2,585	3,798
Result	3,384	(1,742)
Impairment	-	(2,233)
Currency translation reserve	(181)	-
Revaluation reserve	(2,398)	817
Balance as at December, 31	**4,030**	**640**

C Faktoring A.Ş. (9.73%)	**2012**	**2011**
Balance as at January, 1	**6,893**	**-**
Investment	-	7,754
Result	355	7
Fair value reserve	58	-
Currency translation reserve	327	(868)
Balance as at December, 31	**7,633**	**6,893**

11) INCOME TAX ASSETS

	2012	2011
Current tax assets	6,738	9,826
Deferred tax assets	27	22
Total	**6,765**	**9,848**

The current tax assets include receivables due from the tax authorities, which is mainly caused by recognition of unrealized losses with respect to financial instruments and carried back losses. The deferred tax assets concern depreciation on revaluation of buildings.

12) OTHER ASSETS

	2012	2011
Prepayments	1,016	1,090
Other receivables	597	549
Total	**1,613**	**1,639**

Assets that due to their nature cannot be classified in specific balance sheet items are presented under 'Other assets'.

13) DUE TO BANKS

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

	2012	2011
Current accounts	2,744	5,490
Time deposits	202,876	165,403
Syndication loan	-	10,047
Other	5,839	-
Total	**211,459**	**180,940**

Majority of the balance represents funds obtained through repo transactions.

14) DEPOSITS FROM CUSTOMERS

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

	2012	2011
Current accounts	27,335	20,976
Saving accounts	726,832	702,569
Time deposits	575,256	573,121
Total	**1,329,423**	**1,296,666**

This item includes pledged deposits amounting to 21,795 (2011: 4,687) which serve as collateral for loans or off-balance sheet credit instruments granted by DHB Bank.

15) PROVISIONS

Provisions consist of the following items:

	2012	2011
Employee benefits	867	512
Onerous contracts	1,278	989
Total	**2,145**	**1,501**

Employee benefits

The Company has both defined benefit and defined contribution pension obligations. Expenses related with defined contribution plan are directly recognized under staff cost so no provisions are set aside. The Company sets aside provision for defined benefit plan obligations. Defined benefit plan covers 46 employees of which 15 are still active.

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

	2012	2011
Present value of total defined benefit obligation	6,396	3,686
Fair value of plan assets	(5,529)	(3,174)
Present value of net obligations	**867**	**512**

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

	2012	2011
Current service cost	(120)	(138)
Interest cost	(187)	(181)
Expected return on plan assets	162	153
Administration cost	(13)	(17)
Recognized (gains)/ losses on actuarial assumptions	328	74
Net periodic gain/ (cost)	**(486)**	**(109)**

The change in net pension provisions can be summarized as:

	2012	2011
Defined benefit liability at January 1	3,686	3,429
Net periodic actuarial gain/(losses)	2,430	(36)
Current service and interest costs	307	319
Benefits paid by the plan	(27)	(26)
Defined benefit liability at December 31	**6,396**	**3,686**

	2012	2011
Fair value of plan assets at January 1	3,174	2,858
Net periodic actuarial gain/(losses)	2,102	38
Return on assets	162	153
Costs	(13)	(17)
Contribution benefits	131	168
Benefits paid by the plan	(27)	(26)
Fair value of plan assets at December 31	**5,529**	**3,174**

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

	2012	2011
Discount rate at December 31	3.21%	4.94%
Social security increases	1.50%	1.50%
Pension increases active participants	0.00%	0.00%
Pension increases other participants	1.50%	1.50%
Expected return on plan assets	3.21%	4.94%
Collective salary increases	1.50%	1.50%
Individual salary increase average	1.50%	1.50%
Pensionable age	65	65

For the fiscal year the discount rate was decreased from 4.94% to 3.21% to reflect the developments on the capital markets. On the other side the expected return on plan assets has also decreased from 4.94% to 3.21%. Fluctuation rates are based on the average rates in The Netherlands depending on participant's age. The corridor approach is not applied.

Onerous contracts

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

	2012	2011
Opening balance	989	1,907
Addition	630	19
Utilization	(349)	(364)
Release	-	(573)
Exchange rate movement	8	-
Closing balance	**1,278**	**989**

The 630 increase 2012 is the reversal of a provision release due to the cancellation of a rental contract for a previously closed branch in London.

16) INCOME TAX LIABILITIES

	2012	2011
Current tax liabilities	7,955	80
Deferred tax liabilities	3,336	1,145
Total	**11,291**	**1,225**

Current tax liabilities include payables due to tax authorities. In the previous years, the tax effect of negative fair value of financial instruments reserve led to current tax receivables. As the fair value of financial instruments increased in 2012, this resulted in reversing of unrealized losses on the financial instruments. This results in higher current tax liabilities.

Based on the agreement regarding IFRS conversion in 2009 with Dutch Tax Authority, which is commonly made with Dutch Financial Institutions, the surplus of unrealized gains on available-for-sale financial instruments can be deferred. This resulted in high deferred tax liabilities.

17) OTHER LIABILITIES

	2012	2011
Accrued expenses	2,692	2,093
Payables to suppliers	768	205
Other liabilities	8,208	9,988
Total	**11,668**	**12,286**

Other liabilities consist of expense provisions, various payables to the Company's suppliers and other payables that comprise withholding tax and wage tax payables, among others.

18) SHARE CAPITAL

Referring to article 67, paragraph 1 of Book 2 of the Netherlands Civil Code, the authorized capital amounts to 200 million euro. The issued share capital comprises 54,755,923 A-shares of EUR 1 each and 38,744,077 B-shares of EUR 1.

OTHER RESERVES

This item consists of cash flow hedge reserve, fair value reserve, revaluation reserve and legal reserve.

Cash flow hedge reserve
This item relates the effective portion of the cumulative net change in the fair value of derivatives used for cash flow hedges.

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

19) COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business the Company is a party to activities whose risks are not reflected in whole or part in the consolidated financial statements. In response to the needs of its customers, the Company 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 the Company has provided a guarantee or entered into a commitment to third parties.

Non-credit substitute guarantees comprise letter of guarantees issued by the Company.

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:

	2012	2011
Non-credit substitute guarantees	4,665	10,977
Irrevocable letters of credit	1,777	4,002
Irrevocable commitments	8,069	3,129
Total	**14,511**	**18,108**

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

	2012	2011
The Netherlands	2,107	2,300
Turkey	4,069	4,583
Rest of Europe	8,335	9,559
Other	-	1,666
Total	**14,511**	**18,108**

Furthermore, with the nationalisation of SNS REAAL N.V. the subsidiary DHB Bank will be required to pay a one-time levy in 2014 according to the bank’s market share in retail deposits, as all other Dutch banks. Reference is made to note Subsequent events.

20) NET INTEREST INCOME

	2012	2011
Interest income from:		
Cash and balances with central banks	179	512
Financial assets held for trading	5	1
Available for sale financial assets	14,177	13,757
Securities held to maturity	2,696	4,928
Loans and receivables – banks	15,144	21,839
Loans and receivables – customers	53,587	32,728
Other interest income	135	182
Subtotal	**85,923**	**73,947**
Interest expense from:		
Due to banks	2,390	2,130
Deposits from customers	33,214	32,583
Derivative financial instruments	82	24
Other interest expense	31	-
Subtotal	**35,717**	**34,737**
Total	**50,206**	**39,210**

21) NET FEE AND COMMISSION INCOME

	2012	2011
Letter of guarantees	97	132
Letter of credits	178	93
Cash loan	7,711	6,273
Banking services	1,481	2,077
Other fees and commissions	84	48
Subtotal	**9,551**	**8,623**
Fee and commission expense	(541)	(289)
Total	**9,010**	**8,334**

22) RESULT ON FINANCIAL TRANSACTIONS

	2012	2011
Results from foreign currency exchange transactions	754	(996)
Results from securities transactions	3,397	1,720
Results from derivatives transactions	(19,911)	(11,044)
Total	**15,760**	**(10,320)**

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

'Results from derivatives transactions' relate to the entire gains and losses from derivatives which are not qualifying as hedge instruments. Interest expenses on swap transactions are also reported in this item.

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

In 2011, the item "result from hedge transactions" was recognized under "result on financial transactions" due to its immaterial amount; in 2012, the former has been classified as a separate item, and the 2011 figure related to "result on financial transactions" has been restated accordingly.

23) RESULT ON HEDGE TRANSACTIONS

	2012	2011
Results form hedge transactions	(548)	6
Total	**(548)**	**6**

'Results from hedge transactions' comprise the gains and losses from hedging accounting transactions.

24) OTHER OPERATING INCOME

	2012	2011
Other operating income	62	1,886

This item consists of non-recurring incomes, and in 2011 mainly includes a fee amount which is received in March 2011 in relation to a restructured loan, which was fully collected.

25) STAFF EXPENSES

	2012	2011
Wages and salaries	9,297	8,870
Pension costs	1,180	718
Other social security costs	1,296	1,310
Other staff costs	583	284
Total	**12,356**	**11,182**

The current number of full-time equivalents in 2012 was 146 (2011: 146)

	2012	2011
• In The Netherlands	95	92
• Outside The Netherlands	49	54
Total	**144**	**146**

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

The Company recognised an expense of 107 in relation to the crisis tax of 16%.

The fixed remuneration (including pension costs) of the current and former members of the Managing Board amounted to 193 in 2012 (2011: 189).

26) OTHER ADMINISTRATIVE EXPENSES

	2012	2011
Other administrative expenses	6,481	5,455

Other administrative expenses refer to operational expenses incurred during the year such as communication, travel and maintenance expenses. Major items in other administrative expenses are the rent, tax and communication expenses.

The decrease in other administrative expenses is attributable to the positive effects efficiency and cost cutting measures undertaken during the prior years in the organizational structure of the bank.

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

Audit-related fees	2012	2011
Audit fees related to the annual report	187	198
Tax advisory services	66	41
Other audit-related fees	-	112
Total	**253**	**351**

27) NET IMPAIRMENT CHARGE

	2012	2011
Available for sale assets	244	15,087
Held to maturity assets	(135)	7,360
Participations	-	2,233
Loans and receivables	348	(1,581)
Property and equipment	(156)	323
Total	**301**	**23,422**

The impairment charges in 2011 mainly related to the Greece sovereign bonds.

28) TAXATION

The Netherlands

Corporate income tax is levied at the rate of 25% (2011: 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 2012. 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.

The corporate income tax on company level is nil due to tax losses from previous years. Also no deferred tax asset is recognized. A deferred tax asset is only recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized.

Germany

Profit is subject to trade tax, which is calculated based on rate of the local city. Trade tax is deductible for the calculation of corporate tax at a statutory rate of 25%. The statutory solidarity tax is 5.5% on corporate tax. The effective tax rate is estimated at 31.10%.

Belgium

The effective tax rate is 33.99% in Belgium consisting of basis tax rate of 33% and an additional tax called 'Extra Crise Cotisation' at a rate of 3%.

Reconciliation of effective tax rate	%	2012	%	2011
Result before income tax		23,238		(1,632)
Income tax using the domestic corporation tax rate	25%	5,782	25%	389
Effect of tax rates in foreign jurisdictions	(2,30%)	(531)		(192)
Non-deductible expenses	(0.01%)	(2)		5
Other	1.42%	330		-
Total	**24.11**	**5,579**		**202**

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, the members of the Supervisory Board and Managing Board of HCBG Holding B.V. and their relatives. As of year-end 2012, C Group companies consist of Demir Kyrgyz International Bank, C Faktoring A.Ş., C Yatırım Holding A.Ş., DHB Bank, Access Financial Services-IFN S.A., C International Belgium SA and C International N.V.

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

Regarding the total loans to the related parties, 49,345 (2011: 4,008) is granted against cash collaterals, 14,500 (2011: 27,500) against mortgages and 1,400 (2011: nil) against third party promissory notes/cheques equal to the outstanding risks.

The outstanding balances with related parties for the year ended December 31, 2012 are as follows:

	Subsidiaries	Other related parties	Key management and their relatives	Total
Assets				
Cash and balances with central banks	4,200	-	-	4,200
Loans and receivables – customers	-	138	-	138

The income and expenses in respect of related parties included in the financial statements for the year 2012 are as follows:

	Subsidiaries	Other related parties	Key management and their relatives	Total
Interest income	225	3	3	331
Other operating income	-	42	-	42

The outstanding balances with related parties for the year ended December 31, 2011 are as follows:

Assets				
Cash and balances with central banks	5,351	-	-	5,351
Loans and receivables – customers	-	480	-	480

The income and expenses in respect of related parties included in the financial statements for the year 2011 are as follows:

Interest income	253	29	2	284
Other operating income	-	42	-	42

CAPITAL ADEQUACY

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

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

	2012		2011	
	Required	**Actual**	**Required**	**Actual**
Total capital	104,761	173,855	107,638	160,845
Total capital ratio	8.00%	13.28%	8.00%	11.95%
Tier 1 capital	52,380	168,989	53,819	158,073
Tier 1 ratio	4.00%	12.90%	4.00%	11.75%

FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES

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

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

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

Other securities belonging to the investment portfolio are stated at market value taking the average mid-quotes at year-end from five price contributors that have actively and regularly provided quotes during the relevant trading period.

	31 December 2012		31 December 2011	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets				
Cash with central banks	118,122	118,122	83,075	83,075
Financial assets held for trading	3,777	3,777	122	122
Available for sale financial assets	450,874	450,874	318,284	318,284
Securities held to maturity	48,346	49,141	57,280	50,555
Loans and receivables – banks	413,512	415,874	615,393	616,288
Loans and receivables – customers	755,936	777,582	612,917	598,562
Derivative financial instruments – hedge accounting	570	570	-	-
Total	**1,791,137**	**1,815,940**	**1,687,071**	**1,666,886**

Liabilities				
Due to banks	211,459	211,459	180,940	180,940
Financial liabilities held for trading	12,446	12,446	24,235	24,235
Deposits from customers	1,329,423	1,329,423	1,296,666	1,296,666
Derivative financial instruments - Hedge	2,444	2,444	2,523	2,523
Total	**1,555,772**	**1,555,772**	**1,504,364**	**1,504,364**

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

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

Fair value hierarchy for financial instruments as at 31 December 2012

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	-	3,777	-	**3,777**
Available for sale financial assets	450,874	-	-	**450,874**
Derivative financial instruments – Hedge accounting	-	570	-	**570**
Financial liabilities				
Financial liabilities held for trading	-	12,446	-	**12,446**
Derivative financial instruments – Hedge accounting	-	2,444	-	**2,444**

Fair value hierarchy for financial instruments as at 31 December 2011

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	-	122	-	**122**
Available for sale financial assets	318,284	-	-	**318,284**
Financial liabilities				
Financial liabilities held for trading	-	24,235	-	**24,235**
Other liabilities - EBRD put option	-	2,523	-	**2,523**

SUBSEQUENT EVENTS

On 1 February 2013, the nationalisation of SNS REAAL N.V., the fourth largest bank group in the Netherlands, was announced. As a consequence of the arrangements made by the Dutch government, the subsidiary DHB Bank and all other Dutch banks will be collectively required to pay a one-time levy of EUR 1 billion in 2014. DHB Bank's share is estimated at EUR 2.9 million according to the bank's market share in retail deposits.

RISK MANAGEMENT

Effective risk and capital management are fundamental to Company's business and play a crucial role in enabling management to operate successfully in a changing environment. Exposure to risk is inherent in providing financial services and Company assumes a variety of risks in its ordinary business activities, the most significant being credit risk related to loans and receivables.

The Company's approach is supported by organizational structure, policies and procedures as well as methods for identifying, measuring, assessing and controlling risks. Furthermore, the risk management framework is supported by a strong risk culture at all levels. The maintenance of risk awareness in the organization is regarded as an essential component for Company's business strategies. Accordingly, ongoing seminars are held to ensure that Risk Management staff of DHB Bank is adequately trained. In particular, credit risk related training is offered to employees within the risk management on a regular basis.

Due to the impracticability of the calculation of the price risk – and interest rate risk tables the figures for the Company, included in these tables, are identical to the figures included in the Risk Management disclosures of the consolidated financial statements of the main subsidiary, DHB Bank. The calculation of these tables including the company figures of HCBG Holding BV would not change the figures materially.

Risk types and their management

Credit risk

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

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

The Company ensures that credit quality is not compromised for growth by applying separate limits for all lending activities, which are approved by the Supervisory Board of DHB Bank in accordance with the credit approval procedures. Wholesale loans are granted by the Supervisory Board of DHB Bank. However, for flexibility and responsiveness the Credit Committee has approval authority to a certain amount. As for retail credits, the acceptance criteria are drawn up and reviewed separately by the Retail Loans Department under the approval authority granted by the Managing Board of DHB Bank.

The Company dedicates considerable resources to controlling credit risk effectively. Operating under a sound credit administration, measurement, monitoring and reporting process, the Company strives to maintain appropriate control over credit risk at portfolio, obligor group and individual facility level. Credit monitoring is carried out at individual borrower level by the Credit Appraisal and Risk Management Department, which conducts credit reviews and reports to the Credit Committee on a regular basis. Credit risk assessment at the portfolio level is also conducted periodically by the Financial Risk Modeling & Assessment Department, which reports directly to the Managing Board.

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

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

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

The Company has worked on the implementation of an enhanced internal rating system during 2012. Finalization of this project is expected within first half of 2013. The new system will support related units to manage credit portfolio as well as individual risks based on determined guidelines and incorporate available public and private information in an advanced way in risk decisions to be taken.

Credit exposure

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

The following table shows the credit risk for the various components of the balance sheet:

	2012	**2011**
Cash with central banks	118,122	83,075
Financial assets held for trading	3,777	122
Available for sale financial assets	442,134	340,083
Securities held to maturity	48,346	57,280
Loans and receivables - banks	413,512	615,393
Loans and receivables - customers	755,736	612,815
Derivative financial instruments – hedge accounting	570	-
Participations	13,450	9,161
Total on-balance sheet items	**1,795,647**	**1,717,929**
Contingent liabilities L/G	3,665	9,977
Contingent liabilities CDS	15,000	15,000
Contingent liabilities L/C	1,777	4,002
Irrevocable commitments	8,069	3,129
Total off-balance sheet items	**28,511**	**32,108**
Total credit risk	**1,824,158**	**1,750,037**

Contingent liabilities are disclosed in a broader sense in this section by including the nominal amount of CDS, which is related to the subordinated obligations of the respective obligor.

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

Collateral and other credit enhancement

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

The following table shows the credit risk by types of collateral:

	Cash with central banks	Financial assets held for trading	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Derivatives financial instruments – hedge accounting	Participations	Contingent liabilities L/G, CDS	Contingent liabilities L/C	Irrevocable commitments	Total 2012
Securities guaranteed by governments	–	–	2,086	–	–	–	–	–	–	–	–	2,086
Loans guaranteed by banks	–	–	5,000	–	–	–	–	–	–	–	–	5,000
Loans guaranteed by mortgage	–	–	–	–	–	81,825	–	–	109	–	–	81,934
Loans guaranteed by cash collateral	–	–	–	–	–	20,108	–	–	234	–	–	20,342
Loans guaranteed by third parties	–	–	–	–	–	221,096	–	–	3,322	1,777	–	226,195
Others/unsecured	118,122	3,777	435,048	48,346	413,512	432,707	570	13,450	15,000	–	8,069	1,488,601
Total	**118,122**	**3,777**	**442,134**	**48,346**	**413,512**	**755,736**	**570**	**13,450**	**18,665**	**1,777**	**8,069**	**1,824,158**

	Cash with central banks	Financial assets held for trading	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Participations	Contingent liabilities L/G, CDS	Contingent liabilities L/C	Irrevocable commitment	Total 2011
							–				
Securities guaranteed by governments	–	–	6,418	–	–	–	–	–	–	–	6,418
Loans guaranteed by banks	–	–	5,000	–	–	–	–	–	–	–	5,000
Loans guaranteed by mortgage	–	–	–	–	–	68,005	–	59	–	–	68,064
Loans guaranteed by cash collateral	–	–	–	–	–	4,563	–	313	–	–	4,876
Loans guaranteed by third parties	–	–	3,408	–	–	148,144	–	2,432	2,343	–	156,327
Others/unsecured	83,075	122	325,257	57,280	615,393	392,103	9,161	22,173	1,659	3,129	1,509,352
Total	**83,075**	**122**	**340,083**	**57,280**	**615,393**	**612,815**	**9,161**	**24,977**	**4,002**	**3,129**	**1,750,037**

Credit risk concentration

Concentrations of credit risk (either on- or off-balance sheet) arise when exposures share similar characteristics due to which their ability to meet contractual obligations is likely to be affected in a similar way by changes in economic or other factors. As part of its credit risk management, the Company has established internal concentration limits that are monitored on a regular basis, including limits for exposures to both portfolios and single obligors.

The largest exposure of the subsidiary DHB Bank is to banks and companies in Turkey. As of year end 2012 DHB Bank reduced its exposure to Turkey compared to 2011 by around 146 EUR million and the ratio of Turkish exposure within total exposure reduced by more than 10%. Main reduction occurred in loans and receivables against banks with 175 Euro million lower exposures than previous financial year in line with the strategic realignment targets.

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

	Cash with central banks	Financial assets held for trading	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Derivatives financia instruments – hedge accounting	Participations	Commitments and contingent liabilities	Total 2012	%
Turkey	–	–	58,738	3,702	188,995	553,057	–	7,633	3,069	815,194	44.7%
Russia	–	–	114,517	21,633	79,772	34,876	–	–	–	250,798	13.8%
The Netherlands[i]	117,687	780	33,077	17,635	40,361	16,194	–	4,030	2,107	231,871	12.7%
United States of America	–	552	95,758	–	592	–	–	–	–	96,902	5.3%
United Kingdom	–	1,584	36,829	–	7,533	18,734	545	–	–	65,225	3.6%
Multilateral Development Banks	–	–	1,839	–	51,129	–	–	–	–	52,968	2.9%
Italy	–	–	27,883	–	–	–	–	–	15,000	42,883	2.4%
Hungary	–	–	5,731	–	10,017	17,099	–	–	–	32,847	1.8%
Spain	–	–	26,315	–	–	–	–	–	–	26,315	1.4%
Azerbaijan	–	–	6,249	–	7,729	10,260	–	–	–	24,238	1.3%
Belgium	2	–	–	–	2,283	15,502	–	–	3,335	21,122	1.2%
Sweden	–	–	–	–	–	20,443	–	–	–	20,443	1.1%
Germany	433	296	743	–	3,143	12,640	25	–	–	17,280	1.0%
Ukraine	–	–	5,041	–	11,398	–	–	–	–	16,439	0.9%
Macedonia	–	–	–	–	–	14,759	–	–	–	14,759	0.8%
France	–	395	8,094	–	2	3,508	–	–	–	11,999	0.6%
Austria	–	–	497	–	10,072	–	–	–	–	10,569	0.6%
Greece	–	–	11	–	–	–	–	–	–	11	0.0%
Others	–	170	20,812	5,376	486	38,664	–	1,787	5,000	72,295	3.9%
Total	**118,122**	**3,777**	**442,134**	**48,346**	**413,512**	**755,736**	**570**	**13,450**	**28,511**	**1,824,158**	**100.0%**

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

	Cash with central banks	Financial assets held for trading	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Participations	Commitments and contingent liabilities	Total 2011	%
Turkey	–	–	21,030	10,593	363,593	555,099	6,893	3,584	960,792	54.9%
The Netherlands[i]	82,640	-	15,519	17,532	53,272	15,353	640	2,300	187,256	10.7%
Russia	–	–	92,709	19,813	54,993	15,567	–	–	183,082	10.5%
United States of America	–	-	83,701	–	1,031	–	–	–	84,732	4.8%
United Kingdom	–	81	45,884	–	22,166	2,324	–	–	70,455	4.0%
Italy	–	–	22,656	–	–	–	–	15,141	37,797	2.2%
Ukraine	–	–	6,360	–	18,026	–	–	–	24,386	1.4%
Belgium	–	–	–	–	4,241	16,610	–	3,416	24,267	1.4%
Germany	435	41	775	–	21,453	1,963	–	1	24,668	1.4%
Spain	–	–	21,021	–	–	–	–	–	21,021	1.2%
Multilateral Development Banks	–	–	1,940	–	21,090	–	–	–	23,030	1.3%
Hungary	–	–	5,806	–	10,025	–	–	–	15,831	0.9%
Austria	–	–	494	–	15,151	–	–	–	15,645	0.9%
Greece	–	–	5,106	3,450	–	–	–	–	8,556	0.5%
Others	–	–	17,082	5,892	30,352	5,899	1,628	7,666	68,519	3.9%
Total	**83,075**	**122**	**340,083**	**57,280**	**615,393**	**612,815**	**9,161**	**32,108**	**1,750,037**	**100.0%**

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

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

	2012		2011	
Sectors	On-balance	Off-balance	On-balance	Off-balance
Financial institutions and insurance	334,098	–	329,110	22,807
Construction and infrastructure	111,892	–	83,787	449
Metals	47,433	–	28,796	–
Textile, leather and allied products	28,011	24	16,236	33
Oil & gas	22,700	5,000	1,941	–
Energy	26,078	–	19,411	–
Holding and other investment offices	23,625	–	13,011	–
Communications and post	14,482	3,069	17,034	3,129
Transportation	17,099	–	29,231	–
Food, beverages & tobacco	16,635	–	10,337	11
Corporate individuals	16,169	–	1,339	–
Plastics	13,627	1,777	2,001	–
Automotive	13,471	–	4,581	–
Real estate	11,055	–	1,095	–
Petroleum Refining & Other Related Industries	4,975	–	7,215	–
International trade	4,830	–	2,784	–
Retail	4,098	6	6	26
Agricultural products	4,079	–	–	–
Paper	4,045	–	–	–
Tourism	3,400	164	4,634	187
Media and advertising	2,585	–	7,945	–
Electrical equipment	2,014	–	–	–
Others	5,410	94	4,769	2,009
Total	731,811	10,134	585,263	28,651
Private individuals / self- employed	31,115	3,377	34,647	3,457
Total	762,926	13,511	619,910	32,108
Allowances for impairment	(7,190)	–	(7,095)	–
Total loans and receivables - customers	**755,736**	**13,511**	**612,815**	**32,108**

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

Credit quality of financial assets

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

	2012	2011
Neither past due nor impaired	1,800,702	1,728,215
Past due but not impaired	91	286
Impaired	18,147	43,104
Allowances	(8,232)	(30,729)
Total	**1,810,708**	**1,740,876**

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

	2012	2011
Investment grade	839,167	646,958
Non-investment grade	305,608	558,714
Unrated	665,933	535,204
Total	**1,810,708**	**1,740,876**

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

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

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

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

Ageing of financial assets that are past due but not impaired	**2012**	**2011**
Past due up to 30 days	80	159
Past due 31 - 60 days	5	18
Past due 61 - 90 days	5	25
Past due over 90 days	1	84
Total	**91**	**286**

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

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

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

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

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

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

The movements of the specific allowances for impairment for the year 2012 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	15,584	7,383	–	6,998	29,965
Addition	–	15	82	208	305
Release	–	(131)	–	(220)	(351)
Write-off	(15,584)	(7,241)	–	(120)	(22,945)
Exchange rate movement	–	(11)	–	6	(5)
Closing balance	**–**	**15**	**82**	**6,872**	**6,969**

The movements of the IBNR allowances for impairment for the year 2012 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	137	85	445	97	764
Addition	244	–	51	221	516
Release	–	(17)	–	–	(17)
Closing balance	**381**	**68**	**496**	**318**	**1,263**

The movements of the specific allowances for impairment for the year 2011 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	521	–	1,788	6,516	8,825
Addition	15,584	7,383	–	2,397	25,364
Release	(521)	–	(1,788)	(1,530)	(3,839)
Write-off	–	–	–	(380)	(380)
Exchange rate movement	–	–	–	(5)	(5)
Closing balance	**15,584**	**7,383**	**–**	**6,998**	**29,965**

The movements of the IBNR allowances for impairment for the year 2011 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	113	108	1,068	134	1,423
Addition	24	–	–	–	24
Release	–	(23)	(623)	(37)	(683)
Closing balance	**137**	**85**	**445**	**97**	**764**

The balance of total allowances for impaired assets decreased from 30 million in 2011 to 7 million in 2012, mainly due to the impairment of the DHB's exposure to Greece sovereign bonds. Although provisions for loan losses are considered adequate, the use of different methods and assumptions could produce different provisions for loan losses, and amendments may be required in the future as a consequence of changes in the expected loss, the value of collateral and other economic events.

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

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

Liquidity risk

Regulatory requirements and expectations

In its liquidity risk management, the Company 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 the Company's ILAAP by DNB is part of the Supervisory Review and Evaluation Process (SREP).

The ILAAP Supervision Manual is the main reference for the Company's liquidity risk management. It gives an all-encompassing qualitative and quantitative guidance for liquidity risks management as well for the implementation of the 2011 liquidity regulation and preparation of Dutch banks to comply with future European directives following the Basel III Accord.

Governance and management of liquidity risk

Liquidity risk is defined as the risk of being unable to meet the Company'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 Company'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 Company 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 Company-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 Company'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 pursuing the Company's liquidity strategy set by the ALCO, for managing the liquidity risk of the bank, and for compliance with the Company's liquidity risk limits set by the Board. Along with the Treasury Department, the Risk Management Department develops the liquidity risk management frameworks, which consist 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 Company has a healthy structural liquidity risk profile.
In order to manage short-term funding positions, the Company 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 Company is in urgent need of cash and when the normal funding sources do not suffice, the Company 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.

During 2011 the Basel Committee introduced the Liquidity Coverage Ratio (LCR) as part of Basel III to correspond to a required minimum survival period of 30 days. Following the 2011 ILAAP and the improvement of the ILAAP in 2012, the Company has set its short-term liquidity risk appetite in terms of the LCR target and has additionally set an internal target for a minimum survival period of 3 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 Company-specific and market-wide stress scenarios with limited mitigation activities.

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

Market risk

Market risk is the exposure to an adverse impact on the market value of portfolios and financial instruments caused by changes in market prices and rates. The level of the Company's trading activity is very low. Any trading positions that might be taken involve relatively simple products and partially arise from servicing customers. The Company also takes on market risk as part of its treasury management that supports the day-to-day management of liquidity.

In consultation with the Treasury Department, the Risk Management Department is responsible for updating the market risk policies and limits 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 Company's market risk profile to the management. The Company 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.

Price risk

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

The Company'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, the Company evaluates the market risk of positions it holds using different VaR methods, i.e. historical simulation, the exponentially weighted moving average (EWMA) and the 'Monte-Carlo Simulation'. The VaR approach is not applied to determine the solvency requirement for market risk but forms an integral part of the Company's risk management framework.

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

Trading book being absent as at December 31, 2012, the following table reports the VaR of the Company's FX net open position based on historical simulation for a confidence level of 99% and 10 days holding period.

VaR of FX position	2012	2011
Max	(162)	(475)
Min	(65)	(4)
Average	(92)	(39)
End of year	(66)	(20)

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

Interest rate risk

Interest rate risk is related to changes in the fair value or the future cash flows of interest-bearing financial instruments resulting from changes in the market rates of interest. The Company 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 Company uses scenario analyses involving various shifts in market rates in relevant currencies. Assuming a constant balance sheet position and an instantaneous upward 1% parallel movement in market rates, the sensitivity of the net interest earnings over a time period of one year is shown in the following table for the year ending December 31, 2012 and December 31, 2011 respectively:

	Within year 2012			
Sensitivity 1 year earning	**Min**	**Max**	**Average**	**End of year 2012**
100 bps instantaneous increase	570	2,331	1,263	1,095

	Within year 2011			
Sensitivity 2 year earning	**Min**	**Max**	**Average**	**End of year 2011**
100 bps instantaneous increase	2,000	3,777	2,815	2,000

The scenarios assume pro-forma interest rate shocks and do not take any account of the possible effects of an active response on the part of the Company 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 Company also estimates the effects of interest rate movements on the economic value of equity. The sensitivity of the economic value of equity using an upward movement of 100 basis points, and ignoring all option elements, is presented in the following table for the year ending December 31, 2011 and December 31, 2010 respectively.

	Within year 2012			
Sensitivity of economic value of equity to interest rate movements	**Min**	**Max**	**Average**	**End of year 2012**
100 bps instantaneous increase	(2,143)	805	(1,144)	(1,511)

	Within year 2011			
Sensitivity of economic value of equity to interest rate movements	**Min**	**Max**	**Average**	**End of year 2011**
100 bps instantaneous increase	583	3,360	1,832	583

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 Company is exposed to currency risk, particularly to changes between EUR, USD and TRY. While currency risk is almost fully avoided through FX swap transactions, open positions are monitored and reviewed by the Asset & Liability Management Committee, taking action where necessary. The management sets out the limits according to net foreign currency position rules determined by the Dutch Central Bank (DNB).

Operational risk

Operational risk is inherent in each of the Company's business and support activities, resulting from inadequate or failed internal processes, human resources and systems or external events.

The Company 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 Company and the segregation of duties between involved units and independent control mechanisms are designed to provide a sound and well-controlled operational environment. An active business continuity plan is in place and focuses on IT-related risks in the management of operational risk, and ensures a continuous workflow under probable disruptions.

As part of the continuous efforts to improve its operational risk management, the Company continued its Operational Risk & Control Assessment Program in 2012. The project adopted a structured approach based on a risk and self-assessment control methodology. The goal of the ongoing self-assessment process is for each business to identify the key operational risks specific to its environment and evaluate the degree to which it maintains appropriate controls. Action plans are developed for identified issues, enabling the Company to improve its existing control measures and implement new measures where necessary.

Legal, compliance and reputation risk

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

The reputation risk management framework is embedded in the policy and governance structure of the Company. Attention to reputation has always been a key aspect of the Company's practices, and maintenance of the Company's reputation is regarded as a responsibility of all staff members. The Managing Board takes the necessary actions to establish a proper ethical culture within the Company. The Company's line management is responsible for applying, monitoring and controlling the integrity policy and rules in their units, and reports to the Managing Board, and to the Compliance Officer where applicable. In addition to the Compliance Officer, the Internal Audit Department also evaluates integrity issues during its regular and specific audits.

HCBG Holding B.V.

Company Financial Statements

Annual Report for the year ended December 31, 2012

G COMPANY STATEMENT OF FINANCIAL POSITION

(in thousands of EUR)	**2012**	**2011**
ASSETS		
Cash and balances with central banks	4,586	7,840
Available for sale financial assets	1,107	3,365
Loans and receivables – customers	138	480
Property and equipment	8	15
Participations (1)	171,528	139,237
Other assets	61	13
Total assets	**177,428**	**150,950**
LIABILITIES		
Due to banks	-	2,726
Other liabilities	104	61
Total liabilities	**104**	**2,787**
EQUITY (2)		
Share capital	93,500	93,500
Retained earnings	49,512	54,928
Other reserves	34,312	(265)
Total equity	**177,324**	**148,163**
Total equity and liabilities	**177,428**	**150,950**

H COMPANY INCOME STATEMENT

(in thousands of EUR)	**2012**	**2011**
Net income of the parent company	110	(3,191)
Net income participating interests after taxes	16,222	(656)
Net income	**16,332**	**(3,847)**

I NOTES TO THE COMPANY FINANCIAL STATEMENTS

Basis of preparation

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

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

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

1) Participations

Participating interests in group companies consist of DHB Bank in The Netherlands, C International N.V. in The Netherlands, C Faktoring A.Ş. in Turkey and Access Financial Services-IFN S.A in Romania.

	2012	**2011**
Participating interests in group companies		
Development:		
Opening balance	139,237	136,178
• Capital investment	2,585	11,552
• Legal reserve participations	22	(6)
• Revaluation reserve	(2,548)	144
• Fair value reserve	15,869	(6,006)
• Currency translation reserve	106	(881)
• Impairment	-	(2,233)
• Other	35	1,145
• Result subsidiaries	16,222	(656)
Closing balance	**171,528**	**139,237**

2) Equity

Share capital

The authorized share capital amounts to EUR 200 million.
The issued share capital comprises 54,755,923 A-shares of EUR 1 each and 38,744,077 B-shares of EUR 1.

Legal reserve participations

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

Revaluation reserve
Revaluation reserve comprises the difference between the carrying amount and the fair value of property in use at DHB Bank and C International NV, determined by independent appraisers. This reserve is set aside on a net basis.

Cash flow hedge reserve
This item relates to the effective portion of the cumulative net change in the fair value of derivatives used for cash flow hedges.

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

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

The legal reserves, translation reserves and hedging reserves are non-distributable reserves of the Company pursuant to the provisions of Part 9, Book 2, of the Netherlands Civil Code. For the movements in equity, reference is made to the consolidated statement of changes in equity.

Rotterdam, 24 May 2013

Managing Directors:

H. Cingillioglu İ.H. Akçakayalıoğlu

T.J. Bark

Other information

Statutory appropriation of profit

According to the articles of association the general meeting of shareholders has to decide on the appropriation of the result.

The result after taxes for the year 2012 of 16.332 has been proposed to be added to the other reserves.

Independent auditor's report

To: the management of HCBG Holding B.V.

Report on the consolidated financial statements

We have audited the accompanying financial statements 2012 of HCBG Holding B.V., Rotterdam. The financial statements include the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company financial statement of financial position as at 31 December 2012, the company income statement for the year then ended and the notes, comprising a summary of the accounting policies and other information.

Management's responsibility

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

Auditor's responsibility

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

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

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policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of HCBG Holding B.V. as at 31 December 2012 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of HCBG Holding B.V. as at 31 December 2012 and of its result and its cash flows for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

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

Amstelveen, 24 May 2013

KPMG Accountants N.V.

E.D.H. Vinke-Smits RA