HCBG Holding B.V.
Rotterdam

Financial statements 2013

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FINANCIAL STATEMENTS 2013

DIRECTORS' REPORT

We are pleased to present the financial statements of HCBG Holding B.V., "HCBG", for the year ending December 31, 2013. 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. HCBG 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. We are pleased to report that Demir-Halk Bank (Nederland) N.V. had another successful year in 2013. Both shareholders have unanimously decided to retain 50% of the net profit in the equity of the bank to underline its continued financial commitment to the bank during these difficult times. Subject to the issuance of a no-objection decision by the Dutch Central Bank as per the Dutch regulations concerning dividend distributions, 50% of the net profits will distributed to the shareholders.

HCBG also owns 36.25% of the outstanding shares of Access Financial Services-IFN (Romania) S.A., Bucharest, Romania- "AFS". AFS was founded in 2007, initially primarily focussing on factoring activities. Other shareholders are RP Explorer B.V. and the management of the company. AFS offers a wide range of financial intermediation services including: consumption credits, real estate financing, micro-financing, financing of trade transactions, discounting; issuance and processing of credit cards for customers. The company has a successful track record since its establishment and has been able to endure the recent financial and economical turbulent times quite well, which we consider a success considering the health of Romanian economy and its financial sector. The shareholders of the company have decided to distribute dividends being 80% of its 2013 net earnings.

HCBG has additionally participations in C Faktoring A.S.-Turkey (9.73%) and in C International N.V.-Netherlands (35.41%) as at the end of 2013.

In July 2013, Mr. Kemal Cingillioglu has joined the Directors of HCBG following the discussions and decisions at the Directors and shareholders level and ultimately subsequent to the receipt of DNB's *no-objection* decision.

During the year under review, the Directors of HCBG met regularly to discuss the economic and financial developments particularly for the markets relevant to the company, the company's strategy and possible investment opportunities as well as financial and management reports, with in particular emphasis on the regulatory environment in The Netherlands and its resulting requirements.

Considering the continuous liquidity of HCBG, in light of expected dividends as well, in order to diversify the investments and respective returns HCBG has been looking for opportunities to invest in. During the year, several real estate projects were investigated in Central Asia, Turkey and Europe. Some technology companies were reviewed mainly in Turkey, Israel and other countries, either to invest or team up to offer business prospects in the countries we already operate.

In addition to the opportunity seeking activity in real estate and technology, using the already existing extensive expertise and connections of two of our Directors, Mr. Halit Cingillioglu and Mr. Kemal Cingillioglu in the area of arts, the company has been intensively seeking ways to enter into this area. Based on the expertise in the company and the growing sector; trading, finance and investments in arts have been areas of interest for HCBG Holding BV. We aim to execute transactions in this area in the near future. The possible initial business transaction could be either to invest and on-sell (at a future date) or guaranteeing price for art pieces during major auctions. Two of the Directors of the company have been active in business development and networking activities in different parts of the world in this respect.

Being a Holding company, to maintain and develop network and relations, the Directors of the company attended seminars, meetings and events actively in order to represent the group, such as annual IMF, IIF, ATC and EBRD meetings amongst others.

The One-Tier Board Act entered into effect in the Netherlands on 1 January 2013, which 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's current board is deemed unbalanced according to this act, due to the limited number of its members. In possible future appointments, this stipulation will be taken into account to the extent possible to create more balance in HCBG's board.

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 Directors of the company.

As for year 2014, 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. Please refer to the disclosure on securities held to maturity, in order to see how DHB Bank has taken proactive measures in view of the geo-political developments in Ukraine and Russia as a subsequent event. Directors are confident that operational profitability at levels similar to year 2013 will be attained in 2014 and in a progressive trend in the following years.

Rotterdam, 20 June 2014

Managing Directors:

H. Cingillioglu

I.H. Akcakayalioglu

T.J. Bark

K. Cingillioglu

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

ASSETS

	31 december 2013	Restated 31 december 2012
	€ x 1.000	€ x 1.000
Cash and balances with central banks (1)	122,177	119,346
Financial assets held for trading (2)	25,376	3,777
Available for sale financial assets (3)	380,149	450,874
Securities held to maturity (4)	15,266	48,346
Loans and receivables — banks (5)	328,592	413,512
Loans and receivables — customers (6)	849,512	755,936
Derivative Financial instruments – hedge accounting 7)	1,801	570
Property and equipment (8)	12,074	11,708
Intangible assets (9)	141	51
Participations (10)	11,619	13,450
Current tax assets (11)	-	6,738
Deferred tax assets (11)	198	109
Other assets (12)	1,600	1,613
	1,748,504	1,826,030

LIABILITIES

	31 december 2013	Restated 31 december 2012
	€ x 1.000	€ x 1.000
Due to banks (13)	223,668	211,459
Financial liabilities held for trading (2)	2,162	12,446
Deposits from customers (14)	1,262,369	1,329,423
Derivative financial instruments – Hedge accounting 7)	271	2,444
Provisions (15)	1,377	2,145
Current tax liabilities (16)	2,786	7,955
Deferred tax liabilities (16)	2,353	3,354
Other liabilities (17)	7,167	11,668
	1,502,152	1,580,894
Share capital (18)	84,976	93,500
Retained earnings	66,074	49,461
Other reserves	25,518	34,408
	176,568	177,369
Equity attributable to minority interests	69,784	67,767
Total equity	246,352	245,136
	1,748,504	1,826,030
Commitments and contingent liabilities (19)	9,477	14,511

B CONSOLIDATED INCOME STATEMENT

	2013		Restated 2012	
	€	€	€	€
Interest income	76,010		85,923	
Interest expense	(26,513)		(35,717)	
Net interest income (20)		49,497		50,206
Fee and commission income	6,069		9,551	
Fee and commission expense	(429)		(541)	
Net fee and commission income (21)		5,640		9,010
Result on financial transactions (22)		(11,185)		(15,760)
Result on hedge transactions (23)		(100)		(548)
Other operating income (24)		53		62
Total operating income		43,905		42,970
Staff costs (25)	(11,790)		(12,028)	
Other administrative expenses (26)	(5,777)		(6,481)	
		(17,567)		(18,509)
Depreciation and amortization		(509)		(594)
Net impairment charge (27)		(2,781)		(301)
Total operating expense		(20,857)		(19,404)
Result from ordinary activities before tax		23,048		23,566
Tax (28)		(5,733)		(5,579)
Result on participations		1,142		3,938
Result from ordinary activities after tax		**18,457**		**21,925**
Attributable to:				
Shareholders of the parent company		13,025		16,562
Minority interest		5,432		5,363

C CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the parent												
	Share capital	**Share premium**	**Retained earnings**	**Legal reserves participations**	**Revaluation reserves**	**Defined benefit obligation reserve**	**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, 2012	**93,500**	**9,645**	**54,928**	**14**	**2,772**	**-**	**16**	**(11,742)**	**(970)**	**-**	**148,163**	**55,747**	**203,910**
Effect IAS 19	-	-	(51)	-	-	39	-	-	-	-	**(12)**	(6)	**(18)**
At January 1, 2012 Restated	**93,500**	**9,645**	**54,877**	**14**	**2,772**	**39**	**16**	**(11,742)**	**(970)**	**-**	**148,151**	**55,741**	**203,892**
Appropriation of prior year net profit													
Change in revaluation reserve	-	-	-	-	(2,548)	-	-	-	-	-	**(2,548)**	(64)	**(2,612)**
Change in defined benefit obligation reserve	-	-	-	-	-	(173)	-	-	-	-	**(173)**	(73)	**(246)**
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 as reported in annual report 2012	-	-	-	-	-	-	-	-	-	16,332	**16,332**	5,265	**21,597**
Net profit effect by IAS 19	-	-	-	-	-	-	-	-	-	230	**230**	98	**328**
Total comprehensive income	**-**	**-**	**-**	**-**	**(2,548)**	**(173)**	**239**	**15,930**	**106**	**16,562**	**30,116**	**12,002**	**42,118**
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**	**49,461**	**35**	**4,866**	**(134)**	**255**	**4,188**	**(1,009)**	**16,562**	**177,369**	**67,767**	**245,136**

	Attributable to shareholders of the parent												
	Share capital	**Share premium**	**Retained earnings**	**Legal reserves participations**	**Revaluation reserves**	**Defined benefit obligation reserve**	**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, 2013	**93,500**	**9,645**	**49,461**	**35**	**4,866**	**(134)**	**255**	**4,188**	**(1,009)**	**16,562**	**177,369**	**67,767**	**245,136**
Appropriation of prior year net profit	-	-	16,332	-	-	-	-	-	-	(16,332)	-	-	-
Effect IAS 19	-	-	230	-	-	-	-	-	-	(230)	-	-	-
Change in revaluation reserve	-	-	-	-	(1,849)	-	-	-	-	-	**(1,849)**	85	**(1,764)**
Change in defined benefit obligation reserve	-	-	-	-	-	165	-	-	-	-	**165**	71	**236**
Change in cash flow hedge reserve	-	-	-	-	-	-	(235)	-	-	-	**(235)**	(101)	**(336)**
Change in fair value reserve	-	-	-	-	-	-	-	(1,970)	-	-	**(1,970)**	(862)	**(2,832)**
Change in foreign currency translation reserve	-	-	-	-	-	-	-	-	(1,429)	-	**(1,429)**	-	**(1,429)**
Net profit for the year	-	-	-	-	-	-	-	-	-	13,025	**13,025**	5,432	**18,457**
Total comprehensive income	**-**	**-**	**16,562**	**-**	**(1,849)**	**165**	**(235)**	**(1,970)**	**(1,429)**	**(3,537)**	**7,707**	**4,625**	**12,332**
Transactions with owners, recorded directly in equity													
Change in legal reserve participations	-	-	(6)	(35)	-	-	-	-	-	-	**(41)**	-	**(41)**
Dividend paid out	-	-	-	-	-	-	-	-	-	-	**-**	(2,632)	**(2,632)**
Transfer to/ from retained earnings	-	-	57	-	-	-	-	-	-	-	**57**	24	**81**
Repayment share capital	(8,524)	-	-	-	-	-	-	-	-	-	**(8,524)**	-	**(8,524)**
At December 31, 2013	**84,976**	**9,645**	**66,074**	**-**	**3,017**	**31**	**20**	**2,218**	**(2,438)**	**13,025**	**176,568**	**69,784**	**246,352**

D CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of EUR)		2013		Restated 2012
Net profit		18,457		21,925
Items that are or may be reclassified to the income statement				
Cash Flow hedge reserve	(235)		239	
Fair value reserve	(1,970)		15,930	
		(2,205)		16,169
Items that will never be reclassified to the income statement				
Currency translation reserve	(1,429)		106	
Defined benefit obligation reserve	165		(173)	
Revaluation reserve	(1,849)		(2,548)	
		(3,113)		(2,615)
Other comprehensive income		**(5,318)**		**13,554**
Total comprehensive income for the year		**13,139**		**35,479**
Attributable to:				
• owners of the parent		7,707		30,116
• non-controlling interest		5,432		5,363
Total comprehensive income for the year		**13,139**		**35,479**

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

E CONSOLIDATED CASH FLOW STATEMENT

	31 december 2013 € x 1.000	Restated 31 december 2012 € x 1.000
NET CASH FROM OPERATING ACTIVITIES	**(84,381)**	**144,372**
Net profit	18,457	21,925
Adjustments for :		
Depreciation and amortization for property and equipment	481	585
Depreciation and amortization for intangible assets	28	9
Provisions and impairment	2,781	301
Net change in provisions	(453)	644
Income tax expense	5,733	5,579
Change in financial assets held for trading	(20,831)	(1,397)
Change in loans and receivables — banks, not available on demand	85,991	201,667
Change in loans and receivables — customers	(93,935)	(142,000)
Change in income tax assets and other assets	6,662	3,026
Change in due to banks, not due on demand	12,209	30,518
Change in deposits from customers	(70,908)	31,606
Change in liabilities held for trading	(10,284)	(11,789)
Change in derivative financial instruments	(3,404)	(649)
Change in income tax liabilities and other liabilities	(13,546)	7,144
Net interest income	(49,497)	(50,206)
Interest received	79,290	84,663
Interest paid	(30,129)	(34,115)
Income tax paid	(3,026)	(3,139)
NET CASH FROM INVESTING ACTIVITIES	**109,850**	**(123,971)**
Additions to financial investments	(320,030)	(321,697)
Disposals and redemptions of financial investments	420,485	217,919
Investments in property and equipment	(247)	(152)
Investments in intangible assets	(118)	(41)
Movement participations	9,754	(20,006)
Disposal of property and equipment	5	6
NET CASH FLOW FROM FINANCING ACTIVITIES	**(22,637)**	**12,486**
Movement in group equity	(13,862)	12,486
Dividends paid	(8,775)	-
NET CASH FLOW	**2,831**	**32,887**
Cash and balances with central banks at January 1	119,346	86,460
Cash and balances with central banks at December 31	122,177	119,346
NET CHANGE IN CASH AND BALANCES WITH CENTRAL BANKS	**2,831**	**32,887**

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., 35.41% 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-hedge accounting 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.

Subsidiaries

	Statutory seat	%
- Demir-Halk Bank (Nederland) N.V.	Rotterdam	70

Participations

	Statutory seat	%
- Access Financial Services-IFN S.A.	Bucharest	36.25
- C International N.V.	Rotterdam	35.41
- 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,
- determination of deferred tax assets and liabilities.

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'.

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

Where a market is not active 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 fair value 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 fair value, 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.

Offsetting financial assets and financial liabilities

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

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

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

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 in the income statement.

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 in the income statement.

(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 significant or prolonged decline in the fair value below cost. 'Significant' or 'Prolonged' are interpreted on a case-by-case basis. Generally 20% and 9 months are used as triggers. 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 recognised 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 Repurchase and reserve repurchase transactions

Securities sold subject to repurchase agreements ('repos') are recorded in the balance sheet in the items 'Available for sale financial assets' or 'Securities held to maturity'. The repo amounts are presented separately in the notes of the annual report. The legal title of the securities is transferred to the lender and the borrowings are recorded in the balance sheet item 'Due to banks'.

Securities purchased under agreements to resell ('reverse repos') are recorded in the balance sheet items 'Loans and receivables – banks' or 'Loans and receivables – customers'. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

3.9 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 Company 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.

3.10 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.

3.11 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.

3.12 Provisions

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

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.

3.13 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.

3.14 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'. (Un)realized gains and losses on option trading transactions are included 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.

3.15 Equity components

Legal reserve participations

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

Defined benefit obligation reserve

This item relates to actuarial gains or losses on defined benefit pension plans.

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.

3.16 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.

3.17 New standards and interpretations adopted

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2013. Information on these new standards is presented below.

IFRS 13: Fair Value Measurement

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 has applied IFRS 13 retrospectively for the first time in the current year. The Company does not make fair value adjustments to cover the credit risk on derivatives (credit value adjustment – CVA, and debit value adjustment – DVA) as major part of the portfolio is supported with a so-called credit support annex (collateralised deals) and as such the CVA/DVA will not lead to material fair value movements.

Amendments to IFRS 7: 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 Company does not have any material impact from the adoption of the amendments.

Amendments to IAS 1: Presentation of Other comprehensive income (OCI)

As a result of the amendments to IAS 1, the Company has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present items that would be reclassified to the income statement in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

IAS 19, Employee Benefits

The revised IAS 19 'Employee Benefits' affects mostly the accounting for defined benefit pension obligations and the corresponding plan assets. First of all, the actuarial gains and losses are no more part of the income statement, but must be recognised in other comprehensive income, which is a component of the equity. The Company mentions this other comprehensive income item, the defined benefit obligation reserve. The deferral of actuarial gains and losses through the 'corridor approach' is no longer used. As a related consequence, deferred actuarial gains and losses are no longer recognised in the income statement. Furthermore, the amendments require the expected return on plan assets to be based on the discount rate of the defined benefit obligation, which was already 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. As of January 1, 2014 the pension plan will change to a retirement age of 67, which is actually 65.

IAS 19 has been applied retrospectively, by which the Company has restated its reported results throughout the comparative periods presented and reported the cumulative effect (including 30% minority interest) as at 1 January 2012 and as at 31 December 2012 as follows:

	Deferred tax assets	Deferred tax liabilities	Defined benefit obligation	Retained earnings	Net profit
Balance as reported at January 1, 2012	–	–	–	–	–
Effect of IAS 19	–	18	55	(73)	–
Balance restated at January 1, 2012	**–**	**18**	**55**	**(73)**	**–**

	Deferred tax assets	Deferred tax liabilities	Defined benefit obligation	Retained earnings	Net profit
Balance as reported at December 31, 2012	–	74	–	–	–
Brought forward	–	18	55	(73)	–
Effect of IAS 19	82	–	(246)	–	328
Balance restated at December 31, 2012	**82**	**92**	**(191)**	**(73)**	**328**

3.18 New standards and interpretations not yet adopted

Many new standards, amendments to standards and interpretations are not yet effective, or have not been endorsed by the EU, for the year ended December 31, 2013, and have not been applied in preparing these consolidated financial statements.

IFRS10: Consolidated Financial Statements, IFRS 11: Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2014 latest)

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 has reviewed its effect and has concluded that there is no impact from the adoption of these standards.

IFRS 9, Financial Instruments

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalized. 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 IAS 32: Offsetting financial assets and financial liabilities

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.

IFRIC 21, Levies

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognizes a liability for a levy when and only when the triggering event specified in the legislation occurs.

1) CASH AND BALANCES WITH CENTRAL BANKS

	2013	2012
Cash in hand	2,071	1,224
Balances with central banks	120,106	118,122
Total	**122,177**	**119,346**

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, 2013 and 2012:

	2013		2012	
	Fair value	**Notional**	**Fair value**	**Notional**
Financial assets held for trading				
Forwards	466	8,299	-	-
Currency swaps	19,146	395,642	3,243	253,660
Interest rate swaps	2,403	48,148	534	51,344
Debt securities issued by banks	3,361	3,716	-	-
Total	**25,376**	**455,805**	**3,777**	**305,004**
Financial liabilities held for trading				
Forwards	451	8,299	-	-
Currency swaps	837	66,608	1,129	315,147
Interest rate swaps	874	70,190	7,841	135,129
Credit default swaps	-	-	3,476	20,000
Total	**2,162**	**145,097**	**12,446**	**470,276**

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 rate risk positions. Currency forwards are offered to select customers in main currencies whereby the currency risk is fully hedged by offsetting deals with bank counterparties. Furthermore, the subsidiary DHB Bank sold in the past protection using credit default swaps to generate income, and/or bought 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). In 2013 the notional amounts of derivatives decreased by 178 million, whereas the fair valuation showed significant movement in favour of the subsidiary DHB Bank. Steady low interest rates, advanced investor sentiment and planned unwinding of long-term swaps lead to lower negative and increased positive replacement values of the swap portfolio.

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

	2013	2012
Available for sale financial assets		
Debt securities issued by banks	354,339	421,204
Debt securities issued by corporates	15,062	16,099
Government (Euro)bonds	-	13,952
Syndicated bank loans	10,905	-
Subtotal	**380,306**	**451,255**
IBNR allowances for impairment	(157)	(381)
Total	**380,149**	**450,874**

Out of the total 256,708 (2012: 239,329) are kept with DNB, against which 150,000 (2012: 150,000) funding was obtained under the long term refinancing operations and 84,550 (2012: 85,575) was still available as credit line. There are no subordinated available for sale financial assets.

The available for sale financial assets (AFS) developed as follows:

	2013	2012
At January 1	**450,874**	**318,284**
Purchases	324,862	299,939
Sales	(208,829)	(129,718)
Redemptions	(175,000)	(57,431)
FX revaluations	(2,238)	(3,839)
Market value revaluations	(9,744)	23,883
Allowances for impairment	224	(244)
At December 31	**380,149**	**450,874**

4) SECURITIES HELD TO MATURITY

	2013	2012
Securities held to maturity		
Debt securities issued by banks	5,139	37,847
Debt securities issued by corporates	10,132	10,582
Subtotal	**15,271**	**48,429**
Specific allowances for impairment	-	(15)
IBNR allowances for impairment	(5)	(68)
Total	**15,266**	**48,346**

There are no securities held to maturity used for repo transactions (2012: 20,174). There are no subordinated securities held to maturity in 2013 (2012: 7,628).

The securities held to maturity (HTM) developed as follows:

	2013	2012
At January 1	**48,346**	**57,280**
Purchases	4,942	10,469
Sales	(41)	(7,626)
Redemptions	(37,515)	(11,477)
FX revaluations	(782)	(2,117)
Changes in accrued interest	238	1,308
Allowances for impairment	78	509
At December 31	**15,266**	**48,346**

Within 2013, the small amount of sales from HTM portfolio was related to the bonds which were due to mature in 2013 and which were exposed to timely repayment risk.

As a subsequent event, in the first quarter of 2014, a portion of securities in the HTM portfolio were sold as a proactive response to geo-political developments in Ukraine and Russia by the subsidiary, DHB Bank; this sale did not cause tainting thanks to its non-recurring aspect as well as its relatively small size within the total securities portfolio.

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'.

	2013	2012
Money market placements	9,194	18,531
Other loans and receivables	319,609	395,559
Subtotal	**328,803**	**414,090**
Specific allowances for impairment	(45)	(82)
IBNR allowances for impairment	(166)	(496)
Total	**328,592**	**413,512**

The item 'Loans and receivables - banks' includes pledged funds amounting to 2,561 (2012: 12,063), of which 1,061 (2012: 9,903) serve as collateral for several swap transactions and 1,500 (2012: none) serve as collateral for non-financial 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 8,401 (2012: 9,167) by the subsidiary, DHB Bank.

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:

	2013	2012
Retail loans	33,455	31,115
Commercial loans	826,932	732,011
Subtotal	**860,387**	**763,126**
Specific allowances for impairment	(9,910)	(6,872)
IBNR allowances for impairment	(965)	(318)
Total	**849,512**	**755,936**

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 2013 and 31 December 2012.

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

	2013			2012		
	Notional	Fair values		Notional	Fair values	
	amounts	Positive	Negative	amounts	Positive	Negative
Interest rate swaps						
Fair value hedges	1,971	1,230	271	50,778	110	1,702
Cash flow hedges	745	571	–	62,283	460	742
Total	**2,716**	**1,801**	**271**	**113,061**	**570**	**2,444**

The subsidiary DHB Bank uses interest rate swaps to hedge the interest rate risk in fair value hedges and 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 2013	Within 1 year	1-5 years	Over 5 years
Cash inflows	3,198	11,314	–
Cash outflows	–	–	–
Total	**3,198**	**11,314**	**–**

During 2013 the equity item 'Defined benefit obligation reserve' decreased by 336 (2012: increased by 341) relating to the effective portion of cash flow hedges.

8) PROPERTY AND EQUIPMENT

The changes in book value of property and equipment in 2013 and 2012 are as follows:

	Buildings	Other fixed assets	Total
Balance at January 1, 2013	**11,378**	**330**	**11,708**
Investments	108	139	**247**
Divestments	-	(5)	**(5)**
Depreciation	(325)	(156)	**(481)**
Revaluation	535	-	**535**
Reversal of impairment	70	-	**70**
Balance at December 31, 2013	**11,766**	**308**	**12,074**
Cost	14,331	8,722	**23,053**
Cumulative depreciation and impairment	(7,381)	(8,414)	**(15,795)**
Cumulative revaluations	4,816	-	**4,816**
Balance at December 31, 2013	**11,766**	**308**	**12,074**

	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**

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, 2013. The total market value of all the premises amounted to 11,766 (2012: 11,378).

The reversal of impairment amounting tot 70 (2012: 156) relates to the positive revaluation of the office premises located in Düsseldorf.

The Company does not have any restrictions on title, and property, plant and equipment pledged as security for liabilities (2012: 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 2013 and 2012 are as follows:

	2013	2012
Balance at January 1	**51**	**19**
Investments	118	41
Amortization	(28)	(9)
Balance at December 31	**141**	**51**
Cost	4,475	4,357
Cumulative amortization	(4,334)	(4,306)
Total	**141**	**51**

This item mainly includes licences. The investment amounting to 118 relates to licence expenses for banking software.

10) PARTICIPATIONS

	2013	2012
Access Financial Services IFN S.A. (36.25%)	1,990	1,787
C International N.V. (35.41%) (2012: 33.54%)	3,207	4,030
C Faktoring A.Ş. (9.73%)	6,422	7,633
Total	**11,619**	**13,450**

Access Financial Services IFN S.A. (36.25%)	2013	2012
Balance as at January, 1	**1,787**	**1,628**
Result	220	199
Currency translation reserve	(17)	(40)
Balance as at December, 31	**1,990**	**1,787**

C International N.V. (35.41%) (2012: 33.54%)	2013	2012
Balance as at January, 1	**4,030**	**640**
Investment	550	2,585
Result	887	3,384
Currency translation reserve	(17)	(181)
Revaluation reserve	(2,244)	(2,398)
Balance as at December, 31	**3,207**	**4,030**

C Faktoring A.Ş. (9.73%)	2013	2012
Balance as at January, 1	**7,633**	**6,893**
Result	230	355
Fair value reserve	(10)	58
Legal reserve	(34)	-
Currency translation reserve	(1,397)	327
Balance as at December, 31	**6,422**	**7,633**

11) INCOME TAX ASSETS

	2013	2012
Current tax assets	-	6,738
Deferred tax assets	198	109
Total	**198**	**6,847**

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 are recoverable amounts in future periods in respect of deductible temporary differences and concern depreciation on revaluation of buildings and employee benefits. In the year 2013 the tax receivables of previous years are collected.

The movements in deferred tax assets are as follows in 2013:

	Balance at January 1	Recognized in income statement	Recognized in other comprehensive income	Balance at December 31
Property and equipment – Real estate valuation	27	1	–	28
Employee benefits	82	88	–	170
Total	**109**	**89**	**–**	**198**

12) OTHER ASSETS

	2013	2012
Prepayments	964	1,016
Other receivables	636	597
Total	**1,600**	**1,613**

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.

	2013	2012
Current accounts	2,287	2,744
Time deposits	201,964	202,876
Syndication loan	19,099	-
Other	318	5,839
Total	**223,668**	**211,459**

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.

	2013	2012
Current accounts	34,109	27,335
Saving accounts	689,669	726,832
Time deposits	538,591	575,256
Total	**1,262,369**	**1,329,423**

This item includes pledged deposits amounting to 27,137 (2012: 21,795) which serve as collateral for loans or off-balance sheet credit instruments granted by DHB Bank.

15) PROVISIONS

Provisions consist of the following items:

	2013	2012
Employee benefits	680	867
Onerous contracts	697	1,278
Total	**1,377**	**2,145**

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:

	2013	2012
Present value of total defined benefit obligation	5,619	6,396
Fair value of plan assets	(4,939)	(5,529)
Present value of net obligations	**680**	**867**

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

	2013	2012
Current service cost	(216)	(120)
Interest cost	(212)	(187)
Expected return on plan assets	181	162
Administration cost	(13)	(13)
Recognized (gains)/ losses on actuarial assumptions	315	(328)
Net periodic gain/ (cost)	**55**	**(486)**

The change in net pension provisions can be summarized as:

	2013	2012
Defined benefit liability at January 1	6,396	3,686
Net periodic actuarial gain/(losses)	(1,172)	2,430
Current service and interest costs	428	307
Benefits paid by the plan	(33)	(27)
Defined benefit liability at December 31	**5,619**	**6,396**

	2013	2012
Fair value of plan assets at January 1	5,529	3,174
Net periodic actuarial gain/(losses)	(857)	2,102
Return on assets	181	162
Costs	(13)	(13)
Contribution benefits	131	131
Benefits paid by the plan	(32)	(27)
Fair value of plan assets at December 31	**4,939**	**5,529**

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

	2013	2012
Discount rate at December 31	3.79%	3.21%
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	3.79%	3.21%
Collective salary increases	1.50%	1.50%
Individual salary increase average	1.50%	1.50%
Pensionable age	67	65

For the fiscal year the discount rate was increased from 3.21% to 3.79% to reflect the developments on the capital markets. On the other side the expected return on plan assets has also increased from 3.21% to 3.79%. Fluctuation rates are based on the average rates in The Netherlands depending on participant's age.

The plan assets are equal to the fair value of the vested benefit obligation. The vested benefit obligation is insured with an insurance company. According to the contract the investment risk is for the insurance company and not for the Company. Therefore a further disaggregating of the fair value is not necessary. It should be qualified as an insured contract.

According to the pension plan and the Dutch pension law, the insurance company is obliged to fund at least the vested benefit obligation. The vested benefit obligation is insured with an insurance company. Until the renewal date of the insurance contract, the assumptions for the calculation of the contribution are guaranteed. The expected contribution for 2014 is equal to 132,500.

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate, the pension increase and the average life expectancy. A sensitivity analysis for each of these actuarial assumptions is summarised as follows:

Change in discount rate	Valuation	Increase 0.5% in assumption	Effect due to increase 0.5% in assumption	Decrease 0.5% in assumption	Effect due to decrease 0.5% in assumption
Defined benefit obligation	5,619	4,895	(12.9%)	6,477	15.3%
Plan assets	4,939	4,316	(12.6%)	5,676	14.9%
Funded status	**680**	**579**	**(14.8%)**	**801**	**17.8%**

Change in pension increase (indexation)	Valuation	Increase 0.5% in assumption	Effect due to increase 0.5% in assumption	Decrease 0.5% in assumption	Effect due to decrease 0.5% in assumption
Defined benefit obligation	5,619	6,267	11.5%	5,053	(10.1%)
Plan assets	4,939	5,727	16.0%	4,270	(13.6%)
Funded status	**680**	**540**	**(20.5%)**	**783**	**15.1%**

Change in life expectancy	Valuation	Increase 0.5% in assumption	Effect due to increase 0.5% in assumption	Decrease 0.5% in assumption	Effect due to decrease 0.5% in assumption
Defined benefit obligation	5,619	5,757	2.5%	5,473	(2.6%)
Plan assets	4,939	5,062	2.5%	4,808	(2.6%)
Funded status	**680**	**695**	**2.2%**	**665**	**(2.2%)**

Onerous contracts

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

	2013	**2012**
Opening balance	1,278	989
Addition	9	630
Utilization	(557)	(349)
Exchange rate movement	(33)	8
Closing balance	**697**	**1,278**

16) INCOME TAX LIABILITIES

	2013	**2012**
Current tax liabilities	2,786	7,955
Deferred tax liabilities	2,353	3,354
Total	**5,139**	**11,309**

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 increased the taxable income and resulted therefore in high current tax liabilities for 2012. In 2013 the current tax liabilities for 2012 is paid and the current tax liabilities for 2013 represents therefore only financial year 2013. It is lower than 2012 because the taxable income for 2013 is lower.

According to our accounting policies all the other comprehensive income items under equity must be presented net of tax effect. If these equity items show positive balance, the tax effect has to be shown under deferred tax liabilities. The deferred tax liabilities is partly released in 2013 mainly because of sale and redemption of available-for-sale financial assets.

The movements in deferred tax liabilities are as follows in 2013:

	Balance at January 1	**Recognized in income statement**	**Recognized in other comprehensive income**	**Balance at December 31**
Property and equipment – Real estate valuation	1,083	(12)	172	1,243
Employee benefits	92	(171)	79	–
Fair value reserve	2,058	–	(957)	1,101
Cash flow hedge reserve	121	–	(112)	9
Total	**3,354**	**(183)**	**(818)**	**2,353**

17) OTHER LIABILITIES

	2013	**2012**
Accrued expenses	2,928	2,692
Payables to suppliers	355	768
Other liabilities	3,883	8,208
Total	**7,167**	**11,668**

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

In 2013, the General Meeting of Shareholders decided to reduce the nominal value of the B-shares from EUR 1 to EUR 0.78 each. The effect on the issued shares is EUR 8,524,000 and has been paid out in 2013 to the shareholder.

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 0.78.

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:

	2013	2012
Non-credit substitute guarantees	3,501	4,665
Irrevocable letters of credit	5,976	1,777
Irrevocable commitments	-	8,069
Total	**9,477**	**14,511**

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

	2013	2012
The Netherlands	3,201	2,107
Turkey	3,085	4,069
Rest of Europe	3,191	8,335
Total	**9,477**	**14,511**

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

20) NET INTEREST INCOME

	2013	2012
Interest income from:		
Cash and balances with central banks	164	179
Financial assets held for trading	139	5
Available for sale financial assets	12,856	14,177
Securities held to maturity	1,526	2,696
Loans and receivables – banks	9,524	15,144
Loans and receivables – customers	51,766	53,587
Other interest income	35	135
Subtotal	**76,010**	**85,923**
Interest expense from:		
Due to banks	1,634	2,390
Deposits from customers	24,608	33,214
Derivative financial instruments	271	82
Other interest expense	-	31
Subtotal	**26,513**	**35,717**
Total	**49,497**	**50,206**

21) NET FEE AND COMMISSION INCOME

	2013	2012
Letter of guarantees	60	97
Letter of credits	231	178
Cash loan	4,402	7,711
Banking services	1,317	1,481
Other fees and commissions	59	84
Subtotal	**6,069**	**9,551**
Fee and commission expense	(429)	(541)
Total	**5,640**	**9,010**

22) RESULT ON FINANCIAL TRANSACTIONS

	2013	2012
Results from foreign currency exchange transactions	526	754
Results from securities transactions	7,574	3,301
Results from derivatives transactions	(19,284)	(19,815)
Total	**(11,185)**	**(15,760)**

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.

23) RESULT ON HEDGE TRANSACTIONS

	2013	2012
Results form hedge transactions	(100)	(548)
Total	**(100)**	**(548)**

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

24) OTHER OPERATING INCOME

	2013	2012
Other operating income	53	62

Other operating income consists of non-recurring income items.

25) STAFF EXPENSES

	2013	2012
Wages and salaries	8,943	9,297
Pension costs	1,079	852
Other social security costs	1,445	1,296
Other staff costs	323	583
Total	**11,790**	**12,028**

The current number of full-time equivalents in 2013 was 141 (2012: 144)

	2013	2012
• In The Netherlands	96	95
• Outside The Netherlands	45	49
Total	**141**	**144**

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 23 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 214 in 2013 (2012: 193).

26) OTHER ADMINISTRATIVE EXPENSES

	2013	2012
Other administrative expenses	5,777	6,481

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 communication expenses, external service expenses and maintenance expenses. In 2013 this item also includes released provision amount regarding DSB Bank by the subsidiary, DHB Bank.

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

Audit-related fees	**2013**	**2012**
Audit fees related to the annual report	203	187
Tax advisory services	83	66
Other audit-related fees	-	-
Total	**286**	**253**

27) NET IMPAIRMENT CHARGE

	2013	2012
Available for sale assets	(224)	244
Held to maturity assets	(66)	(135)
Loans and receivables	3,141	348
Property and equipment	(70)	(156)
Total	**2,781**	**301**

28) TAXATION

The Netherlands

Corporate income tax is levied at the rate of 25% (2012: 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 2013. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies.

Germany

Profit is subject to trade tax, which is calculated based on rate of the local city. Trade tax is 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 31.15%.

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	%	2013	%	2012
Result before income tax		23,048		23,238
Effect by IAS 19		-		328
Result before income tax restated		23,048		23,566
Income tax using the domestic corporation tax rate	(25%)	(5,960)	(25%)	(5,892)
Effect of tax rates in foreign jurisdictions	(0.20%)	(47)	2.30%	542
Non-deductible expenses	0.90%	214	0.01%	2
Other	0.25%	60	(0,01%)	(231)
Total	**(24.05%)**	**(5,733)**	**(22.7%)**	**(5,579)**

Income tax expense recognized in income statement	2013	2012
Current income tax expense	(6,004)	(5,608)
Deferred income tax expense	271	29
Total	**(5,733)**	**(5,579)**

Income tax related to components of other comprehensive income	2013	2012
Revaluation reserve	(172)	39
Defined benefit obligation reserve	(79)	82
Fair value reserve	957	(2,058)
Cash flow hedge reserve	112	(121)
Total	**818**	**(2,058)**

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 of DHB Bank 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, 35,061 (2012: 49,345) is granted against cash collaterals and 1,498 (2012: 1,400) against third party promissory notes/cheques equal to the outstanding risks. There are no loans granted against mortgages in 2013 (2012: 14,500).

The outstanding balances with related parties for the year ended December 31, 2013 are as follows:

	Subsidiaries	Other related parties	Key management and their relatives	Total
Assets				
Cash and balances with central banks	346	-	-	346
Loans and receivables – customers	-	50	-	50

The income and expenses in respect of related parties included in the financial statements for the year 2013 are as follows:

	Subsidiaries	Other related parties	Key management and their relatives	Total
Interest income	27	3	2	32
Other operating income	-	42	-	42

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

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

CAPITAL ADEQUACY

The Dutch capital adequacy requirements are based on the Directive of the European Union and the Capital Accord of 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, De Nederlandsche Bank (DNB, the Dutch central bank) requires additional capital for country risk exposure based on the 'Policy rule on the treatment of concentration risk in emerging countries'. These requirements are applicable to DHB Bank, resulting in a required minimum solvency ratio of 15.2%.

Depending on the no-objection decision of DNB concerning dividend distribution, DHB Bank's actual total capital and the actual Tier 1 capital are 220,184 and 217,321 respectively, while the total capital ratio and the Tier 1 capital ratio are 17.14% and 16.91% respectively as at year-end 2013.

FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES

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

Where a market is not active, 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.

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

The Company does not make fair value adjustments to cover the credit risk on derivatives (credit value adjustment – CVA, and debit value adjustment – DVA). The CVA is applied to derivatives with a positive fair value for counterparties without objective evidence of impairment. The DVA is applied to derivatives with a negative fair value to cover the counterparty's credit risk on the Company.

	31 December 2013		31 December 2012	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets				
Cash with central banks	120,106	120,106	118,122	118,122
Financial assets held for trading	25,376	25,376	3,777	3,777
Available for sale financial assets	380,149	380,149	450,874	450,874
Securities held to maturity	15,266	15,489	48,346	49,141
Loans and receivables – banks	328,592	327,674	413,512	415,874
Loans and receivables – customers	849,512	879,354	755,936	777,582
Derivative financial instruments – hedge accounting	1,801	1,801	570	570
Property and equipment - Buildings	11,766	11,766	11,378	11,378
Total	**1,732,568**	**1,761,715**	**1,802,515**	**1,827,318**
Liabilities				
Due to banks	223,668	223,668	211,459	211,459
Financial liabilities held for trading	2,162	2,162	12,446	12,446
Deposits from customers	1,262,369	1,285,490	1,329,423	1,349,911
Derivative financial instruments - Hedge	271	271	2,444	2,444
Total	**1,488,470**	**1,511,591**	**1,555,772**	**1,576,260**

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. The Company has designated controls and processes for the determination of the fair value of its financial assets and liabilities. When unobservable inputs are used, management may determine a range of possible valuations based upon differing stress scenarios to determine the sensitivity associated with the valuation. As a final step, the bank considers the need for further adjustments to the calculated price to reflect assumptions that market participants would make.

  In the case of the Company, level 3 valuation is applied to buildings, which is carried out at least once per year by certified external appraisals based on the rental value capitalization method.

  Under this method, the rental value is determined by comparing the supply and/or effected transactions of similar properties, and is based on market conditions (supply and demand), economic conditions (interest, inflation, etc), location (environment, facilities and developments) and the property's quality (structural features, state of repair and possibilities for use). The capitalization factor depends on market-compliant net return demand, which in turn depends on certain aspects described before, such as market conditions, location and the property itself.

  The valuation also takes into account the potential vacancy, letting costs, costs of maintenance, modifications or refurbishment, transfer tax and notarial charges.

Fair value hierarchy for financial instruments as at 31 December 2013

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading	-	25,376	-	**25,376**
Available for sale financial assets	380,149	-	-	**380,149**
Derivative financial instruments – Hedge accounting	-	1,801	-	**1,801**
Property and equipment - Buildings	-	-	11,378	**11,378**
Financial liabilities				
Financial liabilities held for trading	-	2,162	-	**2,162**
Derivative financial instruments – Hedge accounting	-	271	-	**271**

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**
Property and equipment - Buildings	-	-	11,766	**11,766**
Financial liabilities				
Financial liabilities held for trading	-	12,446	-	**12,446**
Derivative financial instruments – Hedge accounting	-	2,444	-	**2,444**

SUBSEQUENT EVENTS

In view of the geo-political developments in Ukraine and Russia the Company has taken proactive measures. As a consequence, in the first quarter of 2014, the Company sold EUR 71.5 million from AFS portfolio and EUR 14.7 million from HTM portfolio.

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 Company's organisation-wide approach is supported by its organizational structure, policies and procedures as well as methods for assessing and managing risks. Furthermore, the risk management framework is supported by a strong risk culture at all levels. The maintenance of risk awareness in the organization is regarded as an essential component for Company's business strategies. Accordingly, ongoing seminars are held to ensure that Risk Management staff 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.

DHB Bank's ability to define risks is regarded as a key competency. The measurement models and techniques employed are continually subject to assessment for appropriateness and reliability. For those risk types that are difficult to quantify, the bank places greater emphasis on qualitative risk factors and on the assessment of activities to gauge the overall level of risks to ensure that they are within the approved risk appetite. Risk factors for new offered or modified products are systemically identified using a new products process triggered by the unit owning the product. All related front and back office units and Risk Management evaluate the product specifications and assess the risk level of the product in all aspects before launch date. Risks identified are measured and included in the overall monitoring framework.

In below sections DHB Bank's risk position is presented in detail. Given figures are according to amortised cost, net of allowances of impairment.

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 the obligor's credit quality. Credit risk stems from various forms of lending to customers, but also from counterparty risk, settlement and country risk.

The management of credit risk by the main subsidiary, DHB Bank covers the whole lending process, from loan application, assessment, processing, and monitoring up to credit portfolio management, and is based on guidelines and policies set forth by the Managing Board. The Company places an emphasis on building long-term relationship with its customers on the basis of an understanding of customers' individual financial situation and general market environment.

DHB Bank ensures that credit quality is not compromised for growth, and for this purpose applies separate limits for all lending activities in accordance with the credit approval procedures. All loan decisions are made by the Credit Committee. The loans above a certain level are subject to further review by the SBCC or full SB, which may suggest amendments to or withdrawal of the respective proposals, or decide to veto these. As for retail credits, the acceptance criteria are drawn up and reviewed separately under the approval authority granted by the Managing Board.

DHB Bank 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 levels. Credit monitoring is carried out at individual borrower level by the Credit Analysis 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 Risk Management 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 main subsidiary, DHB Bank has worked on the implementation of an enhanced internal rating system during 2012-2013. Finalization of this project is expected within first half of 2014. 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 main subsidiary, DHB Bank'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:

	2013	**2012**
Cash with central banks	120,106	118,122
Financial assets held for trading	25,376	3,777
Available for sale financial assets	375,979	442,134
Securities held to maturity	15,266	48,346
Loans and receivables - banks	328,592	413,512
Loans and receivables - customers	849,442	755,736
Derivative financial instruments – hedge accounting	1,801	570
Participations	11,619	13,450
Total on-balance sheet items	**1,728,181**	**1,795,647**
Contingent liabilities L/G	3,501	3,665
Contingent liabilities CDS	-	15,000
Contingent liabilities L/C	5,976	1,777
Irrevocable commitments	-	8,069
Total off-balance sheet items	**9,477**	**28,511**
Total credit risk	**1,737,658**	**1,824,158**

Following the de-risking strategy by the subsidiary, DHB Bank has unwounded the CDS position and closed irrevocable commitments in 2013.

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's subsidiaries and participations determine the amount and type of collateral that a customer may be required to provide as security to the Company. Collaterals are valued and obtained prior to the disbursement of the approved loans. As a general rule, the lower the perceived creditworthiness of a borrower, the more collateral the customer will be required to provide. The company regularly reassesses the value of the collateral. In 2013 the volume of uncollateralized expose decreased by 232 million.

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 2013
Securities guaranteed by governments	–	–	2,000	–	–	–	–	–	–	–	–	2,000
Loans guaranteed by banks	–	–	–	–	35,061	–	–	–	–	–	–	35,061
Loans guaranteed by mortgage	–	–	–	–	–	78,669	–	–	55	1,677	–	80,401
Loans guaranteed by cash collateral	–	–	–	–	–	25,073	–	–	219	–	–	25,292
Loans guaranteed by third parties	–	–	–	–	–	334,987	–	–	3,227	4,299	–	342,513
Others/unsecured	120,106	25,376	373,979	15,266	293,531	410,713	1,801	11,694	–	–	–	1,252,466
Total	**120,106**	**25,376**	**375,979**	**15,266**	**328,592**	**849,442**	**1,801**	**11,694**	**3,501**	**5,976**	–	**1,737,733**

	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**

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. The Company manages its portfolio especially for individual countries by determining the credit risk appetite and limit for each country on the basis of total exposure, country risk and outlook. Both limits and utilization at the obligor and the portfolio levels are monitored and reviewed periodically.

In line with the strategic realignment targets by the subsidiary, DHB Bank continues to reduce its exposure to developing countries. Nevertheless, DHB Bank's largest exposure remains to banks and companies in Turkey. As of year end 2013 DHB Bank further reduced its exposure to Turkey compared to 2012 by around 68 million and the exposure to Russia by 65 million. Loans and receivables to banks reduced by 85 million whereas loans and receivables to customers increased by 95 million compared to previous financial year.

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 2013	%
Turkey	–	3,755	31,788	524	170,652	529,781	–	6,422	3,085	746,007	42.93%
The Netherlands	120,008	1,490	47,844	–	14,954	21,281	–	3,207	3,201	211,985	12.20%
Russia[i]	–	–	77,866	14,742	60,037	33,339	–	–	–	185,984	10.70%
United States of America	–	4,737	109,116	–	141	–	–	–	–	113,994	6.56%
United Kingdom	–	7,300	43,379	–	2,843	15,925	1,530	–	–	70,977	4.08%
Germany	87	6,101	30	–	10,283	32,020	271	–	–	48,792	2.81%
Azerbaijan	–	–	5,965	–	19,230	16,129	–	–	–	41,324	2.38%
Republic of Kosovo	–	–	–	–	3,001	30,212	–	–	–	33,213	1.91%
Egypt	–	466	–	–	–	32,677	–	–	–	33,143	1.91%
Multilateral Development Banks	–	–	1,700	–	30,780	–	–	–	–	32,480	1.87%
Italy	–	–	24,065	–	–	4,500	–	–	–	28,565	1.64%
Macedonia	–	–	–	–	10,019	15,119	–	–	–	25,138	1.45%
Sweden	–	–	–	–	–	20,439	–	–	–	20,439	1.18%
Belgium	11	–	–	–	13	18,738	–	–	–	18,762	1.08%
France	–	544	13,560	–	301	2,506	–	–	–	16,911	0.97%
Romania	–	–	–	–	–	16,899	–	–	–	16,899	0.97%
Spain	–	–	15,510	–	–	–	–	–	–	15,510	0.89%
Others	–	983	5,157	–	6,338	59,877	–	1,990	3,191	77,535	4.46%
Total	**120,106**	**25,376**	**375,979**	**15,266**	**328,592**	**849,442**	**1,801**	**11,619**	**9,477**	**1,737,658**	**100.0%**

Country exposures are managed through internal limits set by the Supervisory Board of DHB Bank 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	Derivatives financial 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[ii]	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%**

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

	2013		**2012**	
Sectors	On-balance	Off-balance	On-balance	Off-balance
Financial institutions and insurance	332,555	–	334,098	–
Construction and infrastructure	99,034	–	111,892	–
Metals	52,095	–	47,433	–
Energy	46,748	–	26,078	–
Transportation	36,578	–	17,099	–
Textile, leather and allied products	32,922	19	28,011	24
Holding and other investment offices	32,787	–	23,625	–
Automotive	25,316	–	13,471	–
Tourism	22,738	160	3,400	164
International trade	22,253	6,013	4,830	–
Chemical products	21,123	–	–	–
Oil & gas	17,359	–	22,700	5,000
Media and advertising	14,073	–	2,585	–
Corporate individuals	11,030	3,191	16,169	3,335
Communications and post	10,189	–	14,482	3,069
Food & beverages	9,299	–	16,635	–
Agricultural products	6,786	–	4,079	–
Plastics	6,464	–	13,627	1,777
Services	5,604	4	–	–
Real estate	5,189	–	11,055	–
Retail	4,934	–	4,098	6
Paper	4,350	–	4,045	–
Petroleum Refining & Other Related Industries	2,665	–	4,975	–
Others	4,771	48	7,424	94
Total	826,862	9,435	731,811	13,469
Private individuals / self- employed	33,455	42	31,115	42
Total	860,317	9,477	762,926	13,511
Allowances for impairment	(10,875)	–	(7,190)	–
Total loans and receivables - customers	**849,442**	**9,477**	**755,736**	**13,511**

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.

	2013	**2012**
Neither past due nor impaired	1,713,530	1,810,152
Past due but not impaired	620	91
Impaired	23,137	8,697
Allowances	(11,248)	(8,232)
Total	**1,726,039**	**1,810,708**

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

	2013	**2012**
Investment grade	773,270	839,167
Non-investment grade	121,067	305,608
Unrated	831,702	665,933
Total	**1,726,039**	**1,810,708**

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 quantitative factors including financial performance related to accounts and ratios, as well as qualitative factors related to business performance of the borrower and sector evaluation. There are sub-models for companies and banks based on their sectors and countries of activity, respectively.

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	**2013**	**2012**
Past due up to 30 days	124	80
Past due 31 - 60 days	27	5
Past due 61 - 90 days	19	5
Past due over 90 days	450	1
Total	**620**	**91**

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 2013 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	–	15	82	6,872	6,969
Addition	–	–	–	4,533	4,533
Release	–	(3)	(34)	(631)	(668)
Write-off	–	(11)	–	(456)	(467)
Exchange rate movement	–	(1)	(3)	(409)	(413)
Closing balance	**–**	**–**	**45**	**9,909**	**9,954**

The movements of the IBNR allowances for impairment for the year 2013 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	381	68	496	318	1,263
Addition	–	–	–	647	647
Release	(224)	(63)	(330)	–	(617)
Closing balance	**157**	**5**	**166**	**965**	**1,293**

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 balance of total specific allowances for impaired assets increased from 7 million in 2012 to 10 million in 2013. 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 Company'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 the Company 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 Basel Committee introduced the 30-day liquidity coverage ratio (LCR) to ensure short term resilience against liquidity disturbances and the net stable funding ratio (NSFR) to address longer-term structural liquidity disparities. The proposals are implemented through the capital requirement directive (CRD IV) for European banks with a transition phase till 2019. The Company's liquidity ratios are already higher than the minimum requirements.

Within its ILAAP, 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 bank-specific and market-wide stress scenarios with limited mitigation activities.

Governance and management of liquidity risk

Liquidity risk is defined as the risk of being unable to meet the 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 of DHB Bank. 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.

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.

December 31, 2013	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 year	Undefined*	Total
Assets							
Cash and balances with central banks	110,704	–	–	–	–	10,062	120,766
Financial assets held for trading	–	17,819	2,853	4,704	–	–	25,376
Available for sale financial assets	–	17,209	45,293	317,308	–	–	379,810
Securities held to maturity	–	–	524	14,742	–	–	15,266
Loans and receivables - banks	3,178	89,007	152,994	81,612	1,801	–	328,592
Loans and receivables - customers	10,751	383,325	104,252	298,593	52,541	–	849,462
Derivative financial instruments – hedge accounting	–	–	166	1,635	–	–	1,801
Property and equipment	–	–	–	–	–	12,070	12,070
Intangible assets	–	–	–	–	–	141	141
Current tax assets	–	–	–	–	–	–	–
Deferred tax assets	–	–	–	–	–	198	198
Other assets	–	–	–	–	–	1,569	1,569
Total assets	**124,633**	**507,360**	**306,082**	**718,594**	**54,342**	**24,040**	**1,735,051**
Liabilities							
Due to banks	2,287	47,564	19,417	154,400	–	–	223,668
Financial liabilities held for trading	–	1,295	652	215	–	–	2,162
Deposits from customers	724,125	114,121	210,135	213,821	513	–	1,262,715
Derivative financial instruments – hedge accounting	–	–	202	69	–	–	271
Provisions	–	–	1,377	–	–	–	1,377
Current tax liabilities	–	–	–	–	–	2,786	2,786
Deferred tax liabilities	–	–	–	–	–	2,353	2,353
Other liabilities	–	–	–	–	–	7,107	7,107
Total liabilities	**726,412**	**162,980**	**231,783**	**368,505**	**513**	**12,246**	**1,502,439**
Net liquidity gap	(601,779)	344,380	74,299	350,089	53,829	11,794	220,817
Net liquidity cumulative gap	(601,779)	(257,399)	(183,100)	166,988	220,817	220,817	

* Undefined items are not taken into account in the liquidity gap.

The immediately available liquidity of the Company consisting of cash and the ECB eligible securities valued after the ECB haircuts as of year-end 2013 was 211 million, representing 12.1% of the balance sheet size. As an additional liquidity buffer, the bank has also a contingent liquidity agreement with Halkbank for a total amount of 100 million.

December 31, 2012	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 year	Undefined*	Total
Assets							
Cash and balances with central banks	108,565	–	–	–	–	10,394	118,959
Financial assets held for trading	–	2,411	1,016	350	–	–	3,777
Available for sale financial assets	–	90,957	28,364	318,171	12,275	–	449,767
Securities held to maturity	–	–	26,961	21,358	27	–	48,346
Loans and receivables - banks	3,466	41,907	271,028	92,745	4,366	–	413,512
Loans and receivables - customers	10,654	311,302	152,311	247,150	34,381	–	755,798
Derivative financial instruments – hedge accounting	–	25	62	483	–	–	570
Property and equipment	–	–	–	–	–	11,700	11,700
Intangible assets	–	–	–	–	–	51	51
Current tax assets	–	–	–	–	–	6,738	6,738
Deferred tax assets	–	–	–	–	–	109	109
Other assets	–	–	–	–	–	1,552	1,552
Total assets	**122,685**	**446,602**	**479,742**	**680,257**	**51,049**	**30,544**	**1,810,879**
Liabilities							
Due to banks	2,744	51,588	5,839	151,288	–	–	211,459
Financial liabilities held for trading	–	1,368	1,901	6,245	2,932	–	12,446
Deposits from customers	754,360	170,760	228,205	180,230	68	–	1,333,623
Derivative financial instruments – hedge accounting	–	–	647	1,797	–	–	2,444
Provisions	–	–	2,145	–	–	–	2,145
Current tax liabilities	–	–	–	–	–	7,955	7,955
Deferred tax liabilities	–	–	–	–	–	3,354	3,354
Other liabilities	–	–	–	–	–	11,564	11,564
Total liabilities	**757,104**	**223,716**	**238,737**	**339,560**	**3,000**	**22,873**	**1,584,990**
Net liquidity gap	(634,419)	222,886	241,005	340,697	48,049	7,672	218,218
Net liquidity cumulative gap	(634,419)	(411,533)	(170,528)	170,169	218,218	218,218	

* Undefined items are not taken into account in the liquidity gap.

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.

As of December 31, 2013, the following table reports the VaR of the bank's FX net open position based on historical simulation for a confidence level of 99% and a 10 days holding period.

VaR of FX position	**2013**	**2012**
Max	(71)	(162)
Min	(4)	(65)
Average	(20)	(92)
End of year	(4)	(66)

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, 2013 and December 31, 2012 respectively:

	Within year 2013			
Sensitivity 1 year earning	**Min**	**Max**	**Average**	**End of year 2013**
100 bps instantaneous increase	222	1,128	613	882

	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

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, 2013 and December 31, 2012 respectively.

	Within year 2013			
Sensitivity of economic value of equity to interest rate movements	**Min**	**Max**	**Average**	**End of year 2013**
100 bps instantaneous increase	(2,529)	(602)	(1,571)	(1,024)

	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)

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 rates. While currency risk is almost fully avoided through FX swap transactions, open positions are monitored and reviewed by the Asset & Liability Management Committee, so that action can be taken where necessary. Considering the derivative transactions, the open currency positions are at insignificant levels as of 31 December, 2013. The management sets out the limits for such according to the net foreign currency position rules determined by the Dutch Central Bank (DNB).

December 31, 2013	EUR	USD	TRY	GBP	CHF	Others	Total
Cash and balances with central banks	120,739	27	–	–	–	–	120,766
Financial assets held for trading	21,316	578	3,361	121	–	–	25,376
Available for sale financial assets	260,854	110,003	8,953	–	–	–	379,810
Securities held to maturity	10,651	4,615	–	–	–	–	15,266
Loans and receivables - banks	286,499	41,728	155	40	163	7	328,592
Loans and receivables - customers	460,399	95,852	287,540	5,671	–	–	849,462
Derivative financial instruments – hedge accounting	1,396	405	–	–	–	–	1,801
Property and equipment	12,070	–	–	–	–	–	12,070
Intangible assets	141	–	–	–	–	–	141
Current tax assets	–	–	–	–	–	–	–
Deferred tax assets	198	–	–	–	–	–	198
Other assets	1,272	–	295	2	–	–	1,569
Total assets	**1,175,535**	**253,208**	**300,304**	**5,834**	**163**	**7**	**1,735,051**
Due to banks	214,160	9,147	1	174	186	–	223,668
Financial liabilities held for trading	863	884	296	119	–	–	2,162
Deposits from customers	1,246,424	15,642	592	57	–	–	1,262,715
Derivative financial instruments – hedge accounting	271	–	–	–	–	–	271
Provisions	1,377	–	–	–	–	–	1,377
Current tax liabilities	2,786	–	–	–	–	–	2,786
Deferred tax liabilities	2,353	–	–	–	–	–	2,353
Other liabilities	6,720	381	5	–	1	–	7,107
Total non-equity liabilities	**1,474,954**	**26,054**	**894**	**350**	**187**	**–**	**1,502,439**
Net gap	(299,419)	227,154	299,410	5,484	(24)	7	232,612
Net open currency position after FX and interest rate swaps	(84)	42	40	19	(24)	7	

December 31, 2012	EUR	USD	TRY	GBP	CHF	Others	Total
Cash and balances with central banks	118,959	–	–	–	–	–	118,959
Financial assets held for trading	3,777	–	–	–	–	–	3,777
Available for sale financial assets	257,866	141,907	49,994	–	–	–	449,767
Securities held to maturity	29,183	19,163	–	–	–	–	48,346
Loans and receivables - banks	350,481	62,505	388	79	13	46	413,512
Loans and receivables - customers	381,630	100,371	271,048	2,749	–	–	755,798
Derivative financial instruments – hedge accounting	460	110	–	–	–	–	570
Property and equipment	11,700	–	–	–	–	–	11,700
Intangible assets	51	–	–	–	–	–	51
Current tax assets	6,738	–	–	–	–	–	6,738
Deferred tax assets	109	–	–	–	–	–	109
Other assets	1,552	–	–	–	–	–	1,552
Total assets	**1,162,506**	**324,056**	**321,430**	**2,828**	**13**	**46**	**1,810,879**
Due to banks	200,759	6,282	4,249	157	12	–	211,459
Financial liabilities held for trading	3,480	8,025	940	1	–	–	12,446
Deposits from customers	1,306,618	26,301	669	35	–	–	1,333,623
Derivative financial instruments – hedge accounting	1,593	851	–	–	–	–	2,444
Provisions	2,145	–	–	–	–	–	2,145
Current tax liabilities	7,955	–	–	–	–	–	7,955
Deferred tax liabilities	3,354	–	–	–	–	–	3,354
Other liabilities	10,488	968	108	–	–	–	11,564
Total non-equity liabilities	**1,536,392**	**42,427**	**5,966**	**193**	**12**	**–**	**1,584,990**
Net gap	(373,886)	281,629	315,464	2,635	1	46	225,889
Net open currency position after FX and interest rate swaps	(1,114)	1,037	38	(7)	–	46	

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 2013. The Company's operational risk management process involves a structured approach based on a risk and self-assessment control methodology. The goal of the ongoing self-assessment process is for each business 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, 2013

G COMPANY STATEMENT OF FINANCIAL POSITION

(in thousands of EUR)	2013	Restated 2012
ASSETS		
Cash and balances with central banks	1,757	4,586
Available for sale financial assets	339	1,107
Loans and receivables – customers	50	138
Property and equipment	4	8
Participations (1)	174,447	171,573
Other assets	32	61
Total assets	**176,628**	**177,473**
LIABILITIES		
Due to banks	-	-
Other liabilities	60	104
Total liabilities	**60**	**104**
EQUITY (2)		
Share capital	84,976	93,500
Retained earnings	66,074	49,461
Other reserves	25,518	34,408
Total equity	**176,568**	**177,369**
Total equity and liabilities	**176,628**	**177,473**

H COMPANY INCOME STATEMENT

(in thousands of EUR)	**2013**	**Restated 2012**
Net income of the parent company	(790)	110
Net income participating interests after taxes	13,815	16,452
Net income	**13,025**	**16,562**

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.

	2013	**2012**
Participating interests in group companies		
Development:		
Opening balance	171,573	139,237
• Capital investment	550	2,585
• Legal reserve participations	(34)	22
• Revaluation reserve	(2,045)	(2,548)
• Defined benefit obligation reserve	166	(172)
• Fair value reserve	(2,255)	15,869
• Currency translation reserve	(1,431)	106
• Other	(6,142)	22
• Result subsidiaries	14,067	16,452
Closing balance	**174,447**	**171,573**

2) Equity

Share capital

In 2013, the General Meeting of Shareholders decided to reduce the nominal value of the B-shares from EUR 1 to EUR 0.78 each. The effect on the issued shares is EUR 8,524,000 and has been paid out in 2013 to the shareholder.

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 0.78.

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, 20 June 2014

Managing Directors:

H. Cingillioglu

İ.H. Akçakayalıoğlu

T.J. Bark

K.H. Cingillioglu

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 2013 of 13,025 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 financial statements

We have audited the accompanying financial statements 2013 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 2013, the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of comprehensive income, the consolidated cash flow statement for the year then ended and the notes, comprising a summary of the significant accounting policies and other explanatory information. The company financial statements comprise the company statement of financial position as at 31 December 2013, 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 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 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 Company's preparation and fair presentation of the 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 2013 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 2013 and of its result 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, 20 June 2014

KPMG Accountants N.V.

E.D.H. Vinke-Smits RA