HCBG Holding B.V.
Rotterdam

Financial statements 2014

CONTENTS | **PAGE**

DIRECTORS' REPORT

We are pleased to present the financial statements of HCBG Holding B.V., "HCBG", for the year ending December 31, 2014. These financial statements have been prepared by the Directors of the company and have subsequently been audited by Ernst & Young Accountants LLP. The external auditors' unqualified report is attached to the annual accounts.

The principal business activity of the company is to act as a Holding company. HCBG conducts is commercial activities through different companies which it holds shares of, as well as its own activities which it intends to increase further.

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 2014 and the shareholders of DHB Bank have once again demonstrated their support to the bank. In line with their traditional commitment since DHB Bank's establishment in 1992, they decided to retain 50% of the 2013 profit in the equity and distribute 50% as dividend, pending a no-objection decision of DNB as per the Dutch regulations concerning dividend distributions.

HCBG also owns 36.25% of the outstanding shares of Access Financial Services-IFN (Romania) S.A., Bucharest, Romania- "AFS", founded in 2007. Other shareholders are RP Explorer B.V. and the management of the company. Primarily focusing on factoring activities, AFS offers a wide range of financial intermediation services including real estate financing, micro-financing, financing of trade transactions and discounting.

Other participations of HCBG are in C Faktoring A.S.-Turkey (9.73%) and in C International N.V.-Netherlands (35.4%) as at the end of 2014.

During the year under review, the Directors of HCBG met regularly to discuss the performance of its subsidiaries/ participations and its own activities, 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 expected dividends and the existing ample liquidity of HCBG, in order to diversify the investments, own commercial activities and respective returns, the company has been looking for opportunities to invest targeting mainly in the areas of real estate, technology and art. Building on the extensive expertise and connections of our directors in the area of arts, the company is seriously considering trading, finance and investing in arts being the areas of interest. Transactions under consideration are investments and on-selling (at a future date) or guaranteeing minimum prices for art during major auctions. The directors of the company have been active in business development and networking activities in different parts of the world in this respect.

To maintain existing relationships and expand their network, 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, major art events/fairs, auctions and others.

The One-Tier Board Act which came into effect in the Netherlands on 1 January 2014, stipulates that a management board or supervisory board needs to have an appropriate gender balance which in effect means that at least 30% of the seats are to be occupied by women. HCBG's current board currently does not meet this requirement, however the shareholder will reflect on this if and when new board appointments are being considered.

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 2015, no material changes in the nature of the activities of the subsidiaries' of the company are expected. HCBG intends to increase art related activities, increased participation in events and meetings in this area, as well as actual investments/transactions. Additionally in 2015, the directors intend to hold in person meetings at least on a monthly basis.

Finally, no post-balance sheet events have occurred to date, which would materially affect the financial statements herewith presented. Management is confident that operational profitability at levels similar to year 2014 will be attained in 2015 and in a progressive trend in the following years.

Rotterdam, June 4, 2015

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 2014	31 december 2013*
	€	€
	x 1.000	x 1.000
Cash and balances with central banks (1)	104,898	122,177
Financial assets held for trading (2)	284	25,376
Available for sale financial assets (3)	390,516	380,149
Securities held to maturity (4)	-	15,266
Loans and receivables — banks (5)	415,019	328,146
Loans and receivables — customers (6)	947,738	848,607
Derivative Financial instruments – hedge accounting 7)	-	1,801
Property and equipment (8)	11,967	12,074
Intangible assets (9)	245	141
Participations (10)	11,486	11,619
Current tax assets (11)	458	-
Deferred tax assets (11)	7	198
Other assets (12)	1,813	1,600
	1,884,431	1,747,154

* The comparative figures have been reclassified due to the change in accounting standards for fees that are an integral part of the effective interest rate in accordance with the disclosures in the financial statements of the subsidiary DHB.

LIABILITIES

	31 december 2014	31 december 2013*
	€	€
	x 1.000	x 1.000
Due to banks (13)	333,956	223,668
Financial liabilities held for trading (2)	13,629	2,162
Deposits from customers (14)	1,282,484	1,262,369
Derivative financial instruments – Hedge accounting 7)	2,707	271
Provisions (15)	1,498	1,377
Current tax liabilities (16)	8	2,786
Deferred tax liabilities (16)	1,696	2,353
Other liabilities (17)	3,958	5,816
	1,639,936	1,500,802
Share capital (18)	79,940	84,976
Retained earnings	79,715	66,074
Other reserves	15,711	25,518
	175,366	176,568
Equity attributable to minority interests	69,129	69,784
Total equity	244,495	246,352
	1,884,431	1,747,154
Commitments and contingent liabilities (19)	9,322	9,477

* The comparative figures have been reclassified due to the change in accounting standards for fees that are an integral part of the effective interest rate in accordance with the disclosures in the financial statements of the subsidiary DHB.

B CONSOLIDATED INCOME STATEMENT

	2014		2013*	
	€	€	€	€
Interest income	76,734		79,069	
Interest expense	(22,313)		(26,513)	
Net interest income (20)		54,421		52,556
Fee and commission income	3,156		3,010	
Fee and commission expense	(356)		(429)	
Net fee and commission income (21)		2,800		2,581
Result on financial transactions (22)		(18,266)		(11,185)
Result on hedge transactions (23)		108		(100)
Other operating income (24)		388		53
Total operating income		39,451		43,905
Staff costs (25)	(13,178)		(11,790)	
Other administrative expenses (26)	(7,544)		(5,777)	
		(20,722)		(17,567)
Depreciation and amortization		(536)		(509)
Net impairment charge (27)		(6,013)		(2,781)
Total operating expense		(27,271)		(20,857)
Result from ordinary activities before tax		12,180		23,048
Tax (28)		(3,784)		(5,733)
Result on participations		(21)		1,142
Result from ordinary activities after tax		**8,375**		**18,457**
Attributable to:				
Shareholders of the parent company		5,564		13,025
Minority interest		2,811		5,432

* The comparative figures have been reclassified due to the change in accounting standards for fees that are an integral part of the effective interest rate in accordance with the disclosures in the financial statements of the subsidiary DHB.

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, 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**

	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, 2014	**84,976**	**9,645**	**66,074**	**-**	**3,017**	**31**	**20**	**2,218**	**(2,438)**	**13,025**	**176,568**	**69,784**	**246,352**
Appropriation of prior year net profit	**-**	-	13,025	-	-	-	-	-	-	(13,025)	**-**	-	**-**
Change in revaluation reserve	**-**	-	-	-	(898)	-	-	-	-	-	**(898)**	29	**(869)**
Change in defined benefit obligation reserve	**-**	-	-	-	-	(409)	-	-	-	-	**(409)**	(176)	**(585)**
Change in cash flow hedge reserve	**-**	-	-	-	-	-	(20)	-	-	-	**(20)**	(8)	**(28)**
Change in fair value reserve	**-**	-	12	-	-	-	-	(1,403)	-	-	**(1,391)**	(595)	**(1986)**
Change in foreign currency translation reserve	**-**	-	-	**-**	-	-	-	-	6	-	**6**	-	**6**
Net profit for the year	**-**	-	-	**-**	-	-	-	-	-	5,564	**5,564**	2,811	**8,375**
Total comprehensive income	**-**	**-**	**13,037**	**-**	**(898)**	**(409)**	**(20)**	**(1,403)**	**6**	**(7,461)**	**2,852**	**2,061**	**4,913**
Transactions with owners, recorded directly in equity													
Change in legal reserve participations	-	-	-	-	-	-	-	-	-	-	**-**	-	**-**
Dividend paid out	**-**	-	-	**-**	-	-	-	-	-	-	**-**	(2,716)	**(2,716)**
Transfer to/ from retained earnings	**-**	-	604	**-**	-	378	-	-	-	-	**982**	-	**982**
Repayment share capital	(5,036)	-	-	**-**	-	-	-	-	-	-	**(5,036)**	-	**(5,036)**
At December 31, 2014	**79,940**	**9,645**	**79,715**	**-**	**2,119**	**-**	**-**	**815**	**(2,432)**	**5,564**	**175,366**	**69,129**	**244,495**

D CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of EUR)		2014		2013
Net profit		8,375		18,457
Items that are or may be reclassified to the income statement				
Cash Flow hedge reserve	(20)		(235)	
Fair value reserve	(1,403)		(1,970)	
		(1,423)		(2,205)
Items that will never be reclassified to the income statement				
Currency translation reserve	6		(1,429)	
Defined benefit obligation reserve	(409)		165	
Revaluation reserve	(898)		(1,849)	
		(1,301)		(3,113)
Other comprehensive income		**(2,724)**		**(5,318)**
Total comprehensive income for the year		**5,651**		**13,139**
Attributable to:				
• owners of the parent		2,840		7,707
• non-controlling interest		2,811		5,432
Total comprehensive income for the year		**5,651**		**13,139**

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

E CONSOLIDATED CASH FLOW STATEMENT

	31 december 2014	31 december 2013
	€	€
	x 1.000	x 1.000
NET CASH FROM OPERATING ACTIVITIES	**(12,240)**	**(84,463)**
Net profit	8,375	18,457
Adjustments for :		
Depreciation and amortization for property and equipment	472	481
Depreciation and amortization for intangible assets	64	28
Impairment	6,013	2,781
Net change in provisions	121	(453)
IAS19R pension settlement	(540)	-
Income tax expense	3,784	5,733
Change in financial assets held for trading	25,378	(20,831)
Change in loans and receivables — banks, not available on demand	(86,954)	85,991
Change in loans and receivables — customers	(105,256)	(93,935)
Change in income tax assets and other assets	(482)	6,662
Change in due to banks, not due on demand	110,288	12,209
Change in deposits from customers	20,108	(70,908)
Change in liabilities held for trading	11,439	(10,284)
Change in derivative financial instruments	4,237	(3,404)
Change in income tax liabilities and other liabilities	(5,397)	(13,964)
Income tax paid	(3,890)	(3,026)
NET CASH FROM INVESTING ACTIVITIES	**10,779**	**109,850**
Additions to financial investments	(325,573)	(320,030)
Disposals and redemptions of financial investments	328,365	420,485
Investments in property and equipment	(362)	(247)
Investments in intangible assets	(168)	(118)
Movement participations	8,220	9,754
Disposal of property and equipment	297	5
NET CASH FLOW FROM FINANCING ACTIVITIES	**(15,818)**	**(22,556)**
Movement in group equity	(6,765)	(13,781)
Dividends paid	(9,053)	(8,775)
NET CASH FLOW	**(17,279)**	**2,831**
Cash and balances with central banks at January 1	122,177	119,346
Cash and balances with central banks at December 31	104,898	122,177
NET CHANGE IN CASH AND BALANCES WITH CENTRAL BANKS	**(17,279)**	**2,831**

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 ('EU-IFRS'), as issued by the International Accounting Standards Board (IASB) and adopted by the European Union ('EU') and in accordance with accounting principles in The Netherlands as embodied in Part 9 of Book 2 of the Netherlands Civil Code.

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 income statement 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. The Company 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. HCBG Holding B.V. reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the bank having power over an investee.

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.

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, except for financial assets and liabilities measured at fair value.

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 consist of interest bearing securities and syndicated bank loans classified as available for sale. 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.

Fair value hedges
The Company applies fair value hedge accounting to the interest rate risk and/or the foreign exchange risk arising from financial instruments at available-for-sale or at amortized costs with fixed interest rates. Interest rate swaps and/or cross-currency interest rate swaps are used as hedging instruments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement, 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 income statement 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
Cash flow hedging is applied to hedge the variability arising on expected future cash flows due to interest rate risk on USD denominated available for sale securities with floating interest rates. As interest rates fluctuate, the future cash flows on these instruments also fluctuate. The Company uses cross-currency swaps to hedge the risk of such cash flow fluctuations.

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 income statement when a hedging instrument expires or is sold.

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 the income statement.

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's credit quality has deteriorated and the estimated cash flows in the related financial assets are negatively impacted. Triggers for impairment include, but not limited to, elements such as negative equity and regular payment problems. They could – but do not necessarily - result in the borrower being classified as impaired.

(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 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. 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 recognized 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.

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 variable remuneration and restructuring provision for a closed branch.

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

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

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

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

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

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

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

Restructuring provisions are recognised as estimated cash outflow when the subsidiary DHB Bank has approved a detailed and formal restructuring plan, and the restructuring either has started or announced publicly.

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 for all taxable temporary differences that have arisen in relation with the core banking business. The carrying amount of deferred tax assets is reviewed at each 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

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

Available for sale financial assets

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

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'.

d) Result on hedge transactions

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement together with changes in the fair value of the hedged items attributable to the hedged risks.

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

When a derivative financial instrument hedges the exposure to variability in the cash flows from a hedged item, the effective part within the 80% - 125% bandwidth of any gain or loss on re-measurement of the hedging instrument is recognised directly in equity. Hedge ineffectiveness for cash flow hedges is measured as the amount by which the changes in the fair value of the derivative are in excess of changes in the fair value of the expected cash flow in the cash flow hedge. The gain or loss relating to the ineffective portion is recognised in the profit and loss account immediately.

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

3.15 Equity components

Legal reserve

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

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, together with changes in the fair value of hedged items attributable to the hedged risks. When the relevant assets are sold, impaired or otherwise disposed of, the related cumulative gain or loss recognized in equity is transferred to the income statement.

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 2014. Information on these new standards is presented below.

Amendments to IAS 19 (Defined Benefit Plans Employee Contributions)

Based on IAS 19 an entity is required to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. If the amount of the contributions is independent of the number of years of service, an entity is allowed to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014.

This amendment has no impact to the Company, since the Company has no active participants under defined benefit plan.

Amendments to IAS 32 (Offsetting financial assets and financial liabilities)

Based on IFRS 7 amendments an entity is required to disclose information about rights of set-off and related arrangements (e.g., collateral agreements), which is useful information in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures apply for all recognised financial instruments that are set off in accordance with IAS 32 (Financial Instruments: Presentation). Additionally also should be disclosed recognised financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set off in accordance with IAS 32.

The amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right to set-off". The application of the IAS 32 offsetting criteria with respect to settlement systems (such as central clearing house systems), which apply gross settlement mechanisms that are not simultaneous, are also clarified.

The IAS 32 amendments clarify that rights of set-off must be legally enforceable in the normal course of business and also in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The rights of set-off must not be contingent on a future event.

The amendments to IAS 32 are effective beginning on or after 1 January 2014 and required presentation and disclosure has been applied accordingly.

Amendments to IAS 39 (Novation of Derivatives and Continuation of Hedge Accounting)

The amendments clarify in which circumstances it is no more required to discontinue hedge accounting in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendments cover the following novations:

• That arise as a consequence of laws or regulations, or the introduction of laws or regulations
• In which the parties to the hedging instrument agree that one or more clearing counterparties replace the original counterparty to become the new counterparty to each of the parties
• That did not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing

If all of the above criteria are not met the hedge accounting must be discontinued.
The amendments must be applied retrospectively. Amendments to IAS 39 are effective for annual periods beginning on or after 1 January 2014.

These amendments do not have any impact to the Company.

IFRS10: Consolidated Financial Statements, IFRS 11: Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities)

IFRS 10 introduces a single control model which applies to all investees to determine the scope of consolidation. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The objective of IFRS 11 is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements). IFRS 11 defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement. IFRS 12 introduces a single disclosure standard for subsidiaries, joint arrangements, associates and structured entities within a comprehensive disclosure standard.

IFRS 10, 11 and 12 are effective for annual periods beginning on or after 1 January 2014.

The Company has reviewed the effects of these new standards before adoption and noted that the adoption of IFRS 10 and 12 has no significant effect on the financial statements. IFRS 11 is not applicable to the Company as it does not hold interest in arrangements that are jointly controlled.

IFRIC 21 (Levies)

In IFRIC 21 a levy is defined as an outflow from an entity imposed by a government in accordance with legislation. The interpretation clarifies that an entity should recognize a liability for a levy only when the triggering event specified in the legislation occurs. The interpretation does not clarify the debit side of the accounting that arises from recognising a liability to pay a levy. Entities look to other standards to decide whether an assets item or an expense item should be debited for the recognition of a liability to pay a levy.

IFRIC 21 is effective beginning on or after 1 January 2014. The changes are applied retrospectively and have no material impact on the Company.

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, 2014, and have not been applied in preparing these consolidated financial statements.

IFRS 9 (Financial Instruments)

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments and reflects all phases of the financial instruments project. IFRS 9 replaces IAS 39 (Financial Instruments: Recognition and Measurement) and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015.

The Company started the process of evaluating the potential effect of this standard. This new standard will be adopted when they become effective.

Amendments to IFRS 10, IFRS 12 and IAS 28 (Investment Entities)

The investment entities amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. These amendments are effective for annual periods beginning on or after 1 January 2016 and have no impact on the Company.

Amendments to IFRS 11 (Accounting for Acquisitions of Interests in Joint Operations)

The amendments to IFRS 11 require that an entity after the acquisition of an interest in a joint operation must apply the relevant IFRS 3 principles for business combinations accounting. Entities are required to disclose information in relation to business combinations. IFRS 11 is effective for annual periods beginning on or after 1 January 2016.

These amendments do not have any impact to the Company.

IFRS 14 (Regulatory Deferral Accounts)

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016.

Since the Company is an existing IFRS preparer, this standard would not apply.

IFRS 15 (Revenue from Contracts with Customers)

IFRS 15 applies to all revenue arising from contracts with customers. IFRS 15 replaces all existing revenue requirements (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services). The standard gives guidelines that an entity must apply to measure and recognise revenue. Additionally it gives a model for the recognition and measurement of sales of some non-financial assets including disposals of property, equipment and intangible assets. IFRS 15 is effective for annual periods beginning on or after 1 January 2016.

The Company started the process of evaluating the potential effect of this standard.

Amendments to IAS 16 and IAS 38 (Clarification of Acceptable Methods of Depreciation and Amortisation)

These amendments clarify the principle in IAS 16 (Property, Plant and Equipment) and IAS 38 (Intangible Assets) that revenue should reflect a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. Within this respect, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and can only be used in very limited circumstances to amortise intangible assets. This means that entities that are currently using revenue-based amortisation methods for property, plant and equipment have to change their current amortisation approach to an acceptable method that results in a different amortisation pattern.

Amendments to IAS 16 and IAS 38 are effective prospectively for annual periods beginning on or after 1 January 2016.

Amendments to IAS 27 (Equity Method in Separate Financial Statements)

When IAS 27 and IAS 28 were revised in 2003, the equity method was removed as an option to account for investments in subsidiaries and associates in an entity's separate financial statements. In some jurisdictions, local regulations require an entity to use the equity method for this purpose, therefore creating a difference between separate financial statements prepared in accordance with local GAAP and those prepared in accordance with IFRS. The objective of these amendments is to restore the option to use the equity method.

Amendments to IAS 27 are effective prospectively for annual periods beginning on or after 1 January 2016. The Company is currently assessing the impact on its financial statements.

1) CASH AND BALANCES WITH CENTRAL BANKS

	2014	2013
Cash in hand	2,404	2,071
Balances with central banks	102,494	120,106
Total	**104,898**	**122,177**

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 bank include reserve deposits which are not available in daily operations amounting to 10,370 (2013: 10,062).

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, 2014 and 2013:

	2014		2013	
	Fair value	**Notional**	**Fair value**	**Notional**
Financial assets held for trading				
Forwards	-	-	466	8,299
Currency swaps	126	17,062	19,146	395,642
Interest rate swaps	158	6,387	-	-
Cross currency swaps	-	-	2,403	48,148
Debt securities issued by banks	-	-	3,361	3,716
Total	**284**	**23,449**	**25,376**	**455,805**
Financial liabilities held for trading				
Forwards	-	-	451	8,299
Currency swaps	9,951	254,174	837	66,608
Interest rate swaps	299	29,387	176	23,000
Cross currency swaps	3,379	44,164	698	47,190
Total	**13,629**	**327,725**	**2,162**	**145,097**

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.

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

When fair value of swaps is positive (negative), both fair value and corresponding notional amounts are reported as assets (liabilities). In 2014 the notional amounts of derivatives decreased by 250 million and the fair valuation showed significant movement against the subsidiary DHB Bank notably due to the appreciation of the USD.

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

	2014	2013
Available for sale financial assets		
Debt securities issued by banks	358,308	354,339
Debt securities issued by corporates	26,335	15,062
Government (Euro)bonds	5,873	-
Syndicated bank loans	-	10,905
Subtotal	**390,516**	**380,306**
IBNR allowances for impairment	-	(157)
Total	**390,516**	**380,149**

From the available for sale financial assets 360,112 (2013: 260,682) are under custody with DNB, of which 241,717 (2013: 167,552) is pledged for total funding 221,222 (2013: 152,130) obtained from the ECB under the (Targeted) Long Term Refinancing Operations and in the form of short term repo borrowings. The remaining available for sale financial assets of 148,799 (2013: 212,774) is freely available.
The pledged transactions are conducted in accordance with the general terms and conditions of DNB.
There are no subordinated available for sale financial assets.

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

	2014	2013
At January 1	**380,149**	**450,874**
Purchases	328,275	324,862
Sales	(237,342)	(208,829)
Redemptions	(77,431)	(175,000)
FX revaluations	(5,460)	(2,238)
Market value revaluations	2.168	(9,744)
Allowances for impairment	157	224
At December 31	**390,516**	**380,149**

4) SECURITIES HELD TO MATURITY

	2014	2013
Securities held to maturity		
Debt securities issued by banks	-	5,139
Debt securities issued by corporates	-	10,132
Subtotal	**-**	**15,271**
IBNR allowances for impairment	-	(5)
Total	-	**15,266**

There are no securities held to maturity used for repo transactions (2013: none).
There are no subordinated securities held to maturity in 2014 (2013: none).

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

	2014	2013
At January 1	**15,266**	**48,346**
Purchases	-	4,942
Sales	(13,340)	(41)
Redemptions	(532)	(37,515)
FX revaluations	(3)	(782)
Changes in accrued interest	(1,396)	238
Allowances for impairment	5	78
At December 31	**-**	**15,266**

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.

In the first quarter of 2014, a significant portion of securities in the HTM portfolio were sold as a proactive response to geo-political developments in Ukraine and Russia; this sale did not cause tainting thanks to its non-recurring aspect. The loss due to the sale of securities in HTM portfolio at unfavourable market rates amounted to 22 in total.

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'.

	2014	2013
Money market placements	19,139	9,194
Other loans and receivables	396,127	319,613
Subtotal	**415,266**	**328,357**
Specific allowances for impairment	-	(45)
IBNR allowances for impairment	(247)	(166)
Total	**415,019**	**328,146**

The item 'Loans and receivables – banks' includes pledged funds amounting to 16,036 (2013: 2,561) which serve as a collateral for several swap transactions for the entire amount (2013: 1,061). These pledged fund transactions are conducted under terms based on the applicable ISDA Collateral Guidelines and CSA terms.

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 3,725 (2013: 8,401).

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:

	2014	2013
Retail loans	45,734	33,455
Commercial loans	919,463	826,027
Subtotal	**965,197**	**859,482**
Specific allowances for impairment	(16,824)	(9,910)
IBNR allowances for impairment	(635)	(965)
Total	**947,738**	**848,607**

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 2014 and 31 December 2013.

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

	2014			2013		
	Notional	Fair values		Notional	Fair values	
	amounts	Positive	Negative	amounts	Positive	Negative
Interest rate swaps						
Fair value hedges	29,092	–	2,707	1,971	1,230	271
Cash flow hedges	–	–	–	745	571	–
Total	**29,092**	**–**	**2,707**	**2,716**	**1,801**	**271**

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

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

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

31 December 2014	Within 1 year	1-5 years	Over 5 years
Cash inflows	3,198	11,314	–
Cash outflows	–	–	–
Total	**3,198**	**11,314**	**–**

During 2014 the equity item 'Cash flow hedge reserve' decreased by 28 (2013: decreased by 336) relating to the effective portion of cash flow hedges.

8) PROPERTY AND EQUIPMENT

The changes in book value of property and equipment in 2014 and 2013 are as follows:

	Buildings	Other fixed assets	Total
Balance at January 1, 2014	**11,766**	**308**	**12,074**
Investments	210	152	**362**
Divestments	(253)	(44)	**(297)**
Depreciation	(343)	(129)	**(472)**
Revaluation	259	-	**259**
Reversal of impairment	41	-	**41**
Balance at December 31, 2014	**11,680**	**287**	**11,967**
Cost	14,306	6,109	**20,415**
Cumulative depreciation and impairment	(7,428)	(5,822)	**(13,250)**
Cumulative revaluations	4,802	-	**4,802**
Balance at December 31, 2014	**11,680**	**287**	**11,967**

	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**
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**

The real estate consists of office premises located in Rotterdam, Düsseldorf, Brussels and Antwerp and are latest appraised separately by independent experts as per December 31, 2014. The total market value of all the premises amounted to 11,680 (2013: 11,766).

The divestment in 2014 relates to the sale of real estate in the Hague as a result of the closure of the respective branch.

The reversal of impairment amounting to 41 (2013: 70) 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 (2013: 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 are as follows:

	2014	2013
Balance at January 1	**141**	**51**
Investments	168	118
Amortization	(64)	(28)
Balance at December 31	**245**	**141**
Cost	4,523	4,475
Cumulative amortization	(4,278)	(4,334)
Total	**245**	**141**

This item mainly includes licences. The investment amounting to 168 relates to licence expenses for software.

10) PARTICIPATIONS

	2014	2013
Access Financial Services IFN S.A. (36.25%)	2,029	1,990
C International N.V. (35.41%)	3,431	3,207
C Faktoring A.Ş. (9.73%)	6,026	6,422
Total	**11,486**	**11,619**

Access Financial Services IFN S.A. (36.25%)	2014	2013
Balance as at January, 1	**1,990**	**1,787**
Result	231	220
Currency translation reserve	(11)	(17)
Dividend paid	(181)	-
Balance as at December, 31	**2,029**	**1,990**

C International N.V. (35.41%)	2014	2013
Balance as at January, 1	**3,207**	**4,030**
Investment	-	550
Result	87	887
Currency translation reserve	82	(17)
Revaluation reserve	(902)	(2,244)
Other reserves	957	-
Balance as at December, 31	**3,431**	**3,207**

C Faktoring A.Ş. (9.73%)	2014	2013
Balance as at January, 1	**6,422**	**7,633**
Result	(339)	230
Fair value reserve	44	(10)
Legal reserve	(33)	(34)
Currency translation reserve	(68)	(1,397)
Balance as at December, 31	**6,026**	**6,422**

11) INCOME TAX ASSETS

	2014	2013
Current tax assets	458	-
Deferred tax assets	7	198
Total	**465**	**198**

The current tax assets include receivables due from the tax authorities. The deferred tax assets are recoverable amounts in future periods in respect of deductible temporary differences and concern depreciation of fixed assets in Germany and employee benefits.

The movements in deferred tax assets are as follows in 2014:

	Balance at January 1	Recognized in income statement	Recognized in other comprehensive income	Balance at December 31
Property and equipment – Real estate valuation	28	(21)	–	7
Employee benefits	170	(350)	180	–
Total	**198**	**(371)**	**180**	**7**

12) OTHER ASSETS

	2014	2013
Prepayments	1,602	964
Other receivables	211	636
Total	**1,813**	**1,600**

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.

	2014	2013
Current accounts	2,972	2,287
Time deposits	328,510	201,964
Syndication loan	2,474	19,099
Other	–	318
Total	**333,956**	**223,668**

Majority of the balance represents funds obtained through repo transactions amounting to 221,222 (2013: 152,130). This item also includes pledged deposit amounting to 45,000 (2013: 35,061) which serve as collateral for a bank loan granted by the subsidiary DHB Bank.

14) DEPOSITS FROM CUSTOMERS

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

	2014	2013
Current accounts	19,856	34,109
Saving accounts	702,554	689,669
Time deposits	560,074	538,591
Total	**1,282,484**	**1,262,369**

This item includes pledged deposits amounting to 42,115 (2013: 27,137) which serve as collateral for loans or off-balance sheet credit instruments granted by the subsidiary DHB Bank.

15) PROVISIONS

Provisions consist of the following items:

	2014	2013
Employee benefits pension	–	680
Employee benefits others	1,145	–
Onerous contracts	73	697
Restructuring	280	–
Total	**1,498**	**1,377**

Employee benefits pension

The Company had both defined benefit and defined contribution pension plans in the previous years. In the current year all the active employees agreed to change their pension plan to defined contribution plan by which there is no more basis to have a provision for employee benefits in 2014 and it is therefore released as settlement. Expenses related with defined contribution plan are directly recognized under staff cost and no provisions are set aside.

The amounts recognized in the balance sheet are as follows:

	2014	2013
Present value of total defined benefit obligation	–	5,619
Fair value of plan assets	–	(4,939)
Present value of net obligations	**–**	**680**

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

	2014	2013
Current service cost	(165)	(216)
Interest cost	(219)	(212)
Expected return on plan assets	191	181
Administration cost	(9)	(13)
Effect settlement	1,528	–
Net periodic gain/ (cost)	**1,326**	**(260)**

The change in net pension provisions can be summarized as:

	2014	2013
Defined benefit liability at January 1	5,619	6,396
Net periodic actuarial gain/(losses)	546	(1,172)
Current service and interest costs	384	428
Benefits paid by the plan	(32)	(33)
Effect settlement	(6,517)	–
Defined benefit liability at December 31	**–**	**5,619**

	2014	2013
Fair value of plan assets at January 1	4,939	5,529
Net periodic actuarial gain/(losses)	(220)	(857)
Return on assets	191	181
Costs	(9)	(13)
Contribution benefits	120	131
Benefits paid by the plan	(32)	(32)
Effect settlement	(4,989)	–
Fair value of plan assets at December 31	**–**	**4,939**

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

	2014	2013
Discount rate at December 31	2.37%	3.79%
Social security increases	1.50%	1.50%
Pension increases active participants	0.00%	0.00%
Pension increases other participants	0.00%	1.50%
Expected return on plan assets	2.37%	3.79%
Collective salary increases	1.50%	1.50%
Individual salary increase average	1.50%	1.50%
Pensionable age	67	67

For the fiscal year the discount rate was decreased from 3.79% to 2.37% to reflect the developments on the capital markets. On the other side the expected return on plan assets has also decreased from 3.79% to 2.37%. Fluctuation rates are based on the average rates in The Netherlands depending on participant's age.

Employee benefits others

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

	2014	2013
Opening balance	–	–
Addition	1,145	–
Closing balance	**1,145**	**–**

The balance mainly consists of provisions for variable remunerations related to 2014 (806, of which 106 belongs to HCBG and 700 belongs to the subsidiary DHB Bank) and 2013 (297.5 which belongs fully to the subsidiary DHB Bank). The total amount of the latter was 500 as of year-end 2013 and reported under other liabilities.

Onerous contracts

Provision for onerous rental contract mainly relates to the rent obligations of closed branch in London. The lease contract on the London Office, whose original maturity was October 2015, was ended in 2014 under agreement with the landlord, without any remaining obligation for the bank. On the other hand, the bank set aside in 2014 a provision for the liabilities under the rent contract of Rotterdam branch. The movements of the provision for onerous rental contracts are as follows:

	2014	2013
Opening balance	697	1,278
Addition	73	9
Utilization	(541)	(557)
Release	(156)	–
Exchange rate movement	–	(33)
Closing balance	**73**	**697**

Restructuring

Restructuring provision relates to the expected payments for the closure of the Rotterdam branch in 2015.

	2014	2013
Opening balance	–	–
Addition	280	–
Closing balance	**280**	**–**

16) INCOME TAX LIABILITIES

	2014	2013
Current tax liabilities	8	2,786
Deferred tax liabilities	1,696	2,353
Total	**1,704**	**5,139**

Current tax liabilities include payables due to tax authorities.

According to our accounting policies all 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 are partly released in 2014 mainly because of sale and redemption of available-for-sale financial assets.

The movements in deferred tax liabilities are as follows in 2014:

	Balance at January 1	Recognized in income statement	Recognized in other comprehensive income	Balance at December 31
Property and equipment – Real estate valuation	1,243	(25)	39	1,257
Fair value reserve	1,101	–	(662)	439
Cash flow hedge reserve	9	–	(9)	–
Total	**2,353**	**(25)**	**(632)**	**1,696**

17) OTHER LIABILITIES

	2014	2013
Accrued expenses	1,868	2,928
Payables to suppliers	173	355
Other liabilities	1,919	2,532
Total	**3,958**	**5,816**

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 2014, the General Meeting of Shareholders decided to reduce the nominal value of the B-shares from EUR 0.78 to EUR 0.65 each. The effect on the issued shares is EUR 5,036,000 and has been paid out in 2014 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 0.65.

OTHER RESERVES

This item consists of defined benefit obligation reserve, 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:

	2014	2013
Non-credit substitute guarantees	2,106	3,501
Irrevocable letters of credit	7,216	5,976
Total	**9,322**	**9,477**

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

	2014	2013
The Netherlands	3,411	3,201
Turkey	975	3,085
Rest of Europe	4,936	3,191
Total	**9,322**	**9,477**

20) NET INTEREST INCOME

	2014	2013
Interest income from:		
Cash and balances with central banks	63	164
Financial assets held for trading	-	139
Available for sale financial assets	6,749	12,856
Securities held to maturity	93	1,526
Loans and receivables – banks	9,924	12,120
Loans and receivables – customers	59,905	52,229
Other interest income	-	36
Subtotal	**76,734**	**79,069**
Interest expense from:		
Due to banks	1,181	1,634
Deposits from customers	20,796	24,608
Derivative financial instruments	275	271
Other interest expense	61	-
Subtotal	**22,313**	**26,513**
Total	**54,421**	**52,556**

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

21) NET FEE AND COMMISSION INCOME

	2014	2013
Letter of guarantees	32	60
Letter of credits	235	231
Cash loan	1,702	1,343
Banking services	1,148	1,317
Other fees and commissions	39	59
Subtotal	**3,156**	**3,010**
Fee and commission expense	(356)	(429)
Total	**2,800**	**2,581**

22) RESULT ON FINANCIAL TRANSACTIONS

	2014	2013
Results from foreign currency exchange transactions	(402)	526
Results from securities transactions	2,800	7,574
Results from derivatives transactions	(20,664)	(19,284)
Total	**(18,266)**	**(11,185)**

'Results from foreign currency exchange transactions' comprises all (un)realized gains and losses arising from foreign currency positions in relation to exchange rate changes. Foreign currency positions generally relate to assets, liabilities or derivative transactions. The mentioned gains and losses show the total result without indicating the underlying position.

'Results from securities transactions' are (un)realized fair value gains and losses of debt securities held for trading. In this item are also included the amounts transferred from equity to the income statement on the sale of available for sale financial assets.

'Results from derivatives transactions' reflect fair value results on FX swap and cross currency swap transactions, with exception of the foreign currency effects on the result, that is included in the abovementioned subline item 'Result from foreign currency exchange transactions', which are concluded to fund loans and receivables in other currencies, mainly USD and TRY. The differences between their spot rates and forward rates are amortized daily and recognized through the lifetime of the respective transactions.

23) RESULT ON HEDGE TRANSACTIONS

	2014	**2013**
Results form hedge transactions	108	(100)

'Results from hedge transactions' comprise the gains and losses from:	**2014**	**2013**
• Fair value hedges on the hedging instrument	(3,177)	2,648
• Fair value hedges on the hedged item	3,285	(2,748)
Total	**108**	**(100)**

These results are related to the fair value hedges. The Company applies fair value hedge accounting to the interest rate risk and/or the foreign exchange risk arising from financial instruments at available-for-sale or at amortized costs with fixed interest rates. The Company uses interest rate swaps and cross currency swaps as a hedging instrument.

24) OTHER OPERATING INCOME

	2014	**2013**
Other operating income	388	53

Other operating income consists of non-recurring income items, such as the income from sale of real estate of the Hague branch.

25) STAFF EXPENSES

	2014	**2013**
Wages and salaries	11,304	8,943
Pension costs	(66)	1,079
Other social security costs	1,480	1,445
Other staff costs	460	323
Total	**13,178**	**11,790**

The current number of full-time equivalents in 2014 was 140 (2013: 141)

	2014	**2013**
• In The Netherlands	93	96
• Outside The Netherlands	47	45
Total	**140**	**141**

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. In 2014 all the active employees, who were in the defined pension benefit plan, agreed to change their plan into defined contribution plan, by which there is no more basis to have a provision for employee benefits in 2014. This provision is released as settlement from pension costs, which explains the negative amount for 2014. Further reference is made to note 15.

The fixed remuneration (including pension costs) of the current and former members of the Managing Board amounted to 1,654 in 2014 (2013: 848). The fixed remuneration with regards to HCBG amounts to 227 (2013: 214). The remaining of the fixed remuneration 1,427 relates to the subsidiary DHB Bank (2013: 634). The variable remuneration of the members of the Managing Board amounts to 400 (2013: 150) and fully relates to the subsidiary DHB Bank. No expense is included in 2014 (2013: 46, which belongs fully to the subsidiary DHB Bank) in relation to the crisis tax of 16%, as it was abolished in 2014.

26) OTHER ADMINISTRATIVE EXPENSES

	2014	2013
Other administrative expenses	7,544	5,777

Other administrative expenses refer to operational expenses incurred during the year. Major items in other administrative expenses are the communication expenses, external service expenses and maintenance expenses. In 2014 this item also includes released provision amount regarding DSB Bank by the subsidiary, DHB Bank.

With the nationalisation of SNS REAAL N.V. the subsidiary DHB Bank paid a one-time levy in 2014 amounting to 2.8 million according to the bank's market share in retail deposits like all other Dutch banks.

This item also includes the fees for audit and tax advisory services:

Audit-related fees	2014	2013
Financial audit expenses	233	203
Tax advisory services	50	83
Total	**283**	**286**

27) NET IMPAIRMENT CHARGE

	2014	2013
Available for sale assets	(157)	(224)
Held to maturity assets	(5)	(66)
Loans and receivables	6,216	3,141
Property and equipment	(41)	(70)
Total	**6,013**	**2,781**

28) TAXATION

The Netherlands

Corporate income tax is levied at the rate of 25% (2013: 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 2014. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies.

Germany

Profit is subject to trade tax, which is calculated based on rate of the local city. Trade tax is not deductible for the calculation of corporate tax at a statutory rate of 25%. The statutory solidarity tax is 5.5% on corporate tax. The effective tax rate is estimated at 30.92%.

Belgium

The statutory tax rate is 33.99% in Belgium consisting of basis tax rate of 33% and an additional tax called 'Crisis Tax' at a rate of 3%. The effective rate is estimated at 1.22%, which is lower than statutory tax rate because of notional interest deduction facility in Belgium.

Reconciliation of effective tax rate	%	2014	%	2013
Profit before income tax		12,180		23,048
Income tax using the domestic corporation tax rate	(25.00%)	(3,289)	(25.00%)	(5,960)
Effect of tax rates in foreign jurisdictions	(1.13%)	(149)	(0.20%)	(47)
Non-deductible expenses / tax exempt items	(2.64%)	(347)	0.90%	214
Other	0.01%	1	0.25%	60
Total	**(28.76%)**	**(3,784)**	**(24.05%)**	**(5,733)**

Income tax expense recognized in income statement	2014	2013
Current income tax expense	(3,439)	(6,004)
Deferred income tax expense	(345)	271
Total	**(3,784)**	**(5,733)**

Income tax related to components of other comprehensive income	2014	2013
Revaluation reserve	(39)	(171)
Defined benefit obligation reserve	-	(79)
Fair value reserve	9	957
Cash flow hedge reserve	661	112
Total	**631**	**819**

RELATED PARTIES

Parties are considered to be related, if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or if majority of the shares of the parties are owned by the same shareholder. The related parties consist of C group, the members of the Supervisory Board and Managing Board of DHB Bank and Managing Board of HCBG Holding B.V. and their relatives. As of year-end 2014, 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.

There are no outstanding risks in 2014 against third party promissory notes/cheques (2013: 1,498).

The outstanding balances with related parties for the year ended December 31, 2014 are as follows:

	Subsidiaries	Other related parties	Key management and their relatives	Total
Assets				
Cash and balances with central banks	339	-	-	339
Loans and receivables – customers	-	46	2	48

The income and expenses in respect of related parties included in the financial statements for the year 2014 are as follows:

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

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

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

CAPITAL ADEQUACY

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

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

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

	2014		**2013**	
	Required	**Actual**	**Required**	**Actual**
Total capital	107,246	230,429	102,793	229,236
Total capital ratio / BIS ratio	8.00%	17.19%	8.00%	17.84%
Tier 1 capital	60,326	230,429	51,396	226,373
Tier 1 capital ratio	4.50%	17.19%	4.00%	17.62%
Risk Weighted Assets		1,340,572		1,284,912

FAIR VALUE MEASUREMENT OF ASSETS AND LIABILITIES

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

	31 December 2014		31 December 2013	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets				
Cash and balances with central banks	104,898	104,898	122,177	122,177
Financial assets held for trading	284	284	25,376	25,376
Available for sale financial assets	390,516	390,516	380,149	380,149
Securities held to maturity	-	-	15,266	15,489
Loans and receivables – banks	415,019	416,126	328,146	327,674
Loans and receivables – customers	947,738	962,504	848,607	879,304
Derivative financial instruments – hedge accounting	-	-	1,801	1,801
Participations	11,486	11,487	11,619	11,619
Property and equipment	11,967	11,967	12,074	12,074
Intangible assets	245	245	141	141
Current tax assets	458	458	-	-
Deferred tax assets	7	7	198	198
Other assets	1,813	1,813	1,600	1,600
Total	**1,884,431**	**1,900,305**	**1,747,154**	**1,777,602**
Liabilities				
Due to banks	333,956	333,956	223,668	223,668
Financial liabilities held for trading	13,629	13,629	2,162	2,162
Deposits from customers	1,282,484	1,306,231	1,262,369	1,285,490
Derivative financial instruments - Hedge	2,707	2,707	271	271
Provisions	1,392	1,392	1,377	1,377
Current tax liabilities	8	8	2,786	2,786
Deferred tax liabilities	1,696	1,696	2,353	2,353
Other liabilities	4,064	4,057	5,816	5,816
Total	**1,639,936**	**1,663,676**	**1,500,802**	**1,523,923**

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.

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

The principal inputs to these valuation techniques are:
- Quoted interest rates in the swap and bond markets;

- Foreign currency exchange rates from observable markets both for spot and forward contracts and futures
- Credit spreads mainly derived from prices of credit default swaps (CDS) or other credit-based instruments, such as debt securities.

- Level 3: Valuation techniques based on significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data 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. The market value based on the market rent capitalization method is the gross market rent of the Property's lettable floor area. The value of the Property is determined by capitalization of the net market rent (gross market rent less expenses for property). This methodology applies two variables with a significant impact on the market value, the market rent and the gross initial yield.

  In order to set an appropriate market rent for the different spaces, recent rental transactions of comparable buildings have been analysed. Considering these transactions a bandwidth for the market of offices space is constructed. Based on professional judgement of the appraiser, market rents are set with the bandwidth or in specific cases with reason out of the bandwidth. The more specific the transaction references are, the narrower the bandwidth of the market rent becomes.

  In order to estimate the capitalization factor, the appropriate initial yield has been derived from recent transactions in the market. These gross initial yields are provided in the report and approximately equal to 8.5%. The buildings owned by the Company are considered good in terms of marketability as mentioned in the report. Therefore a lower initial yield is applied, which is between 8.1% and 8.4% depending on the real estate.

Fair value hierarchy for assets and liabilities measured at fair value

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

31 December 2014	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading	–	284	–	**284**
Available for sale financial assets	390,516	–	–	**390,516**
Derivative financial instruments – Hedge accounting	–	–	–	**–**
Property and equipment - Buildings	–	–	11,680	**11,680**
Total	**390,516**	**284**	**11,680**	**402,480**
Liabilities				
Financial liabilities held for trading	–	13,629	–	**13,629**
Derivative financial instruments – Hedge accounting	–	2,707	–	**2,707**
Total	**–**	**16,336**	**–**	**16,336**

31 December 2013	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held for trading	–	25,376	–	**25,376**
Available for sale financial assets	380,419	–	–	**380,419**
Derivative financial instruments – Hedge accounting	–	1,801	–	**1,801**
Property and equipment - Buildings	–	–	11,766	**11,766**
Total	**380,419**	**27,177**	**11,766**	**419,362**
Liabilities				
Financial liabilities held for trading	–	2,162	–	**2,162**
Derivative financial instruments – Hedge accounting	–	271	–	**271**
Total	**–**	**2,433**	**–**	**2,433**

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

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

The following table shows the fair values of assets and liabilities not measured at fair value and analyses them by level of the fair value hierarchy.

31 December 2014	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	2,404	102,494	–	**104,898**
Securities held to maturity	–	–	–	**–**
Loans and receivables - banks	–	416,126	–	**416,126**
Loans and receivables - customers	–	–	962,504	**962,504**
Total	**2,404**	**518,620**	**962,504**	**1,483,528**
Liabilities				
Due to banks	–	333,956	–	**333,956**
Deposits from customers	–	–	1,306,231	**1,306,231**
Total	**–**	**333,956**	**1,306,231**	**1,640,187**

31 December 2013	Level 1	Level 2	Level 3	Total
Assets				
Cash and balances with central banks	660	120,106	–	**120,766**
Securities held to maturity	15,489	–	–	**15,489**
Loans and receivables - banks	–	327,228	–	**327,228**
Loans and receivables - customers	–	–	878,399	**878,399**
Total	**16,149**	**447,334**	**878,399**	**1,341,882**
Liabilities				
Due to banks	–	223,668	–	**223,668**
Deposits from customers	–	–	1,285,836	**1,285,836**
Total	**–**	**223,668**	**1,285,836**	**1,509,504**

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amounts of level 3 financial assets which are measured at fair value. These assets are buildings in own use. Further reference is made to note 8.

	2014	2013
Balance at January 1	**11,766**	**11,378**
Investments	210	108
Divestments	(253)	–
Depreciation	(343)	(325)
Revaluation	259	535
Reversal of impairment	41	70
Balance at December 31	**11,680**	**11,766**

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

Financial assets and liabilities are offset and the net amount is reported on the balance sheet if there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The Company applies netting to derivative contracts for which a market settlement mechanism (e.g. an exchange or clearing house) exists which effectively accomplishes net settlement through daily cash margining processes.

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

Legally enforceable master netting agreement have provisions that make offsetting exercisable only in the event of default, insolvency or bankruptcy of the Company or counterparties. For derivative transactions, the Company uses the ISDA (International Swaps and Derivatives Association) master netting arrangements. The Company signs the ISDA master agreement together with a credit support annex (CSA) before they trade over the counter derivatives with each other.

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

						2014
	Gross amount	**Offsetting counterparty position in the statement of financial position**	**Net amounts presented in the financial position**	**Cash collaterals pledged/ received**	**Financial instruments**	**Net amount**
Financial Assets						
Derivative assets	284	–	284	–	–	284
Total	**284**	**–**	**284**	**–**	**–**	**284**
Financial Liabilities						
Derivative liabilities	13,629	–	13,629	(13,629)	–	–
Repo agreements	221,222	–	221,222	–	221,222	–
Total	**234,851**	**–**	**234,851**	**(13,629)**	**221,222**	**–**

						2013
	Gross amount	**Offsetting counterparty position in the statement of financial position**	**Net amounts presented in the financial position**	**Cash collaterals pledged/ received**	**Financial instruments**	**Net amount**
Financial Assets						
Derivative assets	22,015	–	22,015	(2,270)	–	19,745
Total	**22,015**	**–**	**22,015**	**(2,270)**	**–**	**19,745**
Financial Liabilities						
Derivative liabilities	2,162	–	2,162	(1,061)	–	1,101
Repo agreements	152,130	–	152,130	–	(152,130)	–
Total	**154,292**	**–**	**154,292**	**(1,061)**	**(152,130)**	**1,101**

TRANSFER OF FINANCIAL ASSETS

The Company's financial assets that have been transferred, but do not qualify for derecognition are available for sale debt securities used in repurchase transactions.

	2014	**2013**
Transferred Assets		
Available for sale financial assets	241,717	167,663
Associated Liabilities		
Due to banks	221,222	152,130

The Company has transferred but has not derecognised these assets. The Company has determined that it retains substantially all the risks, including credit risk and market risk, and rewards of these securities, and therefore has not derecognised them.

From the available for sale financial assets 360,112 (2013: 260,682) are under custody with DNB, of which 241,717 (2013:167,552) is pledged for total funding of 221,222 (2013: 152,130) obtained from the ECB under the (Targeted) Long Term Refinancing Operations and in the form of short term repo borrowings. The remaining available for sale financial assets is 148,799 (2013: 212,774) of which 53 (2013: 339) belongs to HCBG and is freely available. The remaining 148,746 (2013: 212,435) belongs to the subsidiary DHB and is in custody of DNB but freely available and will be pledged to DNB in case the Company wants to draw down more funding from this DNB credit facility.

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

SUBSEQUENT EVENTS

There are no subsequent events.

RISK MANAGEMENT

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

The Company's ability to define risks is regarded as a key competency. Risks identified are measured and included in the overall risk management framework.

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 Company places greater emphasis on qualitative risk factors and on the assessment of activities to gauge the overall level of risks to ensure that they are within the approved risk appetite. Risk factors for new products are systemically identified using a new products approval process initiated by the unit owning the product. All related front and back office units and Risk Management evaluate the product specifications and assess the risk level of the product in all aspects before launch date.

In below sections the Company'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 losses associated with an obligor's inability or unwillingness to fulfil its obligations towards the Company. Losses associated with credit risk include either the actual default on repayment or a loss of value in financial assets caused by the decrease in the obligor's credit quality. Credit risk stems from various forms of lending to customers, but also from counterparty, settlement and country risk.

The 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 the lending activities in accordance with the credit approval procedures. All loan decisions are made by the Credit Committee. The loans above a certain level are additionally subject to positive advice by the SBCC or full SB, depending on the respective amount. 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 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 been working on the implementation of an enhanced internal rating system during 2012-2014. The new system supports 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.

The new internal rating framework has 22 rating classes and continues to rely on a fundamental credit analysis and building blocks capturing qualitative and quantitative risk factors related to borrowers. The model has been enhanced to capture and reflect inherent credit risk more accurately by customizing sub-models to mirror differing dynamics of various sectors. Country ceilings are in principle applied for all borrowers. Only in exceptional cases, a borrower may be rated above country ceiling provided that certain strict criteria are met. Finally, the rating framework ensures timely updates of sector and country data to enable interim rating actions when necessary.

Credit exposure

The Company's credit exposure is calculated on the basis of on-and-off the balance sheet items that carry credit risk. Within the total credit exposure, items subject to credit risk are related to lending activities that form part of main subsidiary, DHB Bank's core banking business. On the other hand, exposure items 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:

	2014	**2013**
Cash with central banks	102,494	120,106
Financial assets held for trading	284	25,376
Available for sale financial assets	388,948	375,979
Securities held to maturity	-	15,266
Loans and receivables – banks	415,019	328,146
Loans and receivables – customers	947,705	848,537
Derivative financial instruments – hedge accounting	-	1,801
Participations	11,486	11,619
Total on-balance sheet items	**1,865,936**	**1,726,830**
Contingent liabilities L/G	2,106	3,501
Contingent liabilities L/C	7,216	5,976
Total off-balance sheet items	**9,322**	**9,477**
Total credit risk	**1,875,258**	**1,736,307**

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.

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 2014
Securities guaranteed by governments	–	–	–	–	–	–	–	–	–	–	–	–
Loans guaranteed by banks	–	–	–	–	11,672	–	–	–	–	–	–	11,672
Loans guaranteed by mortgage	–	–	–	–	–	217,947	–	–	54	3,048	–	221,049
Loans guaranteed by cash collateral	–	–	–	–	45,000	43,958	–	–	174	669	–	89,801
Loans guaranteed by third parties	–	–	–	–	–	550,480	–	–	1,878	3,499	–	555,857
Loans guaranteed by third parties	–	–	–	–	–	206	–	–	–	–	–	206
Others/unsecured	102,494	284	388,948	–	358,347	135,114	-	11,486	–	–	–	996,673
Total	**102,494**	**284**	**388,948**	–	**415,019**	**947,705**	**-**	**11,486**	**2,106**	**7,216**	–	**1,875,258**

	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
Loans guaranteed by third parties	–	–	–	–	–	1,680	–	–	–	–	–	1,680
Others/unsecured	120,106	25,376	373,979	15,266	293,085	408,128	1,801	11,619	–	–	–	1,249,360
Total	**120,106**	**25,376**	**375,979**	**15,266**	**328,146**	**848,537**	**1,801**	**11,619**	**3,501**	**5,976**	–	**1,736,307**

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 2014 DHB Bank further reduced its exposure to Turkey compared to 2013 by around 57 million and the exposure to Russia by 159 million. Loans and receivables to banks reduced by 88 million whereas loans and receivables to customers increased by 99 million compared to the 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 financial instruments – hedge accounting	Participations	Commitments and contingent liabilities	Total 2014	%
Turkey	–	–	13,044	–	266,139	401,926	–	6,026	975	688,110	36.70%
The Netherlands[i]	102,470	–	119,076	–	37,371	19,673	–	3,431	3,411	285,432	15.22%
Germany	23	69	5,498	–	31,537	89,282	–	–	1,609	128,018	6.83%
France	–	20	46,929	–	3	34,042	–	–	–	80,994	4.32%
United Kingdom	–	33	26,400	–	12,568	34,526	–	–	–	73,527	3.92%
United States of America	–	4	61,057	–	3,668	–	–	–	–	64,729	3.45%
Belgium	–	–	–	–	21	52,713	–	–	–	52,734	2.81%
Spain	1	158	40,232	–	–	9,651	–	–	–	50,042	2.67%
Azerbaijan	–	–	6,761	–	15,766	16,311	–	–	–	38,838	2.07%
Egypt	–	–	–	–	–	37,458	–	–	–	37,458	2.00%
Sweden	–	–	16,639	–	–	20,360	–	–	–	36,999	1.97%
United Arab Emirates	–	–	–	–	–	34,441	–	–	–	34,441	1.84%
Romania	–	–	–	–	–	31,212	–	2,029	–	31,212	1.66%
Macedonia	–	–	–	–	12,523	16,445	–	–	–	28,968	1.54%
Italy	–	–	20,950	–	–	7,264	–	–	–	28,214	1.50%
Russia	–	–	9,343	–	8,042	8,776	–	–	–	26,161	1.40%
Republic of Kosovo	–	–	–	–	–	24,171	–	–	–	24,171	1.29%
Others	–	–	23,019	–	27,381	109,454	–	–	3,327	165,210	8.81%
Total	**102,494**	**284**	**388,948**	**–**	**415,019**	**947,705**	**–**	**11,486**	**9,322**	**1,875,258**	**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.

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

	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 2013	%
Turkey	–	3,755	31,788	524	170,463	529,356	–	6,422	3,085	745,393	42.93%
The Netherlands[i]	120,008	1,490	47,844	–	14,954	21,281	–	3,207	3,201	211,985	12.21%
Russia	–	–	77,866	14,742	59,813	33,126	–	–	–	185,547	10.69%
United States of America	–	4,737	109,116	–	141	–	–	–	–	113,994	6.57%
United Kingdom	–	7,300	43,379	–	2,843	15,925	1,530	–	–	70,977	4.09%
Germany	87	6,101	30	–	10,283	32,020	271	–	–	48,792	2.81%
Azerbaijan	–	–	5,965	–	19,211	16,088	–	–	–	41,264	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	1.65%
Macedonia	–	–	–	–	10,019	14,901	–	–	–	24,920	1.44%
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	–	1,990	–	16,899	0.97%
Spain	–	–	15,510	–	–	–	–	–	–	15,510	0.89%
Others	–	983	5,157	–	6,324	59,869	–	–	3,191	77,514	4.46%
Total	**120,106**	**25,376**	**375,979**	**15,266**	**328,146**	**848,537**	**1,801**	**11,619**	**9,477**	**1,736,307**	**100.0%**

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

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

	2014		2013	
Sectors	On-balance	Off-balance	On-balance	Off-balance
Financial institutions and insurance	228,845	3	365,279	–
Agriculture, forestry and fishing	10,144	–	6,786	–
Mining and quarrying	3,799	–	4,935	–
Manufacturing	205,538	3,161	146,061	56
Electricity, gas, steam and air conditioning supply	57,962	–	58,682	–
Construction	110,692	–	97,092	–
Wholesale and retail trade	88,061	4,133	38,933	6,012
Transport and storage	57,739	–	36,338	–
Accommodation and food service activities	25,260	183	21,071	160
Information and communication	47,621	–	24,178	–
Real estate activities	40,840	–	5,189	–
Administrative and support service activities	2,897	–	2,889	9
Human health services and social work activities	8,445	–	7,495	7
Other services	31,587	1,812	11,029	3,191
Total	919,430	9,292	825,957	9,435
Private individuals / self- employed	45,734	30	33,455	42
Total	965,164	9,322	859,412	9,477
Allowances for impairment	(17,459)	–	(10,875)	–
Total loans and receivables - customers	**947,705**	**9,322**	**848,537**	**9,477**

Credit quality of financial assets

The Company performs monitoring of credit portfolio throughout the life cycle of the loan facility. Credits are classified into different categories in order to optimise monitoring and review of these loans.

One of credit quality indicators is the extent to which concessions in terms of interests/maturities are given to a borrower that is in (or considered to face) financial difficulties. The goal of providing the forbearance measures in the form of modification of contracts or refinancing is to allow the borrowers to regain its financial health within its means. Forbearance also triggers impairment testing as per the Company's internal policies.

As indicated by the following table, forbearance measures can be applied to a contract that has defaulted on its obligations as well as to a contract that is still performing.

Summary forbearance – Loans and receivables								
Gross carrying amount	Performing assets			Non-performing assets			Total forborne assets	Forbearance ratio
	Modification of the contract	Refinancing	Total performing forborne assets	Modification of the contract	Refinancing	Total non-performing forborne assets		
1,376,302	6,259	-	-	16,359	-	16,359	22,618	1.6%

Another 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.

	2014	2013
Neither past due nor impaired	1,854,452	1,713,530
Past due but not impaired	997	620
Impaired	26,029	23,137
Allowances	(17,706)	(11,248)
Total	**1,863,772**	**1,726,039**

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

	2014	2013
Investment grade	**871,178**	**772,734**
AAA	102,494	121,606
AA+	–	–
AA	–	301
AA-	51,685	7,445
A+	19,399	10,518
A	110,777	47,311
A-	129,769	163,240
BBB+	29,239	11,790
BBB	144,696	206,790
BBB-	283,119	203,733
Non-investment grade	**54,169**	**121,020**
BB+	21,307	57,100
BB	18,249	13,358
BB-	9,343	38,017
B+	–	3,008
B	5,269	4,550
B-	–	–
CCC+	1	49
CCC	–	178
CCC-	–	–
CC	–	4,760
Unrated	**938,425**	**832,285**
Total	**1,863,772**	**1,726,039**

The subsidiary, DHB makes an own assessment of the risk that a borrower will default on its financial obligations to the bank. This assessment is translated into an internal credit rating that has 8 rating category. Suffixes "+"or "-" can be appended to a rating, except for the highest and default categories, to indicate the relative position of a credit within the rating class.

DHB's internal credit rating system 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 risk management units 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	2014	2013
Past due up to 30 days	158	124
Past due 31 - 60 days	27	27
Past due 61 - 90 days	3	19
Past due over 90 days	808	450
Total	**997**	**620**

Provisions for loan losses are set aside for estimated losses on outstanding loans for which there is objective evidence of impairment on the borrower's capacity to repay the principal and/or interest.

In addition, the subsidiary DHB also sets aside provisions to cover potential loan losses on a collective basis based on an incurred but not reported (IBNR) loss provisioning method. For the purpose of calculating the IBNR loss allowance, 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 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 movements of the specific allowances for impairment for the year 2014 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	–	–	45	9,910	9,955
Addition	–	–	–	7,844	7,844
Release	–	–	–	(1,231)	(1,231)
Write-off	–	–	(45)	(366)	(411)
Exchange rate movement	–	–	–	667	667
Closing balance	**–**	**–**	**–**	**16,824**	**16,824**

The movements of the IBNR loss allowances for impairment for the year 2014 are as follows:

	Available for sale financial assets	Securities held to maturity	Loans and receivables - banks	Loans and receivables - customers	Total
Opening balance	157	5	166	965	1,293
Addition	–	–	81	–	81
Release	(157)	(5)	–	(330)	(492)
Closing balance	**–**	**–**	**247**	**635**	**882**

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 balance of total specific allowances for impaired assets increased from 10 million in 2013 to 17 million in 2014. Although provisions for estimated loan losses are considered adequate, the use of different methods and assumptions could produce different provisions for loan losses, and amendments may be required in the future as a consequence of changes in the expected loss, the value of collateral and other economic events.

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.

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 concerning the NSFR. The Company's liquidity ratios are already higher than the minimum requirements.

Within its ILAAP, the subsidiary DHB has set its short-term liquidity risk appetite in terms of the LCR target and has additionally set a target for a minimum survival period of 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 subsidiary DHB 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 for managing the liquidity risk of the bank in line with the guidance set by ALCO and for compliance with the DHB's liquidity risk limits determined by the Bank. Along with the Treasury Department, the Risk Management Department develops the liquidity risk management framework, which consists of governance, policies and methodologies as well as guidelines for pricing the liquidity risk.

Liquidity risk management covers both short-term liquidity risk and long-term structural liquidity risk. With its stable customer deposit base and balanced composition of saving and time deposits, combined with relatively low average tenors of its banking assets, the Company has a healthy structural liquidity risk profile.
In order to manage short-term funding positions, the subsidiary DHB 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 subsidiary DHB 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, 2014	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 year	Undefined	Total
Assets (undiscounted cash flows)							
Cash and balances with central banks	92,244	–	–	–	–	10,370	102,614
Available for sale financial assets	–	26,990	51,910	311,563	–	–	390,463
Securities held to maturity	–	–	–	–	–	–	–
Loans and receivables – banks	3,103	85,354	302,517	24,989	–	–	415,963
Loans and receivables – customers	20,558	293,089	235,214	382,308	22,935	–	954,104
Other assets	–	–	–	–	–	14,487	14,487
Total assets (excluding derivatives)	115,905	405,433	589,641	718,860	22,935	24,857	1,877,631
Liabilities (undiscounted cash flows)							
Due to banks	2,972	274,145	47,995	8,844	–	–	333,956
Deposits from customers	722,752	111,592	199,545	246,534	2,403	–	1,282,826
Other liabilities	–	–	1,392	–	–	5,618	7,010
Total liabilities (excluding derivatives)	725,724	385,737	248,932	255,378	2,403	5,618	1,623,792

The immediately available liquidity of the Company consisting of cash and the ECB eligible securities valued after the ECB haircuts as of year-end 2014 was 211 million, representing 11.3% 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, 2013	On demand	Up to 3 months	3-12 months	1-5 years	Over 5 year	Undefined	Total
Assets (undiscounted cash flows)							
Cash and balances with central banks	110,704	–	–	–	–	10,062	120,766
Available for sale financial assets	-	–	–	3,361	–	–	3,361
Securities held to maturity	–	17,209	45,293	317,210	–	–	379,712
Loans and receivables – banks	–	133	391	14,742	–	–	15,266
Loans and receivables – customers	3,178	89,019	167,981	66,037	1,801	–	328,016
Other assets	15,710	394,260	155,402	272,353	19,250	–	856,975
Total assets (excluding derivatives)	–	–	–	–	–	13,978	13,978
	129,592	**500,621**	**369,067**	**673,703**	**21,051**	**24,040**	**1,718,074**

Liabilities (undiscounted cash flows)							
Due to banks	2,287	47,564	19,417	154,400	–	–	223,668
Deposits from customers	724,126	114,707	209,905	213,926	53	–	1,262,717
Other liabilities	–	–	1,377	–	–	10,895	12.272
Total liabilities (excluding derivatives)	**726,413**	**162,271**	**230,999**	**368,326**	**53**	**10,895**	**1,498,657**

The following table presents gross settled receivables and payables related to the derivative financial instruments. The amounts disclosed in the table are the contractual undiscounted cash flows at 31 December 2014 and 31 December 2013.

December 31, 2014	Up to 3 months	3-12 months	1-5 years	Over 5 year	**Total**
Interest rate and cross-currency derivatives					
Derivatives used for trading					
Receivables	237,065	49,981	37,330	12,775	**337,151**
Payables	247,033	52,335	39,041	12,775	**351,184**
Derivatives used for hedging					
Receivables	–	–	26,656	–	**26,656**
Payables	–	–	29,092	–	**29,092**

December 31, 2013	Up to 3 months	3-12 months	1-5 years	Over 5 year	**Total**
Interest rate and cross-currency derivatives					
Derivatives used for trading					
Receivables	440,703	59,604	48,413	–	**548,720**
Payables	427,299	70,137	33,152	–	**530,588**
Derivatives used for hedging					
Receivables	–	24,806	57,292	–	**82,098**
Payables	–	24,877	54,708	–	**79,585**

Market risk

Market risk is the exposure to an adverse impact on the Company's earnings and capital changes in market prices and rates. The Company has a very low risk appetite for market risks that arises either through positions in trading books or banking books.

The level of the Company's trading activity is negligible. The Company mainly takes on market risk as part of its treasury management that supports the day-to-day management of liquidity. Any trading positions that might be taken involve relatively simple products and partially arise from servicing customers.

Within the subsidiary DHB, in cooperation with the Treasury Department, the Risk Management Department is responsible for updating the market risk policies and limit framework, and carries out active risk monitoring. The Risk Management Department also seeks to recommend efficient risk/return parameters, to reduce volatility in the operating performance, and presents the subsidiary DHB market risk profile to the management. The subsidiary DHB makes use of a combination of risks, earnings and regulatory parameters to manage market risk. The market risk appetite statements for the trading book are defined in terms of Value at Risk (VaR) and maximum tolerated loss within a quarter.

The subsidiary DHB'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 subsidiary DHB evaluates the market risk of the 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 subsidiary DHB's risk management framework.

Over the last two years, the Company's market risk in trading book has mainly related to its FX open position, albeit in a small scale.

The following table reports the VaR of the Company's FX net open position based on historical simulation for a confidence level of 99% and a 10 days holding period.

VaR of FX position	**2014**	**2013**
Max	(49)	(71)
Min	(1)	(4)
Average	(7)	(20)
End of year	(2)	(4)

VaR is a risk measure that has limitations. It quantifies potential losses under the assumption of normal market conditions. The model's shortcomings are especially material during exceptional market developments; therefore to counter-balance this weakness, non-statistical tools are applied to control risk, including net open position 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 in the banking book

Interest rate risk is related to changes in the fair value or the future cash flows of interest-bearing financial instruments resulting from changes in the market rates of interest. The 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 subsidiary DHB uses scenario analyses involving various shifts in market rates in relevant currencies. Assuming a constant balance sheet position and an instantaneous shock of 1% parallel movement in market rates, the sensitivity of the net interest earnings by main currencies over a time period of one year is shown in the following table for the year ending December 31, 2014 and December 31, 2013 respectively:

Net interest income sensitivity by major currencies at 31 December 2014	Interest rate shock of +/- 100bp	
	100 bp decrease	**100 bp increase**
EUR	218	(506)
USD	(88)	(131)
Others	(9)	(15)
Total	**121**	**(654)**

Net interest income sensitivity by major currencies at 31 December 2013	Interest rate shock of +/- 100bp	
	100 bp decrease	**100 bp increase**
EUR	1,475	1,462
USD	(550)	654
Others	(44)	12
Total	**881**	**2,128**

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 subsidiary DHB 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 subsidiary DHB also estimates the effects of interest rate movements on the value of equity. The following table shows the effect of an instantaneous shock of various parallel movements in market rates for the year ending December 31, 2014 and December 31, 2013 respectively.

Fair value sensitivity to interest rate shocks at 31 December 2014	-300	-200	-100	+100	+200	+300
EUR	8,265	5,504	2,749	(2,743)	(5,480)	(8,212)
USD	584	362	167	(139)	(251)	(335)
Others	25	18	9	(10)	(21)	(32)
Total	**8,875**	**5,884**	**2,925**	**(2,892)**	**(5,752)**	**(8,579)**
Equity value (IFRS)		230,951			230,951	
Standard 200 bps shock as % of the equity		2.55%			-2.49%	

Fair value sensitivity to interest rate shocks at 31 December 2013	-300	-200	-100	+100	+200	+300
EUR	(49)	32	48	(112)	(289)	(530)
USD	3,297	2,087	988	(877)	(1,643)	(2,299)
Others	92	63	33	(35)	(72)	(111)
Total	**3,340**	**2,182**	**1,069**	**(1,024)**	**(2,004)**	**(2,939)**
Equity value (IFRS)		232,612			232,612	
Standard 200 bps shock as % of the equity		0.94%			-0.86%	

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 of the subsidiary DHB sets the limits for such positions according to the net foreign currency position rules determined by the Dutch Central Bank (DNB).

December 31, 2014	EUR	USD	TRY	GBP	CHF	Others	Total
Cash and balances with central banks	102,591	23	–	–	–	–	102,614
Financial assets held for trading	284	–	–	–	–	–	284
Available for sale financial assets	362,629	27,834	–	–	–	–	390,463
Securities held to maturity	–	–	–	–	–	–	–
Loans and receivables - banks	378,868	35,374	205	16	552	4	415,019
Loans and receivables - customers	639,823	154,711	148,333	4,820	–	–	947,687
Derivative financial instruments – hedge accounting	–	–	–	–	–	–	–
Property and equipment	11,964	–	–	–	–	–	11,964
Intangible assets	245	–	–	–	–	–	245
Current tax assets	458	–	–	–	–	–	458
Deferred tax assets	7	–	–	–	–	–	7
Other assets	1,725	84	3	1	–	–	1,813
Total assets	**1,498,594**	**218,026**	**148,541**	**4,837**	**552**	**4**	**1,870,554**
Due to banks	314,231	19,105	–	95	525	–	333,956
Financial liabilities held for trading	299	11,007	241	2,082	–	–	13,629
Deposits from customers	1,266,956	14,610	1,210	47	–	–	1,282,823
Derivative financial instruments – hedge accounting	2,707	–	–	–	–	–	2,707
Provisions	1,392	–	–	–	–	–	1,392
Current tax liabilities	8	–	–	–	–	–	8
Deferred tax liabilities	1,696	–	–	–	–	–	1,696
Other liabilities	3,313	409	167	–	25	–	3,914
Total non-equity liabilities	**1,590,602**	**45,131**	**1,618**	**2,224**	**550**	**–**	**1,640,125**
Net gap	(92,008)	172,895	146,923	2,613	2	4	230,429
Net open currency position after FX and interest rate swaps	(50)	25	19	1	1	4	

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	286,211	41,570	155	40	163	7	328,146
Loans and receivables - customers	459,617	95,729	287,540	5,671	–	–	848,557
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	**1,174,465**	**252,927**	**300,304**	**5,834**	**163**	**7**	**1,733,700**
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	5,369	381	5	–	1	–	5,756
Total non-equity liabilities	**1,474,954**	**26,054**	**894**	**350**	**187**	**–**	**1,501,088**
Net gap	(299,138)	226,873	299,410	5,484	(24)	7	232,612
Net open currency position after FX and interest rate swaps	(84)	42	40	19	(24)	7	

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. It focuses on IT-related risks in the management of operational risk and ensures a continuous workflow under plausible disruptions.

As part of the continuous efforts to improve its operational risk management, the subsidiary DHB continued its Operational Risk & Control Assessment Program in 2014. DHB's operational risk management process involves a structured approach based on a risk and self-assessment control methodology. The goal of the ongoing self-assessment process is for each business unit to identify the key operational risks specific to its environment and evaluate the degree to which it maintains appropriate controls. Action plans are developed for identified issues, enabling the DHB 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 of DHB Bank 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, 2014

G COMPANY STATEMENT OF FINANCIAL POSITION

(after appropriation of result)

(in thousands of EUR)	2014	2013
ASSETS		
Cash (1)	2,623	1,757
Available for sale financial assets	53	339
Loans and receivables – customers	48	50
Property and equipment	3	4
Participations (2)	172,786	174,447
Other assets	3	32
Total assets	**175,516**	**176,628**
LIABILITIES		
Due to banks	-	-
Other liabilities	150	60
Total liabilities	**150**	**60**
EQUITY (3)		
Share capital	79,940	84,976
Retained earnings	79,715	66,074
Other reserves	15,711	25,518
Total equity	**175,366**	**176,568**
Total equity and liabilities	**175,516**	**176,628**

H COMPANY INCOME STATEMENT

(in thousands of EUR)	**2014**	**2013**
Net income of the parent company	(976)	(790)
Net income participating interests after taxes	6,540	13,815
Net income	**5,564**	**13,025**

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) Cash

The cash is freely available for HCBG's day-to-day operations.

2) 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.

	2014	**2013**
Participating interests in group companies		
Development:		
Opening balance	174,447	171,573
• Capital investment	-	550
• Legal reserve participations	(33)	(34)
• Revaluation reserve	(898)	(2,045)
• Defined benefit obligation reserve	(32)	166
• Fair value reserve	(1,364)	(2,255)
• Currency translation reserve	3	(1,431)
• Other	(5,877)	(6,142)
• Result subsidiaries	6,540	14,067
Closing balance	**172,786**	**174,447**

3) Equity

Share capital

In 2014, the General Meeting of Shareholders decided to reduce the nominal value of the B-shares from

EUR 0.78 to EUR 0.65 each. The effect on the issued shares is EUR 5,036,000 and has been paid out in 2014 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 0.65.

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, June 4, 2015

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 2014 of 5,564 has been proposed to be added to the other reserves.

Independent auditor’s report

To: The Managing Directors of HCBG Holding B.V.

Report on the financial statements

We have audited the accompanying financial statements 2014 of HCBG Holding B.V., Rotterdam, which comprise the consolidated and company statement of financial position as at December 31, 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information.

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 Dutch Civil Code, and for the preparation of the directors’ report in accordance with Part 9 of Book 2 of the Dutch 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 entity’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 entity'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 financial statements

In our opinion, the financial statements give a true and fair view of the financial position of HCBG Holding B.V. as at December 31, 2014 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 Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch 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 Dutch Civil Code.

Amsterdam, June 4, 2015

Ernst & Young Accountants LLP

/s/ P.J.A.J. Nijssen