

# Bank GPB International S.A.

Annual accounts  
for the year ended  
31 December 2016

(with the report of the Réviseur  
d'Entreprises agréé thereon)

**Bank GPB International S.A.**  
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# Bank GPB International S.A.

## Management Report

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Bank GPB International S.A., until 9 June 2015 named “GPB International S.A.”, (hereinafter the “Bank”) was founded on 10 July 2013 as a “société anonyme” to be governed by the law of 10 August 1915, as amended, concerning commercial companies. The Bank received its authorization on 21 October 2013 by the Minister of Finance to act as a credit institution in Luxembourg according to article 3 of the law of 5 April 1993 on the financial sector, as amended.

The purpose of the Bank is the operation of a Bank pursuant to the Luxembourg Law of 5 April 1993 on the financial sector, as amended. The scope of operations of the Bank extends to all types of banking, financial, advisory, service and trading activities in Luxembourg.

The business year 2016 was a year of further business developments and strategic repositioning.

In 2016 the Bank focused on the implementation of its revised and adjusted strategy and achieved key objectives in line with its ambitious growth strategy. At the same time, the Bank was able to significantly improve profitability despite a weak global macroeconomic environment and the continuation of negative interest rates in the Euro zone.

In Russia, the most important single market of the Bank, the recession continued, although the pace of GDP decline has slowed down and the country continued its adjustment to lower oil prices and the environment of economic sanctions imposed in 2014. With the increase of the oil price and the appreciation of the Ruble there are positive signals that Russia will return to real GDP growth in 2017. This should also create more business opportunities for the Bank.

### ***Business development***

The business year 2016 was characterized by a further continuation of the sanctions regimes introduced in 2014 against the Russian Federation. In particular, the coordinated sectoral sanctions implemented by the US, OFAC and the European Council against some of the Russian banks and corporations, including the Bank’s shareholder Gazprombank (Joint-Stock Company) (also referred as “Bank GPB (JSC)” or “Shareholder”), are prohibiting nationals of the EU Member States, any legal person, inside or outside the territory of the EU which is incorporated or constituted under the law of a Member State and entities operating within the territory of the EU, transacting in, providing financing for, or otherwise dealing in the debt instruments of Gazprombank Group with a maturity of longer than 30 days, issued after the date of the sanctions announcement.

In order to deal with the different sanctions, the Bank has been in intensive contact with its Shareholder and legal consultants during the entire year to safeguard the compliance with all applicable sanctions.

In its business activities, the Bank is only engaged in financial transactions which are not affected by sanctions. In particular the commercial trade business between eligible Russian exporters and international importers provides an excellent field of activities for the Bank and its specialisation into Structured Commodity Financing. The Bank has developed transaction structures, processes and the required legal documentation to finance the full value chain from the production of a commodity, to its transportation, processing, warehousing and until the sale to a final user. The short term nature of the Structured Commodity Finance business and its self-liquidating character creates an excellent fit with the refinancing sources of the Bank.

To allow the Bank to effectively control the complex handling of documents, the Collateral Management department and the Risk Management department play a critical role. In December 2016 the Bank decided to invest into additional technical tools developed by the Swiss company Micro Informatique & Technologies S.A. for full processing of documentary credits and trade finance operations as well as for full monitoring of risk elements of each transaction.

The nature of the Documentary credit business requires a close cooperation with international banks regarding the confirmation of letters of credit, international settlements, hedging arrangements and foreign exchange transactions. In 2016, the Bank therefore further expanded its network with financial institutions and obtained additional limits.

In addition to the Structured Commodity Financing the Bank was engaged in several bilateral or syndicated loans to eligible Russian corporates for its own account and also continued its loan arrangements with corporate clients as lender whereby the full loan amount or a substantial part is syndicated to affiliated banks by way of funded sub-participations. Further explanation is provided in the Notes to the Annual Accounts (please refer to Note 2.3 and Note 6).

The successfully launched performance-linked deposit product was further expanded and clients can now also invest in deposits linked to the performance of asset classes other than fixed income securities. Clients can now also receive leverage based on their existing portfolio of credit-linked deposits allowing them to increase the return on investment.

The Treasury department of the Bank created in 2016 an investment portfolio, consisting of high quality securities of prime Russian issuers with attractive returns. The aim of the portfolio is to hold the purchased securities till maturity. Further activities of the Treasury department were related to foreign exchange operations both for clients and for the own account of the Bank, money market placements and repo transactions as well as fiduciary transactions for clients. Of increasing importance is the function of the Bank as a Lead Manager for Russian Eurobonds' issuance. In 2016 the Bank acted as a Lead Arranger for big Russian corporates (Koks, Evraz, Polyus Gold and Gazprom) and managed to attract new investors amongst European private banks and asset managers.

In its function as a main Euro-clearing house for Gazprombank (JSC) and its core clients the Bank achieved in October 2016 another key milestone and was accredited as an active STEP 1 direct participant. As a part of its efforts to offer best-in-class corporate e-banking solution to its clients, the Bank decided to implement PPI Travic based on the EBICS (Electronic Banking Internet Communication Standard) market standard. The implementation process is still ongoing.

### ***Financial performance and position***

The total assets of the Bank amounted to EUR 830.5 million at 31 December 2016, compared to EUR 194.6 million as per 31 December 2015.

Cash in hand, balances with central banks increased to EUR 257.8 million (2015: EUR 12.4 million) mainly related to the funding structure of the Bank.

Loans and advances to credit institutions in the amount of EUR 167.6 million (2015: EUR 67.0 million) are comprised of on-call funds held with the Parent bank and funds held on accounts with banks after foreign exchange swaps.

Loans and advances to customers increased from EUR 43.9 million as per 31 December 2015 to EUR 110.5 million as per year-end 2016. The loan portfolio mainly consists of commercial lending transactions in the form of bilateral lending or participations in syndicated loan facilities.

Bonds and other fixed-income transferable securities amounted to EUR 285.9 million (2015: EUR 68.8 million) and contain held-to-maturity corporate Eurobonds of prime Russian issuers. The performance of bonds amounting EUR 137.1 million (2015: EUR 68.8 million) is transferred to clients of the Bank and linked to their deposits.

The refinancing of the business activities of the Bank consists mainly of amounts owed to credit institutions of EUR 313.8 million (2015 EUR 14.1 million) and amounts owed to customers of EUR 387.6 million (2015: EUR 110.8 million).

The significant increase of all business activities of the Bank resulted in a net income of EUR 0.5 million (2015: loss of EUR 5.5 million), which is a remarkable swing of EUR 6 million compared to 2015.

### ***Future development***

In 2017 the Bank will continue to develop and expand its product portfolio. The focus will be on trade-related finance, including structured commodity trade finance secured by the pledge of goods and accounts receivable, as well as commercial loans for existing and new clients. Another focus will be on commission-based services for corporate and private clients.

### ***Corporate Governance changes***

In July 2016 the two General Directors of the Bank were appointed as new members of the Board of Directors.

In October 2016 the Board of Directors established a Credit Committee consisting of Mr. Alexey Matveev, as Chairman, Mr. Dmitry Derkatch, Mr. Thomas Kiefer and Mr Oleg Vaksman as members. The changes are aimed to support the growing business activities of the Bank and to follow the recommendations of CSSF Circulars 12/552, 13/563 and 14/597.

### ***Rating assigned***

In April 2016 the rating agency S&P Global Ratings assigned a BB+ rating to the Bank based on its core status as subsidiary of Gazprombank (JSC) and affirmed its rating in September 2016. The Bank's rating is identical to the Parent bank's level. The rating is an important pre-requisite for many corporates and banks to enter into business relationships with the Bank.

### ***Staff and organizational developments***

As part of the implementation of the revised strategy, the Bank created several new departments and increased its number of professional staff members from 17 as per end of 2015 to 41 as per the end of 2016. The newly created departments Structured Commodity Finance, Financial Institution Coverage, Collateral Management and Documentary Business are supporting client and business development of the Bank, whereas Asset & Liability Management, Business Planning, New Product Approval ("NPA") & Taxes departments were established to manage and control the increasing complexity of the Bank.

### ***Cooperation with GPB Asset Management S.A. ("GPBAM")***

In order to strengthen the presence of Gazprombank Group in Luxembourg and to streamline the organizational structures, the Board of the Bank and the Board of GPBAM approved a close cooperation between the two entities. GPBAM joined the Bank in its new premises and thereby reduced significantly its rental and administration costs.

### ***Risk Management***

The business activities of the Bank are inevitably linked to the acceptance of risks. Efficient risk management is therefore a central element of the Bank's management philosophy. The business strategy and objectives as well as the risk and capital management policies are defined and monitored by the Board of Directors of the Bank. The management of the risks takes place at the regular meetings of the Board of Directors and is supported by regular and ad-hoc information to the members of the Board of Directors.

The main risks to be managed and controlled encompass the following main risk categories:

- Credit risk, primarily in the form of default risk, country risk and settlement risks,
- Market risk, especially interest rate and currency risk,
- Liquidity risk,
- Operational risk,
- Reputational risk.

The most important risks to which the Bank's business activities are exposed are banking risks, reputational risks as well as risk resulting from business activities in general.

The banking risks encompass credit risk, market risk, liquidity risk and operational risk.

### *Credit Risk*

Credit risk arises from all transactions that create actual, contingent or potential claims against counterparties. The credit risk is the most important risk for the Bank and is divided into the three categories of default risk, country risk and settlement risk. The default risk is the risk that counterparties may fail to meet their contractual payment obligations, whereas country risk defines the risk that a loss may arise for the following reasons in any country: deterioration of economic situation, nationalisation and expropriation of assets, foreign exchange controls as well as transfer risk. The settlement risk is the risk that the settlement or clearing of transactions in form of exchange of cash, securities or other assets may fail.

The main business of the Bank dealing with counterparty risk is the lending business. The authorisation of loans is governed by detailed guidelines and directives stating the condition, including comprehensive credit analyses, for any loan to be made. These directives and guidelines also cover the monitoring of outstanding loans. The Bank is using a best-in-class rating system and classifies all counterparties according to a newly developed system into risk categories.

For third-party banks and to assess an issuer risk, the Bank is applying the ratings issued by internationally recognised rating agencies. The Board of Directors receives a regular overview of the ratings of all counterparties.

The Bank also uses a system of country limits that are regularly set and monitored by the Board of Directors. In 2016 the Bank issued a new Country Risk Policy and Country Risk Directive in order to better differentiate between the countries of risk for its lending operations.

To limit credit risks in respect of loans, the Bank has defined lending norms in its business regulations. The granting of loans is covered by authorisation regulations. Since October 2016 the newly created Credit Committee of the Bank is the ultimate decision making body regarding new loans.

To better evaluate the credit risk in its core market Russia, the Bank can also obtain additional information on assessments, events and developments, etc. on the Russian market via its sole shareholder, Gazprombank (JSC), Moscow.

In 2016 the Bank purchased bonds and other fixed-income transferable securities, both as underlying asset in conjunction with performance-linked deposits and for its own portfolio. The Bank applies hereby equally strict rules when dealing with the risk of default or decline in creditworthiness of securities bought by the Bank.

### *Wrong-way risk*

Wrong-way risk is defined as the risk that occurs when “exposure to a counterparty is adversely correlated with the credit quality of that counterparty”. The Bank uses FX swaps to manage the FX position. A potential correlation between the underlying of the derivatives and the debtor is considered low.

### *Market risk*

Market risk arises from the uncertainty concerning changes in market prices and rates (including interest rates, share prices, exchange rates) as well as in the correlations among them and their volatilities.

The Bank has limited exposure to market risk assured through restrictive foreign exchange limits and interest rate risk limits. All limits are constantly monitored by the Risk Control Function and reported to the Management of the Bank and the Board of Directors.

The Bank acted during the business year 2016 as a non-trading unit. All risks related to the Asset-Liability Management activities, such as interest, foreign exchange and liquidity risks, are managed by the Asset Liability Management Department of the Bank (“ALM”) in accordance with the mandate entrusted by the Asset Liability Management Committee of the Bank (“ALCO”). The ALCO meets regularly to discuss the current business, risk and balance sheet situation as well as the effects of new business on the risk profile and liquidity and capital situation.

#### *Liquidity risk*

Liquidity risk is defined as the risk of not being in a position to meet payment obligations when they mature, or only at excessive rates.

Liquidity risk appetite of the Bank is defended at Board of Directors level and is developed in line with the Gazprombank Group liquidity requirements. It takes into account the Bank’s valid business strategy and assumes the level of liquidity risk that the Bank is willing to take, with a view to ensure survival over a defined period of stress on a standalone basis.

The Bank develops and maintains sound frameworks, systems and processes to support the management of liquidity according to the liquidity risk appetite. All processes are specified with clearly delineated roles and responsibilities to ensure smooth implementation.

The Bank measures liquidity risk based on analysis of its liquidity profile under potential stress-scenarios. It regularly conducts liquidity stress test to understand the likely impact of potential developments in the Bank’s business, and external market conditions on its liquidity profile, to assess whether current exposures still remain within the liquidity risk appetite. The outcomes of such analysis serve as an input to liquidity contingency planning.

The Bank defines the following types of stress test scenarios:

- BCBS (Basel Committee on Banking Supervision) required tests where specifications are provided by BCBS recommendations and eventually by the local regulation;
- ALM-defined stress tests agreed with Risk Management and Control and approved by ALCO;
- Ad hoc stress tests at the discretion of ALM team, which includes sensitivity analyses and testing of potential new scenarios.

The stress scenarios are approved and reviewed at least annually or more frequently when a situation requires so. Based on the outcomes of liquidity stress tests the Bank creates and maintains liquidity buffer to ensure that it can sustain stress events on a predetermined survival period and keeps applicable prudential liquidity ratios on acceptable level.

The liquidity buffer is formed from highly liquid assets that are clearly segregated from all other assets and securities in terms of MIS (Management Information System) accounting systems as well as liquidity representation and is split into three layers. The Bank regularly analyses assets kept in the liquidity buffer in terms of their potential refinancing under stress conditions as well as estimates amount of required liquidity buffer with available eligible assets. Respective corrective measures are made, when necessary.

In order to manage its exposure to liquidity risk the Bank sets up a set of liquidity risk limits as well as EWIs (Early Warning Indicators) ensuring compliance with applicable liquidity prudential limits. To ensure compliance with the LCR (Liquidity Coverage Ratio) the Bank has implemented:

- A “Daily ALM Report” containing inter alia a dynamic view of the LCR, as well as
- A “Treasury Scenario Daily LCR Impact Calculator” to be able to calculate the influence of relevant transactions on the LCR.

The Bank developed a liquidity contingency plan in order to define a set of measures and instruments that shall be applied to ensure its solvency under stress conditions. For this purpose the Bank elaborates a system of EWIs, thresholds linking it to the overall level of liquidity emergency for the Bank and a set of standard actions to consider. In December 2016 the Bank issued a new Liquidity Management Policy to cope with internal and Gazprombank Group liquidity management requirements.

### *Operational risk*

Operational risk is the risk to incur losses in connection with staff, contractual specifications and their documentation, technology, infrastructural failure or collapse, projects, external influences and customer's relationships. Operational risk also includes legal, compliance, tax and regulatory risk, but not the general business risk or reputational risks.

Operational risk is managed and controlled on the basis of a local and Gazprombank Group wide consistent framework which systematically identifies operational risk aspects and concentrations in order to define risk mitigation measures. The management of operational risk is the responsibility of all Bank executives at all level and across business and support functions.

To strengthen its Operational risk management framework the Bank issued the following policies in 2016:

- Risk Assessment and Accountability Policy of Operational Risk Management;
- Policy on Loss Data Collection Policy.

### *General business risk*

The general business risk is the risk arising from changes in the general business conditions. These include potential changes in the market conditions, client's behaviour and technological progress which might have an impact on the business results of the Bank.

### *Reputational risk*

Reputational risk is defined as the risk that public trust in the Bank might be negatively affected by public reporting on transactions or business practice in which customers are involved.

The above mentioned risks are monitored and controlled at all times by the Risk Management team of the Bank and with the support of the Risk Management and Risk Control Department of Gazprombank (Swiss) Limited, Zürich, under a Service Level Agreement concluded between the two affiliated companies and in line with the requirements of the Luxembourg Banking Authority.

### *Pillar III disclosures*

The disclosure requirements as laid down in Part Eight of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 are shown in a separate Disclosure Report published on the Bank's website.

### *Subsequent events*

No specific subsequent events occurred since 1 January 2017 until the date of this report.

The Bank had no research and development activities in 2016.

The Bank did not acquire its own shares.

The Bank has no branches or subsidiaries.

Luxembourg, 30 March 2017

**On behalf of the Board of Directors**

**Dmitry Derkach**  
**General Director**



**Thomas Kiefer**  
**General Director**





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To the Board of Directors of  
Bank GPB International S.A.  
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## **REPORT OF THE REVISEUR D'ENTREPRISES AGREE**

### ***Report on the annual accounts***

Following our appointment by the General Meeting of the Shareholders dated 14 April 2016, we have audited the accompanying annual accounts of Bank GPB International S.A, which comprise the balance sheet as at 31 December 2016 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

### ***Board of Directors' responsibility for the annual accounts***

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

### ***Responsibility of the Réviseur d'Entreprises agréé***

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the annual accounts 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 the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

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

### *Opinion*

In our opinion, the annual accounts give a true and fair view of the financial position of Bank GPB International S.A. as of 31 December 2016, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

### *Other information*

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report but does not include the annual accounts and our report of Réviseur d'Entreprises agréé thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

### *Report on other legal and regulatory requirements*

The management report is consistent with the annual accounts and has been prepared in accordance with the applicable legal requirements.

Luxembourg, 30 March 2017

KPMG Luxembourg  
Société coopérative  
Cabinet de révision agréé

  
T. Feld

# Bank GPB International S.A.

## Balance sheet as of 31 December 2016

	Notes	31.12.2016 EUR	31.12.2015 EUR
<b>ASSETS</b>			
Cash in hand, balances with central banks and post office banks	3, 4	257,779,703	12,364,597
Loans and advances to credit institutions			
- repayable on demand	2.3, 3, 5	167,619,694	67,012,934
Loans and advances to customers	2.3, 3, 6	110,524,077	43,864,282
Bonds and other fixed-income transferable securities			
- issued by other borrowers	2.5, 3, 7	285,913,492	68,753,449
Intangible assets	2.6.1, 8	625,353	726,826
Tangible assets	2.6.2, 8	572,111	96,703
Other assets	9.1	531,860	191,284
Prepayments and accrued income	2.5, 9.2	6,978,223	1,578,087
<b>TOTAL ASSETS</b>		<b>830,544,513</b>	<b>194,588,162</b>
<b>LIABILITIES</b>			
Amounts owed to credit institutions	2.4, 3, 10		
- repayable on demand		254,946,891	14,128,963
- with agreed maturity dates or periods of notice		58,817,949	-
Amounts owed to customers	2.4, 3, 11		
Other debts:			
- repayable on demand		70,357,658	40,573,009
- with agreed maturity dates or periods of notice		317,265,099	70,266,298
Other liabilities	12	392,424	641,542
Accruals and deferred income	2.5, 13	9,213,810	1,435,890
Provisions			
- provisions for taxation	24	280,908	172,261
- other provisions	14	2,213,488	771,950
Subscribed capital	15.1	130,000,000	80,000,000
Loss brought forward	15.2	(13,401,751)	(7,879,728)
Profit/(Loss) for the financial year		458,037	(5,522,023)
<b>TOTAL LIABILITIES</b>		<b>830,544,513</b>	<b>194,588,162</b>
<b>OFF-BALANCE SHEET ITEMS</b>			
Contingent liabilities	17.3	22,936,052	2,969,353
of which:			
- guarantees provided		7,762,115	122,433
- letters of credit		15,173,937	2,846,920
Commitments	3.3, 17.4	319,059,787	858,074,491
of which:			
- commitments arising out of sale and repurchase transactions		-	-
Fiduciary transactions	18	237,169,149	10,842,885

The accompanying notes form an integral part of these annual accounts.

# Bank GPB International S.A.

## Profit and loss account for the year ended 31 December 2016

	Notes	2016 EUR	2015 EUR
Interest receivable and similar income	19	17,215,568	2,702,601
Interest payable and similar charges		(8,701,093)	(1,999,593)
Commissions receivable	2.9, 19	5,415,094	2,431,345
Commissions payable		(5,795)	(32,037)
Net profit or net loss on financial operations	19	605,922	866,480
Other operating income	19	234,754	9,031
General administrative expenses:			
a) staff costs	20	(7,317,310)	(4,328,343)
<i>of which</i>			
- wages and salaries		(6,343,464)	(3,812,126)
- social security costs		(973,846)	(516,217)
<i>of which: social security costs relating to pensions</i>		-	-
b) other administrative expenses	21	(4,703,977)	(4,128,669)
		<u>2,743,163</u>	<u>(8,457,012)</u>
Value adjustments in respect of tangible and intangible assets	8	(587,761)	(560,837)
Value adjustments in respect of loans and advances and provisions for contingent liabilities and commitments	2.8, 14	(1,340,000)	(400,000)
Tax on profit or loss on ordinary activities	2.7, 24	(21,400)	(21,400)
Other taxes not shown under the preceding items		(335,965)	(60,601)
<b>Profit/(Loss) for the financial year</b>		<b><u>458,037</u></b>	<b><u>(5,522,023)</u></b>

The accompanying notes form an integral part of these annual accounts.

## **Note 1 – General**

Bank GPB International S.A. (“the Bank”), formerly GPB International S.A., was incorporated in the Grand-Duchy of Luxembourg on 10 July 2013 as a limited liability company (“société anonyme”).

The name of the Bank was changed from GPB International S.A. to Bank GPB International S.A., with effect from 9 June 2015 upon approval of an extraordinary general meeting of the Bank's shareholders held on the same date.

The purpose of the Bank is the operation of a Bank pursuant to the Luxembourg Law of 5 April 1993 on the financial sector, as amended. The scope of operations of the Bank extends to all types of banking, financial, advisory, service and trading activities in Luxembourg.

## **Note 2 – Summary of significant accounting policies and valuation rules**

### **2.1 Basis of presentation**

These annual accounts have been prepared in conformity with accounting principles generally accepted in the banking sector in the Grand-Duchy of Luxembourg. The accounting policies and the valuation principles are determined and applied by the Board of Directors, except those which are defined by Law and by the CSSF.

Certain comparative information was reclassified to conform to changes in presentation in the current year. Particularly, Guarantees provided and Letters of credit were presented under Contingent liabilities in the Balance Sheet as at 31 December 2015. Also Lump-sum provision as at 31 December 2015 of EUR 356,000 was presented separately from related financial assets in the notes of annual accounts.

The preparation of annual accounts requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgment in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the annual accounts in the year in which the assumptions changed. The Board of Directors believes that the underlying assumptions are appropriate and that the annual accounts therefore present the financial position and results fairly.

The Board of Directors makes estimates and assumptions that affect the reported amounts of assets and liabilities in the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank holds no participating interest and is not obliged to establish consolidated accounts.

The Bank is included in the consolidated accounts of Gazprombank (Joint-Stock Company) (“the Parent Bank” or “Shareholder”), which forms both the smallest and largest body of undertakings in which the Bank is included. The consolidated accounts may be obtained from Gazprombank (Joint-Stock Company) at the following address: Gazprombank (Joint-Stock Company), Nametkina St. 16, Building 1, 117420, Moscow, Russia.

### **2.2 Foreign currencies**

The annual accounts are expressed in the “currency of the share capital” (EUR). The Bank has adopted a multi-currency accounting system, as a result of which assets and liabilities are to be recorded in the currencies in which they were created. For the preparation of the annual accounts, amounts in foreign currencies are translated into EUR on the following basis:

### 2.2.1 Spot transactions

Assets and liabilities denominated in foreign currencies are translated into EUR at the average of bid/ask spot exchange rates applicable at the balance sheet date.

However, assets held as financial fixed assets and tangible and intangible assets, which are not hedged in either the spot or forward markets are translated into EUR at the rates prevailing on their acquisition dates.

Income and charges in foreign currencies are converted into EUR at the rate of exchange ruling at the date of the transaction.

Unsettled spot foreign exchange transactions are translated into EUR at the spot rate of exchange prevailing on the balance sheet date. Foreign exchange gains and losses resulting from spot transactions not hedged by forward transactions are accounted for in the profit and loss account for the financial year.

Foreign exchange gains and losses resulting from spot transactions hedged by forward transactions (“swaps”) are neutralised through “prepayments and accrued income” and “accruals and deferred income” accounts. Differences arising due to the gap between spot and forward exchange rates are amortised in interest receivable or payable in the profit and loss account on a prorata basis, as appropriate.

### 2.2.2 Forward transactions

Unsettled forward exchange transactions are translated into EUR at the forward rate prevailing on the balance sheet date for the remaining maturity.

Exchange losses on unhedged forward exchange contracts are recognised in the profit and loss account at the forward rate prevailing on the balance sheet date for the remaining term of the contract. Unrealised losses on unhedged forward exchange contracts are provided for and recorded in the item “Provisions: other provisions”. Exchange gains on unhedged forward exchange contracts are only recognised when realised.

For hedged exchange transactions, foreign exchange losses arising on revaluation are set against profits arising as stated above. Provision is made to hedge any net loss position arising.

## 2.3 Loans and advances

Loans and advances are stated at their acquisition price. The policy of the Bank is to establish specific provisions for doubtful debts in accordance with the circumstances and for amounts specified by the Board of Directors. These provisions are deducted from the appropriate asset account balances and shall not be maintained if the reasons for which they were recorded no longer exist.

### *Funded participated agreements*

When the Bank enters into a loan agreement and syndicates its substantial part or entire loan to an affiliated bank by way of funded sub-participation, such transactions will be derecognised from the balance sheet of the Bank when specific de-recognition conditions on pass-through qualification, risk, reward and control transfer are met, to the extent that the Bank recognises solely that part of a syndicated loan which the Bank has funded itself and retains the rights and obligations for.

Commitments of the Bank resulting from such transactions are disclosed off-balance sheet under “Commitments”.

## 2.4 Amounts payable

Amounts payable are recorded under liabilities at the amount of reimbursement.

When the amount of reimbursement is greater than the amount received, the difference may be accounted for as an asset. This difference shall be amortised on an annual basis and no later than the maturity date.

## 2.5 Bonds and other fixed-income transferable securities

The Bank holds fixed-income transferable securities, which are intended to be held on a continuing basis in the normal course of the Bank's activities and which are allocated to the investment portfolio of financial fixed assets.

### *Investment portfolio of financial fixed assets*

Fixed-income transferable securities are recorded at historical acquisition cost in their original currency.

The acquisition cost includes the costs to purchase the asset. Value adjustments are made in respect of the securities in question, so that they are valued at the lower value to be attributed to them at the date on which the statement of assets and liabilities is drawn up, if it is expected that the reduction in their value will be permanent.

The premium resulting from the purchase of fixed-income transferable securities having the characteristics of financial fixed assets, at a price exceeding the amount repayable at maturity, is included in "Interest payable and similar charges" in the profit and loss account on an amortised basis. The cumulative amortisation from the date of acquisition is included in "Accruals and deferred income" on the liability side of the balance sheet.

The discount resulting from the acquisition of fixed-income transferable securities having the characteristics of financial fixed assets, at a price lower than the amount repayable at maturity, is released to income in instalments over the period remaining until repayment as "Interest receivable and similar income". The cumulative amortisation from the date of acquisition is included in "Prepayments and accrued income" on the asset side of the balance sheet.

## 2.6 Intangible and tangible fixed assets

Fixed assets other than financial fixed assets are valued at historical acquisition cost. The acquisition cost includes the costs to purchase the assets. The acquisition cost of intangible and tangible assets whose use is limited in time are depreciated on a straight-line basis over the estimated useful life or at the rates specified below.

In case of durable reduction in value, intangible and tangible assets are subject to value adjustments, regardless of whether their utilisation is limited. The valuation at the inferior value is not maintained if the reasons for which the value adjustments were made no longer exist.

### 2.6.1 Intangible assets

Formation expenses are amortised on a straight-line basis over five years. Unlike charges resulting from the current activity of the Bank, formation expenses are comprised of charges incurred in conjunction with the creation of the Bank.

Other intangible assets are amortised on a straight-line basis over three years.

### 2.6.2 Tangible assets

Tangible assets are used by the Bank for its own operations.

Tangible assets under EUR 870 threshold are charged directly to profit and loss account.

Tangible assets are amortised on a straight-line basis over their estimated useful lives. The rates of depreciation are as follows:

Fixed assets category	Rate
Other fixtures and fittings, tools and equipment	12.5 – 33.3 %

## 2.7 Income taxes

Income taxes are accounted for on an accruals basis, based on the profit and loss account of the current financial year.

## 2.8 Lump-sum provision

The lump-sum provision is a general provision for possible losses on risk weighted assets and off-balance sheet items, recorded by applying an up to 1.25% rate to an average amount of assets and off-balance sheet items at risk for the considered reporting period. The part of the provision relating to assets is deducted from the related assets; the portion of the provision relating to off-balance sheet items is disclosed under the caption “Provisions – other provisions”.

## 2.9 Financial services and commission related fees

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any transaction in question.

It is necessary to distinguish between fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

### *Fees charged for servicing a loan*

Fees charged by the Bank for servicing a loan are recognised as revenue as the services are provided.

### *Fees that are earned on the execution of a significant act*

Placement fees for arranging a loan between a borrower and an investor is recognised as revenue when the loan has been arranged.

Loan syndication fees received by the Bank when it arranges a loan and retains no part of the loan package for itself (or retains a part at the same effective interest rate for comparable risk as other participants) is compensation for the service of syndication. Such a fee is recognised as revenue when the syndication has been completed.

## Note 3 – Analysis of financial instruments

The Bank uses financial instruments in consideration of its conservative approach to risk providing sufficient confidence that its risk exposures are appropriately mitigated and covered. For a more detailed overview on how the Bank is managing risk please refer to the Management Report.

As shown in the tables below, the financial instruments used by the Bank mainly consist of:

- Loans and advances / Amounts owed to credit institutions;
- Loans and advances / Amounts owed to customers;
- Bonds and other fixed-income transferable securities.

Concerning the use of financial derivatives please see below 3.2.

## 3.1 Information on primary financial instruments

The tables below analyse the level of primary financial instruments of the Bank with respect to their remaining maturities. Financial instruments excluded from the trading portfolio are disclosed at the carrying amount.

# Bank GPB International S.A.

Notes to the annual accounts as at 31 December 2016

31.12.2016 EUR	Primary non-trading instruments					Total
	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	more than 5 years	no maturity	
Balances with central banks	257,779,703	-	-	-	-	257,779,703
Loans and advances to credit institutions	168,102,807	-	-	-	-	168,102,807
Loans and advances to customers	40,839,239	9,486,766	35,539,015	24,977,609	-	110,842,629
Bonds and other fixed-income transferable securities	33,140,261	19,870,069	233,228,463	498,757	-	286,737,550
Total financial assets, before provision	499,862,010	29,356,835	268,767,478	25,476,366	-	823,462,689
Lump-sum provision	(1,625,723)	-	-	-	-	(1,625,723)
<b>Total financial assets, net of provision</b>	<b>498,236,287</b>	<b>29,356,835</b>	<b>268,767,478</b>	<b>25,476,366</b>	-	<b>821,836,966</b>
Prepayments and accrued income	1,515,628	4,191,508	-	-	1,271,087	6,978,223
Tangible assets	-	-	-	-	572,111	572,111
Intangible assets	-	-	-	-	625,353	625,353
Other assets	-	-	-	-	531,860	531,860
<b>Total assets</b>	<b>499,751,915</b>	<b>33,548,343</b>	<b>268,767,478</b>	<b>25,476,366</b>	<b>3,000,411</b>	<b>830,544,513</b>
Amounts owed to credit institutions	254,946,891	28,460,298	30,357,651	-	-	313,764,840
Amounts owed to customers	260,512,418	32,618,567	93,991,573	500,199	-	387,622,757
<b>Total financial liabilities</b>	<b>515,459,309</b>	<b>61,078,865</b>	<b>124,349,224</b>	<b>500,199</b>	-	<b>701,387,597</b>
Accruals and deferred income	1,232,511	3,760,316	-	-	4,220,983	9,213,810
Other liabilities	-	-	-	-	392,424	392,424
Other provisions	-	-	-	-	2,494,396	2,494,396
<b>Total liabilities</b>	<b>516,691,820</b>	<b>64,839,181</b>	<b>124,349,224</b>	<b>500,199</b>	<b>7,107,803</b>	<b>713,488,227</b>

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Notes to the annual accounts as at 31 December 2016 (continued)

31.12.2015 EUR	Primary non-trading instruments					Total
	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	more than 5 years	no maturity	
Balances with central banks	12,364,597	-	-	-	-	12,364,597
Loans and advances to credit institutions	67,012,934	-	-	-	-	67,012,934
Loans and advances to customers	13,717	-	35,021,298	9,185,267	-	44,220,282
Bonds and other fixed-income transferable securities	18,639,397	18,802,929	31,056,580	254,543	-	68,753,449
Total financial assets, before provision	98,030,645	18,802,929	66,077,878	9,439,810	-	192,351,262
Lump-sum provision	(356,000)	-	-	-	-	(356,000)
<b>Total financial assets, net of provision</b>	<b>97,674,645</b>	<b>18,802,929</b>	<b>66,077,878</b>	<b>9,439,810</b>	<b>-</b>	<b>191,995,262</b>
Remaining assets	-	-	-	-	2,592,900	2,592,900
<b>Total assets</b>	<b>98,030,645</b>	<b>18,802,929</b>	<b>66,077,878</b>	<b>9,439,810</b>	<b>2,592,900</b>	<b>194,588,162</b>
Amounts owed to credit institutions	14,128,963	-	-	-	-	14,128,963
Amounts owed to customers	59,984,724	19,109,663	31,490,249	254,671	-	110,839,307
<b>Total financial liabilities</b>	<b>74,113,687</b>	<b>19,109,663</b>	<b>31,490,249</b>	<b>254,671</b>	<b>-</b>	<b>124,968,270</b>
Remaining liabilities	-	-	-	-	3,021,643	3,021,643
<b>Total liabilities</b>	<b>74,113,687</b>	<b>19,109,663</b>	<b>31,490,249</b>	<b>254,671</b>	<b>3,021,643</b>	<b>127,989,913</b>

As at 31 December 2016 and 31 December 2015, the Bank had not engaged in primary trading instruments.

Remaining assets and liabilities as at 31 December 2015 were not analysed with respect to their maturities due to absence of such information and significant efforts required for the Bank to obtain it.

### 3.2 Information on derivative financial instruments

The Bank uses foreign exchange swaps as derivative financial instruments, mainly to hedge loans granted to customers in currencies other than Euro that give customers access to other currencies.

These operations were also engaged for the purpose of hedging the fluctuations of foreign exchange rates arising on transactions entered into with customers who placed with the Bank a time deposit, which is linked to the performance of an underlying asset acquired by the Bank for such purposes (“credit-linked deposit”).

The table below shows the level of derivatives of the Bank used:

31.12.2016 EUR	Analysis of financial instruments – derivative non-trading instruments (notional amount)					Fair value, net
	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	more than 5 years	Total	
Foreign exchange - OTC						
Foreign exchange swaps	170,829,340	-	-	-	170,829,340	218,431
Warrants	-	-	13,857	-	13,857	6,867
31.12.2015 EUR	Analysis of financial instruments – derivative non-trading instruments (notional amount)					Fair value, net
	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	more than 5 years	Total	
Foreign exchange - OTC						
Foreign exchange swaps	101,887,604	-	-	-	101,887,604	(139,689)

As at 31 December 2016 and 31 December 2015, the Bank did not have trading positions in derivative financial instruments.

### 3.3 Information on financial instruments - credit risk

The Bank is subject to credit risk through its transactions as disclosed below.

31.12.2016 EUR	Notional amount	Gross risk exposure	Collateral amount	Collateral type	Net risk exposure
Cash in hand, balances with central banks and post office banks	257,779,703	257,779,703	257,779,703	BCL deposit	-
Loans and advances to credit institutions	168,102,807	167,619,694	-	None	167,619,694
Loans and advances to customers	110,842,629	110,524,077	-	Guarantees not eligible under COREP	110,524,077
Bonds and other transferable fixed-income securities	279,092,723	285,913,492	137,124,696	Credit-linked deposits	148,788,796
	<b>815,817,862</b>	<b>821,836,966</b>	<b>394,904,399</b>		<b>426,932,567</b>
Contingent liabilities	22,936,052	22,936,052	22,936,052	Cash collateral	-
Commitments	319,059,787	319,059,787	256,336,503	Funded sub-participation	62,723,284
	<b>1,157,813,701</b>	<b>1,163,832,805</b>	<b>674,176,954</b>		<b>489,655,851</b>

Credit and default risks of issuers of “Bonds and other transferable fixed-income securities” are partly transferred to respective clients holding a deposit linked to the performance of such underlying instrument.

For credit risk in relation to commitments, also refer to Note 6.

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Notes to the annual accounts as at 31 December 2016 (continued)

<b>31.12.2015 EUR</b>	<b>Notional amount</b>	<b>Gross risk exposure</b>	<b>Collateral amount</b>	<b>Collateral type</b>	<b>Net risk exposure</b>
Cash in hand, balances with central banks and post office banks	12,364,597	12,364,597	12,364,597	BCL deposit	-
Loans and advances to credit institutions	67,012,934	67,012,934	-	None	67,012,934
Loans and advances to customers	44,220,282	43,864,282	-	Guarantees not eligible under COREP	43,864,282
Bonds and other transferable fixed-income securities	69,373,466	68,753,449	68,753,449	Credit-linked deposits	-
	<b>192,971,279</b>	<b>191,995,262</b>	<b>81,118,046</b>		<b>110,877,216</b>
Contingent liabilities	2,969,353	2,969,353	2,969,353	Cash collateral	-
Commitments	858,074,491	858,074,491	853,611,930	Funded sub-participation	4,462,561
	<b>1,054,015,123</b>	<b>1,053,039,106</b>	<b>937,699,329</b>		<b>115,339,777</b>

The table below shows the concentration of credit risk by geographical location:

<b>EUR</b>	<b>Credits and other balance sheet items</b>		<b>Loan commitments</b>		<b>OTC derivatives</b>	
	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
Luxembourg	320,354,405	36,206,574	-	-	121,690,917	75,533,368
OECD countries (excl. Luxembourg)	422,712,162	88,457,594	182,145,984	637,820,455	28,460,298	151,184
Other countries	80,396,122	67,687,094	136,913,803	220,254,036	20,678,125	26,203,052
	<b>823,462,689</b>	<b>192,351,262</b>	<b>319,059,787</b>	<b>858,074,491</b>	<b>170,829,340</b>	<b>101,887,604</b>
Lump-sum provision	(1,625,723)	(356,000)	-	-	-	-
	<b>821,836,966</b>	<b>191,995,262</b>	<b>319,059,787</b>	<b>858,074,491</b>	<b>170,829,340</b>	<b>101,887,604</b>

The table below shows the concentration of credit risk by economic sector:

<b>EUR</b>	<b>Credits and other balance sheet items</b>		<b>Loan commitments</b>		<b>OTC derivatives</b>	
	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
National and central banks	257,779,703	12,364,597	-	-	-	-
Banks and financial companies	447,724,345	135,771,417	-	-	170,829,340	101,887,604
Chemical industry	21,094,686	9,185,267	117,940,263	197,420,936	-	-
Energy and environment	3,882,925	-	151,788,320	146,964,320	-	-
Food industry	1,201	-	-	-	-	-
Metal industry	12,059,394	11,675,893	4,743,385	31,592,635	-	-
Mineral oil industry	47,200,950	11,536,947	23,716,925	275,558,100	-	-
Trade	26,578,330	-	20,870,894	206,538,500	-	-
Transport and communications	1,893,013	11,810,441	-	-	-	-
Others	5,248,142	6,700	-	-	-	-
	<b>823,462,689</b>	<b>192,351,262</b>	<b>319,059,787</b>	<b>858,074,491</b>	<b>170,829,340</b>	<b>101,887,604</b>
Lump-sum provision	(1,625,723)	(356,000)	-	-	-	-
	<b>821,836,966</b>	<b>191,995,262</b>	<b>319,059,787</b>	<b>858,074,491</b>	<b>170,829,340</b>	<b>101,887,604</b>

The Bank's credit activity covers the commercial loans only. No lending to investment funds, related entities (apart from Loans and advances to credit institutions) or individuals occurred in 2016 or 2015.

### 3.4 Information on financial instruments - market risk

The Bank has limited exposure to market risk assured through restrictive foreign exchange limits and interest rate risk limits. All limits are monitored by the Risk Control Function and reported to the Management of the Bank and the Board of Directors. The Bank's strategy in 2016 has foreseen neither proprietary trading book nor own investment portfolio, except for the Bonds and other fixed-income transferable securities bought in relation to the credit-linked deposits described in the management report.

Following the COREP reporting of the Bank, there was no capital requirement to cover market risk as of 31 December 2016 (31 December 2015: none).

The Commission de Surveillance du Secteur Financier ("CSSF") approved the Bank's request on 18 February 2014 related to the exemption to the large exposures regime for intra-group exposures towards the Parent Bank and on 17 March 2014 towards a direct 100% banking subsidiary of the Parent Bank, Gazprombank (Switzerland) Ltd, in accordance with Part XVI, point 24 of the CSSF Circular 06/273 as subsequently modified.

### Note 4 – Balances with central banks

In accordance with the requirements of the European Central Bank, the Central Bank of Luxembourg has implemented a system of mandatory minimum reserves which applies to all Luxembourg credit institutions. The minimum reserve balance as at 31 December 2016 held by the Bank with the Central Bank of Luxembourg amounted to EUR 4,818,849 (31 December 2015: EUR 2,751,031).

### Note 5 - Loans and advances to credit institutions

Loans and advances to credit institutions are analysed by geographic sector risk concentration as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Luxembourg	7,370,968	7,995,548
OECD countries (other than Luxembourg)	143,839,872	35,542,179
Other countries	16,891,967	23,475,207
	<b>168,102,807</b>	<b>67,012,934</b>
Lump-sum provision	(483,113)	-
	<b>167,619,694</b>	<b>67,012,934</b>

Accrued interest on loans and advances to credit institutions of EUR nil (2015: EUR nil) is disclosed under "Prepayments and accrued income".

Included under this heading are loans and advances to affiliated undertakings with a total value of EUR 159,329,633 (31 December 2015: EUR 52,740,054).

**Note 6 - Loans and advances to customers**

Loans and advances to customers are analysed as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Luxembourg	2,165	3,546
OECD countries (other than Luxembourg)	50,298,368	4,849
Other countries	60,542,096	44,211,887
	<b>110,842,629</b>	<b>44,220,282</b>
Lump-sum provision	(318,552)	(356,000)
	<b>110,524,077</b>	<b>43,864,282</b>

  

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Direct loans	9,486,766	9,185,270
Loans participated by the Bank	101,355,863	35,035,012
	<b>110,842,629</b>	<b>44,220,282</b>
Lump-sum provision	(318,552)	(356,000)
	<b>110,524,077</b>	<b>43,864,282</b>

Accrued interest on loans and advances to customers of EUR 586,560 (2015: EUR nil) is disclosed under "Prepayments and accrued income".

Included under this heading are loans and advances to affiliated undertakings with a total value of EUR nil (31 December 2015: EUR nil).

*Funded participated agreements*

During this and prior financial years, the Bank was engaged in several loan agreements with corporate customers (borrowers) for providing financing in the form of bilateral loans or syndicated loans. Such loans were structured as uncommitted loans or committed loans whereby the commitment was conditional or unconditional towards a borrower.

In the case of uncommitted financing, it is at the sole discretion of the Bank to honour a drawdown request of such borrower.

In the case of conditional commitment, the Bank is only obliged to honour a drawdown request, if the predefined and agreed conditions are met.

In the case of an unconditional commitment, the Bank is obliged to honour a drawdown request, if all defined conditions precedent are fulfilled and the facility is fully operational.

In certain syndicated transactions the Bank is acting as both the lender and the agent for other lenders under such loan agreements. These other lenders are fully disclosed to a respective borrower. The obligations of banks in a syndicate to provide financing to a borrower are several and not joint.

The participation of other banks in loans to customers took place either in the form of an open participation or in the form of a silent funded sub-participation ("SFSP"). In the case of SFSP, a borrower is typically not informed about the participation of another bank and is only communicating with an original lender or an agent as evidenced in a loan agreement.

In the case where the Bank acts as a direct lender, but has the entire or a substantial part of its commitment syndicated to another bank through SFSP, the Bank is transferring this part of its credit risk associated with a borrower to a SFSP participant. The legal structure of the SFSP as a pass-through arrangement provides for full de-recognition of loans disbursed by the Bank from its Balance Sheet when all risks and rewards related to such loans are transferred to a SFSP participant.

According to the conditions of the SFSP loans, a SFSP participant cannot refuse to fund its share in a loan, if a borrower delivers a valid drawdown request. Depending on an individual structure of a loan, the Bank decides whether it is prepared to accept payment risk of a SFSP participant or it mitigates payment risk through adequate means.

As at 31 December 2016 there were EUR 131.9 million loans participated by other banks through SFSP (31 December 2015: EUR 33.9 million).

## Note 7 – Bonds and other fixed-income transferable securities

Bonds and other fixed-income transferable securities are analysed as follows:

	31.12.2016 EUR	31.12.2015 EUR
Luxembourg	55,201,568	15,842,883
OECD countries (other than Luxembourg)	228,573,923	52,910,566
Other countries	2,962,059	-
	<b>286,737,550</b>	<b>68,753,449</b>
Lump-sum provision	(824,058)	-
	<b>285,913,492</b>	<b>68,753,449</b>

All bonds and other fixed-income transferable securities are held in the investment portfolio, traded and quoted on a stock exchange.

Included under this heading are bonds and other fixed-income transferable securities to affiliated undertakings with a total nominal value of EUR 115,721,924 (31 December 2015: EUR 13,763,547).

Accrued interest on bonds and other fixed-income transferable securities of EUR 5,120,576 is disclosed under "Prepayments and accrued income".

At 31 December 2016, the fair value of securities is estimated at EUR 290,799,609 (31 December 2015: EUR 69,336,223).

### *Amortisation of premiums and discounts on bonds and other fixed-income transferable securities*

At 31 December 2016, the net amortised value of premiums and discounts since the acquisition date for bonds and other fixed-income transferable securities amounts to:

	2016 EUR	2015 EUR
Premiums	(1,690,988)	(149,592)
Discounts	685,471	214,329

As at 31 December 2016, the cumulative amortisation of premiums on bonds and other fixed-income transferable securities amounted to EUR 1,690,988 (2015: EUR 149,592) and are disclosed under "Accruals and deferred income", and the portion of the premiums not yet amortised amounted to EUR 7,321,837 (2015: EUR 164,054).

As at 31 December 2016, the cumulative amortisation of discounts on bonds and other fixed-income transferable securities amounted to EUR 685,471 (2015: EUR 214,329) and are disclosed under "Prepayments and accrued income", and the portion of the discounts not yet amortised amounted to EUR 682,527 (2015: EUR 719,334).

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Notes to the annual accounts as at 31 December 2016 (continued)

### Note 8 – Fixed assets

#### 8.1 Movements in fixed assets

in EUR	Gross value				Value adjustments				Net book value at the end of year 2016
	Gross value at the beginning of year 2016	Additions	Disposals	Gross value at the end of year 2016	Cumulative value adjustments at the beginning of year 2016	Value adjustments	Reversal of value adjustments	Cumulative value adjustments at the end of year 2016	
Intangible assets	<b>1,775,052</b>	380,197	-	<b>2,155,249</b>	1,048,226	481,670	-	1,529,896	<b>625,353</b>
of which:									
- Formation expenses	<i>542,067</i>	-	-	<i>542,067</i>	267,656	108,415	-	376,071	<i>165,996</i>
- Licenses	<i>1,232,985</i>	380,197	-	<i>1,613,182</i>	780,570	373,255	-	1,153,825	<i>459,357</i>
Tangible assets	<b>188,460</b>	581,499	-	<b>769,959</b>	91,757	106,091	-	197,848	<b>572,111</b>
of which:									
- Other fixtures and fittings, tools and equipment	<i>188,460</i>	581,499	-	<i>769,959</i>	91,757	106,091	-	197,848	<i>572,111</i>
<b>TOTAL</b>	<b>1,963,512</b>	<b>961,696</b>	-	<b>2,925,208</b>	<b>1,139,983</b>	<b>587,761</b>	-	<b>1,727,744</b>	<b>1,197,464</b>

#### 8.2 Intangible assets

Formation expenses include fees paid to various parties at the time of incorporation of the Bank.

**Note 9 – Other assets and prepayments and accrued income****9.1 Other assets**

As at 31 December 2016, other assets mainly include tax advances of TEUR 235 and deferred costs of TEUR 186 for invoices which have been received in 2016 but for which the service is to be received in 2017 (2015: TEUR 185).

**9.2 Prepayments and accrued income**

Prepayments and accrued income is analysed as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Accrued interest on bonds	5,120,576	1,226,198
Accrued interest on loans and advances to customers	586,560	-
Cumulative amortisation of discounts on bonds and other fixed-income transferable securities	685,471	214,329
Prepayments	585,616	137,560
	<b>6,978,223</b>	<b>1,578,087</b>

**Note 10 – Amounts owed to credit institutions**

The amounts owed to credit institutions are analysed by geographic sector risk concentration as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Luxembourg	692,614	964,572
OECD countries (other than Luxembourg)	4,035,645	5,931
Other countries	309,036,581	13,158,460
	<b>313,764,840</b>	<b>14,128,963</b>

Included under this heading are amounts owed to affiliated undertakings with a total value of EUR 311,907,158 (31 December 2015: EUR 13,164,391).

**Note 11 – Amounts owed to customers**

The amounts owed to customers are analysed by geographic sector risk concentration as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Luxembourg	8,594,939	6,167,437
OECD countries (other than Luxembourg)	22,896,292	12,023,887
Other countries	356,131,526	92,647,983
	<b>387,622,757</b>	<b>110,839,307</b>

Included under this heading are amounts owed to affiliated undertakings with a total value of EUR 28,995,913 (31 December 2015: EUR 16,246,087).

Analysed by maturity the amounts owed to customers are the following:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Amounts owed to customers – at sight	70,357,658	40,573,009
Amounts owed to customers – time deposits	317,265,099	70,266,298
	<b>387,622,757</b>	<b>110,839,307</b>

## Note 12 – Other liabilities

Other liabilities are analysed as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
IT cost payables	186,237	460,941
Audit and consulting fees payable	34,303	102,856
Others	171,884	77,745
	<b>392,424</b>	<b>641,542</b>

## Note 13 – Accruals and deferred income

Accruals and deferred income are analysed as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Accrued interest on deposits	4,992,827	1,199,536
Deferred commission income	2,340,048	85,807
Cumulative amortisation of premiums on bonds and other fixed-income transferable securities	1,690,988	149,592
Others	189,947	955
	<b>9,213,810</b>	<b>1,435,890</b>

## Note 14 – Other provisions

Other provisions are analysed as follows:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Lump sum provision – off balance sheet part	114,277	44,000
FGDL / AGDL	19,712	179,150
Estimated general administrative expenses payable		
- Audit fees	120,996	131,000
- Employees remuneration	1,555,000	291,500
- Untaken holidays	128,000	65,000
- Directors' fees	15,000	15,000
- Others	260,503	46,300
	<b>2,213,488</b>	<b>771,950</b>

“Others” mainly includes a provision for unpaid invoices.

The Bank's lump sum provision amounts to EUR 1,740,000 as at 31 December 2016 (2015: EUR 400,000), of which an amount of EUR 1,625,723 relates to assets and is deducted from the related asset item, and an amount of EUR 114,277 relates to off-balance sheet items and is disclosed under the caption "Provisions - other provisions".

## Note 15 – Subscribed capital and reserves

### 15.1 Subscribed capital

The authorised and fully paid subscribed capital of the Bank amounts to EUR 130 million (2015: EUR 80 million).

The Bank's share capital comprises 130,000 registered shares with a nominal value of EUR 1,000 each amounting to a total of EUR 130 million (2015: 80,000 registered shares with a nominal value of EUR 1,000 each amounting to a total of EUR 80 million).

The Shareholder approved the capital increase of EUR 50 million in March 2016. All new shares were again subscribed by the Shareholder.

### 15.2 Movements in reserves, and loss brought forward

	Legal reserve	Other reserves	Total reserves	Loss brought forward
	EUR	EUR	EUR	EUR
Balance at the beginning of the year	-	-	-	(7,879,728)
Loss for 2015	-	-	-	(5,522,023)
	-	-	-	<b>(13,401,751)</b>

In accordance with article 72 of the Luxembourg company law on commercial companies, at least 5% of net profit must be added annually to the legal reserve until such reserve is equal to 10% of subscribed capital. The legal reserve may not be distributed. Due to the loss brought forward and the loss for the prior financial year there have been no contributions to the legal reserves so far.

## Note 16 – Positions in foreign currencies

	31.12.2016	31.12.2015
	EUR	EUR
Total amount of assets in foreign currencies	424,635,958	166,849,210
Total amount of liabilities in foreign currencies	(436,063,322)	(95,710,482)
<b>Net position, excluding foreign exchange swaps</b>	<b>(11,427,365)</b>	<b>71,138,728</b>

Taking into consideration the concluded foreign exchange swaps against the balance sheet currency as per 31 December 2016 (net notional of TEUR -11,557) there are no significant open currency positions (2015: net notional of TEUR 71,558).

## **Note 17 – Contingent liabilities and commitments**

### **17.1 Deposit guarantee and investor compensation scheme**

The law related to the resolution, reorganisation and winding-up measures of credit institutions and certain investment firms and on deposit guarantee and investor compensation schemes (“the Law”), transposing into Luxembourgish law the directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms and the directive 2014/49/EU related to deposit guarantee and investor compensation schemes, was passed on 18 December 2015.

The deposit guarantee and investor compensation scheme through the “Association pour la Garantie des Dépôts Luxembourg” (AGDL) was replaced by a new contribution based system of deposit guarantee and investor compensation scheme. This new system covers eligible deposits of each depositor up to an amount of EUR 100,000 and investments up to an amount of EUR 20,000. The Law also provides that deposits resulting from specific transactions or fulfilling a specific social or other purpose are covered for an amount above EUR 100,000 for a period of 12 months.

The funded amount of the “Fonds de résolution Luxembourg” (FRL) shall reach by the end of 2024 at least 1% of covered deposits, as defined in article 1 number 36 of the Law, of all authorized credit institutions in all participating Member States. This amount is collected from the credit institutions through annual contributions during the years 2015 to 2024.

The target level of funding of the “Fonds de Garantie des Dépôts Luxembourg” (FGDL) is set at 0.8% of covered deposits, as defined in article 163 number 8 of the Law, of the relevant credit institutions and is to be reached by the end of 2018 through annual contributions. The contributions are to be made in the form of annual payments during the years 2016 to 2018. When the level of 0.8% is reached, the Luxembourgish credit institutions are to continue to contribute for 8 additional years in order to constitute an additional safety buffer of 0.8% of covered deposits as defined in article 163 number 8 of the Law.

The law of 23 December 2016 on the tax reform 2017 has introduced a tax neutral reversal of the existing AGDL provisions in annual tranches from 2016 to 2026, under the condition that each annual tranche is at least equal to the contributions to the FGDL and FRL. Any remaining balance of the AGDL provision not yet reversed at the end of this transitional period will be added to the taxable income in 2026.

On 18 January 2017, CSSF issued a circular letter relating to the abrogation of the AGDL and to the consequent accounting treatment of the AGDL reversal to enable the banks to follow from an accounting point view the tax treatment foreseen in the law of 23 December 2016.

As a consequence, the Bank reversed part of the AGDL provision for an amount of EUR 171,329 in the “Other operating income” and recorded a 2016 contribution of EUR 19,712 to the FGDL and FRL. As at 31 December 2016, the remaining AGDL provision amounts to EUR Nil (31 December 2015: EUR 3,600).

### **17.2 Rental commitments**

The Bank has entered into certain commitments which are neither disclosed in the balance sheet nor in the off balance sheet items, but which are relevant for the purpose of assessing the financial situation of the Bank.

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In particular, the Bank's commitments in respect of fixed rental payments contracted for premises and flats for employees are:

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Amounts committed to be paid within 12 months	971,209	229,370
Amounts committed to be paid between 1-5 years	3,568,876	-
Amounts committed to be paid after 5 years	223,055	-
	<b>4,763,140</b>	<b>229,370</b>

As at 31 December 2016, the Bank had given a guarantee of EUR 78,990 in respect of rental premises and flats for employees on behalf of the Bank (31 December 2015: EUR 122,433). The remaining rent commitment amounting to EUR 4,684,150 (31 December 2015: EUR 106,937) relates to the rent of the Bank's office.

### 17.3 Contingent liabilities

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Guarantees provided	7,762,115	122,433
Letters of credit	15,173,937	2,846,920
Total	<b>22,936,052</b>	<b>2,969,353</b>

### 17.4 Commitments

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Loan commitments	319,059,787	858,074,491
Total	<b>319,059,787</b>	<b>858,074,491</b>

During this and prior financial years, the Bank was engaged in several loan agreements with corporate customers (borrowers) for providing financing in the form of bilateral loans or syndicated loans. The above table represent the outstanding amount of these loans committed by Bank as per CSSF definition, i.e. if there is a written agreement in place. Please also refer to Note 6.

### Note 18 – Fiduciary transactions

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
Fiduciary loan	237,169,149	10,842,885
Fiduciary deposits	237,169,149	10,842,885

The Fiduciary loan of USD 250 Mio is split into two Facilities USD 110 Mio (Term A) and USD 140 Mio (Term B). The commission is to be accrued over the lifetime of the respective transaction.

**Note 19 – Analysis of income by geographical markets**

The income of the Bank results from the following countries (based on counterparties' domiciliation):

	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
Luxembourg	13,420,823	2,210,100
Ireland	4,312,283	1,631,764
Russia	3,778,061	244,310
Guernsey	1,226,528	1,869,650
Jersey	358,597	-
Other	375,046	53,633
<b>Total</b>	<b>23,471,338</b>	<b>6,009,456</b>

**Note 20 – Information relating to staff employed and management****20.1 Personnel employed**

The average number of persons employed during the financial year by the Bank was as follows:

	<b>2016</b>	<b>2015</b>
Senior management	2.0	2.0
Management	11.2	5.8
Employees	18.3	9.0
<b>Total</b>	<b>31.5</b>	<b>16.8</b>

**20.2 Members of the administration, managerial and supervisory bodies**

Director's fees to two external members of the Board of Directors in the amount of EUR 60,000 have been provided for in 2016 (2015: EUR 60,000).

Remuneration granted to the senior management and management during 2016 amounted to TEUR 3,564 (2015: TEUR 3,232).

There have been no loans or advances granted to the members of the Board of Directors or managerial and supervisory bodies. The Bank has not entered into guaranteed commitments on their behalf.

**Note 21 – Independent Auditor's Fees**

The amounts invoiced or accrued for services provided by KPMG Luxembourg, Société coopérative during the year were as follows (excluding VAT):

	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
Audit fees	174,815	233,472
Audit-related fees	53,709	30,084
Other fees	23,335	30,000
<b>Total</b>	<b>251,859</b>	<b>293,556</b>

Such fees are presented under "Other administrative expenses" in the profit and loss account.

**Note 22 – Litigation and claims**

As of 31 December 2016 the Bank has no open litigations or claims (31 December 2015: none).

### **Note 23 – Management and fiduciary services**

The Bank provided mainly the following management and representative services to third parties during the financial year:

- Fiduciary services;
- Agency services;
- Service as Lead Manager for Russian Euro Bonds
- Custodian Services (64 securities with a nominal of EUR 45,452,882 as at 31 December 2016) (9 securities with a nominal of EUR 5,857,541 at 31 December 2015).

### **Note 24 – Tax charges**

The Bank is liable to taxes on income and net assets. The Luxembourg tax authorities have issued assessments for the financial years up to 2014. Tax liabilities for which no tax assessment has been provided yet are recorded under “Provisions for taxation” in the balance sheet.

### **Note 25 – Return on assets**

The Bank has a return on average assets as at 31 December 2016 of 0.09% (2015: -4.76%).

### **Note 26 – Subsequent Events**

No specific subsequent events occurred since 1 January 2017 until the date of this report.