

Bank GPB International S.A.

Financial Statements

for the year ended 31 December 2017

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

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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Bank GPB International S.A. (the "Bank"), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under those Regulation, Law and standards are further described in the « Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the financial statements » section of our report. We are also independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of unquoted financial liabilities (financial instruments designated at fair value through profit or loss)

a) Why the matter was considered to be one of most significance in our audit of the financial statements for the year ended 31 December 2017

The financial instruments that are measured at fair value and are significant for the financial statements are financial liabilities designated at fair value through profit or loss.

For financial instruments that are actively traded and for which quoted market prices or market parameters are available, there is less judgement involved in the determination of fair values (level 1 instruments). However, when observable market prices or market parameters are not available the fair value is subject to significant judgement. This is relevant for financial liabilities designated at fair value through profit or loss amounting to EUR 178.5 million that represent 11% of total liabilities as at 31 December 2017. The fair value of these financial instruments is determined through a combination of market data and valuation models which often require a considerable number of inputs and which involve significant management judgement (level 2 instruments).

In particular we focused on the significant estimation uncertainties that include own credit adjustments ("OCA"). The financial liabilities designated at fair value through profit or loss include various types of credit-linked deposits ("CLD"). For OCA the Bank values its own financial liabilities using valuation models. Since the market for own funding of the Bank is not active, management utilizes other observable market data points.

Refer to note 3(c) 'Significant accounting policies', note 13 'Financial instruments at fair value through profit or loss' and note 30 'Financial assets and liabilities: fair values and accounting classifications'.

b) How the matter was addressed in our audit

Our procedures over valuation of unquoted financial liabilities designated at fair value through profit or loss included, but were not limited to the following:

- We obtained an understanding of Management's processes for determining the fair valuation of the financial liabilities designated at fair value through profit or loss by performing walkthrough procedures.
- We engaged our internal valuation specialists to assist us in performing independent valuations on a statistical sample basis and comparing these with the Bank's valuations.
- Our procedures included developing parallel models based on contractual arrangements and obtaining inputs independently. We also compared our results with the ones as per client and evaluated the resulting differences, if any.
- Additionally, we assessed whether the disclosures in the financial statements, including fair value hierarchy information and sensitivity to key inputs, appropriately reflected the Bank's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards.

Recognition of fee and commission income from underwriting and corporate finance

a) Why the matter was considered to be one of most significance in our audit of the financial statements for the year ended 31 December 2017

The result of the Bank for the year is significantly driven by fee and commission income. Fee and commission income result amounts to EUR 15.6 million for 2017 and is mainly resulting from the Bank acting as an arranger / book-runner for several bond issuances (underwriting and corporate finance fee and commission income of EUR 10.1 million). Due to the significance of those transactions and the fact that they do not represent the main business of the Bank, we consider that the recognition of the fee and commission income from underwriting and corporate finance is a matter that requires significant auditor attention.

Refer to note 3(k) 'Significant accounting policies' and note 5 'Fee and commission income'.

b) How the matter was addressed in our audit

Our procedures for fee and commission income from underwriting and corporate finance included, but were not limited to the following:

- We tested the existence and main terms of the arranger agreements and evaluated the accuracy of the fee and commission income from underwriting and corporate finance recognised in the financial statements by tracing the amounts to fee letters, signed arrangements and other supporting documentation.
- We assessed whether the recognition of this commission income was in line with the requirements of the relevant accounting standard.
- We analysed the customer complaints received during the year.

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 financial statements and our report of "Réviseur d'Entreprises agréé" thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the Réviseur d'Entreprises agréé for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises agréé". However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as "Réviseur d'Entreprises agréé" by the General Meeting of the Shareholders on 13 April 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is five years.

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

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in the EU Regulation No. 537/2014, on the audit profession were not provided and that we remain independent of the Bank in conducting the audit.

Luxembourg, 3 April 2018

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé


T. Feld

Management Report

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.

In 2017, the Bank took the decision to change its accounting and reporting standards from Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts (“Luxembourg GAAP”) to International Financial Reporting Standards as endorsed by the European Union (“IFRS”) as the latter is more suitable to reflect the Bank’s needs with regards to its business requirements.

During the last quarters of 2017, the global recovery has strengthened and GDP growth accelerated. World trade has grown strongly in the last months of 2017, supported by a pick-up in investments.

An improving global growth outlook, the extension of the OPEC agreement to limit oil production and geopolitical concerns about the Middle East have supported the increase of crude oil prices. Interest rates in the US increase in line with the Federal Reserve policy whereby the European Central Bank intends to maintain interest rates at current low levels until quantitative easing ends. Should inflation rates stay low the asset purchase program could be extended. Equity prices in advanced economies continued to rally, supported by generally favourable sentiment regarding earnings prospects.

Despite a challenging environment, the Bank successfully grew its lending activities, optimised its funding base, enhanced its short term liquidity management and expanded its commission based activities in Global Markets business and auxiliary services for its clients.

As a result, the Bank significantly increased its profitability, achieving a net income of EUR 10.2 million compared with EUR 0.7 million in 2016.

Business development

The business year 2017 saw the 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 August 2017, the Countering America's Adversaries Through Sanctions ACT ("CAATSA") was signed into law. The new law provides inter alia for a further decrease of the tenor of new debt of sanctioned entities under OFAC Directive 1 that US persons could deal in, from 30 days or less to 14 days or less. The EU sectorial sanctions are unaltered and have been extended until 31 July 2018.

In order to deal with the different sanctions, the Bank closely cooperates with its Shareholder and legal consultants to safeguard the compliance with all applicable sanctions.

The Bank also initiated a dialog with its banking regulator to provide an updated Recovery Plan and several stress scenarios related to the potential impact of new US sanctions on its business model.

After the development of the infrastructure in 2016, Structured Commodity Finance was approved and subsequently launched in 2017 as a core product of the Bank's financing activities. Several Uncommitted Structured Commodity Finance Facilities Agreements were signed and became operational for the clients. Within the frame of the Agreements, Letters of Credit and Documentary Collections were used as payment instruments and the limits established with international banks for documentary business were utilized.

To allow the Bank to effectively control the complex handling of documents, the pivotal role of the Collateral Management department for the handling of collateral was further supported by implementing a specialised collateral management software (TRAC) and advance information added to track vessels, railway containers and other transportation systems. A database of more than 30 storage sites for Structured Commodity Finance transactions was created; 23 sites were visited and analysed by the in-house collateral management team. For the valuation of different types of assets used as collateral, the Bank entered into contractual arrangements with specialist valuation companies to receive high quality expert opinions.

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. Several new investment grade rated international banks opened or increased their lines for the Bank and are willing to confirm Letters of Credits issued by the Bank.

A new dedicated team of credit specialists arrived in 2017 and the Bank started to participate in EUR denominated syndicated Leveraged Buyout Financings with the assets of the acquired company/companies as collateral for the financing. The Bank furthermore expanded its credit business activities into Asset-based lending and successfully transferred more than EUR 300 million of the credit risk via Loan Participation Notes to investors. The Structured Finance department of the Bank concluded new bilateral and syndicated loans with European and eligible Russian corporates for the own accredit portfolio of the Bank and structured new loans for corporate clients in which the Bank acts as a 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 Note 15 to the financial statements.

In addition to the well-established performance-linked deposit products the Bank realised a strong increase of term deposit inflow from private individuals in 2017. With more than EUR 110 million of medium and longer term deposits the funds received from private clients become an important part of the funding basis of the Bank for its lending

activities. The Private Banking department of the Bank also executed several transactions for private clients participating in primary placements of Eurobonds of Russian issuers and participated actively in the transfer of former clients from VTB France to the Bank.

The newly formed Client Coverage department of the Bank realised in 2017 a strong increase of corporate customers to more than 140 active corporate client groups. This positive development is also reflected in the significant increase of short and medium term placements of corporate clients which are increasingly contributing to the development of the interest income of the Bank. Substantial efforts were initiated in 2017 by the Corporate Client department to improve risk awareness for client on boarding, transactions monitoring and strengthening of internal control processes.

The Treasury department of the Bank executed in 2017 12 mandates for Eurobonds issued by Russian issuers and 2 equity issues. The Bank raised more than EUR 200 million from market counterparties in the primary market syndication of these transactions. The investment portfolio, consisting of high quality securities of prime Russian issuers was increased to just under EUR 200 million and is a significant part of the stable interest income of the Bank. Further activities of the Treasury department were related to foreign exchange operations, where 2 new hedging products, FX forwards and FX options were introduced. To improve the efficient use of the eligible capital of the Bank, short term placements were made via reverse repos and on the basis of FX Swaps with high rated international banks. In 2017 the Bank also introduced a new service allowing the Treasury department to directly service key corporate clients.

The Bank successfully completed the EBICS (Electronic Banking Internet Communication Standard) implementation in 2017. At the end of 2017 approximately 60% of the corporate customers of the Bank are actively using EBICS. For 2018 the Bank plans to enhance the functionalities of EBICS.

Other important achievements in 2017 were related to the de-commissioning of the Sign book, the preparation for the introduction of IFRS 9 and the preparation for MIFID II as from 3 January 2018.

Financial performance and position

The total assets of the Bank amounted to EUR 1,745.5 million at 31 December 2017, compared to EUR 832.5 million as per 31 December 2016.

Cash and cash equivalents, including balances with central banks increased to EUR 697.0 million (2016: EUR 257.8 million) mainly related to the funding structure of the Bank.

Loans to banks in the amount of EUR 411.4 million (2016: EUR 168.1 million) are comprised of on-call funds held with the Parent bank and funds held on accounts with banks after foreign exchange swaps.

Loans to customers increased from EUR 110.2 million as at 31 December 2016 to EUR 258.7 million as at year-end 2017. The loan portfolio mainly consists of commercial lending transactions in the form of bilateral lending or participations in syndicated loan facilities.

Financial instruments at fair value through profit or loss and Held-to-maturity investments reflecting the Bank's securities portfolio amounted to EUR 375.6 million (2016: EUR 294.2 million) and contain held-to-maturity corporate Eurobonds of prime Russian issuers. The performance of bonds amounting EUR 181.0 million (2016: EUR 146.0 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 deposits and balances from banks of EUR 183.6 million (2016: EUR 314.2 million), financial instruments at fair value through profit or loss of EUR 183.9 million (2016: EUR 143.5 million) and current accounts and deposits from customers of EUR 1,246.7 million (2016: EUR 252.4 million).

The significant increase of all business activities of the Bank resulted in a net income of EUR 10.2 million (2016: profit of EUR 0.7 million), which is a remarkable swing of EUR 9.5 million compared to 2016.

Future development

In 2018, 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.

Rating affirmed

The rating agency S&P Global Ratings affirmed its BB+ rating to the Bank based on its core status as subsidiary of Gazprombank (JSC) in July 2017 and revised its outlook to stable from negative. 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

The Bank continued in 2017 with the hiring of additional product specialists to support the client and business development of the Bank. In line with the commitment made toward the Luxembourg banking regulator, the Bank expanded its local Risk Control department, currently consisting of two credit risk managers, one market risk manager, one operational risk manager and one specialist for development of internal risk limits, risk models and group reporting.

At year-end 2017, the Bank employed 57 staff members, an increase of 16 in comparison with year-end 2016.

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. Risk Management & Risk Control are carrying out the daily duty of monitoring and reporting the risks and limits in place. Reports are issued and provided to internal stakeholders, the Management and 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. The Bank introduced a Country Risk Policy and Country Risk Directive in order to better differentiate between the countries of risk for its lending operations.

The methodology in place is a combination of the country rating linked to the capital of the Bank.

To limit credit risks in respect of loans, the Bank has defined lending norms in its business regulations. Loans are approved within different authority levels: General Directors, Credit Committee and Board of Directors.

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.

The Bank keeps bonds as underlying asset in conjunction with performance-linked deposits and for its own HTM portfolio. All bonds are liquid.

Wrong-way risk

Wrong-way risk is defined as the risk that occurs when “current and future exposure to a counterparty is positively correlated with the credit quality of that counterparty”. The Bank is managing wrong-way risk by monitoring concentration risk for country, collateral and product.

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 is still classified as a non-trading house. All risks such as interest rate risk and FX risk are measured and controlled by Risk Management & Risk Control. All risk limits are approved by the Board of Directors and reported to Headquarter for consolidation purposes. The Bank has introduced an Asset Liability Management Committee (“ALCO”). The ALCO meets regularly to discuss the market risks and limits covering the market risk.

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.

Limits for Liquidity Risk of the Bank are approved 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 approved limit for liquidity risk. All processes are specified with clearly assigned roles and responsibilities to ensure a 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 provide 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 required. Based on the outcomes of liquidity stress tests the Bank creates and maintains a 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 composed by 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 the assets under the view of the liquidity risk GBPL has installed different limits for liquidity risk with 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. The Bank issued a 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.

In order to detect and monitor operational risk the Bank employed an Operational Risk Manager in 2017. A monthly Key Risk Indicator report is provided to the Management and the Board of Directors highlighting Operational Risk issues.

- New and improved procedures and workflows are in place to reduce the risk.

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.

The Service level Agreement with Gazprombank (Switzerland) Limited was terminated and became effective 31.12.2017. From 2018 on the whole process of reporting, monitoring and controlling is carried out by the Bank itself.

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 2018 until the date of this report.

The Bank had no research and development activities in 2017.

The Bank did not acquire its own shares.

The Bank had no branches or subsidiaries.

Luxembourg, 29 March 2018

On behalf of the Board of Directors


Dmitry Derkach
General Director


Thomas Kiefer
General Director

Bank GPB International S.A.
Statement of Profit or Loss and Other Comprehensive Income for the year ended
31 December 2017

	Notes	2017 EUR'000	2016 EUR'000
Interest income	4	38,650	17,216
Interest expense	4	(25,961)	(8,701)
Net interest income		12,689	8,515
Fee and commission income	5	15,645	5,415
Fee and commission expense	6	(16)	(6)
Net fee and commission income		15,629	5,409
Net gain (loss) on financial instruments at fair value through profit or loss	7	302	255
Net foreign exchange income (loss)		111	569
Other operating income (expenses)		(463)	(101)
Operating income		28,268	14,647
Depreciation and amortizations on tangible and intangible assets	17	(366)	(479)
Net impairment loss on financial assets	8	(465)	(1,340)
Personnel expenses	9	(10,904)	(7,317)
Other general administrative expenses	10	(7,234)	(4,704)
Profit (loss) before income tax		9,299	807
Income tax expense	11	890	(126)
Profit (loss) and total comprehensive income for the year		10,189	681

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements.

Bank GPB International S.A.
Statement of Financial Position as at 31 December 2017

	Notes	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
ASSETS				
Cash and deposits with central banks	12	696,970	257,780	12,365
Financial instruments at fair value through profit or loss				
- Held by the Bank	13	181,027	146,004	70,562
Loans to banks	14	411,388	168,103	67,013
Loans to customers	15	258,728	110,249	43,864
Held-to-maturity investments	16	194,582	148,229	-
Property, equipment and intangible assets	17	1,613	1,031	549
Deferred tax assets	11	807	-	-
Other assets	18	354	1,117	329
Total assets		1,745,469	832,513	194,682
LIABILITIES				
Financial instruments at fair value through profit or loss	13	183,859	143,532	71,785
Deposits and balances from banks	19	183,607	314,166	14,129
Current accounts and deposits from customers	20	1,246,657	252,404	40,776
Current tax liability		564	281	18
Deferred tax liabilities	11	-	104	-
Other liabilities	21	3,588	5,021	1,650
Total liabilities		1,618,275	715,508	128,358
EQUITY				
Share capital	22	130,000	130,000	80,000
Profit or loss attributable to Owners of the Bank		10,189	681	(5,417)
Retained earnings (accumulated losses)		(12,995)	(13,676)	(8,259)
Total equity		127,194	117,005	66,324
Total liabilities and equity		1,745,469	832,513	194,682

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.

Bank GPB International S.A.
Statement of Cash Flows for the year ended 31 December 2017

	2017	2016
	EUR'000	EUR'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) and total comprehensive income for the year	10,189	681
Adjustment for:		
- Interest income	(38,650)	(17,216)
- Net gain (loss) on financial instruments at fair value through profit or loss	(302)	(255)
- Interest expense	25,961	8,701
- Net foreign exchange income (loss)	(111)	(569)
- Income tax expense	(890)	126
- Personnel expenses	1,855	1,555
- Depreciation and amortizations on tangible and intangible assets	366	479
- Net impairment loss on financial assets	465	1,340
	(1,117)	(5,158)
Changes in:		
- Other liabilities	(3,722)	2,123
- Loans to customers	(147,850)	(66,622)
- Other assets	763	(788)
- Current accounts and deposits from customers	1,000,222	211,437
- Financial instruments at fair value through profit or loss (excluding financial assets designated at FVTPL)	32,963	68,246
- Deposits and balances from banks	(131,190)	299,636
	750,069	508,874
Income tax paid	(21)	(22)
Interest received	34,327	5,177
Interest paid	(17,295)	(5,307)
Net cash from / (used in) operating activities	767,080	508,722
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of held-to-maturity investments	(53,278)	(140,775)
Repayment of held-to-maturity investments	3,792	-
Acquisition of financial assets designated at FVTPL	(88,732)	(107,656)
Sale and repayment of financial assets designated at FVTPL	54,561	37,175
Proceeds from the sale of property, equipment and intangible assets 17	2	-
Acquisition of property, equipment and intangible assets 17	(950)	(961)
Net cash from / (used in) investing activities	(84,605)	(212,217)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	-	50,000
Net cash from / (used in) financing activities	-	50,000
Net increase / (decrease) in cash and cash equivalents	682,475	346,505
Cash and cash equivalents at 1 January 12a	425,883	79,378
Cash and cash equivalents at 31 December 12a	1,108,358	425,883

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

EUR'000	Share capital	Retained earnings (accumulated losses)	Total equity
Balance as at 1 January 2017	130,000	(12,995)	117,005
Total comprehensive income			
Profit (loss) for the year	-	10,189	10,189
Total comprehensive income for the year	130,000	(2,806)	127,194
Balance as at 31 December 2017	130,000	(2,806)	127,194
Balance as at 1 January 2016	80,000	(13,676)	66,324
Total comprehensive income			
Profit for the year	-	681	681
Total comprehensive income for the year	80,000	(12,955)	67,005
Transactions with owners, recorded directly in equity			
Shares issued	50,000	-	50,000
Total transactions with owners	50,000	-	50,000
Balance as at 31 December 2016	130,000	(12,955)	117,005

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1 Background

(a) Organisation and operations

These financial statements comprise the financial statements of Bank GPB International S.A.

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 Bank’s activities are regulated by CSSF. The Bank has a general banking license, and is a member of the state deposit insurance system in Luxembourg.

The Bank’s registered office is Le Dôme 15, rue Bender, 1229 Luxembourg.

The Bank has no branches.

2 Basis of preparation

(a) Statement of compliance

From 1 January 2017, the Bank prepared its financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union (“EU”).

The financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (“IASB”) and the relative interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) as adopted for use in the EU (“IFRS”).

The annual accounts of the Bank as at 31 December 2016 were prepared in conformity with the Luxembourg legal and regulatory requirements (“LuxGAAP”). A summary of the accounting policies under LuxGAAP is included as notes to the annual accounts of the Bank for the year ended 31 December 2016.

The accounting policies described below were used in the preparation of the financial statements as at and for the year ended 31 December 2017, the comparative financial information as at and for the year ended 31 December 2016, and of the opening balance sheet in accordance with the IFRS as at 1 January 2016 (transition date).

These financial statements have been approved by the Board of Directors via a circular resolution dated 29 March 2018.

(b) First-time adoption of IFRS

A first-time adopter should consistently apply the same accounting policies throughout the periods presented in its first IFRS financial statements, and these accounting policies should be based on the latest version of the IFRS effective at the reporting date. IFRS 1 states that the transitional provisions in other IFRSs do not apply to first-time adopters. It does, however, allow a first-time adopter to elect to use one or more exemptions from the general measurement and restatement principles.

The Bank did not use any exemption provided by IFRS 1. The opening values are similar to the situation where the Bank had been used IFRS since inception.

(c) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss.

(d) Functional and presentation currency

The functional currency of the Bank is the Euro ("EUR") as, being the national currency of Luxembourg, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The EUR is also the presentation currency for the purposes of these financial statements.

Financial information presented in EUR is rounded to the nearest thousand.

(e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(f) Changes in accounting policies and presentation

The Bank should consider to include other amendments to standards or newly effective standards with a date of initial application of 1 January 2017 if such amendments/standards have a material effect on the financial statements. The full list of newly effective standards as at 31 December 2017:

- Disclosure Initiative (Amendments to IAS 7)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
- Annual Improvements to IFRS Standards 2014-2016 Cycle (Amendments to IFRS 12 Disclosure of Interests on Other Entities).

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, and are applied consistently by Bank, except as explained in note 2(f), which addresses changes in accounting policies.

(a) Foreign currency

i. Foreign currency transactions

Transactions in foreign currencies are translated to EUR, the functional currency of the Bank, at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

(b) Cash and cash equivalents

Cash and cash equivalents include unrestricted balances (nostro accounts) held with the Banque Centrale du Luxembourg ("BCL") and other banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(c) Financial instruments

i. Classification

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss ("FVTPL") are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;

- derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at FVTPL where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at FVTPL upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the FVTPL or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at FVTPL category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term;
- upon initial recognition designates as at FVTPL;
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, and which are not designated as at FVTPL or as available-for-sale.

ii. Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

iii. Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at FVTPL, incremental transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on their sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method;
- held-to-maturity investments that are measured at amortized cost using the effective interest method.

All financial liabilities, other than those designated at FVTPL and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

iv. Amortised cost measurement

The “amortised cost” of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

v. Fair value measurement

“Fair value” is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

vi. Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at FVTPL is recognised in profit or loss;
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

vii. Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost. In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

viii. Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within "Deposits and balances from banks" or "Current accounts and deposits from customers", as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within “Loans to banks” or “Loans to customers”, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

ix. Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Bank currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank and all counterparties.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank’s trading activity.

(d) Property and equipment

i. Owned assets

Items of property and equipment are stated at cost, which includes capitalized borrowing costs, less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

ii. Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

equipment	4 years;
fixtures and fittings	4 years;
computer software	3 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Subsequent expenditure on computer software licenses is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 3 to 5 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(f) Impairment***i. Financial assets***

At each reporting date, the Bank assesses whether there is any objective evidence that a financial asset or group of financial assets not carried at FVTPL are impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred 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 financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of held-to-maturity investments, loans and other receivables (loans and receivables). The Bank reviews its held-to-maturity investments and loans and receivables to assess impairment on a regular basis.

The Bank first assesses whether objective evidence of impairment exists individually for held-to-maturity investments and loans and receivables that are individually significant, and individually or collectively for held-to-maturity investments and loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed held-to-maturity investments and loans and receivables, whether significant or not, it includes these financial assets in a group of held-to-maturity investments or loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Held-to-maturity investments and loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a held-to-maturity investment or loans and receivables has been incurred, the amount of the loss is measured as the difference between the carrying amount of the financial asset carried at amortised cost and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the financial asset carried at amortised cost's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a financial asset carried at amortised cost may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data related to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

Impairment losses are recognised in profit or loss and reflected in an allowance account against held-to-maturity investments or loans and receivables. Interest on the impaired assets continues to be recognized through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

When a financial asset carried at amortised cost is uncollectable, it is written off against the related allowance for impairment. The Bank writes off a financial asset's balance (and any related allowances for losses) when management determines that the financial assets carried at amortised cost are uncollectible and when all necessary steps to collect the financial assets carried at amortised cost are completed.

ii. Non-financial assets

Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of goodwill is estimated at each reporting date. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

(g) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(h) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

“Financial guarantees” are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. “Loan commitments” are firm commitments to provide credit under pre-specified terms and conditions.

A financial guarantee liability is recognised initially at fair value and the initial fair value is amortised over the life of the guarantee. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

(i) Share capital***i. Ordinary shares***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

ii. Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(j) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

i. Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

ii. Deferred tax

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the following temporary differences:

- temporary differences arising on the initial recognition of goodwill,
- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and
- temporary differences related to investments in subsidiaries to the extent that where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plan for the Bank and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Bank takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(k) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(l) **Comparative information**

Comparative information is reclassified to conform to changes in presentation in the current year.

(m) **New standards and interpretations not yet adopted**

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Bank has not early adopted the new standards in preparing these financial statements.

The following standards are expected to have a material impact on the Bank's financial statements in the period of initial application.

IFRS 9 Financial instruments

IFRS 9 *Financial instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, and includes requirements for classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

The Bank will apply IFRS 9 as issued in July 2014 initially on 1 January 2018.

Based on assessments undertaken to date, the Bank does not expect a major quantitative impact from the application of the classification and measurement requirements. The total estimated adjustment (before taxes) of the adoption of IFRS 9 on the opening balance of the Bank's equity at 1 January 2018 is approximately EUR 1 million, representing:

- loans and advances classified as loans and receivables under IAS 39 are expected to be re-grouped under the "Hold to collect" business model and continued to be measured at amortized cost;
- debt securities designated at FVTPL under IAS 39 will continue to be measured at fair value under IFRS 9;
- debt securities classified as held-to-maturity investments under IAS 39 will be re-grouped under the business model "Hold to collect" and continued to be measured at amortized cost;
- the impact of the application of the impairment requirements on the regulatory capital is expected in a range up to 1 million EUR;
- the Bank does not foresee a classification of financial assets in stages 2 or 3 under the impairment model of IFRS 9;
- the Bank did not make use of Hedge Accounting under IAS 39 and does not intend to apply it under IFRS 9 as well.

The above assessment is preliminary because not all transition work has been finalised. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- IFRS 9 will require the Bank to revise its accounting processes and internal controls and these changes are not yet complete;
- the Bank has not finalised the testing and assessment of controls over changes to its governance framework;
- the Bank is refining and finalising its models for ECL calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalises its first financial statements that include the date of initial application.

i. Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the whole hybrid instrument is assessed for classification.

Equity investments are measured at fair value.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in OCI; and
- the remaining amount of the change in the fair value will be presented in profit or loss.

ii. Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Bank will recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Bank does not recognise any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Bank will recognise loss allowances at an amount equity to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'; and
- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for lease receivables will always be measured at an amount equal to lifetime ECLs.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Definition of default

Under IFRS 9, the Bank will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Signification increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

The Bank will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default ("PD") as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument.

Forward-looking information

Under IFRS 9, the Bank will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs.

Measurement of ECLs

Financial assets for which 12-month ECL is recognized are considered to be in stage 1; financial assets that have experienced a significant increase in credit risk since initial recognition, but are not defaulted are considered to be in stage 2; and financial assets that are in default or otherwise credit-impaired are considered to be in stage 3.

Measurement of expected credit losses is required to be unbiased and probability-weighted, should reflect the time value of money and incorporate reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Under IFRS 9, credit losses are recognised earlier than under IAS 39, resulting in increased volatility in profit or loss. It will also tend to result in an increased impairment allowance, since all financial assets will be assessed for at least 12-month ECLs and the population of financial assets to which lifetime ECLs applies is likely to be larger than the population with objective evidence of impairment identified under IAS 39.

Calculation of expected credit losses is likely to be based on the PD x LGD (Loss given default) x EAD approach (Exposure at default), depending on the type of the exposure, stage at which the exposure is classified under IFRS 9, collective or individual assessment, etc.

iii. Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, aligning the hedge accounting more closely with risk management strategies. The standard does not explicitly address macro hedge accounting, which is being considered in a separate project. IFRS 9 includes an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39.

iv. Transition

The classification and measurement and impairment requirements are generally applied retrospectively (with some exemptions) by adjusting the opening retained earnings and reserves at the date of initial application, with no requirement to restate comparative periods.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank does not intend to adopt this standard early. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

IFRS 16 Leases

IFRS 16 *Leases* replaces the existing lease accounting guidance in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Bank does not intend to adopt this standard early. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

4 Net interest income

	2017 EUR'000	2016 EUR'000
Interest income		
Financial instruments at fair value through profit or loss	18,350	3,238
Financial instruments designated at fair value through profit or loss	7,014	6,332
Loans to banks	1,477	145
Loans to customers	5,778	4,158
Held-to-maturity investments	6,031	3,343
	38,650	17,216
Interest expense		
Deposits and balances from banks	(5,682)	(2,107)
Financial instruments designated at fair value through profit or loss	(5,639)	(5,500)
Current accounts and deposits from customers	(14,640)	(1,094)
	(25,961)	(8,701)

Included in interest income and expense linked to the amortization of premium and discount relates to financial assets not carried at fair value through profit and loss is EUR (1,993) thousand (2016: EUR (1,005) thousand).

Included in interest expense on deposits and balances from banks is negative interest charged by BCL on cash and deposits with central banks of EUR 2,437 thousand (2016: EUR 359 thousand).

5 Fee and commission income

	2017 EUR'000	2016 EUR'000
Settlement	751	288
Brokerage	269	16
Trust, custodian and other fiduciary services	742	165
Guarantee and letter of credit issuance	3,763	1,329
Underwriting and corporate finance	10,120	3,576
Other	-	41
	15,645	5,415

6 Fee and commission expense

	2017 EUR'000	2016 EUR'000
Brokerage	(16)	(6)
	(16)	(6)

7 Net gain (loss) on financial instruments at fair value through profit or loss

	2017 EUR'000	2016 EUR'000
Debt financial instruments	302	-
Deposits	107	37
Derivatives	(107)	218
	302	255

Included in net gain (loss) on financial instruments at fair value through profit or loss for the year ended 31 December 2017 is a total of EUR 302 thousand (2016: EUR 255 thousand) recognised on both financial assets at FVTPL and financial assets designated at fair value through profit or loss.

8 Net impairment loss on financial assets

	Note	2017 EUR'000	2016 EUR'000
Loans to customers	15	275	(824)
Held-to-maturity investments	16	(23)	(560)
Other liabilities	21	(717)	44
		(465)	(1,340)

9 Personnel expenses

	2017 EUR'000	2016 EUR'000
Employee compensation	(9,645)	(6,343)
Payroll related taxes	(1,259)	(974)
	(10,904)	(7,317)

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

	2017	2016
Senior management	2.0	2.0
Management	11.8	11.2
Employees	37.0	18.3
	50.8	31.5

10 Other general administrative expenses

	2017 EUR'000	2016 EUR'000
IT expenses	(1,887)	(1,289)
Communications and information services	(1,262)	(531)
Rent, utilities and other building costs	(1,103)	(845)
Counselling and legal expenses	(755)	(751)
Travel expenses	(466)	(208)
Advertising and marketing	(407)	(61)
Professional services	(311)	(222)
Audit fees	(288)	(160)
Insurance	(76)	(43)
Office supplies	(42)	(32)
Charity and sponsorship	(6)	(10)
Other	(631)	(552)
	(7,234)	(4,704)

11 Income tax expense

	2017 EUR'000	2016 EUR'000
Current year tax expense	(21)	(22)
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences and movement in valuation allowance	911	(104)
Total income tax gain (expense)	890	(126)

In 2017, the applicable tax rate for current and deferred tax is 27.08% (2016: 29.22%).

Reconciliation of effective tax rate for the year ended 31 December:

	2017 EUR'000	2017 %	2016 EUR'000	2016 %
Profit before tax	9,299		807	
Income tax at the applicable tax rate	(2,518)	(27.08)	(236)	(29.22)
Current-year tax losses for which no deferred tax asset is recognised	2,497	26.85	110	13.63
Recognition of previously unrecognised tax losses	911	9.80	-	-
	890	9.57	(126)	(15.61)

Due to a loss carry forward the Bank only pays the minimum tax amount.

(a) Deferred tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets and liabilities as at 31 December 2017 and 2016.

Recognition of deferred tax assets of EUR 807 thousand (2016: EUR nil) is based on management's profit forecasts (which are based on the available evidence, including historical levels of profitability), which indicate that it is probable that the Bank will have future taxable profits against which these assets can be used. In order to reach its estimates, management relied on the Bank's financial budget plan for 2018, which has been approved by the Board of Directors on 19 December 2017 with the following assumptions applied:

- constant growth of number of customers, current accounts and deposits from customers, loans to customers and held-to-maturity investments and assets under management for 2018 year supported by the Bank's statistics over the last two years;
- expansion of relationship management team;
- fixed amounts and rates of commission and fees charged to the Bank's customers as well as paid by the Bank to business introducers;
- steady yields growth of the Bank's held-to-maturity investments;
- moderate growth of personnel and administrative expenses in line with the underlying budget for 2018;
- stable USD/EUR exchange rate.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The applicable tax rate enacted from 2018 onwards for current and deferred tax is 26.01%.

The deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards generated from 1 January 2018 onwards are going to expire in 17 years.

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Bank can use the benefits:

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
Tax losses	-	(12,651)	(13,109)

Movements in temporary differences during the years ended 31 December 2017 and 2016 are presented as follows.

2017	Balance 1 January 2017	Recognised in other comprehensive income	Recognised in profit or loss	Balance 31 December 2017
EUR'000				
Financial instruments at fair value through profit or loss	-	-	(79)	(79)
Derivatives held for trading	(59)	-	247	188
Other intangible assets	(45)	-	30	(15)
Tax loss carry-forwards	-	-	713	713
	(104)	-	911	807

2016

EUR'000	Balance 1 January 2016	Recognised in other comprehensive income	Recognised in profit or loss	Balance 31 December 2016
Financial instruments at fair value through profit or loss	-	-	-	-
Derivatives held for trading	-	-	(59)	(59)
Other intangible assets	-	-	(45)	(45)
Tax loss carry-forwards	-	-	-	-
	-	-	(104)	(104)

12 Cash and deposits with central banks

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
Nostro accounts with BCL	696,970	257,780	12,365

No cash and cash equivalents are impaired or past due.

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 2017 held by the Bank with the Central Bank of Luxembourg amounted to EUR 11,372 (31 December 2016: EUR 4,819 thousand and 31 December 2015: EUR 2,751 thousand).

(a) Cash and cash equivalents

The table below summarises the contractual amounts of cash and cash equivalents:

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
Cash and deposits with central banks	696,970	257,780	12,365
Loans to banks	411,388	168,103	67,013
	1,108,358	425,883	79,378

13 Financial instruments at fair value through profit or loss

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
<i>Held by the Bank</i>			
ASSETS			
Designated at fair value through profit and loss			
- Corporate bonds			
rated from BBB- to BBB+	70,525	56,577	46,926
rated from BB- to BB+	101,048	84,934	23,636
rated below B+	1,771	-	-
not rated	790	3,539	-
Total corporate bonds	174,134	145,050	70,562
- Corporate loans			
not rated	4,409	-	-
Total designated at fair value through profit and loss	178,543	145,050	70,562
Derivative financial instruments	321	21	-
Foreign currency contracts	2,163	933	-
Total financial instruments at fair value through profit or loss	181,027	146,004	70,562
LIABILITIES			
Designated at fair value through profit and loss			
Credit-linked deposits	180,090	142,818	71,785
Total designated at fair value through profit and loss	180,090	142,818	71,785
Derivative financial instruments	27	-	-
Foreign currency contracts	3,742	714	-
Total Financial instruments at fair value through profit or loss	183,859	143,532	71,785

No financial assets at fair value through profit or loss are past due or impaired.

The amount of the change in the fair value attributable to changes in credit risk on the financial liabilities designated at fair value through profit or loss was not significant.

The Bank developed an investment product, through which high-net-worth clients can place 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" or "CLD"). The credit risks as well as the market risks related to these securities were entirely transferred to the holders of the corresponding deposits. These credit-linked deposits have been designated at fair value through profit or loss, since designation eliminates or significantly reduces an accounting mismatch that would otherwise arise between CLD and underlying asset.

(a) Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2017, 2016 and 2015, with details of the weighted average contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates in effect at the reporting date. The resulting unrealised gains and losses on these unmatured contracts, together with the amounts payable and receivable on the matured but unsettled contracts, are recognised in profit or loss and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount			Weighted average contractual exchange rates		
	2017 EUR'000	2016 EUR'000	2015 EUR'000	2017	2016	2015
Buy USD sell EUR						
Less than 3 months	2,864	-	45,764	1.196441	-	1.098440
Sell USD buy EUR						
Less than 3 months	348,108	-	4,647	0.835789	-	0.921915
Buy RUB sell EUR						
Less than 3 months	52,669	6,448	-	70.017617	65.137900	-
Sell RUB buy EUR						
Less than 3 months	362,314	18,005	-	0.014314	0.015451	-
Buy CHF sell EUR						
Less than 3 months	137,816	-	29,828	1.163855	-	1.083313
Buy CHF sell USD						
Less than 3 months	54,615	143,429	17,255	0.986878	1.019422	0.996129
Sell RUB buy USD						
Less than 3 months	-	2,949	3,696	-	0.016350	0.013735

The Bank uses derivative foreign currency exchange instruments in order to manage currency positions.

The following table provides information on the credit quality of foreign currency contracts, which are assets:

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
- rated A- to A+	683	295	-
- rated from BB- to BB+	1,140	638	-
- rated from BBB- to BBB+	340	-	-
	2,163	933	-

14 Loans to banks

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
Loans and deposits			
rated from AA- to AA+	11,298	628	821
rated A- to A+	846	145	-
rated BBB- to BBB+	22,527	8,000	13,451
rated from BB- to BB+	376,717	159,330	52,741
Total loans and deposits	411,388	168,103	67,013

No loan to banks is past due or impaired.

(a) Concentration of loans to banks

As at 31 December 2017, the Bank has 3 banks (2016 and 2015: 2 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2017 is EUR 389,537 thousand (2016: EUR 159,328 thousand, 2015: EUR 52,740 thousand).

15 Loans to customers

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
Corporate customers			
Direct loans	216,052	9,489	9,185
Loans participated by the Bank	18,525	101,924	35,035
Mortgage loans	25,039	-	-
Total loans to corporate customers	259,616	111,413	44,220
Private customers			
Loans to private customers	17	16	-
Total loans to private customers	17	16	-
Impairment allowance	(905)	(1,180)	(356)
Net loans to customers	258,728	110,249	43,864

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 statement of financial position 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 2017, there were EUR 880.9 million loans participated by other banks through SFSP (2016: EUR 323.2 million, 2015: EUR 82.3 million).

Movements in the loan impairment allowance by classes of loans to customers are as follows:

	2017 EUR'000	2016 EUR'000	2015 EUR'000
Loans to corporate customers			
Balance at the beginning of the year	(1,180)	(356)	-
Net (charge) / recovery	275	(824)	(356)
Balance at the end of the year	(905)	(1,180)	(356)

The following table provides information by types of loan products as at 31 December 2017:

	Gross amount EUR'000	Impairment allowance EUR'000	Carrying amount EUR'000
Loans to corporate customers			
Direct loans	216,052	(648)	215,404
Loans participated by the Bank	18,525	(257)	18,268
Mortgage loans	25,039	-	25,039
Loans to private customers			
Loans to private customers	17	-	17
	259,633	(905)	258,728

The following table provides information by types of loan products as at 31 December 2016:

	Gross amount EUR'000	Impairment allowance EUR'000	Carrying amount EUR'000
Loans to corporate customers			
Direct loans	9,489	(40)	9,449
Loans participated by the Bank	101,924	(1,140)	100,784
Loans to private customers			
Loans to private customers	16	-	16
	111,429	(1,180)	110,249

The following table provides information by types of loan products as at 31 December 2015:

	Gross amount EUR'000	Impairment allowance EUR'000	Carrying amount EUR'000
Loans to corporate customers			
Direct loans	9,185	(74)	9,111
Loans participated by the Bank	35,035	(282)	34,753
	44,220	(356)	43,864

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2017 and 2016:

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
Direct loans			
Gross amount	216,052	9,489	9,185
Impairment allowance	(648)	(40)	(74)
Carrying amount	215,404	9,449	9,111
Loans participated by the Bank			
Gross amount	18,525	101,924	35,035
Impairment allowance	(257)	(1,140)	(282)
Carrying amount	18,268	100,784	34,753
Mortgage loans			
Gross amount	25,039	-	-
Impairment allowance	-	-	-
Carrying amount	25,039	-	-
Loans to private customers			
Gross amount	17	16	-
Impairment allowance	-	-	-
Carrying amount	17	16	-
Net loans to customers	258,728	110,249	43,864

(b) Key assumptions and judgments for estimating loan impairment***i. Loans to corporate customers***

The Bank estimates loan impairment for loans to corporate customers based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified.

The establishment of loan allowances requires objective evidence of impairment and a reliable estimation about the future cash flows of the financial asset(s) concerned. In addition a formal decision needs to be taken by the respective business owner and the Risk Management department and approved by the competence owner.

During 2017, no specific loan allowances have been established.

(c) Analysis of collateral and other credit enhancements***i. Loans to corporate customers***

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Group generally requests corporate borrowers to provide it.

As at 31 December 2017, the Bank had 3 mortgage loans of EUR 25,039 thousand (2016 and 2015: none). The collateral value of these loans as at 31 December 2017 is EUR 28,509 thousand. All mortgage loans are overcollateralised.

The Bank has loans, for which the fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and loans for which the fair value of collateral is not determined. For certain loans the fair value of collateral is updated as at the reporting date. Information on the valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed. Sureties received from individuals, such as shareholders of SME borrowers, are not considered for impairment assessment purposes. Accordingly, such loans and unsecured portions of partially secured exposures are presented as loans without collateral or other credit enhancement.

The recoverability of loans which are neither past due nor impaired primarily depends on the creditworthiness of borrowers rather than the value of collateral, and the Bank does not necessarily update the valuation of collateral as at each reporting date.

The monitoring measures implemented by the Bank, in order to monitor and limit credit risk, focus on analysis of the financial standing and reputation of the borrowers, the existence and sufficiency of collateral pledged as security for loan facilities, and periodic reviews of the creditworthiness of borrowers.

Based on the methods how credit risk is managed at the Bank, it has been decided not to develop any specific internal methodology for the allocation of capital to credit risk. Thus, the Bank has conservatively decided to use the result of the Standardized Approach for its quantification of the credit risk. The standardized risk approach increases the risk sensitivity of the capital framework by recognizing that different counterparties within the same loan category present different risks to the lending institution. Thus, instead of placing all commercial loans in the 100% risk weighting basket, the standardized approach takes into account the credit rating of the borrower and additional risk mitigating collaterals.

The Bank considers only cash pledged under Luxembourg Law and guarantees provided as eligible credit risk mitigating assets. For the counterparty risk related to banks, the Bank takes external ratings into account. The Bank is also using netting agreements to mitigate credit risks.

The Bank has legally enforceable netting agreements for on-balance sheet exposures (loans and deposits) and off-balance sheet exposures (derivatives) for which the Bank may calculate capital requirements on the basis of net credit exposures, subject to specific regulatory conditions. The Bank monitors encumbered assets, which consist of assets pledged as collateral against an existing liability and other assets which are otherwise explicitly restricted such that they cannot be used to secure funding.

ii. **Loans to private customers**

The Bank is not active in this business area.

(d) **Industry and geographical analysis of the loan portfolio**

Loans to customers were issued primarily to customers in the following economic sectors:

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
Trade	77,154	26,600	-
Manufacturing	57,495	33,440	20,861
Transport	34,478	2	11,815
Agriculture, forestry and timber	26,895	-	-
Energy	26,869	51,363	11,537
Real estate	25,060	-	-
Finance	11,663	5	5
Loans to private customers	17	16	-
Other	2	3	2
	259,633	111,429	44,220
Impairment allowance	(905)	(1,180)	(356)
	258,728	110,249	43,864

Loan commitments were issued primarily to customers in the following economic sectors:

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
Trade	108,769	20,871	206,538
Manufacturing and chemical industry	24,451	122,684	229,014
Transport	6,671	-	-
Agriculture, forestry and timber	30,202	-	-
Energy and oil	205,531	175,505	422,522
Finance	18,455	-	-
Mining	20,845	-	-
Loans to private customers	6,114	-	-
	421,038	319,060	858,074
Impairment allowance	(717)	-	(44)
	420,321	319,060	858,030

Loans to customers were issued primarily to customers who operate in the following geographical locations:

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
Luxembourg	11	2	4
OECD countries (excl. Luxembourg)	190,940	50,327	5
Other countries	68,682	61,100	44,211
	259,633	111,429	44,220
Impairment allowance	(905)	(1,180)	(356)
	258,728	110,249	43,864

(e) Significant credit exposures

As at 31 December 2017, the Bank has 7 connected borrowers (2016: 3, 2015: 3) whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2017 is EUR 247,848 thousand (2016: EUR 55,596 thousand; 2015: EUR 59,813 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 23(f), which shows the remaining period from the reporting date to the contractual maturity of the loans.

16 Held-to-maturity investments

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
<i>Pledged under sale and repurchase agreement</i>			
Corporate bonds			
rated from BBB- to BBB+	16,562	-	-
	16,562	-	-
<i>Held by the Bank</i>			
Corporate bonds			
rated from BBB- to BBB+	101,716	67,646	-
rated from BB- to BB+	76,887	81,143	-
	178,603	148,789	-
Total corporate bonds	195,165	148,789	-
Impairment allowance	(583)	(560)	-
Total net corporate bonds	194,582	148,229	-

17 Property, equipment and intangible assets

EUR'000	Equipment	Fixtures and fittings	Computer software	Construction in progress	Total
Cost/revalued amount					
Balance as at 1 January 2017	250	519	1,516	97	2,382
Additions	27	107	538	278	950
Disposals	-	(2)	-	-	(2)
Balance as at 31 December 2017	277	624	2,054	375	3,330
Depreciation, amortisation and impairment losses					
Balance as at 1 January 2017	(147)	(52)	(1,152)	-	(1,351)
Depreciation and amortisation for the year	(54)	(75)	(237)	-	(366)
Disposals	-	-	-	-	-
Balance as at 31 December 2017	(201)	(127)	(1,389)	-	(1,717)
Carrying amount as at 31 December 2017	76	497	665	375	1,613

There are no capitalised borrowing costs related to the acquisition or construction of plant and equipment during 2017 (2016 and 2015: nil).

EUR'000	Equipment	Fixtures and fittings	Computer software	Construction in progress	Total
Cost/revalued amount					
Balance at 1 January 2016	147	41	1,233	-	1,421
Additions	103	478	283	97	961
Disposals	-	-	-	-	-
At 31 December 2016	250	519	1,516	97	2,382
Depreciation, amortisation and impairment losses					
Balance as at 1 January 2016	(84)	(8)	(780)	-	(872)
Depreciation and amortisation for the year	(63)	(44)	(372)	-	(479)
Disposals	-	-	-	-	-
Balance as at 31 December 2016	(147)	(52)	(1,152)	-	(1,351)
Carrying amounts as at 31 December 2016	103	467	364	97	1,031

EUR'000	Equipment	Fixtures and fittings	Computer software	Construction in progress	Total
Cost/revalued amount					
Balance as at 1 January 2015	121	37	986	-	1,144
Additions	26	4	247	-	277
Disposals	-	-	-	-	-
Balance as at 31 December 2015	147	41	1,233	-	1,421
Depreciation, amortisation and impairment losses					
Balance as at 1 January 2015	(39)	(3)	(377)	-	(419)
Depreciation and amortisation for the year	(45)	(5)	(403)	-	(453)
Disposals	-	-	-	-	-
Balance as at 31 December 2015	(84)	(8)	(780)	-	(872)
Carrying amount as at 31 December 2015	63	33	453	-	549

18 Other assets

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
VAT receivables	259	235	25
Other prepayments	95	882	304
Total other non-financial assets	354	1,117	329

19 Deposits and balances from banks

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
At sight	118,428	254,947	14,129
With agreed maturity	65,179	59,219	-
	183,607	314,166	14,129
rated from A- to A+	15,875	120	-
rated from BBB- to BBB+	15,345	663	60
rated from BB- to BB+	142,366	312,308	13,164
not rated	10,021	1,075	905
	183,607	314,166	14,129

As at 31 December 2017, the Bank has 3 banks (2016 and 2015: 2 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2017 is EUR 150,913 thousand (2016: EUR 308,392 thousand, 2015: EUR 13,067 thousand).

20 Current accounts and deposits from customers

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
Current accounts and demand deposits			
- Private	18,260	8,592	3,401
- Corporate	133,031	62,165	37,172
Term deposits			
- Private	113,819	119,504	203
- Corporate	981,547	62,143	-
	1,246,657	252,404	40,776

As at 31 December 2017, the Bank has 11 customers (2016: 4 customers, 2015: 1 customer), whose balances exceed 10% of equity. These balances as at 31 December 2017 are EUR 1,054,605 thousand (2016: EUR 188,127 thousand, 2015: EUR 23,290 thousand).

21 Other liabilities

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
Deferred income	-	1,911	-
Other financial liabilities	201	794	98
Total other financial liabilities	201	2,705	98
Employees remuneration	2,022	1,683	292
Provision for guarantees and letters of credit issued	717	-	44
Other non-financial liabilities	648	633	1,216
Total other non-financial liabilities	3,387	2,316	1,552
Total other liabilities	3,588	5,021	1,650

22 Share capital and reserves

(a) Issued capital and share premium

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 (2016: 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.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

23 Risk management, corporate governance and internal control

(a) Corporate governance framework

The Bank is established as a "société anonyme" in accordance with Luxembourg law. The supreme governing body of the Bank is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Bank's operations.

The general shareholders' meeting elects the Board of Directors. The Board of Directors is responsible for overall governance of the Bank's activities.

Luxembourg legislation and the charter of the Bank establish lists of decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Board of Directors.

As at 31 December 2017, the Board of Directors includes:

- Mr. Andrey I. Akimov – Chairman of the Board of Directors
- Mr. Alexey A. Matveev – Vice Chairman
- Mr. Dmitry N. Derkatch – Member
- Mr. Thomas R. Kiefer – Member
- Dr. Wolfram A. Kuoni – Member
- Mr. Chlodwig Reuter – Member
- Mr. Alexander I. Sobol – Member
- Mr. Oleg M. Vaksman – Member.

General activities of the Bank are managed by the General Directorate consisting of two General Directors that have equal powers and execute the collegial management. The general shareholders' meeting elects the General Directors. The General Directorate is responsible for implementation of decisions of the general shareholders' meeting and the Board of Directors of the Bank. The General Directorate reports to the Board of Directors of the Bank and to the general shareholders' meeting.

As at 31 December 2017, the General Directorate includes:

- Mr. Dmitry Derkatch – General Director
- Mr. Thomas Kiefer – General Director.

(b) Internal control policies and procedures

All of the Bank's procedures have the following characteristics:

- operate with integrity;
- are reliable and operate on an on-going basis;
- are effective;
- are adequate for the Bank as a whole and all of its organisational and business units;
- are comprehensive (in particular they cover all types of risks to which the Bank is exposed and guarantee that all areas of operation of the Bank are covered by the internal control arrangements);
- are transparent towards the management, execution (i.e. business and related support functions) and control functions.

All policies and procedures are approved by the Board of Directors ("BoD"), adopted by the General Directorate and are duly documented in writing. All transactions, i.e. any process which includes a commitment on the part of the institution as well as the decisions relating thereto, are also documented in writing. The documentation is kept by the Bank in accordance with the law. It can be easily accessed by any authorised third party.

The Bank implemented an internal control framework based on a three-line-of-defence model, permitting four levels of control, as contemplated in the Circular. In that respect, the Bank has its own in-house risk control and compliance functions, each of them under the responsibility of a separate head of function (unless otherwise specifically agreed with and

approved by the CSSF). Internal audit function is outsourced, however the ultimate responsibility for this function is with Mr. Derkatch.

Internal IT and management control systems consist of organisational, technical, legal and human resources arrangements that are implemented to ensure an appropriate protection of all information which is relevant for its activities.

In particular, the Bank has:

- a sound administrative, accounting and IT organisation and sound internal control arrangements which ensure, at all times, proper administration of securities and assets, proper execution of operations, accurate and complete recording of operations and production of accurate, complete, relevant and understandable management information available without delay as well as a tight and continuous monitoring of activities;
- sufficient human resources with appropriate individual and collective skills and sufficient administrative and technical infrastructure to perform its activities, implement the Bank's organisational and operational structure and strategies.

For the purpose of managing the information related risks, the Bank appointed a Chief Information Officer who is:

- independent from the operational functions;
- released from the implementation of security actions;
- granted a direct access to the highest level of hierarchy, including the BoD.

Furthermore, the Bank ensures at all times that the appropriate level of security, integrity and confidentiality is applied in relation to any type of information related directly or indirectly to a client or employee of the Bank. The IT function of the Bank is organised so as to ensure a proper control over it as well as its robustness, effectiveness, consistency and integrity.

The Bank has in place sound internal communication arrangements to ensure that:

- applicable internal strategies, policies and procedures as well as the decisions and measures taken by the Board of Directors and the General Directorate are communicated in a clear and comprehensive manner to all staff members of the Bank on a need-to-know basis, taking into account their responsibilities;
- each staff member has an easy and constant access to such information;
- management information is communicated in a clear and comprehensive manner and without delay;
- internal reports are delivered to their addressees without delay.

The Bank further puts in place appropriate internal whistle-blower arrangements so that each staff member can draw attention to serious and legitimate concerns about internal governance.

Further the Bank implemented the management information system that includes:

- Daily cost reporting to the responsible General Director;
- Daily Balance sheet & P&L reporting to the responsible General Director;
- Daily counterparty limits utilization report;
- Daily liquidity and interest rate risk report;

- Monthly financial statements reporting;
- Monthly MIS reports reflecting distribution of operating income among product and client owners as well as operating results allocated to the banking book;
- Monthly IT and operations statistics report;
- Monthly key risks indicators report;
- Quarterly Internal audit findings report.

The reports are produced by the functions that are independent from the regular business transactions. The information is communicated in a clear and comprehensive manner and without delay, in normal circumstances and in times of stress, to the BoD, the General Directorate and to other staff members of the Bank on a need-to-know basis, taking into account their responsibilities as well as the need to ensure sound and prudent business management.

(c) Risk management policies and procedures

The Risk Management & Risk Control department ("Risk Management") is responsible for the risk management and control of the Bank as a whole. In this context, the Risk Management is in charge of the anticipation, the identification, measurement, monitoring, control and reporting of all the risks to which the Bank is or may be exposed. It combines the activities aimed at ensuring a proper risk management of the Bank and at the same time controls the proper execution of the risk management processes. Its tasks are performed on an ongoing basis and without delay.

The Risk Management is an independent function with unrestricted rights of information, access and inspection. It reports periodically to the General Directorate and is under the direct responsibility of the General Director. It is structured so that it can implement risk policies and control the risk management framework.

The Risk Management is headed by the Chief Risk Officer ("CRO"). The CRO has the exclusive responsibility for the Risk Management and for monitoring the Bank's risk management framework across the entire Bank. The CRO is responsible for providing comprehensive and understandable information on risks enabling the General Directorate and the BoD to understand the Bank's overall risk profile.

The segregation of duties is assured organizationally within the Risk Management and can be presented as follows:

- Risk management:
 - o design and set up of the risk management processes and models;
 - o design of internal control system (ICS) and its regular adequacy check;
 - o design of key risk indicators system;
 - o providing the methods of measuring risks and their application in regard to the market risks, credit risks, country risks, and liquidity risks;
 - o development of models; their validation/stress testing/back testing;
 - o adequacy check for the internal limits and limits for borrowers.
- Risk control:
 - o monitoring and reporting of internal control system performance;
 - o monitoring and reporting of limits adherence;

- monitoring and reporting of margin calls;
- monitoring and reporting of liquidity/open FX position of the Bank;
- monitoring and reporting of key risk indicators;
- monitoring and reporting of the audit findings handling;
- performance and reporting of stress testing/back testing;
- periodical risk assessment and risk reporting on the aggregated level.

The Risk Management reports:

- on a regular basis to the General Directorate and/or the BoD;
- on an ad hoc basis to the General Directorate and/or the BoD (in particular to discuss directly on key risk issues including developments that may be inconsistent with the Bank's risk tolerance and strategies);
- on a yearly basis to the BoD by submitting to the latter a summary report on its activities and its operation and an ICAAP Report;

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Bank acted during the business year 2017 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 in accordance with the mandate entrusted by the Asset Liability Management Committee ("ALCO") of the Bank. The ALCO meets regularly to discuss the current business, risk and balance sheet situation as well as the effects of the business on the risk profile and liquidity and capital situation.

Market risk to be managed via parallel shift of interest rates; no trading book activities planned and no increase in strict FX limitation policy planned.

The Bank has limited exposure to market risk assured through minimum possible internal FX limit and no open internal interest rate limits. The Bank did not enter into proprietary trading activities.

The main task of the trading desk was to handle execution of client orders in accordance with the Bank's Order & Best Execution policy.

(i) Interest rate risk

Interest Rate Risk is the risk that movements in market interest rates adversely impact the financial situation and economic value of the Bank. The Bank is exposed to interest rate risks whenever the earnings and net present values of its assets, liabilities and off-balance sheet positions in the same currency and duration present differing interest rate sensitivities.

In 2017, the Bank established a new interest rate risk management policy and set various limits and early warning indicators (“EWI”) to monitor and manage interest rate risk.

The following table provides an overview of the limits and their utilization as of 31 December 2017:

Limit	Amount	EWI	Value EUR mln
Net interest income (NII) sensitivity	EUR 2.7 mln	EUR 2.4 mln	0.83
Limit revaluation impact on P&L	EUR 2.0 mln	EUR 1.8 mln	0.42
+/- 100bp parallel shift	EUR 9.0 mln	EUR 8.1 mln	2.33
Interest rate gap	<= 1y - EUR 500 mln	90% of the limit amount	33.11
	1y <= 2y - EUR 330 mln		4.87
	2y <= 3y - EUR 330 mln		26.82
	3y <= 4y - EUR 80 mln		7.62
	4y <= 5y - EUR 80 mln		40.72
	> 5Y - EUR 50 mln		5.66
VaR limit	EUR 8.0 mln	EUR 7.2 mln	0.30

Interest rate sensitivity analysis

Interest rate result		Result on the capital, EUR'000
Variation	scale	
Increase of	200bp	(3,024)
Decrease of	200bp	3,198
Standard shock description		Parallel shock applied to all maturities

The CSSF proposes in its Circular 16/642 to have a scenario of a shift of the interest yield curve of 200 bps. Due to the fact that the market risk is very low, because the Bank is not engaged in trading activities for its own account and because the Bank has no significant positions in derivatives, the Bank considers the proposed scenario by the CSSF as adequate for the Bank. The stress test is performed on all interest rate risk positions. A regulatory market risk reporting is sent to the CSSF on a semi-annual basis. The effects on the capital are reasonable: -EUR 3,024 thousand in case of the increase of interest yield curve (+200 bps) and +EUR 3,198 thousand in case of decrease of interest rate curve (-200 bps).

The Bank has chosen the standardized approach to calculate own funds requirements for market risk. According to this method, there was no capital requirement to cover market risk as of 31 December 2017.

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of assets and liabilities as at 31 December 2017:

	EUR	USD	RUB	CHF	Others	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
ASSETS						
Cash and deposits with central banks	696,970	-	-	-	-	696,970
Financial instruments at FVTPL	14,929	148,647	739	3,003	13,709	181,027
Loans to banks	190,776	26,972	19	192,427	1,194	411,388
Loans to customers	202,436	56,281	6	5	-	258,728
Held-to-maturity investments	83,391	111,191	-	-	-	194,582
Other financial and non-financial assets	2,774	-	-	-	-	2,774
Total assets	1,191,276	343,091	764	195,435	14,903	1,745,469
LIABILITIES						
Financial instruments at FVTPL	14,727	152,898	26	2,506	13,702	183,859
Deposits and balances from banks	126,006	48,038	9,563	-	-	183,607
Current accounts and deposits from customers	400,650	545,149	300,013	23	822	1,246,657
Current tax liability	564	-	-	-	-	564
Other liabilities	3,521	56	-	11	-	3,588
Capital and reserves	117,005	-	-	-	-	117,005
Total liabilities, capital and reserves	662,473	746,141	309,602	2,540	14,524	1,735,280
Net position	528,803	(403,050)	(308,838)	192,895	379	10,189
The effect of derivatives held for risk management	(518,585)	402,921	308,719	(193,055)	-	-
Net position after derivatives held for risk management purposes	10,218	(129)	(119)	(160)	379	10,189

The following table shows the currency structure of assets and liabilities as at 31 December 2016:

	EUR EUR'000	USD EUR'000	RUB EUR'000	CHF EUR'000	Others EUR'000	Total EUR'000
ASSETS						
Cash and cash equivalents	257,780	-	-	-	-	257,780
Financial instruments at FVTPL	26,676	110,166	235	2,190	6,737	146,004
Loans to banks	23,404	2,245	15	142,319	120	168,103
Loans to customers	10,572	99,674	-	3	-	110,249
Held-to-maturity investments	84,177	62,918	-	1,134	-	148,229
Other financial and non-financial assets	1,961	-	1	186	-	2,148
Total assets	404,570	275,003	251	145,832	6,857	832,513
LIABILITIES						
Financial instruments at FVTPL	26,520	107,758	128	2,236	6,890	143,532
Deposits and balances from banks	232,601	67,311	14,254	-	-	314,166
Current accounts and deposits from customers	14,398	237,701	224	33	48	252,404
Current tax liability and deferred tax liabilities	385	-	-	-	-	385
Other financial and non-financial liabilities	4,363	465	-	193	-	5,021
Capital and reserves	116,324	-	-	-	-	116,324
Total liabilities, capital and reserves	394,591	413,235	14,606	2,462	6,938	831,832
Net position	9,979	(138,232)	(14,355)	143,370	(81)	681
The effect of derivatives held for risk management	(9,205)	138,127	14,506	(143,428)	-	-
Net position after derivatives held for risk management purposes	774	(105)	151	(58)	(81)	681

The following table shows the currency structure of assets and liabilities as at 31 December 2015:

	EUR EUR'000	USD EUR'000	RUB EUR'000	CHF EUR'000	Others EUR'000	Total EUR'000
ASSETS						
Cash and cash equivalents	12,365	-	-	-	-	12,365
Financial instruments at FVTPL	6,511	43,886	-	19,707	458	70,562
Loans to banks	8,679	27,689	1,382	29,261	2	67,013
Loans to customers	12	43,852	-	-	-	43,864
Other financial and non-financial assets	691	2	-	185	-	878
Total assets	28,258	115,429	1,382	49,153	460	194,682
LIABILITIES						
Financial instruments at FVTPL	16,258	53,578	40	1,451	458	71,785
Deposits and balances from banks	7,272	2,000	4,857	-	-	14,129
Current accounts and deposits from customers	7,951	32,590	230	4	1	40,776
Tax liability	18	-	-	-	-	18
Other financial and non-financial liabilities	1,183	-	-	467	-	1,650
Capital and reserves	71,741	-	-	-	-	71,741
Total liabilities, capital and reserves	104,423	88,168	5,127	1,922	459	200,099
Net position	(76,165)	27,261	(3,745)	47,231	1	(5,417)
The effect of derivatives held for risk management	71,552	(27,391)	3,696	(47,857)	-	-
Net position after derivatives held for risk management purposes	(4,613)	(130)	(49)	(626)	1	(5,417)

For each FX-position there is a limit of EUR 150 thousand in place. The overall FX-position limit is EUR 900 thousand. The FX open position of the Bank is controlled daily by Risk Control Function. All overdrafts if any must be justified. In 2017 these limits were daily adhered to.

A weakening of the EUR, as indicated below, against the following currencies at 31 December 2017, 2016 and 2015, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2017 EUR'000	2016 EUR'000	2015 EUR'000
10% appreciation of USD against EUR	(9)	(7)	(9)
10% appreciation of RUB against EUR	(9)	11	(4)
10% appreciation of CHF against EUR	(12)	(4)	(46)

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the Bank takes a long or short position in a financial instrument.

An analysis of sensitivity of net profit or loss and equity to changes in securities prices based on positions existing as at 31 December 2017 and 2016 and a simplified scenario of a 10 percent change in all securities prices is as follows:

	2017		2016	
	Net profit or loss EUR'000	Equity EUR'000	Net profit or loss EUR'000	Equity EUR'000
10 percent increase in securities prices	(207)	(207)	175	175
10 percent decrease in securities prices	207	207	(175)	(175)

(e) 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.

Risk Assessment

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 rating system and classifies all loan transactions into twenty two categories. For third party banks and to assess the Issuer risk, the Bank is applying the ratings issued by international recognised rating agencies. The Board of Directors receives a regular overview of the ratings of all counterparties. 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. These cover the credit items, which are allocated to four credit categories, and also govern and limit amounts.

Given potential significance of country risk exposures the Bank has Country Risk Management Framework and Country Risk Management in place. The revised framework aimed at providing more detailed insight into definition, classification and measurement of country risk exposures of the Bank as well as respective roles and responsibilities of departments involved into the country risk taking and management activities. Below the following main changes are listed in comparison with the existed country risk management practices applied in the Bank:

- The definition of country risk was more specifically defined across certain subtypes of country risk such as sovereign risk, transfer risk, indirect country risk, currency risk, macroeconomic risk and contagion risk:

Type of Country Risk Definition

1. Sovereign Risk

The risk that a foreign government may not have the capacity or willingness to repay its direct and indirect (i.e. guaranteed) foreign currency obligations.

2. Transfer Risk

The risk that a borrower may not be able to convert local currency into foreign exchange and so may be unable to make debt service payments in foreign currency. The risk normally arises due to exchange restrictions imposed by the government in the borrower's country.

3. Indirect Country Risk

The risk that the repayment ability of a domestic borrower is adversely affected by developments in a foreign country where the borrower has business interests.

4. Currency Risk

The risk that a borrower's holdings of domestic cash and income streams become inadequate to service its foreign currency obligations due to a devaluation of the domestic currency.

5. Macroeconomic Risk

The risk that a borrower in a foreign country may suffer from economic policies of the government in that foreign country, e.g. higher interest rates or taxes, which adversely affects its repayment ability.

6. Contagion Risk

The risk that developments in one country lead to a downgrade or adverse credit conditions not only for that country but also other countries in its region.

- The limit structure assumes short-term (up to six month's maturity) and long-term (above six month maturity threshold) country risk limits;
- Country risk measurement process is arranged at transaction/product level and involves several steps that start from country risk identification; further analysis of whether the country exposure can be transferred to another country using risk transfer eligible techniques and/or mitigated against eligible collateral is performed by department responsible of the product; the eligible risk transfer and mitigation tools were aligned with respective requirements applied to credit exposures set out in CRR;
- Country risk treatment stipulated in the Country Risk Directive assumes the following overall high level country risk bearing capacity of the Bank in accordance with which more specific country risk limits are planned to establish: Bank monitors encumbered assets, which consist of assets pledged as collateral against an existing liability and other assets which are otherwise explicitly restricted such that they cannot be used to secure funding.

The establishment of loan allowances requires objective evidence of impairment and a reliable estimation about the future cash flows of the financial asset(s) concerned. In addition a formal decision needs to be taken by the respective Business owner and the Risk Control department and approved by the competence owner. During 2017, no specific loan allowances have been established (2016 and 2015: none). The Bank has defined and described in its directives the notion of forbearance. The granting of a forbearance measure could constitute an impairment trigger, meaning that the loan would be assessed for impairment.

Concentration risk

A risk concentration is any single exposure or group of related exposures with the potential to produce losses large enough to threaten a bank's ability to maintain its core operation.

Russia is considered to be the main market for the Bank due to its business model. The bank is therefore highly dependent on its sole Shareholder and on Russia generally, in particular – on Russia capital and on the Russian clients. Due to the international sanctions that were introduced towards Russian companies in 2014, there were limited possibilities to get external funding and to enhance the client base in 2017. It leads to the significant Russian concentration on the assets side as well as on the liabilities side. The Bank is controlling the risk through close monitoring of intra group exemption ruling and concentration on banks with superior rating; CDS costs of Russia to become part of margin requirements for transactions with Russian borrowers without transfer risk mitigation schemes in place.

Please refer to Note 15 (d) for the concentration of loan portfolio by economic sector.

Refer to respective Notes for the maximum exposure to credit risk from financial assets.

(f) 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 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-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 required. 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 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 ensuring compliance with applicable liquidity prudential limits. To ensure compliance with the LCR 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.

The general term structure of financial assets and liabilities as per 31 December 2017 is as follows:

	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	more than 5 years	no maturity	Total
Cash and deposits with central banks	696,970	-	-	-	-	696,970
Loans to banks	411,388	-	-	-	-	411,388
Loans to customers	65,424	20,201	93,738	79,365	-	258,728
Held-to-maturity investments	43,702	15,876	123,080	11,924	-	194,582
Financial instruments at fair value through profit or loss	25,274	14,809	108,144	32,800	-	181,027
Total financial assets	1,242,758	50,886	324,962	124,089	-	1,742,695
Deposits and balances from banks	156,925	26,682	-	-	-	183,607
Current accounts and deposits from customers	1,140,542	48,890	57,225	-	-	1,246,657
Financial instruments at fair value through profit or loss	13,238	16,232	118,981	35,408	-	183,859
Other financial liabilities	201	-	-	-	-	201
Total financial liabilities	1,310,906	91,804	176,206	35,408	-	1,614,324
Total	(68,148)	(40,918)	148,756	88,681	-	128,371

The general term structure of financial assets and liabilities as per 31 December 2016 is as follows:

	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	more than 5 years	no matu- rity	Total
Cash and deposits with central banks	257,780	-	-	-	-	257,780
Loans to banks	168,103	-	-	-	-	168,103
Loans to customers	40,246	9,487	35,539	24,977	-	110,249
Held-to-maturity investments	574	-	147,655	-	-	148,229
Financial instruments at fair value through profit or loss	33,726	20,257	91,475	546	-	146,004
Total financial assets	500,429	29,744	274,669	25,523	-	830,365
Deposits and balances from banks	255,348	28,460	30,358	-	-	314,166
Current accounts and deposits from customers	228,569	12,443	11,392	-	-	252,404
Financial instruments at fair value through profit or loss	34,180	21,356	87,458	538	-	143,532
Other financial liabilities	2,705	-	-	-	-	2,705
Total financial liabilities	520,802	62,259	129,208	538	-	712,807
Total	(20,373)	(32,515)	145,461	24,985	-	117,558

The general term structure of financial assets and liabilities as per 31 December 2015 is as follows:

	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	more than 5 years	no matu- rity	Total
Cash and deposits with central banks	12,365	-	-	-	-	12,365
Loans to banks	67,013	-	-	-	-	67,013
Loans to customers	14	-	34,739	9,111	-	43,864
Held-to-maturity investments	-	-	-	-	-	-
Financial instruments at fair value through profit or loss	20,447	18,803	31,057	255	-	70,562
Total financial assets	99,839	18,803	65,796	9,366	-	193,804
Deposits and balances from banks	14,129	-	-	-	-	14,129
Current accounts and deposits from customers	40,776	-	-	-	-	40,776
Financial instruments at fair value through profit or loss	19,304	19,307	32,922	252	-	71,785
Other financial liabilities	98	-	-	-	-	98
Total financial liabilities	74,307	19,307	32,922	252	-	126,788
Total	25,532	(504)	32,874	9,114	-	67,016

The Liquidity Coverage Ratio (LCR) as per 31 December 2017 is as follows:

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
Liquidity Buffer	685,598	252,961	9,614
Net Liquidity Outflow	100,094	161,469	36,992
Liquidity Coverage Ratio (%)	684.96%	156.66%	109.95%

The liquidity risk is managed in line with the liquidity risk appetite of the BoD, and the policy aims at preventing any conflict of interest within the bank concerning the management of liquidity. It outlines the different responsibilities of each department of the bank, including also the Board of Directors, the General Directorate and the ALCO.

The aggregate liquidity position is measured as a minimum standard for the management of liquidity, and a split by currencies is also performed.

The measuring instruments and metrics are the contractual liquidity gap profile, the static liquidity gap profile, the dynamic liquidity gap profile and the operating liquidity plan (which sets out funding as well as asset allocation requirements across specified target durations and currencies, addressed to each department of the bank).

Three types of stress tests are defined:

- The BCBS-required tests (in line with BCBS and local regulation)
- The ALM-defined stress tests, agreed with Risk Management and Control and approved by ALCO.
- Ad-hoc stress tests, including sensitivity analyses and testing of potential new scenarios.

It defines also the different layers of liquidity buffer, as well as different horizons of management (short, medium and long term).

To finish with, it highlights the need of liquidity risk limits compliant with liquidity prudential limits, and the existence of a liquidity contingency plan which aims at counteracting some specific stress conditions.

On the side of the Bank's counterbalancing capacity in terms of liquidity, the backup facility from the mother company, set in roubles, which can be used in cases of liquidity outflow under stress conditions, is roughly equivalent to a EUR 660 million liquidity line. In case the need would change or increase, the available amount of the line could be redefined.

(g) Operational risk

Operational risk is the potential loss resulting from inadequate or failed internal processes, people or systems, or from external causes, whether deliberate, accidental or natural. It includes risks related to legal, compliance and tax matters.

The Bank has an "operational risk policy" in place, which sets up the principles of the operational risk management in the Bank.

Operational risk is managed and controlled on the basis of a local and Bank-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 implemented two documents:

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

To comply with applicable rules on outsourcing and the risk related to the outsourcing of clearly defined services the Bank has an “outsourcing policy” in place.

Operational risk is measured using the Basic Indicator Approach (BIA). The calculation is based on the arithmetic average of the last three year’s sum of revenues, multiplied by 15%. The calculation of the simple arithmetic average shall be based on the positive amounts. If, for any given reason, the sum of revenues is equal to zero or negative, this figure shall not be taken into account in the calculation of the average for the determination of the Basic indicator. The calculation performed by Bank is based on financial figures from the financial regulatory reporting based on local regulatory reporting standards (FINREP).

Required funds for operational risk as per COREP are as follows:

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
Operational Risk (basic indicator approach)	4,465	985	215

Mitigation of risk is performed through the set-up of an operational risk framework in order to ensure that all risks are properly managed and controlled. All identified risks are tracked and monitored in the Risk Inventory and reported via the Key Risk Indicators framework. Mitigation of operational risks is also achieved through:

- Segregation of duties and elimination of conflicts of interests
- Adapting appropriate operations and administrative systems to the Bank’s activities
- Maintaining an adequate internal control environment
- Maintaining an effective Compliance Function
- Maintaining an effective Risk Management & Risk Control Function

The separate reporting of compliance function as well as risk management function also form a part of operational risk management.

24 Capital management

(a) Available capital

In accordance with its obligations under the European Directive on Capital Adequacy, the Bank is required to maintain sufficient own funds to cover the risks it is or could be exposed to while ensuring compliance with its commitments and continuity of its services. The own funds of the Bank are based on the recent figures and are composed of the Tier 1 capital only, which consists of Eligible Capital. Bank does not hold any Tier 2 or Tier 3 Capital as per 31 December 2017.

The Bank’s general management of own funds and liquidity is governed by the “ICAAP Policy”.

The following table shows the composition of own funds and required funds:

EUR million	31.12.2017	31.12.2016	31.12.2015
Paid up capital	130.0	130.0	80.0
Reserves	(13.0)	(13.7)	(8.3)
Intangible assets	(1.6)	(1.0)	(0.5)
Net profit / loss of the current year	10.2	0.7	(5.4)
Total own funds	125.6	116.0	65.8

(b) Capital requirements

The total risk exposure amounts and Pillar I capital requirements by risk category are given in the following table:

EUR million	31 December 2017		31 December 2016		31 December 2015	
	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement
Credit risk	738.9	85.0	373.7	29.9	79.6	6.4
Operational risk	29.8	4.5	12.3	1.0	2.7	0.2
Credit valuation adjustment	2.4	2.4	0.5	-	0.4	-
Total Pillar I	771.1	91.9	386.5	30.9	82.7	6.6

Putting the total Pillar I risk exposure amount in relation to the Bank's own funds as per 31 December 2017, the Bank has a CET1 ratio of 16.3% (2016 and 2015: 30.0% and 79.6%, respectively) which is above the regulatory minimum of 11.5% for our Bank (2016 and 2015: 10.5%).

25 Credit related commitments

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to perform as contracted.

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
Contracted amount			
Loan and credit line commitments	421,038	319,060	858,074
Guarantees and letters of credit	-	7,668	2,969
	421,038	326,728	861,043

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credit related commitments may expire or terminate without being funded.

26 Operating leases

(a) Leases as lessee

Non-cancellable operating lease rentals as at 31 December are payable as follows:

	2017 EUR'000	2016 EUR'000	2015 EUR'000
Less than 1 year	(892)	(971)	(229)
Between 1 and 5 years	(2,677)	(3,569)	-
More than 5 years	-	(223)	-
	(3,569)	(4,763)	(229)

The Bank leases a number of premises and equipment under operating leases. The leases typically run for an initial period of five-to-ten years, with an option to then renew the lease. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

27 Contingencies

(a) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations.

28 Funds management, trust and custody activities

(a) Funds management and trust activities

The Bank provides trust services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognised in the statement of financial position. The Bank is not exposed to any credit risk related to such placements, as it does not guarantee these investments.

	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
Fiduciary loans	195,484	237,169	10,843
Fiduciary deposits	(195,484)	(237,169)	(10,843)

(b) Custody activities

The Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Bank and are not recognised in the statement of financial position.

As at 31 December 2017 the Bank provides custodian services for 58 securities with a nominal of EUR 47,357 thousand (2016: 64 securities with a nominal of EUR 45,453 thousand; 2015: 9 securities with a nominal of EUR 5,858 thousand).

29 Related party transactions

(a) Control relationships

The Bank's parent company is Gazprombank (JSC), Moscow. As at 31 December 2017, PJSC Gazprom owns 46.02% of the outstanding ordinary shares of the Group. A substantial portion of the Parent Bank's funding is from the Gazprom Group. As such the Parent Bank is economically dependent on the Gazprom Group.

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

The Bank has a "Related Parties Policy" in place governing the procedures for the treatment of related parties.

The common client opening procedures should apply also to Group companies.

Dealings with related corporate undertakings are covered by the "Related Parties Policy" and the "Conflicts of Interest Policy".

Business relationships with related parties are subject to the BoD's approval where they have or may have a significant and negative impact on the risk profile of the Bank and, in the absence of any significant impact on each individual transaction, where the influence is significant for all transactions with related parties.

Any material change in the significant transactions carried out with related parties shall be brought to the attention of the BoD.

Transactions with related parties shall be carried out in the interest of the Bank. The Bank's interest is not met where transactions with related parties:

- are carried out at less advantageous terms (for the Bank) than those which would apply to the same transaction carried out with a third party (at arm's length);
- impair the solvency, liquidity situation or risk management capacities of the Bank from a regulatory and internal point of view;
- exceed the risk management and control capacities of the Bank;
- are contrary to sound and prudent management principles in the interest of the Bank.

(b) Transactions with members of the Board of Directors and the General Directorate

Director's fees to two external members of the Board of Directors in the amount of EUR 60,000 have been provided for in 2017 (2016 and 2015: EUR 60,000).

Remuneration granted to the senior management and management during 2017 amounted to EUR 4,155 thousand (2016: EUR 3,564 thousand, 2015: EUR 3,232 thousand).

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.

The outstanding balances and average effective interest rates as at 31 December 2017, 2016 and 2015 for transactions with members of the Board of Directors and the General Directorate are as follows:

	31.12.2017 EUR'000	Average effective interest rate, %	31.12.2016 EUR'000	Average effective interest rate, %	31.12.2015 EUR'000	Average effective interest rate, %
Statement of financial position						
Current accounts and deposits from customers	3,094	5.84	3,966	6.31	4,537	6.15

Transactions with related parties are not secured.

Amounts included in profit or loss in relation to transactions with members of the Board of Directors and the Management Board for the year ended 31 December are as follows:

	2017 EUR'000	2016 EUR'000	2015 EUR'000
Profit or loss			
Interest expense	(125)	(168)	(187)

(c) Transactions with other related parties

In 2017, the Bank closely worked with the following related entities:

- Parent Bank: Gazprombank (JSC), Moscow;
- Affiliated bank: Gazprombank (Switzerland) Ltd.;
- Affiliated financial company: GPB Asset Management S.A., Luxembourg;
- Affiliated financial company: GPB Financial Services Limited, Cyprus;
- Affiliated company: Eriell Group International Limited, Jersey.

Gazprombank (Switzerland) Ltd., GPB Asset Management S.A. and GPB Financial Services Limited are 100% subsidiaries of the Parent Bank.

The cooperation with the related entities above is aimed to develop the synergy and to improve the services for the key clients of Gazprombank Group.

No sub-consolidation of these related entities takes place.

The outstanding balances and the related average effective interest rates as at 31 December 2017 and related profit or loss amounts of transactions for the year ended 31 December 2017 with related parties are as follows.

	2017 EUR'000	2016 EUR'000	2015 EUR'000
ASSETS			
Financial instruments at fair value through profit or loss	181,027	146,004	70,562
<i>Thereof: Parent Bank</i>	<i>60,127</i>	<i>66,702</i>	<i>14,155</i>
Loans to banks	411,388	168,103	67,013
<i>Thereof: Parent Bank</i>	<i>183,380</i>	<i>16,892</i>	<i>23,475</i>
<i>Thereof: Affiliated Bank</i>	<i>193,126</i>	<i>142,438</i>	<i>29,265</i>
Loans to customers	258,728	110,249	43,864
<i>Thereof: Other related parties</i>	<i>-</i>	<i>9,490</i>	<i>-</i>
Held-to-maturity investments	194,582	148,229	-
<i>Thereof: Parent Bank</i>	<i>51,616</i>	<i>52,080</i>	<i>-</i>
LIABILITIES			
Financial instruments at fair value through profit or loss	183,859	143,532	71,785
<i>Thereof: Parent Bank</i>	<i>-</i>	<i>-</i>	<i>13,991</i>
Deposits and balances from banks	183,607	314,166	14,129
<i>Thereof: Parent Bank</i>	<i>142,366</i>	<i>312,308</i>	<i>13,073</i>
Current accounts and deposits from customers	1,246,657	252,404	40,776
<i>Thereof: Other related parties</i>	<i>523,172</i>	<i>32,912</i>	<i>2,468</i>
	2017 EUR'000	2016 EUR'000	
P&L			
Interest receivable and similar income	38,650	17,216	
<i>Thereof: Parent Bank</i>	<i>5,872</i>	<i>1,676</i>	
Interest payable and similar charges	(25,961)	(8,701)	
<i>Thereof: Parent Bank</i>	<i>(16,196)</i>	<i>(401)</i>	
Commission receivable	15,645	5,415	
<i>Thereof: Parent Bank</i>	<i>2,729</i>	<i>648</i>	

30 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities:

	Fair Value			Carrying Amount		
	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000	31.12.2017 EUR'000	31.12.2016 EUR'000	31.12.2015 EUR'000
ASSETS						
Cash and cash equivalents	696,970	257,780	12,365	696,970	257,780	12,365
Financial instruments at FVTPL						
- Held by the Bank	181,027	146,004	70,562	181,027	146,004	70,562
Loans to banks	411,388	168,103	67,013	411,388	168,103	67,013
Loans to customers	258,465	110,249	43,864	258,728	110,249	43,864
Held-to-maturity investments	198,052	150,296	-	194,582	148,229	-
LIABILITIES						
Financial instruments at FVTPL	183,859	143,532	71,785	183,859	143,532	71,785
Deposits and balances from banks	183,691	314,166	14,129	183,607	314,166	14,129
Current accounts and deposits from customers	1,246,159	252,404	40,776	1,246,657	252,404	40,776

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset, or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple over-the-counter derivatives such as interest rate swaps.

The following assumptions are used by management to estimate the fair values of financial instruments:

- for discounting future cash flows from loans to banks and loans to customers, respective yield curves based on current market parameters reflecting the particular ratings form the basis for the discounting of the future cash flows; from the coupon rates, the zero rates are calculated for the corresponding support points
- for discounting future cash flows from liabilities, CDS spread curves based on current market parameters form the basis for the discounting of the future cash flows; from the coupon rates, the zero rates are calculated for the corresponding support points.

(b) Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments, both measured and not measured at fair value, by the level in the fair value hierarchy into which the fair value measurement is categorised. There have been no financial instruments within the level 3 category at 31 December 2017 (2016 and 2015: none). The amounts in the table below are presented based on the carrying amounts recognised in the statement of financial position:

EUR '000	31.12.2017 EUR'000		31.12.2016 EUR'000		31.12.2015 EUR'000	
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
ASSETS						
Cash and cash equivalents	-	696,970	-	257,780	-	12,365
Financial instruments at FVTPL	-	-	-	-	-	-
- Held by the bank	181,027	-	146,004	-	70,562	-
Loans to banks	-	411,388	-	168,103	-	67,013
Loans to customers	-	258,728	-	110,249	-	43,864
Held-to-maturity investments	194,582	-	148,229	-	-	-
LIABILITIES						
Financial instruments at FVTPL	-	183,859	-	143,532	-	71,785
Deposits and balances from banks	-	183,607	-	314,166	-	14,129
Current accounts and deposits from customers	-	1,246,657	-	252,404	-	40,776

In 2017 as well as in 2016 no reclassification between Level I and other Levels has taken place.

31 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):

	2017 EUR'000	2016 EUR'000
Audit fees	220	175
Audit-related fees	45	54
Other	18	23
	284	252

Such fees are presented under "Other general administrative expenses" in the statement of profit or loss and other comprehensive income.

There were no prohibited non-audit services, as referred to in the EU Regulation No 537/2014 on the audit profession, provided to the Bank by the statutory auditor during the period.

32 Events after the reporting period

No specific subsequent events occurred since 1 January 2018 until the date of this report.

33 Explanation of the transition to IFRSs

Statement of Financial Position as at 31 December 2016

EUR'000	Ref	LuxGAAP	Adjustment	IFRS
ASSETS				
Cash and deposits with central banks		257,780	-	257,780
Loans to banks	(1)	167,620	483	168,103
Loans to customers	(1),(2)	110,524	(275)	110,249
Held-to-maturity investments	(3)	285,914	(137,685)	148,229
Financial instruments at fair value through profit or loss	(3),(4)	-	146,004	146,004
Property, equipment and intangible assets	(5)	1,197	(166)	1,031
Other assets	(6)	7,510	(6,393)	1,117
Total assets		830,545	1,968	832,513
LIABILITIES				
Deposits and balances from banks	(7)	313,765	401	314,166
Current accounts and deposits from customers	(7),(8)	387,623	(135,219)	252,404
Financial instruments at fair value through profit or loss	(7),(8)	-	143,532	143,532
Current tax liabilities	(9)	-	281	281
Deferred tax liabilities	(10)	-	104	104
Other liabilities	(11)	12,101	(7,080)	5,021
Total liabilities		713,489	2,019	715,508
Share capital		130,000	-	130,000
Retained earnings (accumulated losses)		(13,402)	(274)	(13,676)
Retained earnings for the period		458	223	681
Attributable to the equity holders of the bank		117,056	(51)	117,005
Total liabilities and shareholders' equity		830,545	1,968	832,513

- (1) This adjustment relates to the reclassification of the lump-sum provision presented within loans to banks and loans customers under LuxGAAP. Under IFRS impairment losses are reflected in an allowance account against held-to-maturity investments or loans and receivables.
- (2) This adjustment relates to reclassification of accrued interest, which under LuxGAAP is presented within 'Prepayments and accrued income' (part of 'Other assets' in the above table).
- (3) This adjustment mainly relates to:
- reclassification of securities linked to CLD deposits which under IFRS are designated at FVTPL; under LuxGAAP these securities are presented under 'Bonds and other fixed-income transferable securities' ('Held-to-maturity investments' caption in the above table) and measured at amortised cost;
 - reclassification of accrued interest, which under LuxGAAP is presented within 'Prepayments and accrued income' (part of 'Other assets' in the above table);

- reclassification of cumulative amortisation of discounts and premiums on debt securities, which under LuxGAAP is presented within 'Prepayments and accrued income' (part of 'Other assets' in the above table) and 'Accruals and deferred income' (part of 'Other liabilities' in the above table);
 - the amortization of discounts and premiums of debt securities which is done under LuxGAAP based on a straight line (linear) basis, whereas for IFRS purposes the effective interest rate method is applied.
- (4) This adjustment relates to the recognition of foreign currency swaps and warrants at fair value.
- (5) This adjustment relates to the reversal of formation expenses and related amortisation.
- (6) This adjustment mainly relates to:
- reclassification of accrued interest, which under IFRS is presented together with respective interest-bearing assets;
 - reclassification of cumulative amortisation of discounts on debt securities, which under IFRS is presented within respective debt securities.
- (7) This adjustment relates to reclassification of accrued interest, which under LuxGAAP is presented within 'Accruals and deferred income' (part of 'Other liabilities' in the above table).
- (8) This adjustment relates to the reclassification of CLD deposits which under IFRS are designated at FVTPL; under LuxGAAP these deposits are presented under 'Current accounts and deposits from customers' and measured at amortised cost.
- (9) This adjustment relates to the reclassification of current tax liabilities, which under LuxGAAP are presented within provisions (part of 'Other liabilities' in the above table).
- (10) This adjustment relates to the recognition of the deferred tax liabilities, which are not recognised under LuxGAAP.
- (11) This adjustment mainly relates to:
- reclassification of accrued interest, which under IFRS is presented together with respective interest-bearing liabilities;
 - reclassification of cumulative amortisation of premiums on debt securities, which under IFRS is presented within respective debt securities.

Statement of Financial position as at 1 January 2016

<i>EUR'000</i>	Ref	LuxGAAP	Adjustment	IFRS
ASSETS				
Cash and deposits with central banks		12,365	-	12,365
Loans to banks		67,013	-	67,013
Loans to customers		43,864	-	43,864
Held-to-maturity investments	(1)	68,753	(68,753)	-
Financial instruments at fair value through profit or loss	(1)	-	70,562	70,562
Property, equipment and intangible assets	(2)	824	(275)	549
Other assets	(3)	1,769	(1,440)	329
Total assets		194,588	94	194,682
LIABILITIES				
Deposits and balances from banks		14,129	-	14,129
Current accounts and deposits from customers	(4),(5)	110,839	(70,063)	40,776
Financial instruments at fair value through profit or loss	(4),(5)	-	71,785	71,785
Current tax liabilities	(6)	-	18	18
Other liabilities	(7)	3,022	(1,372)	1,650
Total liabilities		127,990	368	128,358
Shareholders' equity				
Share capital		80,000	-	80,000
Retained earnings (accumulated losses)		(7,880)	(379)	(8,259)
Retained earnings for the period		(5,522)	105	(5,417)
Attributable to the equity holders of the bank		66,598	(274)	66,324
Total liabilities and shareholders' equity		194,588	94	194,682

(1) This adjustment mainly relates to:

- reclassification of securities linked to CLD deposits which under IFRS are designated at FVTPL; under LuxGAAP these securities are presented under 'Bonds and other fixed-income transferable securities' ('Held-to-maturity investments' caption in the above table) and measured at amortised cost;
- reclassification of accrued interest, which under LuxGAAP is presented within 'Prepayments and accrued income' (part of 'Other assets' in the above table);
- reclassification of cumulative amortisation of discounts and premiums on debt securities, which under LuxGAAP is presented within 'Prepayments and accrued income' (part of 'Other assets' in the above table) and 'Accruals and deferred income' (part of 'Other liabilities' in the above table);
- the amortization of discounts and premiums of debt securities which is done under LuxGAAP based on a straight line (linear) basis, whereas for IFRS purposes the effective interest rate method is applied.

(2) This adjustment relates to the reversal of formation expenses and related amortisation.

(3) This adjustment mainly relates to:

- reclassification of accrued interest, which under IFRS is presented together with respective interest-bearing assets;

- reclassification of cumulative amortisation of discounts on debt securities, which under IFRS is presented within respective debt securities.
- (4) This adjustment relates to reclassification of accrued interest, which under LuxGAAP is presented within 'Accruals and deferred income' (part of 'Other liabilities' in the above table).
- (5) This adjustment relates to the reclassification of CLD deposits which under IFRS are designated at FVTPL; under LuxGAAP these deposits are presented under 'Current accounts and deposits from customers' and measured at amortised cost.
- (6) This adjustment relates to the reclassification of current tax liabilities, which under LuxGAAP are presented within provisions (part of 'Other liabilities' in the above table).
- (7) This adjustment mainly relates to:
- reclassification of accrued interest, which under IFRS is presented together with respective interest-bearing liabilities;
 - reclassification of cumulative amortisation of premiums on debt securities, which under IFRS is presented within respective debt securities.

Statement of Comprehensive Income for the year ended 31 December 2016

<i>EUR'000</i>	Ref	LuxGAAP	Adjustment	IFRS
Interest income		17,216	-	17,216
Interest expense		(8,701)	-	(8,701)
Net interest income		8,515	-	8,515
Fee and commission income		5,415	-	5,415
Fee and commission expense		(6)	-	(6)
Net commission and fee income		5,409	-	5,409
Net gain (loss) on financial instruments at fair value through profit or loss	(1),(2)	-	255	255
Net foreign exchange income (loss)	(2)	606	(37)	569
Other operating income (expenses)	(3)	235	(336)	(101)
Other taxes not shown under the preceding items	(3)	(336)	336	-
Operating income		14,429	218	14,647
Depreciation and amortizations on tangible and intangible assets	(4)	(588)	109	(479)
Net impairment loss on financial assets		(1,340)	-	(1,340)
Personnel expenses		(7,317)	-	(7,317)
Other general administrative expense		(4,704)	-	(4,704)
Profit (loss) before income tax		480	327	807
Income tax expenses	(5)	(22)	(104)	(126)
Profit (loss) and total comprehensive income for the year		458	223	681

- (1) This adjustment relates to recognition of the net gain on foreign currency contracts and derivatives measured under IFRS at fair value.
- (2) This adjustment mainly relates to reclassification of foreign exchange differences related to financial instruments measured at FVTPL that under IFRS are presented in caption 'Net gain (loss) on financial instruments at fair value through profit or loss'.
- (3) This adjustment relates to reclassification of Net Wealth Tax which under LuxGAAP is presented within 'Other taxes not shown under the preceding items'.
- (4) This adjustment relates to the reversal of amortisation on formation expenses, which are not recognised under IFRS.
- (5) This adjustment relates to the recognition of deferred tax liabilities, which are not recognised under LuxGAAP.