

Bank GPB International S.A.

Financial Statements

for the year ended 31 December 2018

(with the report of the Réviseur
d'Entreprises agréé 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 2018, 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 2018, 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 2018

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 270.2 million that represent 10% of total liabilities as at 31 December 2018. 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 31 '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 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.

- 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 2018*

The result of the Bank for the year is significantly driven by fee and commission income. Fee and commission income result amounts to EUR 13.0 million for 2018 with the main portion resulting from the Bank acting as an arranger / book-runner for several bond issuances (underwriting and corporate finance fee and commission income of EUR 5.9 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 stated 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 19 April 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is six years.

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



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

Luxembourg, 28 March 2019

KPMG Luxembourg,
Société coopérative
Cabinet de révision agréé

A handwritten signature in blue ink, appearing to read 'R. Tumanshin', with a long, sweeping flourish extending upwards and to the right.

R. Tumanshin

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.

The strong performance of the Bank in 2018 underpins the successful execution of the strategy with growing business activities across all business areas of the Bank against a challenging macroeconomic backdrop.

With a pre-tax profit of EUR 12.3 million the Bank reached its best result since inception.

Macroeconomic developments in 2018 and outlook 2019

A strong US dollar, which is being used as an external funding currency in most emerging market countries, negatively affected those markets in 2018 and thus had an impact on financial conditions in these countries. GDP of the European Union slowed down to 1.5% year-on-year in Q4 2018 from 1.8% in Q3 2018. Oil fluctuated throughout the year in a range between USD 50 – USD 85. Especially in the Q4 2018 global equity markets were facing sell-offs driven by trade tensions / “trade wars”. The Russian market experienced significant volatility after sanctions hit in April 2018.

The forecast for the global growth for 2019 has been revised downward in the world economic outlook due to ongoing trade tensions between the US and China, different Brexit scenarios and greater-than-envisaged slowdown in China. The European Central Bank’s macroeconomic projections foresee annual real GDP accelerating by 1.1% in 2019, revising down substantially the outlook compared with December 2018. ECB will leave interest rates unchanged at 0% at least through the end of 2019.

Business environment and development

In 2014 the EU/US adopted a package of restrictive measures targeting sectorial cooperation and exchanges with the Russian Federation (the “Sectoral Sanctions”). The package consist of measures which, among others, are aimed at limiting access to the EU/US capital markets for the Russian state-owned financial institutions, including the shareholder of the Bank, Gazprombank (Joint Stock Company). The limitations, generally, limit the sanctioned entities from raising any new equity and debt financing with maturity longer than 14 days (US sanctions) and 30 days (EU sanctions). Certain exceptions related to trade finance, emergency financing and grandfathering of existing debt apply. The US Sectoral Sanctions apply to Gazprombank (Joint Stock Company) and each entity where Gazprombank (Joint Stock Company) owns 50% or greater interest. In contrast, the EU Sectoral Sanctions are carefully designed to ensure that EU subsidiaries of sanctioned entities do not become targeted entities themselves. As a result the Bank is a sanctioned entity pursuant to the US Sectoral Sanctions. However, it is not a sanctioned entity pursuant to the EU Sectoral Sanctions.

The Bank is an EU-based credit institution and, as such, shall ensure full compliance with the EU sanctions. Conversely, it is not a US person and, accordingly, the Bank has no general obligation under the applicable US law to comply with the US sanctions regime. The Bank, however, takes into account an ever expanding extra-territorial reach of the US sanctions and any spill-over risks which the existing sanctions environment may have on the business of the Bank. To address such risks the Bank is continuously assessing the effects of the sanctions on its operations and activities, expanded its in-house capability to ensure compliance with the sanctions, ensured close and day-to-day cooperation with Gazprombank (Joint Stock Company) and external legal consultants on the sanctions-related issues, holds periodic trainings and seminars for its staff and initiated a dialog with the Luxembourg banking regulator to ensure the proper reflection of the sanctions risks in its Banking Recovery and Resolution plan and business model.

The ongoing support of the Bank in Luxembourg was demonstrated by the shareholder via an additional EUR 50 million capital increase in cash in September 2018. A further capital increase amounting to EUR 1.69 million was made by the sole shareholder of the Bank via a contribution in kind. To that effect, the shareholder transferred all shares in its Luxembourg-based company GPB Asset Management S.A. to the Bank in exchange for the issuance of new shares of the Bank. The former GPB Asset Management SA was subsequently renamed to GPB Finance S.à r.l. and the business purpose of the company changed.

Structured Commodity Finance remained in 2018 one of the core products in the Bank's financing activities. The Structured Commodity Finance portfolio showed further increase and diversification, especially with customers representing metals & mining and petrochemical industries. The strong expertise of the Bank in Russia and the CIS allowed the Bank to continuously increase the volume of financial services provided to support the incoming and outgoing trade flows of these countries. In addition the Bank further expanded its cooperation with international banking institutions to enhance its documentary business and treasury operations. During the year the number of Structured Commodity Finance transactions, complexity and volumes has passed to industrial level, and accordingly the Bank further developed the processes, procedures and technology in this area.

Deployment of a specialised collateral management software (TRAC) has been further extended with more and more features analysed and deployed, and projects of interconnections with other banks' systems were initiated. The Bank has continued to increase the database of warehouses and forwarders (more than 50 and constantly growing); about 40 insurance companies were screened and listed for commodities finance purposes. Specialised training on the commodities finance business was performed for the wide range of involved departments of the Bank.

For valuation of the other collateral types such as properties and vessels, first monitoring activity for the outstanding loans was performed and the universe of accepted valuation companies was further extended.

Trade Finance and Documentary Business remains one of the core pillars of Corporate Banking, offering a broad range of solutions to secure import / export operations of the Bank's clientele: issuance of import, confirmation and discount of export letters of credit, issuance and advising of guarantees, processing of documentary collections. In 2018 the team, reinforced with dedicated professionals, continued to further improve the infrastructure and widen cooperation with international banks. Several new investment

grades-rated international institutions opened or increased lines for the Bank, and the Bank set up new correspondent relationships with banks in South America and Asia following customers' growing network of trading counterparties.

In 2018 the Credit & Structured Finance Department continued its business activities in bilateral and syndicated lending in EUR with the clear focus on European primary market transactions. Most of these assets originally came from the Central Europe. In spite of certain scheduled amortisations of the loan book and several early repayments, the credit team could increase the loan portfolio. In terms of products the main credit solutions being demanded by clients were leveraged buyouts, asset-based and working capital financing. The Bank allocated some credit risk to pre-export finance facilities for Russian entities operating in Europe. A part of the credit risk was repackaged and sold to investors.

In 2018, the Bank continued to increase the total volume of business with private customers despite the difficult geopolitical situation. The Private Banking Department of the Bank has been active in both retaining existing assets and opening 60 new accounts. The Private Banking Department of the Bank recorded a further increase of 45% in the volume of performance-linked deposits up to EUR 271.2 million. Despite strong competition and increasing rates for deposits in foreign currencies in the Russian financial market, the Bank managed to slightly increase the volume of medium and longer term private deposits to EUR 115.5 million compared with EUR 113.9 million in 2017. To further enhance the product range for Private Banking clients, in 2018 the Bank implemented new service for HNWIs – Discretionary Portfolio Management, which will be offered to clients in 2019.

The Corporate Coverage Department of the Bank achieved another strong inflow of new clients, among them subsidiaries of top Russian corporates with strong underlying business activities in Europe. This inflow resulted in an increase of deposits from corporates by 23% to a new record of EUR 1,203.3 million as per year end 2018. The number of clients using the e-banking portal of the Bank is constantly growing and improves efficiency and security for the settlement activities of the bank.

The Treasury Department of the Bank executed in 2018 5 mandates for Eurobonds issued by Russian issuers. The Bank raised more than EUR 650 million from market counterparties in the primary market syndication of these transactions. Due to the requirements of MiFiD II the shareholder and the Bank agreed to concentrate the sales coverage for secondary market activities for Russian Eurobonds and the research delivery services for several European countries in Luxembourg. In order to perform these activities the Bank started, together with an external advisor, a bank-wide project to cope with all the regulatory and technical requirements. To support secondary market trading activities in Russian Eurobonds for European investors, in 2018 the Bank implemented MTF trading facility, servicing 40 European investors at year end.

The investment portfolio, consisting of securities of Russian and European issuers, was increased to above EUR 250 million and is a significant part of the stable interest income of the Bank. EUR-denominated securities from the investment portfolio are refinanced by the Bank on the market for 6-12 months. Further activities of the Treasury Department were related to foreign exchange operations, corporate deposit taking, and short-term liquidity management. 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.

During the year ending 31 December 2018, the Bank extended its product offering by cash-pooling services. A pilot customer for this type of services became active during the last quarter of the year.

Financial performance and position

In 2018, the Bank generated a profit before taxes of EUR 12.3 million (2017: EUR 9.3 million). This increase of 32% was the result of growing business activities in all areas and good operating performance.

The total operating income amounted to EUR 38.6 million, an increase of 36% from the level in 2017.

The net interest income totalled EUR 19.9 million and increased by 57% compared to 2017. Net interest income benefited from growth in lending and deposit volumes and lower liquidity costs.

Net fee income amounted to EUR 13.0 million and decreased by 17% from the level in 2017. Net fee income was adversely affected by a decline in capital market related activities, which was partly mitigated by higher fee income from credit activity and service fees.

The dividend income of EUR 1.3 million (2017: nil) resulted from the payment of capital reserves from GPB Finance S.á r.l. (formerly GPB Asset Management S.A.), a company transferred to the Bank by its shareholder in 2018. A corresponding impairment loss in investments in subsidiary with the same amount neutralised such income.

Net gain (loss) on financial instruments at fair value through profit or loss and net foreign exchange income (loss) amounted to EUR 3.7 million, a significant increase from EUR 0.4 million in 2017. Net other operating income amounted to EUR 0.7 million, against net other operating expenses of EUR 0.5 million in 2017.

Expenses, in particular personnel expenses and other general administrative expenses amounted to EUR 24.3 million, against EUR 18.1 million in 2017. The increase is mainly driven by the increase in staff and investments in new business and regulatory projects related expenses. Net impairment loss on financial assets decreased from EUR 0.5 million in 2017 to EUR 0.3 million in 2018.

The decrease of the profit and total comprehensive income for the year, from EUR 10.2 million in 2017 to EUR 9.3 million in 2018, was impacted by the reversal of the tax asset created in 2017 and charging income tax expenses after the complete utilisation of the tax losses carried forward.

Total assets of the Bank as at 31 December 2018 amounted to EUR 2,763 million compared with EUR 1,745 million at 31 December 2017.

Cash and cash equivalents, including balances with central banks, increased to EUR 1,582.6 million (2017: EUR 697.0 million), mainly related to the funding structure of the Bank.

Loans to banks in the amount of EUR 230.1 million (2017: EUR 411.4 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 258.7 million as at 31 December 2017 to EUR 431.9 million as at year-end 2018. The loan portfolio mainly consists of commercial

lending transactions in the form of bilateral lending, Structured Trade Finance lending or participations in syndicated loan facilities.

Financial instruments at fair value through profit or loss and Investments securities measured at amortised cost reflecting the Bank's securities portfolio amounted to EUR 514.7 million (2017: EUR 375.6 million) and contained corporate Eurobonds of prime Russian and European issuers. The performance of bonds amounting to EUR 262.8 million (2017: EUR 181.0 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 672.6 million (2017: EUR 183.6 million), financial liabilities at fair value through profit or loss of EUR 271.2 million (2017: EUR 183.9 million) and current accounts and deposits from customers of EUR 1,623.8 million (2017: EUR 1,246.7 million).

The total equity of the bank increased from EUR 127.2 million in 2017 to EUR 187.6 million at year end 2018.

As at 31 December 2018, the common equity Tier 1 ratio was 22.9% (December 31 2017: 16.3%). The capital requirement defined specifically for the Bank by the supervisory authority (SREP ratio) is 12%.

Future development

In 2019, the Bank will continue to develop and expand its product portfolio. The focus will be on cash management solutions for its core corporate clients and the development of a loan portfolio backed by Export Credit Agencies. Another focus will be on the finalization of several IT projects and the increase of efficiency and automatization of processes.

Rating affirmed

The rating agency S&P Global Ratings affirmed its BB+/B rating to the Bank based on its core status as subsidiary of Gazprombank (JSC) in July 2018 and confirmed its outlook as stable. 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, projects and organizational developments

The Board of Directors of the Bank decided in 2018 to change the current one-tier structure to a two-tier structure with a supervisory board as the main control and supervisory function of the Bank and a management board fully responsible for the management of the Bank.

As an initial step the shareholder renewed the mandates of 6 members of the Board of Directors for a term to expire at the next Annual Shareholders Meeting in 2019. Also in this respect, the Bank recruited a First Deputy General Director being in charge of several business departments and reporting to the General Director responsible for the business activities of the Bank.

Substantial resources were allocated and investments were made in 2018 to cope with new regulatory requirements. In particular, the MiFiD II project, the introduction of GDPR and PSD II as well as new regulatory reportings required dedicated projects plus

additional changes in the IT infrastructure of the Bank. The newly introduced IFRS 9 standard was addressed as a joint effort of Accounting, Local Risk Management, Group Risk Management and the IT Department of the Bank and is still ongoing. The Bank successfully completed several other IT migration projects (IT infrastructure migration to an Infrastructure-as-a-Service model, SOPRA Evolan migration to WKFS OneSumX RegPro regulatory reporting platform, EBICS infrastructure and operations insourcing) enabling higher IT-resilience/-flexibility/-scalability/-agility.

During the reporting period, the CSSF conducted two on-site inspections, one related to the credit activity of the Bank and a second one: Production of the Single Customer View (SCV) file. The results of the inspections were presented to the Board of Directors and internal working groups were created to implement action plans.

The Bank continued in 2018 with the hiring of additional product & client account management 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 Compliance Department by hiring a Head of Compliance, two Compliance Officers and one Customer Data Officer, fully dedicated to maintaining the high quality standards in the management of clients' data.

The Bank has also reinforced its Operations, IT, Legal and HR Departments and plans to reinforce its Accounting Department in the first quarter of the year 2019, aiming to build a robust infrastructure dedicated to support the growing business.

At year-end 2018, the Bank employed 73 staff members, an increase of 16 in comparison with year-end 2017.

Risk Management

The business activities of the Bank are inevitably linked to the risk capacity and the ultimate risk appetite. Risk Control and 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 frequent (daily, monthly, quarterly, half-yearly and yearly) duties 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 concentration risk, issuer risk, country risk and settlement risks,
- Market risk, especially interest rate, derivative risk , price risk and currency risk,
- Liquidity risk, liquidity gap, stress analysis and liquidity buffers,
- Operational risk,
- Reputational risk.

The most important risks to which the Bank's business activities are exposed are credit risks and reputational risks from the current geopolitical environment 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 counterparty risk, country risk and settlement risk. The counterparty 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 conditions, including comprehensive credit assessment, 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 credit rating methodology 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 and the development of the 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 investment portfolio.

All information linked to credit risk is reported on a monthly base in a comprehensive Dashboard Report.

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 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 are developed in line with the Gazprombank Group liquidity requirements. They take into account the Bank's valid business strategy and assume 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 tests 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 include 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 for a

predetermined survival period and keeps applicable prudential liquidity ratios on acceptable level.

The liquidity buffer is composed of 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 the 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 the Bank 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.

Placement risk

The Bank acts as Lead and Co-Lead Manager for prime Russian issuers for the European market.

This service can cause a risk of a non-placement where the bank is acting on its own behalf. The risk is low because the bonds are placed in the market before the official settlement date. In the event that the papers cannot be sold completely, there are corresponding agreements in place to transfer the bond to Gazprombank (Joint Stock Company) at the subscription price.

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 customers' 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 locally 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 levels and across business and support functions.

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, clients' 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.

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

The shareholder made a further capital increase of EUR 50 million in February 2019. All 50,000 newly issued shares were again fully subscribed by the sole shareholder. In March 2019, CSSF approved the change and also approved the composition of the new Supervisory and Management Board.

The Bank had no research and development activities in 2018.

The Bank did not acquire its own shares.

Luxembourg, 28 March 2019

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 2018

	Notes	2018 EUR'000	2017 EUR'000
Interest income calculated using the effective interest method	4	22,345	13,286
Other interest income	4	24,147	25,364
Interest expense	4	(26,563)	(25,961)
Net interest income		19,929	12,689
Fee and commission income	5	13,037	15,645
Fee and commission expense	6	(82)	(16)
Net fee and commission income		12,955	15,629
Dividend income	36	1,334	-
Net gain / (loss) on financial instruments at fair value through profit or loss	7	3,747	302
Net foreign exchange income / (loss)		(37)	111
Other operating income / (expenses)		699	(463)
Operating income		38,627	28,268
Depreciation and amortizations on tangible and intangible assets	17	(376)	(366)
Net impairment loss on financial assets	8	(343)	(465)
Net impairment loss on investment in subsidiary	36	(1,334)	-
Personnel expenses	9	(15,263)	(10,904)
Other general administrative expenses	10	(8,972)	(7,234)
		(26,288)	(18,969)
Profit / (loss) before income tax		12,339	9,299
Income tax expense	11	(3,074)	890
Profit / (loss) and total comprehensive income for the year		9,265	10,189

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 2018

	Notes	31.12.2018 EUR'000 (IFRS 9)	31.12.2017 EUR'000 (IAS 39)
ASSETS			
Cash and deposits with central banks	12	1,582,551	696,970
Financial instruments at fair value through profit or loss			
- Held by the Bank	13	262,836	181,027
Loans to banks	14	230,080	411,388
Loans to customers	15	431,898	258,728
Investments securities measured at amortised cost (ex IAS 39 Held-to-maturity investments)	16	251,819	-
Held-to-maturity investments	16	-	194,582
Investment in subsidiary	36	356	-
Property, equipment and intangible assets	17	1,814	1,613
Deferred tax assets	11	64	807
Other assets	18	1,801	354
Total assets		2,763,219	1,745,469
LIABILITIES			
Financial instruments at fair value through profit or loss	13	271,210	183,859
Deposits and balances from banks	19	672,636	183,607
Current accounts and deposits from customers	20	1,623,789	1,246,657
Current tax liability		2,707	564
Other liabilities	21	5,301	3,588
Total liabilities		2,575,643	1,618,275
EQUITY			
Share capital	22	181,690	130,000
Profit or loss attributable to Owners of the Bank		9,265	10,189
Retained earnings (accumulated losses)		(3,379)	(12,995)
Total equity		187,576	127,194
Total liabilities and equity		2,763,219	1,745,469

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 2018

	2018	2017
	EUR'000	EUR'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) and total comprehensive income for the year	9,265	10,189
Adjustment for:		
- Interest income	(46,492)	(38,650)
- Net gain (loss) on financial instruments at fair value through profit or loss	(3,747)	(302)
- Interest expense	26,563	25,961
- Net foreign exchange income (loss)	37	(111)
- Income tax expense	3,074	(890)
- Personnel expenses	2,900	1,855
- Depreciation and amortizations on tangible and intangible assets	376	366
- Net impairment loss on financial assets	343	465
- Net impairment loss on investment in subsidiary	1,334	-
	(6,347)	(1,117)
Changes in:		
- Other liabilities	(498)	(3,722)
- Loans to customers	(174,339)	(147,850)
- Other assets	(1,447)	763
- Current accounts and deposits from customers	372,930	1,000,222
- Financial instruments at fair value through profit or loss (excluding financial assets designated at FVTPL)	91,207	32,963
- Deposits and balances from banks	489,692	(131,190)
	771,198	750,069
Dividend received	1,344	-
Income tax paid	(188)	(21)
Interest received	42,517	34,327
Interest paid	(24,596)	(17,295)
Net cash from / (used in) operating activities	790,275	767,080
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Investments securities measured at amortised cost	(111,015)	(53,278)
Repayment of Investments securities measured at amortised cost	58,640	3,792
Acquisition of financial assets designated at FVTPL	(113,221)	(88,732)
Sale and repayment of financial assets designated at FVTPL	30,171	54,561
Proceeds from the sale of property, equipment and intangible assets 17	407	2
Acquisition of property, equipment and intangible assets 17	(984)	(950)
Net cash from / (used in) investing activities	(136,002)	(84,605)
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	704,273	682,475
Cash and cash equivalents at 1 January 12a	1,108,358	425,883
Cash and cash equivalents at 31 December 12a	1,812,631	1,108,358

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 31 Dec 2017 (IAS 39)	130,000	(2,806)	127,194
Change in opening balance due to transition from IAS 39 to IFRS 9	-	(573)	(573)
Balance as at 1 January 2018 (IFRS 9)	130,000	(3,379)	126,621
Total comprehensive income			
Profit for the year	-	9,265	9,265
Total comprehensive income for the year	130,000	5,313	135,886
Transactions with owners, recorded directly in equity			
Shares issued (Note 22)	51,690	-	51,690
Total transactions with owners	51,690	-	51,690
Balance as at 31 December 2018	181,690	-	187,576

EUR'000

	Share capital	Retained earnings (accumulated losses)	Total equity
Balance as at 1 January 2017 (IAS 39)	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

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 prepares 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 2018 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”).

This is the first set of the Bank’s annual financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Note 2(e).

These financial statements have been approved by the Board of Directors via a circular resolution dated 28 March 2019.

(b) Basis of measurement

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

(c) 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.

(d) 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.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 2(e) and note 3(c) and are mainly related to calculation of expected credit losses, determining fair values and the classification of financial assets and liabilities.

(e) Changes in accounting policies and presentation

The Bank has initially adopted IFRS 9 and IFRS 15 from 1 January 2018.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Bank's financial statements.

Due to the transition method chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 35);
- additional disclosures related to IFRS 9 (see Notes 34); and
- additional disclosures related to IFRS 15 (see Note 5).

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 3 to all periods presented in these financial statements.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Bank has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method. Previously, the Bank disclosed this amount in the notes to the financial statements.

Additionally, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Notes 34 and 35.

Classification of financial assets and financial liabilities

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). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous 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 never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Bank classifies financial assets under IFRS 9, see Note 3(c).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

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

For an explanation of how the Bank classifies financial liabilities under IFRS 9, see Note 3(c).

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 8.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The Bank used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and OCI, the Bank has reclassified comparative interest income on financial instruments at fair value through profit or loss to 'other interest income' and changed the description of the line item from 'interest income' reported in 2017 to 'interest income calculated using the effective interest method'.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
 - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Notes 34 and 35.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements (see Note 5).

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(e), 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 (IFRS 9 applicable from 1 January 2018)

i. Classification

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.

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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.

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. 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

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI); “principal” is defined as the fair value of the financial asset on initial recognition and “interest” is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for the basic lending risks and costs (eg. liquidity risk and administrative costs), as well as profit margin.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Equity investments are measured at cost. In accordance with IAS 27 as the Bank prepares separate financial statements and are subsequently measured at lower of their carrying amount and fair value less cost to sell.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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. 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.

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.

Significant 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. A trigger for the migration of an exposure represents:

- from stage 1 to stage 2 is contractual payments are more than 30 days past due;
- from stage 2 to stage 3 is contractual payments are more than 90 days past due.

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.

vi. 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.

vii. Derecognition

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.

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) Financial instruments (IAS 39 applicable until 31 December 2017)

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. Impairment

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.

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.

vi. 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.

vii. 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.

viii. 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.

ix. 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.

x. 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.

(e) 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.

(f) 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.

(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.

Subsequently, they are measured as follows:

- from 1 January 2018: at the higher of the loss allowance determined in accordance with IFRS 9 (see 3(c)v) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and
- before 1 January 2018: at the higher of the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

- from 1 January 2018: the Bank recognises a loss allowance (see 3(c)v);
- before 1 January 2018: the Bank recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

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. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes fees and points paid or received, if any, that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

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) 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 16 Leases

The Bank is required to adopt IFRS 16 Leases from 1 January 2019. The Bank has assessed the estimated impact that the initial application of IFRS 16 will have on its financial statements, as described below. The actual impact of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Bank presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease

liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including 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.

i. Leases in which the Bank is a lessee

The Bank has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Bank's lease portfolio, the Bank's assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions.

The Bank will recognise new assets and liabilities for its operating leases of office premises and vehicles (see Note 27). The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As at 31 December 2018, the Bank's future minimum lease payments under non-cancellable operating leases amounted to EUR 3.1 million, on an undiscounted basis, which the Bank estimates it will recognise as additional lease liabilities.

No significant impact is expected for the Bank's finance leases.

ii. Transition

The Bank plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Bank plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

4 Net interest income

	2018 EUR'000	2017 EUR'000
Interest income		
Financial instruments at fair value through profit or loss	24,147	25,364
Loans to banks	2,174	1,477
Loans to customers	13,205	5,778
Investment securities measured at amortised cost	6,966	6,031
Total interest income calculated using the effective interest rate method	22,345	13,286
	46,492	38,650
Interest expense		
Deposits and balances from banks	(528)	(5,682)
Financial instruments at fair value through profit or loss	(8,342)	(5,639)
Current accounts and deposits from customers	(17,693)	(14,640)
	(26,563)	(25,961)

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 (1,706) thousand (2017: EUR (1,993) 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 3,607 thousand (2017: EUR 2,437 thousand).

5 Fee and commission income

In the following table, fee and commission income in the scope of IFRS 15 is disaggregated by major type of services:

	2018 EUR'000	2017 EUR'000
Settlement	1,287	751
Brokerage	228	269
Trust, custodian and other fiduciary services	705	742
Credit fees, Guarantee and letter of credit issuance	4,920	3,763
Underwriting and corporate finance	5,897	10,120
	13,037	15,645

The following table provides information about receivables and contract liabilities from contracts with customers.

	Note	31 Dec 2018 EUR'000	31 Dec 2017 EUR'000
Receivables (included in Other assets)	18	-	-
Contract liabilities (included in Other liabilities)	21	922	1,336

The contract liabilities primarily relate to the non-refundable up-front / agency fee received from customers on opening a loan agency contract. This is recognised as revenue over the period for which a customer expected to continue to receive agency services. The weighted average expected period is 3.5 years (2017: 3.0 years)

The Bank will also receive in 2019 EUR 12,423 thousand commission from a contract which was underwritten in 2018.

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)
Settlement	<p>The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees.</p> <p>Fees for ongoing account management are charged to the customer's account on a quarterly basis.</p> <p>Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.</p> <p>Servicing fees are charged on a quarterly basis and are based on fixed rates reviewed annually by the Bank.</p>	<p>Revenue from account service and servicing fees is recognised over time as the services are provided.</p> <p>Revenue related to transactions is recognised at the point in time when the transaction takes place.</p>
Brokerage	The Bank provides such services to corporate as well as private customers	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Trust, custodian and other fiduciary services	The Bank provides such services to corporate as well as private customers	Revenue from such services is recognised over time as the services are provided
Underwriting and corporate finance	The Bank provides banking services to banks and corporate customers	<p>Revenue from underwriting services is recognised at the point in time when the transaction has taken place.</p> <p>Revenue related to corporate finance services is recognised at the point in time when the transaction takes place.</p> <p>Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.</p>

6 Fee and commission expense

	2018 EUR'000	2017 EUR'000
Brokerage	(82)	(16)
	(82)	(16)

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

	2018 EUR'000	2017 EUR'000
Debt financial instruments	23	302
Deposits	-	107
Derivatives	3,724	(107)
	3,747	302

Included in net gain (loss) on financial instruments at fair value through profit or loss for the year ended 31 December 2018 is a total of EUR (15) thousand (2017: EUR 302 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	2018 EUR'000	2017 EUR'000
Loans to banks	14	(33)	-
Loans to customers	15	(699)	275
Investment securities measured at amortised cost	16	(300)	(23)
Other liabilities	21	689	(717)
		(343)	(465)

The position "Other Liabilities" comprises EUR 28 thousand with regards to impairment on open commitments.

9 Personnel expenses

	2018 EUR'000	2017 EUR'000
Employee compensation	(13,521)	(9,645)
Payroll related taxes	(1,742)	(1,259)
	(15,263)	(10,904)

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

	2018	2017
Senior management	2.3	2.0
Management	12.2	11.8
Employees	51.3	37.0
	65.8	50.8

10 Other general administrative expenses

	2018 EUR'000	2017 EUR'000
IT expenses	(2,927)	(1,887)
Communications and information services	(1,434)	(1,262)
Counselling and legal expenses	(1,351)	(755)
Rent, utilities and other building costs	(1,203)	(1,103)
Travel expenses	(362)	(466)
Audit fees	(275)	(288)
Advertising and marketing	(189)	(407)
Professional services	(167)	(311)
Insurance	(96)	(76)
Office supplies	(49)	(42)
Charity and sponsorship	(18)	(6)
Other	(901)	(631)
	(8,972)	(7,234)

11 Income tax expense

	2018 EUR'000	2017 EUR'000
Current year tax expense	(2,331)	(21)
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(743)	911
Total income tax gain (expense)	(3,074)	890

In 2018, the applicable tax rate for current and deferred tax is 26.01% (2017: 27.08%).

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

	2018 EUR'000	2018 %	2017 EUR'000	2017 %
Profit before tax	12,339		9,299	
Income tax at the applicable tax rate	(3,209)	(26.01)	(2,518)	(27.08)
Current-year tax losses for which no deferred tax asset is recognised	-	-	2,497	26.85
Recognition of previously unrecognised tax losses	522	4.23	911	9.80
Tax effect of non-deductible expenses and tax-exempt income	(387)	(3.13)	-	-
	(3,074)	(24.91)	890	9.57

(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 2018 and 2017.

Recognition of deferred tax assets of EUR 64 thousand (2017: EUR 807 thousand) 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.

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 2019 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 is fully consumed.

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:

	31.12.2018 EUR'000	31.12.2017 EUR'000
Tax losses	-	2,007,793

Movements in temporary differences during the years ended 31 December 2018 and 2017 are presented as follows.

2018	Balance	Recognised in	Recognised	Balance
EUR'000	1 January	other	in profit	31 December
	2018	comprehensive	or loss	2018
		income		
Financial instruments at fair value through profit or loss	(79)	-	75	(4)
Derivatives held for trading	188	-	(120)	68
Other intangible assets	(15)	-	15	-
Tax loss carry-forwards	713	-	(713)	-
	807	-	(743)	64

2017	Balance	Recognised in	Recognised	Balance
EUR'000	1 January	other	in profit	31 December
	2017	comprehensive	or loss	2017
		income		
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

12 Cash and deposits with central banks

	31.12.2018	31.12.2017
	EUR'000	EUR'000
Nostro accounts with BCL	1,582,551	696,970

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 2018 held by the Bank with the Central Bank of Luxembourg amounted to EUR 16,442 (31 December 2017: EUR 11,372 thousand).

(a) Cash and cash equivalents

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

	31.12.2018	31.12.2017
	EUR'000	EUR'000
Cash and deposits with central banks	1,582,551	696,970
Loans to banks	230,080	411,388
	1,812,631	1,108,358

13 Financial instruments at fair value through profit or loss

	31.12.2018 EUR'000	31.12.2017 EUR'000
<i>Held by the Bank</i>		
ASSETS		
Designated at fair value through profit and loss		
- Corporate bonds		
rated from BBB- to BBB+	118,026	70,525
rated from BB- to BB+	143,376	101,048
rated below B+	363	1,771
not rated	-	790
Total corporate bonds	261,765	174,134
- Corporate loans		
not rated	-	4,409
Total designated at fair value through profit and loss	261,765	178,543
Derivative financial instruments	376	321
Foreign currency contracts	695	2,163
Total financial instruments at fair value through profit or loss	262,836	181,027
LIABILITIES		
Designated at fair value through profit and loss		
Credit-linked deposits	270,249	180,090
Total designated at fair value through profit and loss	270,249	180,090
Derivative financial instruments	1	27
Foreign currency contracts	960	3,742
Total Financial instruments at fair value through profit or loss	271,210	183,859

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 2018 and 2017, 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.

	Weighted average contractual exchange rates			
	2018 EUR'000	2017 EUR'000	2018	2017
Buy USD sell EUR				
Less than 3 months	1,383	2,864	-	1.196441
More than 3 months to 12 months	-	-	-	-
Sell USD buy EUR				
Less than 3 months	600,902	348,108	0.869295	0.835789
More than 3 months to 12 months	30,175	-	0.852475	-
More than 1 year to 2 years	1,847	-	0.827423	-
Buy RUB sell EUR				
Less than 3 months	7,652	52,669	-	70.017617
Sell RUB buy EUR				
Less than 3 months	8,858	362,314	-	0.014314
More than 3 months to 12 months	1,400	-	0.014314	-
Buy CHF sell EUR				
Less than 3 months	-	137,816	-	1.163855
Buy CHF sell USD				
Less than 3 months	17,464	54,615	0.990000	0.986878

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:

	31.12.2018 EUR'000	31.12.2017 EUR'000
- rated A- to A+	62	683
- rated from BB- to BB+	74	1,140
- rated from BBB- to BBB+	559	340
	695	2,163

14 Loans to banks

	31.12.2018 EUR'000	31.12.2017 EUR'000
Loans and deposits		
rated from AA- to AA+	19,348	11,298
rated A- to A+	2,876	846
rated BBB- to BBB+	6,536	22,527
rated from BB- to BB+	201,353	376,717
	230,113	411,388
Impairment allowance	(33)	-
Total loans and deposits	230,080	411,388

(a) Concentration of loans to banks

As at 31 December 2018, the Bank has 1 bank (2017: 3 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2018 is EUR 150,000 thousand (2017: EUR 389,537 thousand).

15 Loans to customers

	31.12.2018 EUR'000	31.12.2017 EUR'000
Corporate customers		
Direct loans	305,249	216,052
Loans participated by the Bank	104,760	18,525
Mortgage loans	24,043	25,039
Total loans to corporate customers	434,052	259,616
Private customers		
Loans to private customers	22	17
Total loans to private customers	22	17
Impairment allowance	(2,176)	(905)
Net loans to customers	431,898	258,728

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 2018, there were EUR 563.6 million loans participated by other banks through SFSP (2017: EUR 880.9 million).

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

	2018 EUR'000	2017 EUR'000
Loans to corporate customers		
Balance at the beginning of the year	(905)	(1,180)
Net (charge) / recovery (including impact of IFRS 9 adoption)	(1,271)	275
Balance at the end of the year	(2,176)	(905)

The following table provides information by types of loan products as at 31 December 2018:

	Gross amount EUR'000	Impairment allowance EUR'000	Carrying amount EUR'000
Loans to corporate customers			
Direct loans	305,249	(1,493)	303,756
Loans participated by the Bank	104,760	(683)	104,077
Mortgage loans	24,043	-	24,043
Loans to private customers			
Loans to private customers	22	-	22
	434,074	(2,176)	431,898

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

(a) Credit quality of loans to customers

The following table provides information on the credit quality of loans to customers as at 31 December 2018 and 2017:

	31.12.2018	31.12.2017
	EUR'000	EUR'000
Direct loans		
Gross amount	305,249	216,052
Impairment allowance	(1,493)	(648)
Carrying amount	303,756	215,404
Loans participated by the Bank		
Gross amount	104,760	18,525
Impairment allowance	(683)	(257)
Carrying amount	104,077	18,268
Mortgage loans		
Gross amount	24,043	25,039
Impairment allowance	-	-
Carrying amount	24,043	25,039
Loans to private customers		
Gross amount	22	17
Impairment allowance	-	-
Carrying amount	22	17
Net loans to customers	431,898	258,728

As per year-end all loans as well as commitments are classified as stage 1 with regards to IFRS 9, i.e. there is no significant increase in their credit risk. No amounts are classified as overdue.

(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.

Please refer to note 3(c)v for the treatment of loan impairments under IFRS 9.

(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 2018, the Bank had 3 mortgage loans of EUR 24,043 thousand (2017: 3 of EUR 25,039 thousand). The collateral value of these loans, represented by residential properties, as at 31 December 2018 is EUR 52,700 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 has not exercised any of such legally enforceable agreements during the year (2017: none). 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:

	31.12.2018 EUR'000	31.12.2017 EUR'000
Manufacturing	65,769	57,495
Energy	94,058	26,869
Mining	60,921	-
Trade	79,649	77,154
Finance	56,929	11,663
Agriculture, forestry and timber	39,362	26,895
Real estate	24,055	25,060
Loans to private customers	22	17
Transport	12	34,478
Other	13,297	2
	434,074	259,633
Impairment allowance	(2,176)	(905)
	431,898	258,728

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

	31.12.2018 EUR'000	31.12.2017 EUR'000
Trade	887,401	108,769
Manufacturing and chemical industry	37,869	24,451
Transport	-	6,671
Agriculture, forestry and timber	259	30,202
Energy and oil	199,330	205,531
Finance	10,000	18,455
Mining	33,206	20,845
Loans to private customers	-	6,114
	1,168,065	421,038
Impairment allowance	(28)	(717)
	1,168,037	420,321

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

	31.12.2018 EUR'000	31.12.2017 EUR'000
Luxembourg	29,051	11
OECD countries (excl. Luxembourg)	330,299	190,940
Other countries	74,724	68,682
	434,074	259,633
Impairment allowance	(2,176)	(905)
	431,898	258,728

(e) Significant credit exposures

As at 31 December 2018, the Bank has 7 connected borrowers (2017: 7) whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2018 is EUR 196,704 thousand (2017: EUR 247,848 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 Investment securities measured at amortised cost

	31.12.2018 EUR'000	31.12.2017 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+	139,824	101,716
rated from BB- to BB	112,878	76,887
Total corporate bonds	252,702	195,165
Impairment allowance	(883)	(583)
Total net corporate bonds	251,819	194,582

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 2018	277	625	2,054	374	3,330
Additions	15	4	493	472	984
Disposals	-	-	-	(407)	(407)
Balance as at 31 December 2018	292	629	2,547	439	3,907
Depreciation, amortisation and impairment losses					
Balance as at 1 January 2018	(201)	(127)	(1,389)	-	(1,717)
Depreciation and amortisation for the year	(45)	(75)	(256)	-	(376)
Disposals	-	-	-	-	-
Balance as at 31 December 2018	(246)	(202)	(1,645)	-	(2,093)
Carrying amount as at 31 December 2018	46	427	902	439	1,814

There are no capitalised borrowing costs related to the acquisition or construction of plant and equipment during 2018 (2017: nil).

EUR'000	Equipme nt	Fixture s and fittings	Comput er software	Construct ion in progress	Total
Cost/revalued amount					
Balance at 1 January 2017	250	519	1,516	97	2,382
Additions	27	107	538	278	950
Disposals	-	(2)	-	-	(2)
At 31 December 2017	277	625	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 amounts as at 31 December 2017	76	497	665	375	1,613

18 Other assets

	31.12.2018 EUR'000	31.12.2017 EUR'000
VAT receivables	294	259
Other tax assets	801	-
Other prepayments	706	95
Total other non-financial assets	1,801	354

19 Deposits and balances from banks

	31.12.2018 EUR'000	31.12.2017 EUR'000
At sight	504,555	118,428
With agreed maturity	168,081	65,179
	672,636	183,607
rated from A- to A+	72,968	15,875
rated from BBB- to BBB+	15,700	15,345
rated from BB- to BB+	583,756	142,366
not rated	212	10,021
	672,636	183,607

As at 31 December 2018, the Bank has 3 banks (2017: 3 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2018 is EUR 645,332 thousand (2017: EUR 150,913 thousand).

20 Current accounts and deposits from customers

	31.12.2018 EUR'000	31.12.2017 EUR'000
Current accounts and demand deposits		
- Private	19,018	18,260
- Corporate	285,979	133,031
Term deposits		
- Private	115,475	113,819
- Corporate	1,203,317	981,547
	1,623,789	1,246,657

As at 31 December 2018, the Bank has 8 customers (2017: 11 customers), whose balances exceed 10% of equity. These balances as at 31 December 2018 are EUR 1,372,260 thousand (2017: EUR 1,054,605 thousand).

21 Other liabilities

	31.12.2018 EUR'000	31.12.2017 EUR'000
Other financial liabilities	1,433	201
Total other financial liabilities	1,433	201
Employees remuneration	2,900	2,022
Provision for loan commitments issued	28	717
Other non-financial liabilities	940	648
Total other non-financial liabilities	3,868	3,387
	5,301	3,588

22 Share capital and reserves

(a) Issued capital and share premium

The Bank's share capital comprises 181,690 registered shares with a nominal value of EUR 1,000 each amounting to a total of EUR 181,7 million (2017: 130,000 registered shares with a nominal value of EUR 1,000 each amounting to a total of EUR 130 million).

The Shareholder approved the capital increase of EUR 51.7 million in September 2018 (Thereof EUR 50 Mio cash and EUR 1.7 million in-kind contribution). All new shares were again subscribed by the Shareholder. Please refer to note 36 for more information regarding the in-kind contribution.

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 2018, the Board of Directors includes:

- Mr. Alexey A. Matveev – Chairman of the Board of Directors
- Mr. Alexander I. Sobol – Vice Chairman
- Mr. Dmitry N. Derkatch – Member
- Mr. Thomas R. Kiefer – Member
- Mr. Chlodwig Reuter – 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 2018, 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 monitoring:

- Daily Credit Limits (regulatory)
- Daily Credit Limits (non-regulatory)
- Daily Securities Limit
- Daily FX Limit
- Daily Interest Rate Risk
- Daily P&L
- Daily Cash Position
- Daily Liquidity report and LCR control
- Daily Portfolio limits/utilization report

- Daily Margin calls calculation
- Daily FX-Position calculation
- Daily Economic Risk and Collateral by Countries

Weekly monitoring:

- Monitoring of CLD`s

Monthly monitoring:

- Country Risk reporting
- Corporate Risk report
- Dashboard report
- Currency Risk report
- Monthly Key Risk Indicators report
- Monthly Report Operations & IT.

Quarterly Reports:

- Report on Audit Findings & Recommendations
- Group Op-Risk

Semi Annual Reports:

- Interest Rate Risk Report (regulatory)

Annually monitoring:

- Annual Risk Assessment
- Annual Summary of the Risk Control Function
- Annual ICAAP Report
- BRRD Plan
- Supporting Short Term and Long Term Report
- Exit Plan

Report on Audit Findings & Recommendations

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;
 - o monitoring and reporting of margin calls;
 - o monitoring and reporting of liquidity/open FX position of the Bank;
 - o monitoring and reporting of key risk indicators;
 - o monitoring and reporting of the audit findings handling;
 - o performance and reporting of stress testing/back testing;
 - o 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 2018, 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 2018:

Limit	Amount	EWI	Value EUR mln
Net interest income (NII) sensitivity	EUR 2.67 mln	EUR 2.4 mln	1.93
Limit revaluation impact on P&L	EUR 2.0 mln	EUR 1.8 mln	0.78
+/- 100bp parallel shift	EUR 9.0 mln	EUR 8.1 mln	4.10
Interest rate gap	<= 1y - EUR 500 mln	90% of the limit amount	99.24
	1y <= 2y - EUR 330 mln		71.00
	2y <= 3y - EUR 330 mln		34.21
	3y <= 4y - EUR 80 mln		41.94
	4y <= 5y - EUR 80 mln		47.85
	> 5Y - EUR 50 mln		26.28
VaR limit	EUR 8.0 mln	EUR 7.2 mln	0.25

Interest rate sensitivity analysis

Interest rate result		Result on the capital, EUR'000
Variation	scale	
Increase of	200bp	5,299
Decrease of	200bp	6,214
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 5,299 thousand in case of the increase of interest yield curve (+200 bps) and +EUR 6,214 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 2018.

(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 2018:

	EUR EUR'000	USD EUR'000	RUB EUR'000	CHF EUR'000	Others EUR'000	Total EUR'000
ASSETS						
Cash and deposits with central banks	1,582,551	-	-	-	-	1,582,551
Financial instruments at FVTPL	32,399	212,293	56	2,733	15,355	262,836
Loans to banks	205,091	5,418	383	17,510	1,678	230,080
Loans to customers	337,142	94,756	-	-	-	431,898
Investment securities measured at amortised cost	155,098	96,721	-	-	-	251,819
Investment in subsidiary	356	-	-	-	-	356
Deferred tax assets	64	-	-	-	-	64
Other financial and non-financial assets	3,563	52	-	-	-	3,615
Total assets	2,316,264	409,240	439	20,243	17,033	2,763,219

	EUR EUR'000	USD EUR'000	RUB EUR'000	CHF EUR'000	Others EUR'000	Total EUR'000
LIABILITIES						
Financial instruments at FVTPL	32,659	219,601	36	2,772	16,142	271,210
Deposits and balances from banks	671,882	406	337	11	-	672,636
Current accounts and deposits from customers	781,983	838,167	2,649	23	967	1,623,789
Current tax liability	2,706	1	-	-	-	2,707
Other liabilities	4,553	737	8	3	-	5,301
Capital and reserves	178,884	-	-	-	-	178,884
Total liabilities, capital and reserves	1,672,667	1,058,912	3,030	2,809	17,109	2,754,527
Net position	643,597	(649,672)	(2,591)	17,434	(76)	8,692
The effect of derivatives held for risk management	(634,154)	649,012	2,606	(17,464)	-	-
The effect of the first time adoption IFRS 9	573	-	-	-	-	573
Net position after derivatives held for risk management purposes	10,016	(660)	15	(30)	(76)	9,265

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

	EUR EUR'000	USD EUR'000	RUB EUR'000	CHF EUR'000	Others EUR'000	Total 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

	EUR	USD	RUB	CHF	Others	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
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

For each major 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.

A weakening of the EUR, as indicated below, against the following currencies at 31 December 2018 and 2017, 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.

	2018 EUR'000	2017 EUR'000
10% appreciation of USD against EUR	12	(9)
10% appreciation of RUB against EUR	1	(9)
10% appreciation of CHF against EUR	(1)	(12)

(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 2018 and 2017 and a simplified scenario of a 10 percent change in all securities prices is as follows:

	2018		2017	
	Net profit or loss EUR'000	Equity EUR'000	Net profit or loss EUR'000	Equity EUR'000
10 percent increase in security prices	(1,223)	(1,223)	(207)	(207)
10 percent decrease in security prices	1,223	1,223	207	207

(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.

Impairment and expected credit loss

IFRS 9 introduces a new forward-looking impairment model, requiring banks to provide for expected credit losses (ECLs) which will be used in the Bank.

The current 4 forward-looking scenarios are as follows:

- Scenario 1: Ongoing sanctions → 1 notch downgrade Russia
- Scenario 2: Economic downturn world-wide → 2 notches downgrade CIS/Russia
- Scenario 3: Unchanged conditions → unchanged ratings
- Scenario 4: Stable economic situation / easing sanctions → 1 notch upgrade CIS / Russia.

Weighting of the results under scenario 1-4:

- Scenario 1: 20 % unlikely
- Scenario 2: 10 % highly unlikely
- Scenario 3: 60 % most possible scenario
- Scenario 4: 10 % highly unlikely

According to the IFRS 9 definition there are three stages for classification of the assets. Assets shall be moved to other stages under certain conditions as described (downwards and upwards):

ECL model: 3-stage approach for impairment	Stage 1	Stage 2	Stage 3
Definition	There has been no significant deterioration in credit quality since initial recognition or there is low credit risk at the reporting date.	There has been significant deterioration in credit quality since initial recognition and credit risk is not low, but there is no objective evidence of a credit loss event.	There is objective evidence of impairment at the reporting date.
Impairment, allowance, interest	12-month ECLs Interest revenue based on gross amount	Lifetime ECLs Interest revenue based on gross amount	Lifetime ECLs Interest revenue based on amortized amount
Assessment basis	Collective or individual	Collective or individual	Individual

Stage 1: applies to all items (from initial recognition) as long as there is no significant deterioration in credit quality:

- If the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses (measurement basis: **12-month ECLs**).
- 12-month ECL is a portion of the lifetime ECL that is associated with the probability of default events occurring within the 12 months after the reporting date.
- For the instruments allocated in Stage 1, the present value of the expected defaults resulting from possible default events within the next 12 months after the balance sheet date must be recognized as an expense (12-month ECL).
- The interest is recorded on the basis of the gross book value, it means the effective interest method is to be carried out on the basis of the book value, taking account of the risk provision.

Stage 2: applies when a significant increase in credit risk has occurred on an individual or collective basis (e.g. significant increase in default risk without objective evidence of impairment)

- The trigger of the migration of an exposure from stage 1 to stage 2 is a significant increase in credit risk (SICR) so the measurement bases has to be changed to **Lifetime ECLs**.
- At each balance sheet date, it is to be checked whether there has been a significant increase in the credit risk since the instrument was received (assessment was made by comparing the original probability of default when the instrument was received with the instrument at the balance sheet date).
- Lifetime ECL would be estimated based on the present value of all cash shortfalls over the remaining life of the financial instrument.
- The interest is recorded in the same way as for Stage 1. In the case of transfer in level 2, the necessary additions to risk provisions must be recognized in profit and loss in the income statement.
- **Criteria for a transfer** from Stage 1 to Stage 2: There is a rebuttable presumption that the **credit risk** has increased significantly when contractual payments are more than 30 days past due.

Stage 3: applies if financial assets gets additional to a significant increase in the credit risk) an objective indication of impairment (e.g. breach of contract such as failure or default of interest and principal payments or significant financial difficulties of the issuer or debtor),

- Measurement bases keeps at **Lifetime ECLs**, but interest revenue will be calculated by applying the effective interest rate (EIR) to the amortized cost (net of the impairment allowance) rather than the gross carrying amount.
- **Criteria for a transfer** from Stage 2 to Stage 3: There is a rebuttable presumption that the **credit risk** has increased significantly when contractual payments are more than 90 days past due.

Reversal from Stage 2 or (3) to Stage 1:

- The impairment model is a symmetric approach, which means, that if there is no longer a significant increase in default risk on the balance sheet date or during a defined cure

period (best market practice commonly set at 3 to 6 months depending on the loans issued by the Bank and client characteristics), the instrument must be transferred back to Stage 1.

Definition of **failure event** / default:

- A key issue in measuring expected losses is identifying when a “default” may occur. But because IFRS 9 does not define the term, the Bank applied a definition consistent with the definition used for internal credit risk management purposes fixed within the „Risk Management Policy“:

„Credit risk is the potential risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations. Risk of potential losses is measured through a rating classification. Credit risk includes residual risk - risk that recognised credit risk mitigation techniques prove less effective than expected. Settlement risk is also covered as part of the credit risk.“

Impairments will be identified by following **objective indications**:

- Determining whether a significant increase in credit risk has occurred can require considerable judgment.
- There is a rebuttable presumption that the **credit risk** has increased significantly when contractual payments are more than 30 days past due.
- Qualitative indicators that an asset is credit-impaired:
 - significant financial difficulty of the issuer or borrower
 - a breach of contract, such as a default or past due event (i.e., a borrower has failed to make a payment when contractually due)
 - the lender, for economic or contractual reasons relating to the borrower’s financial difficulty, has granted a concession that the lender would not otherwise consider
 - it is becoming probable that the borrower will enter bankruptcy or other financial reorganization
 - the disappearance of an active market for that financial asset because of financial difficulties
 - the purchase or origination of a financial asset at a deep discount that reflects incurred credit losses
- Additional to the qualitative factors the Bank designed because of **applying the general approach** also quantitative measure of probability of default (PD) for assessing the SICR for each asset type.

Depending on the quantitative materiality and whether a substantial increase in the credit risk or an impairment already exists, an assessment is made according to the following algorithm:

- Blanket assessment of risk provision (Stage 1 or Stage 2 / 3, if non-essential)
- Individual assessment of risk provision (Stage 2 or 3, if essential)
- Minimum size of risk prevention: Expected credit losses must not be set to zero, because according to IFRS 9 banks are obliged to take into account possible credit losses even with a minimum probability of occurrence.
- The ECL is calculated depending on the financial asset type and the stage allocation within the general approach, e.g.

- Stage 1: $ECL = PD_{1\text{ year}} * LGD * EAD$
- Stage 2: $ECL = PD_{\text{lifetime}} * LGD * EAD$
- Stage 3: $ECL = LGD_{\text{in default}} * EAD$

In detail the calculation / algorithm within the Bank is done as mentioned in the document „Guidelines for the recognition of loan loss provisions in accordance with International Financial Reporting Standards 9 - Financial Instruments (IFRS 9) at Bank GPB (AG) Moscow 2017“ and additional in 2018 the Bank’s general guideline directive “Internal corporate credit rating assessment”.

Impairments have to be considered for all financial assets measured at amortised cost or at FVOCI – including loan commitments and guarantees.

The Bank will need to be able to make robust estimates of ECLs and determine when significant changes in credit risk occur – for example, by assessing external data and predicting future conditions.

Within the Bank all financial instruments are quantified according to materiality. It also assesses whether there is a significant increase in credit risk or impairment on the relevant financial instrument.

The Bank distinguishes between essential and non-essential financial instruments and evaluates them accordingly:

- A financial instrument is considered essential in the Bank if it comprises more than 0.5% of the capital of the banking group (as at the date of the closing, IFRS-compliant information). Others are treated as non-essential.
- The materiality is calculated for each individual business partner and takes into account all of his legal transactions at the Bank.

An asset shall be classified as defaulted when the counterparty is legally declared defaulted and a specific provision has to be booked.

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 existing 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 2018, no specific loan

allowances have been established (2017: 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 possibilities to get external funding and to extend the client base in 2018. It leads to the significant Russian or Russian linked 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 and NSFR 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 2018 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	1,582,551	-	-	-	-	1,582,551
Loans to banks	230,080	-	-	-	-	230,080
Loans to customers	105,531	88,253	206,691	31,423	-	431,898
Investment securities measured at amortised cost	-	53,394	198,425	-	-	251,819
Financial instruments at fair value through profit or loss	2,889	113,924	109,875	36,148	-	262,836
Total financial assets	1,921,051	255,571	514,991	67,571	-	2,759,184
Deposits and balances from banks	504,556	87,790	80,290	-	-	672,636
Current accounts and deposits from customers	1,451,654	127,959	44,176	-	-	1,623,789
Financial instruments at fair value through profit or loss	3,264	115,748	115,497	36,701	-	271,210
Other financial liabilities	1,433	-	-	-	-	1,433
Total financial liabilities	1,960,907	331,497	239,963	36,701	-	2,569,068
Total	(39,856)	(75,926)	275,028	30,870	-	190,116

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 matu- -rity	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 Liquidity Coverage Ratio (LCR) as per 31 December 2018 is as follows:

	31.12.2018 EUR'000	31.12.2017 EUR'000	31.12.2016 EUR'000
Liquidity Buffer	1,652,753	685,598	252,961
Net Liquidity Outflow	749,760	100,094	161,469
Liquidity Coverage Ratio (%)	220.44%	684.96%	156.66%

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 320 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:

	31.12.2018 EUR'000	31.12.2017 EUR'000	31.12.2016 EUR'000
Operational Risk (basic indicator approach)	4,047	2,381	985

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 2018.

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:

<i>EUR million</i>	31.12.2018	31.12.2017	31.12.2016
Paid up capital	181.7	130.0	130.0
Reserves	(3.3)	(13.0)	(13.7)
Intangible assets	(1.3)	(1.6)	(1.0)
Net profit / loss of the current year	9.3*	10.2	0.7
Other	(0.4)	-	-
Total own funds	176.7	125.6	116.0

* The current year profit is not included in total own funds, since it has not yet been approved by the Bank.

(b) Capital requirements

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

<i>EUR million</i>	31 December 2018		31 December 2017		31 December 2016	
	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement
Credit risk	719.5	86.3	738.9	85.0	373.7	29.9
Operational risk	50.6	4.0	29.8	2.4	12.3	1.0
Credit valuation adjustment	1.2	0.2	2.4	0.3	0.5	-
Total Pillar I	771.3	90.5	771.1	87.7	386.5	30.9

Putting the total Pillar I risk exposure amount in relation to the Bank's own funds as per 31 December 2018, the Bank has a CET1 ratio of 22.9% (2017 and 2016: 16.3% and 30.0%, respectively) which is above the regulatory minimum of 12.0% for our Bank (2017 and 2016: 11.5% and 10.5%, respectively).

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.

	31.12.2018 EUR'000	31.12.2017 EUR'000
Contracted amount		
Loan and credit line commitments	1,143,097	420,321
Guarantees and letters of credit	24,940	-
	1,168,037	420,321

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 FGDL

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

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

The funded amount of the "Fonds de résolution Luxembourg" (FRL) shall reach by the end of 2024 at least 1% of covered deposits, as defined in article 1 number 36 of the Law, of all authorized credit institutions in all participating Member States. This amount is collected from the credit institutions through annual contributions during the years 2015 to 2024. The target level of funding of the "Fonds de Garantie des Dépôts Luxembourg" (FGDL) is set at 0.8% of covered deposits, as defined in article 163 number 8 of the Law, of the relevant credit institutions and is to be reached by the end of 2018 through annual contributions. The contributions are to be made in the form of annual payments during the years 2016 to 2018. When the level of 0.8% is reached, the Luxembourgish credit institutions are to continue to contribute for 8 additional years in order to constitute an additional safety buffer of 0.8% of covered deposits as defined in article 163 number 8 of the Law.

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

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

As a consequence, the Bank reversed part of the AGDL provision for an amount of EUR 171,329 in the "Other operating income" and recorded a 2016 contribution of EUR 19,712 to the FGDL and FRL. As at 31 December 2018, the remaining AGDL provision amounts to EUR Nil (31 December 2017: EUR Nil).

As at 31 December 2018, the 2018 cash contribution for FGDL was recorded in the caption "Other general administrative expenses" for an amount of EUR 47,599.

Additionally, the 2018 FRL contribution for an amount of EUR 190,468 was paid by the Bank and recorded in the caption "Other general administrative expenses" (2017: EUR 6,987).

27 Operating leases

(a) Leases as lessee

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

	2018 EUR'000	2017 EUR'000
Less than 1 year	(956)	(892)
Between 1 and 5 years	(2,156)	(2,677)
More than 5 years	-	-
	(3,112)	(3,569)

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.

28 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.

29 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.

	31.12.2018 EUR'000	31.12.2017 EUR'000
Fiduciary loans	102,377	195,484
Fiduciary deposits	(102,377)	(195,484)

(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 2018 the Bank provides custodian services for 99 securities with a nominal of EUR 59,468 thousand (2017: 58 securities with a nominal of EUR 47,357 thousand; 2016: 64 securities with a nominal of EUR 45,453 thousand).

30 Related party transactions

(a) Control relationships

The Bank's parent company is Gazprombank (JSC), Moscow ("Parent Bank"). As at 31 December 2018, PJSC Gazprom owns 29.76% of the outstanding ordinary shares of the Parent Bank. 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 46,377 have been provided for in 2018 (2017: EUR 60,000).

Remuneration granted to the senior management and management during 2018 amounted to EUR 6,463 thousand (2017: EUR 4,155 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 2018 and 2017 for transactions with members of the Board of Directors and the General Directorate are as follows:

	31.12.2018 EUR'000	Average effective interest rate, %	31.12.2017 EUR'000	Average effective interest rate, %
Statement of financial position				
Current accounts and deposits from customers	1,275	5.82	3,094	5.84

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:

	2018 EUR'000	2017 EUR'000
Profit or loss		
Interest expense	(10)	(125)

(c) Transactions with other related parties

In 2018, the Bank closely worked with the following related entities:

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

Gazprombank (Switzerland) Ltd. 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 2018 and related profit or loss amounts of transactions for the year ended 31 December 2018 with related parties are as follows (excluding the subsidiary):

	2018 EUR'000	2017 EUR'000
ASSETS		
Financial instruments at fair value through profit or loss	262,836	181,027
<i>Thereof: Parent Bank</i>	<i>126,081</i>	<i>60,127</i>
Loans to banks	230,080	411,388
<i>Thereof: Parent Bank</i>	<i>173,816</i>	<i>183,380</i>
<i>Thereof: Affiliated Bank</i>	<i>648</i>	<i>193,126</i>
Loans to customers	431,898	258,728
<i>Thereof: Other related parties</i>	<i>-</i>	<i>-</i>
Investment securities measured at amortised cost	251,819	194,582
<i>Thereof: Parent Bank</i>	<i>53,599</i>	<i>51,616</i>
LIABILITIES		
Financial instruments at fair value through profit or loss	271,210	183,859
<i>Thereof: Parent Bank</i>	<i>-</i>	<i>-</i>
Deposits and balances from banks	672,636	183,607
<i>Thereof: Parent Bank</i>	<i>572,795</i>	<i>142,366</i>
<i>Thereof: Affiliated Bank</i>	<i>10,961</i>	<i>-</i>
Current accounts and deposits from customers	1,623,789	1,246,657
<i>Thereof: Parent Bank</i>	<i>572,795</i>	<i>-</i>
<i>Thereof: Other related parties</i>	<i>517,573</i>	<i>523,172</i>
P&L		
Interest receivable and similar income	46,492	38,650
<i>Thereof: Parent Bank</i>	<i>6,816</i>	<i>5,872</i>
<i>Thereof: Other related parties</i>	<i>11</i>	<i>-</i>
Interest payable and similar charges	(26,563)	(25,961)
<i>Thereof: Parent Bank</i>	<i>(2,323)</i>	<i>(16,196)</i>
<i>Thereof: Other related parties</i>	<i>(8,727)</i>	<i>-</i>
Commission receivable	13,037	15,645
<i>Thereof: Parent Bank</i>	<i>790</i>	<i>2,729</i>

31 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	
	31.12.2018 EUR'000	31.12.2017 EUR'000	31.12.2018 EUR'000	31.12.2017 EUR'000
ASSETS				
Cash and deposits with central banks	1,582,551	696,970	1,582,551	696,970
Financial instruments at FVTPL	262,836	181,027	262,836	181,027
Loans to banks	230,080	411,388	230,080	411,388
Loans to customers	432,137	258,465	431,898	258,728
Investments securities measured at amortised cost	246,791	198,052	251,819	194,582
LIABILITIES				
Financial instruments at FVTPL	271,210	183,859	271,210	183,859
Deposits and balances from banks	671,762	183,691	672,636	183,607
Current accounts and deposits from customers	1,620,366	1,246,159	1,623,789	1,246,657

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 2018 (2017: none). The amounts in the table below are presented based on the carrying amounts recognised in the statement of financial position:

EUR '000	31.12.2018 EUR'000		31.12.2017 EUR'000	
	Level 1	Level 2	Level 1	Level 2
ASSETS				
Cash and deposits with central banks	-	1,582,551	-	696,970
Financial instruments at FVTPL	262,836	-	181,027	-
Loans to banks	-	230,080	-	411,388
Loans to customers	-	431,898	-	258,728
Investments securities measured at amortised cost	251,819	-	194,582	-
LIABILITIES				
Financial instruments at FVTPL	-	271,210	-	183,859
Deposits and balances from banks	-	672,636	-	183,607
Current accounts and deposits from customers	-	1,623,789	-	1,246,657

In 2018 as well as in 2017 no reclassification between Level 1 and other Levels has taken place.

32 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):

	2018 EUR'000	2017 EUR'000
Audit fees	(261)	(220)
Audit-related fees	(50)	(45)
Tax fees	(29)	-
Other permissible non-audit services	(37)	(18)
	(377)	(284)

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.

33 Events after the reporting period

The Shareholder approved the capital increase of EUR 50 million in February 2019. All 50,000 new shares were subscribed by the Shareholder.

As an initial step the shareholder renewed the mandates of 6 members of the Board of Directors for a term to expire at the next Annual Shareholders Meeting in 2019. In March 2019, the CSSF approved the change and did also approve the composition of the new Supervisory and Management Board.

34 Explanation of the transition IAS 39 to IFRS 9

Statement of Financial Position

EUR'000	Ref	IAS 39 31.12.2017	Impact of classifi- cation	Impact of impair- ment	IFRS 9 01.01.2018
ASSETS					
Cash and deposits with central banks		696,970	-	-	696,970
Financial instruments at fair value through profit or loss			-	-	
- Held by the Bank		181,027	-	-	181,027
Loans to banks		411,388	-	-	411,388
Loans to customers		258,728	-	(269)	258,459
Held-to-maturity investments	(1)	194,582	(194,582)	-	-
Investments securities measured at amortised costs	(1)	-	194,582	(140)	194,442
Property, equipment and intangible assets		1,613	-	-	1,613
Deferred tax assets		807	-	-	807
Other assets		354	-	-	354
Total assets		1,745,469	-	(409)	1,745,060
LIABILITIES					
Financial instruments at fair value through profit or loss		183,859	-	-	183,859
Deposits and balances from banks		183,607	-	-	183,607
Current accounts and deposits from customers		1,246,657	-	-	1,246,657
Current tax liability		564	-	-	564
Deferred tax liabilities		-	-	-	-
Other liabilities		3,588	-	-	3,588
Total liabilities		1,618,275	-	-	1,618,275
Share capital		130,000	-	-	130,000
Retained earnings (accumulated losses)		(12,995)	-	-	(12,995)
Profit or loss attributable to Owners of the Bank		10,189	201**	(774)*	9,616
Attributable to the equity holders of the bank		127,194	201	(774)	126,621
Total liabilities and shareholders' equity		1,745,469	201	(774)	1,744,896

* Thereof (409) Balance Impairment and (365) Off Balance Impairment

** +201 Deferred Tax Adjustment IAS 39 to IFRS 9

- (1) This adjustment relates to the reclassification of the position "Held-to-maturity investments" under IAS 39 into the new IFRS 9 position "Investments securities measured at amortised costs".

35 Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

EUR'000	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and deposits with central banks	12	Loans and receivables	Amortised cost	696,970	696,970
Derivative assets held for risk management	13	FVTPL	FVTPL (mandatory)	2,484	2,484
Loans to banks	14	Loans and receivables	Amortised cost	411,388	411,388
Loans to customers	15	Loans and receivables	Amortised cost	258,728	258,459
Investment securities – debt	13	FVTPL (designated)	FVTPL (designated)	178,543	178,543
Investment securities – debt	16	Held-to-maturity investments	Amortised cost	194,582	194,442
Other assets – restricted deposits with central banks	12	Loans and receivables	Amortised cost	2,774	2,774
Deposits and balances from banks	19	Amortised costs	Amortised cost	183,607	183,607
Current accounts and deposits from customers	20	Amortised costs	Amortised cost	1,246,657	1,246,657
Derivative liabilities held for risk management	13	FVTPL	FVTPL	3,769	3,769
Deposits (FVO) from customers	13	FVTPL	FVTPL	180,089	180,089
Other liabilities	21	Amortised costs	Amortised costs	3,587	3,587

The following table reconciles the closing impairment allowance for financial assets under IAS 39 and provisions for loan commitments and financial guarantee contracts under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at 31 December 2017 to the opening ECL allowance determined under IFRS 9 as at 1 January 2018:

EUR'000	IAS 39 31.12.2017	Reclassi- fication	Remeasure- ment	IFRS 9 01.01.2018
Loans and receivables and HTM securities under IAS 39 / Financial Assets at amortised cost under IFRS 9 (includes cash and cash equivalents, loans and advances to banks and loans and advances to customers)	(1,488)	-	(409)	(1,897)
Loan commitments and financial guarantee contracts issued	(717)	-	(365)	(1,082)
	(2,205)	-	(774)	(2,779)

36 Investment in subsidiary

	Year ended 31 December	
	2018 EUR'000	2017 EUR'000
Balance as at 1 January	-	-
Additions	1,690	-
Impairment	(1,334)	-
Balance as at 31 December	356	-

As at 31 December 2018 the Bank holds directly 100% of GPB Finance S.à r.l., incorporated in Luxembourg (formerly GPB Asset Management S.A.). The company was transferred to the Bank by its shareholder in 2018 in exchange for the issue of additional shares by the Bank to its shareholder (in-kind contribution). GPB Finance S.à r.l. has not been doing any business in 2018. During the year ended 31 December 2018, a dividend income of EUR 1,344 thousand resulted from the payment of capital reserves from GPB Finance S.à r.l.. During the year, the Bank impaired its investment in GPB Finance S.à r.l. by EUR 1,334 thousand.

GPB Finance S.à r.l. is not consolidated in the financial statements of the Bank because the subsidiary, on an individual basis, would be immaterial in both qualitative and quantitative terms for the purpose of giving a true and fair view of Bank activities. The Bank periodically evaluates the recoverability of its investments in subsidiaries whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows which may indicate that the carrying amount of an asset is not recoverable.