Annual Report

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BANK GPB INTERNATIONAL S.A.
MEMBER OF GAZPROMBANK GROUP

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Bank GPB International S.A.
Financial Statements
for the year ended
31 December 2019

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

Contents

Introduction

BUILDING BRIDGES TO RUSSIA EUROPE AND THE WORLD

Who we are.

We are Bank GBP International S.A., located at the heart of Europe, in the Grand Duchy of Luxembourg.

As a Luxembourg-based financial institution and a subsidiary of Gazprombank Joint Stock Company (JSC) – the third largest bank in Russia – we offer a robust combination of financial products and services, that are designed to ensure financial growth and success. Our team have outstanding expertise and a wealth of experience in dealing with cross-border projects, and a deep specialised knowledge of the world's financial markets.

What we do.

We understand the current challenges, facing our core regions in which we operate. We have built our distinctive combination of strengths around our three central pillars:

– Corporate Banking
– Private Banking
– Investment Banking and Global Markets

We offer the stability and safety of Luxembourg – with its highest credit rating of AAA a wide network of double tax treaties. Along with our broad range of services which include customised credit solutions and cross-border know-how for those linked with the Russian and CIS markets, we are the ultimate banking partner in the EU.

How we create value.

As part of the Gazprombank Group, our clients benefit from a wide reach and superior expertise. Our focus is on building trust and providing the very best tailored solutions for cross-border trade and investment.

We are not only building bridges; we are climbing mountains and crossing borders. Empowering our clients on every step of the way.

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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 2019, 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 2019, 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.

Emphasis of Matter

We draw attention to Note 34 of the financial statements, which describes the effects of a COVID-19 outbreak and steps taken by the Bank in this respect. Our opinion is not modified in respect of this matter.

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 2019*

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 243.8 million that represent 15% of total equity and liabilities as at 31 December 2019. 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"). To consider OCA and calculate the fair value of liabilities, certain judgement is required from management, who also using internal developed model for such valuation.

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 and challenged the management on the main assumptions used in the valuation model.*
- We tested the design and implementation and effectiveness of internal controls around review of valuation of unquoted financial liabilities.
- *We engaged our internal valuation specialists to asist us in performing independent valuations on the full population of unquoted financial liabilities.*
- 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.*

Impairment of loans and advances to customers

a) Why the matter was considered to be one of most significance in our audit of the financialstatements for the year ended 31 December 2019

Loans and advances to customers amounted to EUR 561.8 million that represent 34% of total assets as at 31 December 2019. Certain aspects of the accounting for impairment of loans and advances to customers require significant judgments, and inappropriate judgments made in relation to the methodology and inputs used or the assumptions taken may have a material impact on the impairment amount recorded.

These critical judgments include matters such as the definition of criteria to identify significant increase in credit risk or default, as well as estimation of input parameter for determining ECL, namely probability of default and loss given default which are derived from statistical models and should include forward-looking information. For credit-impaired assets (Stage 3), where impairment is based on management's best estimate, the critical judgments include estimating recoverable cash flow, the effect of guarantees received, valuation of collaterals received and forbearance measures applied.

Due to the significance of loans and advances to customers and the related estimation uncertainty, we consider the valuation of loans as a key audit matter.

The key inputs and assumptions used by Management in its assessment of loans and advances to customers impairment are detailed in the accounting policy for the impairment in note 3(c).v and the detail of the impairment in notes 15 and 23(e).

Refer also to note 3(c) 'Financial instruments (IFRS 9 applicable from 1 January 2018)' for the accounting policy for the loans and advances to customers.

b) How the matter was addressed in our audit

Our procedures for impairment of loans and advances to customers included, but were not limited to the following:

- *We tested the design and implementation and effectiveness of internal controls around loan monitoring review, including impairment.*
- *We involved our financial risk management specialists to challenge key assumptions and judgements made by Management relating to the IFRS 9 expected credit loss model and to evaluate the reasonableness of Management's key judgements and estimates made in preparing ECL provisions.*
- *We tested the creditworthiness of the Bank's counterparties on a sample of credit exposures to as-*

sess the classification of the IFRS 9 staging. For all stage 2 and stage 3 exposures at year-end, we verified the estimation of allowance for losses on loans and advances to customers prepared by the Bank.

- *We assessed whether the disclosures in the financial statements appropriately reflect the Bank's exposure to credit risk with reference to the requirements of the prevailing accounting standards.*

Other information

The Management Board 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 Management Board and the Supervisory Board for the financial statements

The Management Board 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 Management Board 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 Management Board 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 Management Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Bank's financial reporting process.

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 Management Board

- *Conclude on the appropriateness of Management Board's 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.

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 11 April 2019 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is seven 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, 17 April 2020

R. Tumanshin
KPMG Luxembourg,
Société coopérative
Cabinet de révision agréé

02
Management Report

Our bank, Bank GPB International S.A., which until 9 June 2015 was named "GPB International S.A.", 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. On 21 October 2013, we received our authorisation 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.

Our purpose is the operation of a Bank pursuant to the Luxembourg Law of 5 April 1993 on the financial sector, as amended.

Our scope of operations comprises all types of banking, including financial and advisory services, and extends to service and trading activities in Luxembourg.

We are proud to report a pre-tax profit of EUR 21.8 million for 2019 which is the best result reported since our inception. It demonstrates our strong performance in 2019 and underpins the successful execution of our strategy with growing business activities across all our business areas, despite a challenging macroeconomic trend.

Macroeconomic developments in 2019 and outlook 2020

Momentum in both manufacturing and investing activities in 2019 weakened substantially which is a continuing trend first set in the first half of 2018. Global growth for 2019 is 2.9% as stated in the "World Economic Outlook" published by the International Monetary Fund. Though signs of recovery were perceived at the end of 2019, the turbulence currently being observed on the financial markets caused by the COVID-19 pandemic, accompanied by a sharp drop in oil prices on the back of failed negotiations within OPEC, will likely negatively impact the global economy in 2020. Trade along with numerous geopolitical tensions, the emergency measures taken to address the threat of COVID-19, and the increasing uncertainty of international trade and cooperation, necessarily puts business confidence, investment decisions and global trade under considerable strain.

This impact was addressed by central banks all over the world by means of a stress-mode monetary policy. As a result, the Federal Reserve applied three funds rate cuts in 2019, setting the upper bound at 1.75%, and two additional cuts at the beginning of 2020 in a response to COVID-19 market developments, bringing the target range to 0%-0.25%. The ECB adjusted the deposit facility from -0.4% to -0.5% in 2019. Such a loosened monetary policy is expected to be preserved by the institutions throughout 2020.

Business environment and development

In 2014, the EU/US adopted a package of restrictive measures targeting sectoral cooperation and exchanges with the Russian Federation (the "Sectoral Sanctions"). The package consists of measures which, among others, are aimed at limiting access to the EU/US capital markets for Russian state-owned financial institutions, including our shareholder, Gazprombank (JSC). In general, the limitations limit the sanctioned entities from raising any new equity and debt financing with maturity longer than 14 days for US sanctions and 30 days for EU sanctions. There are however certain exceptions related to trade finance, emergency financing and grandfathering of existing debt. The US Sectoral Sanctions apply to Gazprombank (JSC) and each entity where Gazprombank (JSC) 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, we are a sanctioned entity pursuant to the US Sectoral Sanctions. We are not, however, a sanctioned entity pursuant to the EU Sectoral Sanctions.

We are an EU-based credit institution and, as such, ensure full compliance with the EU sanctions. On the other hand, we are not a US person and, accordingly, we have no general obligation under the applicable US law to comply with the US sanctions regime. We do, however, take into account an ever-expanding extra-territorial reach of the US sanctions and any spillover risks which the existing sanctions environment may have on our business. To address such risks we continuously assess the effects of the sanctions on our operations and activities, expanding our in-house capability to ensure compliance with them, ensuring close and day-to-day cooperation with Gazprombank (JSC) and external legal consultants on all sanctions-related issues, holding periodic trainings and seminars for our staff and initiating a dialogue 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 shareholder was yet again demonstrated through an additional EUR 50 million capital increase in February 2019, subsequently bringing the subscribed share capital levels to EUR 231.69 million.

In 2019 we continued to expand our business with strong focus on Corporate Banking, Global Markets and Private Banking Activities.

Within our corporate business, we maintained a trend of steady growth, increasing our corporate client base to 212 business partners in 2019. Focus continues on fostering relationships with the international subsidiaries of the largest Russian corporations which generated additional transactional business for us. Corporate clients were also further encouraged to use our e-banking portal for their payment activities and now that we are close to all active clients using this platform, we can look to further enhance the security and efficiency of our settlement activities.

One of our main development areas remains the Structured Commodity Finance activity where despite uncertainties on the global commodities markets during 2019 our customers maintained their traditional trade flows, while managing to further expand or diversify their businesses. In line with the evolving business of our client base, we identified business opportunities in previously untapped regions and commodity business segments. The Structured Commodity Finance portfolio showed further moderate but steady growth in 2019 mainly in the metals and mining segment through both independent traders and trading companies of large corporates. Our particular expertise in Russia and in the CIS region always allows us to be considered as a provider of financial services to cover trade flows to and from these countries. Also, to increase the offering of documentary business and treasury products, widely used by Structured Commodity Finance clients, we are constantly expanding our cooperation and network with international well-positioned banking institutions. Finally, to cope with the growing complexity of this business area, processes, procedures and technology are continually developed to meet market standards.

For efficient handling and valuation of different types of collateral operations, a specialised collateral management software (TRAC) as well as an increasing number of contractual arrangements with specialist valuation companies giving quality expert opinions, are in place. During the year several projects were instigated to improve system integration with other banks and to increase the database with a number of warehouses, forwarders and insurance companies, all screened and listed for commodities finance purposes. Complexity of the commodities finance business means that ongoing specialised trainings were performed for all our involved departments.

In 2019, Trade Finance and Documentary Business, as one of our essential activities, diversified its range of products and services in order to optimally address the trade-related needs of commodity trading and other corporate clients. These documentary business products covering import- and export-related operations, and where delivery and execution was further optimised, are actively marketed by all related business units. During 2019, cooperation with international banks was also further developed, with several investment grade-rated institutions opening new or increasing existing lines for us, subsequently facilitating and generating increased deal flows.

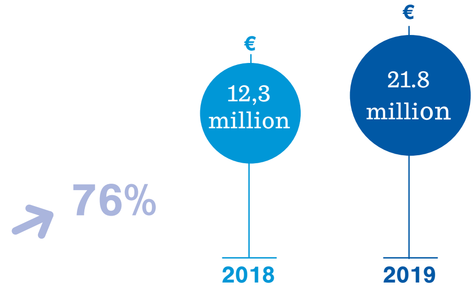
With regards to Credit and Structured Finance activities, the loan portfolio was further developed through the inclusion of European export-driven companies operating on a multi-industry and multi-jurisdictional level. Transactions were closed, both on a bilateral basis, opening cross-sell opportunities, as well as through participation in primary syndications increasing our visibility in the market. Due to a slowdown of European economic growth, focus was shifted towards short-term lending. As a new product line, cross-border factoring was developed and implemented as substantial demand was identified amongst European and Russian exporters/importers, many of them being our strategic clients and clients of the group. Through the factoring activity, we are also monetising on an efficient use of EUR liquidities in a negative interest environment.

Throughout 2019, we continued to develop finance-related business covered by Export Credit Agencies (ECAs), and introductory meetings with major European ECAs have been arranged. The insurance cover provided by the agencies allows us to reduce the level of risk normally associated with export and project financing.

We were included in the ECAs' distribution lists for news and events. With some ECAs, we discussed project criteria and initiated discussions around refinancing guarantee mechanisms. We continue to invest time and effort in developing relationships with both ECAs and exporters as well as financial institutions to ensure that our loan portfolio is further diversified with ECA-covered loans.

Also in 2019, the volume of private client business increased with our Private Banking Department developing existing business relations and increasing the number of new accounts by 50. Assets were rebalanced between products with our performance-linked deposits decreasing by 10%. The portfolio of securities held in custody increased by more than 60%, also due to the fact that many private clients participated in primary placements of Russian Eurobonds where we acted as lead or co-lead arranger. Private client term deposits, an important part of our funding basis, also increased by 58% during 2019.

Pre-tax profit



Our Treasury Department was again very active on the placement market in 2019, executing 8 Eurobond and two Equity mandates issued by Russia-related companies. More than EUR 2.1 billion were raised in demand from market counterparties for the primary market syndications and for two mandates with the Russian Federation as issuer, and we successfully fulfilled our obligations as Bill and Delivery agent.

We also continue to service an increasing number of European institutional investors in the Russian fixed income secondary market, with traded volumes exceeding the EUR 400 million in 2019.

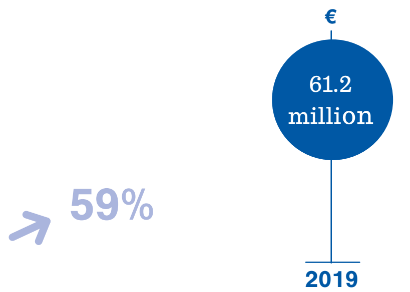
Our investment securities portfolio reached EUR 239 million and consists of Russian and European fixed income securities. The portfolio develops a stable interest income stream for us and is also used for liquidity management with a significant part of the portfolio being refinanced by high investment grade-rated European financial institutions.

In order to cope with a fast-growing business environment and to ensure a comprehensive approach towards new developments, changes and upgrades, we have created and staffed a dedicated Product Development and Transformation Management team.

And finally, on the back of an efficient operations and payment services-related set-up, we also extended our product offering with cash-pooling services offered to large international corporate players in 2019. The first client, a key international corporate group, was onboarded and activated during the last quarter of the year.

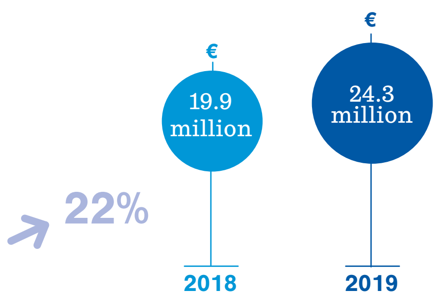
Financial performance and position

Operating income



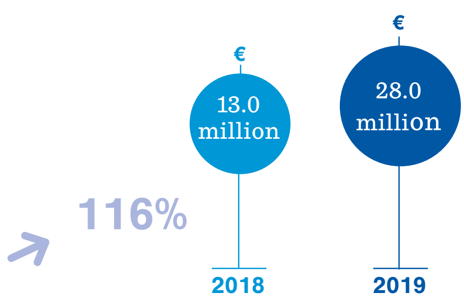
This increase of 76% was the result of business growth in all areas of activities and good operating performance.

Net interest



Net interest income benefited from growth in lending as well as short-term liquidity management activities.

Net fee



Increase was largely due to commission income received from the mandated lead arranger function as well as underwriting services. We further profited from the established Trade Finance and Documentary Business infrastructure which resulted in EUR 1.03 million fees being received from documentary operations.

Net gain (loss) on financial instruments at fair value through profit or loss and net foreign exchange income (loss) amounted to EUR 8.4 million in 2019, a significant increase of EUR 4.7 million from EUR 3.7 million in 2018 due to further development of client FX business.

Net other operating income amounted to EUR 0.5 million, against net other operating income of EUR 0.7 million in 2018.

Expenses, in particular personnel expenses, and other general administrative expenses, depreciation and amortisations on tangible and intangible assets, amounted to EUR 29.4 million as compared to EUR 24.6 million in 2018. The increase is mainly driven by the increase in staff and investments in new business and regulatory projects.

Net impairment loss on financial assets increased from EUR 0.3 million in 2018 to EUR 9.9 million in 2019. Additional impairment charges were mainly recorded due to the reclassification of two loans to stage 2 and one loan to stage 3 under IFRS 9 requirements. We continue to closely monitor the quality of our loan and investment portfolios of securities to ensure stable performance in accordance with our defined strategy.

Profit increase and total comprehensive income for the year, from EUR 9.3 million in 2018 to EUR 20.7 million in 2019, was impacted by an increase in lending activities, lead manager services, and further development of client FX business.

Our total assets at 31 December 2019 amounted to EUR 1,643 million compared with EUR 2,763 million at 31 December 2018.

Cash and cash equivalents, including balances with Central Banks, decreased to EUR 461.9 million (2018: EUR 1,582.6 million), mainly related to the lower outstanding balances at BCL as of reporting date.

Loans to banks in the amount of EUR 138.3 million (2018: EUR 230.1 million) are comprised of on-call funds held with our Parent bank and funds held on accounts with banks after foreign exchange swaps and reverse repo transactions.

Loans to customers increased from EUR 431.9 million at 31 December 2018 to EUR 561.8 million at year-end 2019. Our loan portfolio consists mainly of commercial lending transactions in the form of bilateral lending, ECA-covered transactions, Structured Trade Finance lending or participations in syndicated loan facilities.

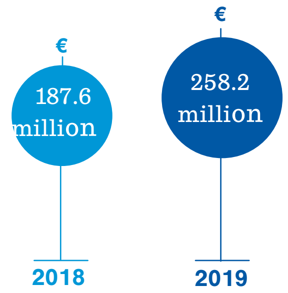
Financial instruments at fair value through profit or loss amounted to EUR 234.7 million (2018: EUR 262.8 million). The performance of bonds is transferred to our clients and linked to their deposits.

Financial instruments measured at amortised cost reflecting our investment securities portfolio amounted to EUR 238.6 million (2018: EUR 251.8 million) and contained corporate Eurobonds of prime Russian and European issuers.

The refinancing of our business activities consists mainly of deposits and balances from banks of EUR 397.3 million (2018: EUR 672.6 million), thereof EUR 111 million of REPO refinancing, financial liabilities at fair value through profit or loss of EUR 244.8 million (2018: EUR 271.2 million) and current accounts and deposits from customers of EUR 730.1 million (2018: EUR 1,623.8 million).

At 31 December 2019, the common equity Tier 1 ratio was 22.7% (31 December 2018: 22.9%). The minimum capital requirement defined specifically for us by the supervisory authority (SREP ratio) is 12%.

Our total equity increased



Future development

We will continue to develop and expand our product portfolio in 2020. Our focus will be on cash management solutions for our core corporate clients and further development of the structured lending product proposition, including Export Credit Finance. Further diversification of the funding base will be targeted by attracting new corporate clientele.

We will dedicate specific focus to the credit quality of the newly acquired exposures in our loan and securities investment portfolios with more attention to borrower sustainability towards any anticipated challenging economic conditions.

We will also direct our efforts to finalising several IT projects and to increasing the efficiency and automation of processes.

Rating affirmed

In December 2019, the rating agency, S&P Global Ratings, affirmed our BB+/B rating based on our core status as a subsidiary of Gazprombank (JSC) and confirmed our outlook as stable. Our rating is identical to that of our Parent bank. The rating is an important prerequisite for many corporate organisations and banks looking to enter into a business relationship with us.

Staff, projects and organisational developments

In April 2019, we changed our corporate governance structure from a one-tier (Board of Directors) to a two-tier (Supervisory Board and Management Board) structure. The function of our Supervisory Board is to ensure they maintain a complete overview and give general strategic advice to our executive management vested in the Management Board. Specialised audit, risk, renumeration and human resources committees were created at the Supervisory Board level to ensure closer supervision of relevant areas. The transition to a two-tier structure, as well as the creation of specialised committees, is mainly driven by our growth and the increased complexity of our operations.

In 2019, our headcount increased by 16 to 89 employees by the end of the year. The recruitment trend remains similar to 2018 with 22 highly skilled employees recruited (by contrast with 6 departures) in 2019.

Due to the change of the existing structure, our organisation chart has been completely transformed and business lines and the scope of manager responsibility have been significantly redesigned.

Taking into consideration these organisational changes, the annual review of our Remuneration Policy included an update of material risk takers and management positions.

In terms of the application of legal and regulatory requirements, we maintained mandatory training programmes such as AML/KYC, MAD, Cyber Security, MIFID II and GDPR. As every year, particular attention was paid to the overall and professional development of our workforce by means of internal and external tailor-made educational programmes.

At the beginning of 2019, our HR team launched the digitalisation of Performance Management and Time Management processes and successfully introduced the HR integrated tool, “SuccessFactors”, ready for use from January 2020.

Our Risk team was further reinforced by the appointment of our Head of Risk Management and Risk Control and our dedicated manager in charge of enterprise risk. The credit risk team was also increased. These additions resulted in our move from an outsourced internal audit function to a full-fledged in-house third line of defence. A new Chief Internal Auditor has been appointed to run this activity on an ongoing basis.

Social Responsibility and International Cultural cooperation

Social responsibility has always been, and will continue to be, a top priority corporate value of our Gazprombank Group. Following our Group’s standards, we undertake continuous and systematic work in multiple areas. These include culture, sports, protection of underprivileged social groups, and Russian-language support throughout the Grand Duchy of Luxembourg’s multilingual environment.

To foster healthy lifestyles, we provide support not only to employees participating in marathons, triathlon competitions and cycling races, but we have also regularly supported the “Open wakeboarding competition” which takes place in the Duchy every summer.

In support of the International Cultural Cooperation Bank, we became an annual sponsor of the Russian-Luxembourgish Festival in Beaufort Castle the very first year it was founded.

We are a regular general partner of the traditional annual New Year performances for Russian-speaking children in Luxembourg. This annual series of events is aimed at supporting Russian language and culture among the younger generation of Russianspeaking residents who are growing up in the Duchy’s multilingual environment.

We reserve a particularly special place in our hearts for underprivileged social groups — orphanages for example, and those charitable associations whose aim is to support children with special needs in Russia, Luxembourg and right across the globe. Since 2018, we have supported UNICEF by making charitable donations as part of our “seasonal greetings campaign”. Furthermore, in 2019, we participated in the Gazprombank Group’s traditional New Year charity campaign “I believe in Father Frost” organised to help orphans in Russia. Some of our employees also chose to take part in the event themselves.

Risk management

Our business activities are closely linked with our risk capacity and the ultimate appetite for risk in general. Risk Control and Management is therefore a central element of our day to- day activities and business planning. Our business strategy and objectives, as well as our risk and capital management policies, are defined and monitored by our Supervisory Board. Along with its analytical and advisory mandate, our Risk Management and Risk Control team carry out periodical monitoring and reporting activities on the risks and limits in place. Reports are issued and provided to our internal stakeholders and our Management and our Supervisory Boards.

We actively manage and control the following principal risks:

- *Credit risk, primarily in the form of counterparty, concentration, issuer, country and settlement risks,*
- *Market risk, especially interest rate, derivative, price and currency risk,*
- *Liquidity risk, liquidity gap, stress analysis and liquidity buffers,*
- *Operational risk;*
- *Reputational risk*.

The risks which pose the greatest threat to our business activities are credit risk and reputational risk related to the current geopolitical environment. There is of course also risk acknowledged from engaging in business activities in general.

Credit risk

Credit risk arises from the transactions that create actual, contingent or potential claims against counterparties. Credit risk is the most significant risk for us and is further divided into three categories: counterparty risk, country risk and settlement risk. Counterparty risk is the risk that a counterparty may fail to meet its contractual payment obligations. Country risk defines the risk that a loss may arise as a result of the deterioration of the economic situation, nationalisation and expropriation of assets, foreign exchange controls or transfer risk. Settlement risk is the risk that the settlement or clearing of transactions in the form of exchange of cash, securities or other assets may fail.

Our main area of activities which give rise to counterparty risk is the lending business. The authorisation of loans is described in the detailed guidelines and directives governing the conditions (including comprehensive credit assessment). These directives and guidelines also cover ongoing monitoring of the credit quality of the loan portfolio. We use a comprehensive credit-rating methodology.

While rating financial institutions, we apply the ratings issued by internationally recognised independent rating agencies. Internal stakeholders, our management and our supervisory boards receive a regular overview of the ratings of all counterparties and updates on the developments of relevant portfolios.

We introduced a Country Risk Policy and Country Risk Directive in order to create acomprehensive framework to identify and manage country risk for our lending operations. The methodology in place links the country exposure to the country rating and to our capital. We monitor and report the utilisation of limits.

In order to better evaluate the credit risk in our core market, i.e. Russia, we leverage our local expertise and obtain additional information on assessments, events and developments on the Russian market via our shareholder, Gazprombank (JSC), Moscow.

All information related to credit risk is part of the comprehensive monthly risk reporting package – the 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”. We manage wrong-way risk by monitoring concentration risk for country, counterparty, 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, etc.) as well as in any correlations between them and their volatilities.

We are still classified as a non-trading house. We have limited exposure to market risk assured through foreign exchange and interest rate risk limits. Our Risk Control Function closely monitors all limits and reports to our management and supervisory board as well as to our Parent bank for consolidation purposes.

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.

Our limits for liquidity risk are approved at the Management Board level and are developed in line with the Gazprombank Group liquidity requirements. They take into account our valid business strategy and assume the level of liquidity risk that we are willing to take, with a view to ensuring survival over a defined period of stress on a standalone basis.

We have an Asset and Liability Management Committee ("ALCO"). The ALCO meets regularly to discuss and take decisions with respect to our asset and liability structure including proper diversification of our balance sheet and off-balance sheet positions.

We also develop and maintain 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.

Furthermore, we measure liquidity risk based on analysis of our liquidity profile under potential stress scenarios. We regularly conduct liquidity stress tests to understand the likely impact of potential developments in our business and external market conditions on our 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.

We define the following types of stress test scenarios as follows:

- *BCBS- (Basel Committee on Banking Supervision) required tests where specificationsare 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 the 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 we create and maintain a liquidity buffer to ensure that we can sustain stress events for a predetermined survival period and keep applicable prudential liquidity ratios at an 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. We regularly analyse assets kept in the liquidity buffer in terms of their potential refinancing under stress conditions as well as estimate 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 we have 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) we have implemented:

- *A "Daily ALM Report" containing inter alia a dynamic view of the LCR,*
- *A "Treasury Scenario Daily LCR Impact Calculator" to be able to calculate the influence of relevant transactions on the LCR,*
- *A liquidity contingency plan in order to define a set of measures and instruments that shall be applied to ensure our solvency under stress conditions. We issued a Liquidity Management Policy to be in compliance with internal and Gazprombank Group liquidity management requirements.*

Placement risk

We act as Lead and Co-Lead Manager for prime Russian issuers for the European market.

This service can cause a risk of non-placement where we act on our own behalf. The risk is considered to be low because the bonds are placed in the market before the official settlement date. In the event that the paper cannot be sold completely, there are corresponding agreements in place to transfer the bond to Gazprombank (JSC) 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 customer relationships.

Operational risk is managed and controlled on the basis of a local and Gazprombank Group-wide consistent framework, which systematically identifies operational risk aspects and concentrations in order to define risk mitigation measures.

A monthly Key Risk Indicator report with highlights of inherent operational risk issues together with a report on all operational risk events which have occurred for the period, is provided to our Management and Supervisory Boards.

We constantly improve our policies, procedures and workflows to ensure compliance with industry best practices as well as group and global/local regulatory requirements.

General business risk

General business risk is the risk arising from changes in general business conditions. These include potential changes in market conditions, clients' behaviour and technological progress which might have an impact on our business results. This risk is monitored and managed by all three lines of defence within their respective areas of responsibility.

Reputational risk

Reputational risk is defined as the risk arising from negative perception on the part of customers, shareholders, investors, regulators and other relevant parties that can adversely affect the ability to maintain existing, or establish new, business relationships and continued access to sources of funding. This risk is multidimensional and reflects the perception of other market participants and stakeholders. Furthermore, it exists throughout the organisation and exposure to reputational risk is essentially a function of the adequacy of our internal risk management processes and is managed by our Risk Management and Compliance team with proper escalation to our Management and Supervisory Boards where the issues that may pose a reputational risk are presented and discussed. We asses new markets, products or lines of activities to identify sources of reputational risk so Management has a firm understanding of the consequences and second-round effects of reputational risk.

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 our website

Subsequent events

The first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus (COVID-19). Together with other factors, this has resulted in a sharp decrease in oil prices and the stock market indices. These developments are further increasing the level of uncertainty in the overall business environment. It is not possible to evaluate the economic effect of the ongoing situation at the time of this report's issue. We will continuously monitor any deterioration in the credit quality of our corporate borrowers as well as the credit quality of securities we keep in our investment portfolio. Unfortunately, we cannot exclude any potential adverse impact on our assets that may result in the recognition of additional provisions on our P&L throughout the 2020 year should the situation continue indefinitely.

In order to ensure the continuity of our operations to the utmost best of our ability, our Management is committed to undertaking all the necessary steps foreseen and developed in accordance with the Business Continuity Planning Strategy to address the requisite aspects of the current extremely challenging operating environment. We are closely monitoring any development and following all the recommendations set out by the CSSF and EU authorities.

Luxembourg, 17 April 2020
On behalf of the Management Board

Dmitry Derkatch
Chairman of the Management Board

Pavel Bolshakov
Managing Director

03
Statement of Profit or Loss and Other Comprehensive Income

	Notes	2019 EUR'000	2018 EUR'000
Interest income calculated using the effective interest method	4	29,975	22,345
Other interest income	4	16,833	24,147
Interest expense	4	(22,516)	(26,563)
Net interest income		**24,292**	**19,929**
Fee and commission income	5	28,052	13,037
Fee and commission expense	6	(32)	(82)
Net fee and commission income		**28,020**	**12,955**
Dividend income	33	-	1,334
Net gain / (loss) on financial instruments at fair value through profit or loss	7	8,449	3,747
Net foreign exchange income / (loss)		(35)	(37)
Other operating income / (expenses)		513	699
Operating income		**61,239**	**38,627**
Depreciation and amortizations on tangible and intangible assets	17	(1,875)	(376)
Net impairment loss on financial assets	8	(9,937)	(343)
Net impairment loss on investment in subsidiary	33	(134)	(1,334)
Personnel expenses	9	(18,467)	(15,263)
Other general administrative expenses	10	(9,062)	(8,972)
		(39,475)	**(26,288)**
Profit /(loss) before income tax		**21,764**	**12,339**
Income tax expense	11	(1,092)	(3,074)
Profit /(loss) and total comprehensive income for the year		**20,672**	**9,265**

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.

04
Statement of Financial Position

	Notes	31.12.2019 EUR'000	31.12.2018 EUR'000
ASSETS			
Cash and deposits with central banks			
Financial instruments at fair value through profit or loss	12	461,908	1,582,551
Financial instruments at fair value through profit or loss			
- Held by the Bank	13	234,737	262,836
Loans to banks	14	138,266	230,080
Loans to customers	15	561,844	431,898
Investment securities measured at amortised cost	16	238,585	251,819
Investment in subsidiary	33	222	356
Property, equipment and intangible assets	17	5,234	1,814
Deferred tax assets	11	-	64
Other assets	18	2,203	1,801
Total assets		**1,642,999**	**2,763,219**
LIABILITIES			
Financial instruments at fair value through profit or loss	13	244,846	271,210
Deposits and balances from banks	19	397,251	672,636
Current accounts and deposits from customers	20	730,061	1,623,789
Current tax liability		2,646	2,707
Deferred tax liabilities	11	536	-
Other liabilities	21	9,411	5,301
Total liabilities		**1,384,751**	**2,575,643**
EQUITY			
Share capital	22	231,690	181,690
Legal reserve		463	-
Other reserves		4,689	-
Retained earnings (accumulated losses)		734	(3,379)
Profit attributable to Owners of the Bank		20,672	9,265
Total equity		**258,248**	**187,576**
Total liabilities and equity		**1,642,999**	**2,763,219**

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

05
Statement of Cash Flows

	2019 EUR'000	2018 EUR'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) and total comprehensive income for the year	20,672	9,265
Adjustment for:		
- Interest income	(46,808)	(46,492)
- Net gain (loss) on financial instruments at fair value through profit or loss	(8,449)	(3,747)
- Interest expense	22,516	26,563
- Net foreign exchange income (loss)	35	37
- Income tax expense	1,092	3,074
- Personnel expenses	3,908	2,900
- Depreciation and amortizations on tangible and intangible assets	1,875	376
- Net impairment loss on financial assets	9,937	343
- Net impairment loss on investment in subsidiary	134	1,334
	4,912	**(6,347)**
Changes in:		
- Other liabilities	(2,158)	(498)
- Loans to customers	(141,550)	(174,339)
- Other assets	(401)	1,447
- Current accounts and deposits from customers	(911,852)	372,930
- Financial instruments designated at FVTPL	(23,848)	88,878
- Financial instruments at fair value through profit or loss (excluding financial assets designated at FVTPL)	5,668	2,329
- Deposits and balances from banks	(274,696)	489,692
	(1,343,925)	**771,198**
Dividend received	-	1,344
Income tax paid	(553)	(188)
Interest received	53,074	42,517
Interest paid	(24,541)	(24,596)

	Note	2019 EUR'000	2018 EUR'000
Net cash from / (used in) operating activities		**(1,315,945)**	**790,275**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of Investments securities measured at amortised cost		(91,679)	(111,015)
Repayment of Investments securities measured at amortised cost		102,045	58,640
Acquisition of financial assets designated at FVTPL		(73,784)	(113,221)
Sale and repayment of financial assets designated at FVTPL		120,144	30,171
Proceeds from the sale of property, equipment and intangible assets	17	-	407
Acquisition of property, equipment and intangible assets	17	(2,284)	(984)
Net cash from / (used in) investing activities		**54,442**	**(136,002)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		**50,000**	**50,000**
Payment of lease liabilities		**(955)**	-
Net cash from / (used in) financing activities		**49,045**	**50,000**
Net increase / (decrease) in cash and cash equivalents		**(1,212,458)**	**704,273**
Cash and cash equivalents at 1 January	12a	1,812,631	1,108,358
Cash and cash equivalents at 31 December	**12a**	**600,173**	**1,812,631**

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

06
Statement of changes in equity

EUR'000	Share capital	Legal reserve	Other reserves	Retained earnings (accumulated losses)	Total equity
Balance as at 31 December 2018	**181,690**	-	-	**5,886**	**187,576**
Total comprehensive income					
Profit for the year	–	-	-	20,672	20,672
Transfer to legal reserve	-	463	-	(463)	-
Transfer to other reserves	-	-	4,689	(4,689)	-
Total comprehensive income for the year	**181,690**	**463**	**4,689**	**21,406**	**208,248**
Transactions with owners, recorded directly in equity					
Shares issued (Note 22)	50,000	-	-	-	50,000
Total transactions with owners	**50,000**	-	-	-	**50,000**
Balance as at 31 December 2019	**231,690**	**463**	**4,689**	**21,406**	**258,248**

EUR'000	Share capital	Legal reserve	Other reserves	Retained earnings (accumulated losses)	Total equity
Balance as at 1 January 2018	**130,000**	-	-	**(3,379)**	**126,621**
Total comprehensive income					
Profit (loss) for the year	-	-	-	9,265	9,265
Total comprehensive income for the year	**130,000**	-	-	**5,886**	**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**	**-**	**-**	**5,886**	**187,576**

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

07
Notes to, and forming part of, the financial statements

1 Background

(a) Organization 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 the 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,
L-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 2019 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") and based on the going concern principle.

This is the first set of the Bank`s annual financial statements in which IFRS 16 Leases has been applied. Changes to significant accounting policies are described in Note 2(e).

These financial statements have been approved by the Management Board via a circular resolution dated 17 April 2020.

(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 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 16 *Leases* from 1 January 2019.

A number of other new or amended standards are also effective from 1 January 2019, but they do not have a material effect on the Bank's financial statements.

IFRS 16 Leases

The Bank adopted IFRS 16 *Leases* from 1 January 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 January 2019.

Accordingly, the comparative information presented for 2018 is not restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

i. Definition of a lease

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use.

The Bank applied the practical expedient to grandfather the definition of a lease on transition; as such IFRS 16 has been applied to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

ii. Leases in which the Bank is a lessee

As a lessee, the Bank leases office premises and vehicles (see Note 27). The Bank previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially the entire risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for leases of office premises and vehicles – i.e. these leases are on-balance sheet.

Further, the Bank has not entered into any new leases during the year ended 31 December 2019.

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

However, for leases of office premises the Bank has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- *fixed payments, including in-substance fixed payments;*
- *variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;*
- *amounts expected to be payable under a residual value guarantee; and*
- *the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.*

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straightline basis over the lease term.

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

- *relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;*
- *did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;*
- *did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. IT equipment);*
- *excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and*
- *used hindsight when determining the lease term.*

iii. Leases in which the Bank is a lessor

The Bank has not entered into any leases as a lessor during the year ended 31 December 2019.

iv. Impact on financial statements

On transition to IFRS 16, the Bank recognised right-of-use assets and lease liabilities, with the difference booked in retained earnings. The impact on transition is summarised below.

	01.01.2019 EUR'000
Right-of-use assets presented in property and equipment	3,012
Lease liabilities	(3,012)
Retained earnings	-

When measuring liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 2% for real estate and 1% for vehicles.

	01.01.2019 EUR'000
Non-cancellable operating lease commitments at 31 December 2018 as disclosed under IAS 17	(3,112)
Discounted using the incremental borrowing rate at 1 January 2019	-
Recognition exemption for leases with less than 12 months of lease term at transition	-
Lease liabilities recognised at 1 January 2019	**3,012**

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.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 (e.g. 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 requires 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 recognises loss allowances at a amount equity to lifetime ECLs, except in the following cases, for which the amount recognised is 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 considers 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 considers 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 considers 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 develops, maintains and regularly evaluates, as part of its monitoring framework, relevant quantitative and qualitative Early Warning Indicators (EWIs) for the timely detection of increased credit risk in its aggregate portfolio as well as in separate portfolios, industries, geographies and individual exposures. The EWIs are defined in a way that ensures them having a meaningful relevance to the monitoring of the Bank's current position regarding its credit risk appetite, strategy and credit risk policies.

As part of their ongoing monitoring of credit risk the Bank consider in particular the following indicators:

a) *negative macroeconomic events (including but not limited to economic development, changes in legislation and technological threats to an industry) affecting the future profitability of an industry, a geographical segment, a group of borrowers or an individual corporate borrower;*
b) *known adverse changes in the financial position of borrowers, such as a significant increase in debt levels or significant increases in debt service ratios;*
c) *significant drop in turnover or, in general, in recurring cash flows (including loss of a major contract);*
d) *significant narrowing of operating margins or in disposable recurring income;*
e) *deviation in actual earnings from the forecast (e.g. by more than 10%) or a significant delay in the business plan of a project or an investment;*

f) *changes in the credit risk of a transaction that would cause the terms and conditions to be significantly different if the transaction was newly originated or issued at the reporting date (such as increased amounts of required collateral or guarantees, or higher recurring income coverage of the borrower);*
g) *an actual or expected significant decrease in the main transaction's external credit rating, or in other external market indicators of credit risk for a particular transaction or similar transaction with the same expected life;*
h) *changes in the conditions of access to markets, or a worsening in financing conditions, or known reductions in financial support provided by third parties to the borrower;*
i) *slowdown in the business or adverse tendencies in the operations of the borrower that may cause a significant change in the borrower's ability to meet its debt obligations;*
j) significant increase in economic or market volatility that may have a negative impact on the borrower;
k) for transactions secured with collateral, a significant worsening of the ratio of their amount to the value of the collateral, due to unfavorable developments in the value of the collateral, or no change or an increase in the outstanding amount due to the payment terms established (such as extended principal payment grace periods, rising or flexible instalments, extended terms);
l) significant increase in credit risk on other transactions of the same borrower, or significant changes in the expected payment behavior of the borrower, where known;
m) significant increase in credit risk due to an increase in the difficulties of the group to which the borrower belongs, such as residents of a specific geographical area, or significant unfavorable developments in the performance of the borrower's sector of economic activity, or increased difficulties in the group of related borrowers to which the borrower belongs;
n) known legal action that may significantly affect the borrower's financial position;
o) late delivery of certificate of adherence, waiver request with respect to the covenants, where applicable;
p) negative institution internal credit grade/risk class migrations in the aggregate credit portfolio or in specific portfolios/segments;
q) actual or expected internal credit rating/risk classification downgrade for the transaction or borrower or decrease in behavioral scoring used to assess credit risk internally;
r) concerns raised in the reports by the external auditors of the institution or borrower;
s) one or more borrower-related facilities is 30 days past due.

Within its credit monitoring framework the Bank defines the list of EWIs as per ANNEX I of the present Policy with clear assigned responsibilities and designated frequency of the monitoring to ensure completeness and timely assessment of credit quality of the portfolios allocated to the banking book. The list of EWIs is subject to ingoing review and shall be formally updated at least on annual basis.

Forward-looking information

Under IFRS 9, the Bank incorporates 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 recalculates 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) Property and equipment

i. Owned assets

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

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

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

ii. Depreciation

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

The estimated useful lives are as follows:

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

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

(e) Intangible assets

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

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

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

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

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

(f) 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.

(g) 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:

- *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.*

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

For other loan commitments the Bank recognises a loss allowance (see 3(c)v).

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

(h) 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.

(i) 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.

(j) 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.

Until 1 January 2019 payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease. Please refer to 2 (e) “Changes in accounting policies and presentation” for the treatment under IFRS 16 Leases applicable as from 1 January 2019 onwards.

(k) New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Bank has not early adopted the new standards in preparing these financial statements.

The following amended standards are not expected to have a significant impact on the Bank’s financial statements:

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *IFRS 17 Insurance Contracts.*

04
Net interest income

	2019 EUR'000	2018 EUR'000
Interest income		
Financial instruments at fair value through profit or loss	16,833	24,147
Loans to banks	708	2,174
Loans to customers	20,825	13,205
Investment securities measured at amortised cost	8,442	6,966
Total interest income calculated using the effective interest rate method	29,975	22,345
	46,808	46,492
Interest expense		
Deposits and balances from banks	(728)	(528)
Interest expense on lease liabilities (IFRS 16)	(51)	-
Financial instruments at fair value through profit or loss	(4,472)	(8,342)
Current accounts and deposits from customers	(17,265)	(17,693)
	(22,516)	**(26,563)**

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 (568) thousand (2018: EUR (1,706) 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 4,234 thousand (2018: EUR 3,607 thousand).

05
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:

	2019 EUR'000	2018 EUR'000
Credit fees, guarantee and letter of credit issuance	17,176	4,920
Underwriting and corporate finance	7,982	5,897
Settlement	1,586	1,287
Trust, custodian and other fiduciary services	686	705
Brokerage	622	228
	28,052	13,037

The "Credit fees, guarantee and letter of credit issuance" include EUR 12,953 thousand of arrangement fees related to Mandated Lead Arranger functions (2018: 2,485 thousand).

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

	Note	31.12.2019 EUR'000	31.12.2018 EUR'000
Contract liabilities (included in Other liabilities)	21	1,541	922

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 receiving agency services. The weighted average expected period is 1 month (2018: 3.5 years)

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
Settlement	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. Fees for ongoing account management are charged to the customer's account on a quarterly basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a quarterly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.
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.	Revenue from underwriting services is recognised at the point in time when the transaction has taken place. Revenue related to corporate finance services is recognised at the point in time when the transaction takes place. Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

06
Fee and commission expense

	2019 EUR'000	2018 EUR'000
Brokerage	(32)	(82)
	(32)	**(82)**

07
Net gain / (loss) on financial instruments at fair value through profit or loss

	2019 EUR'000	2018 EUR'000
Debt financial instruments	2,812	23
Derivatives	5,637	3,724
	8,449	**3,747**

Included in net gain / (loss) on financial instruments at fair value through profit or loss for the year ended 31 December 2019 is a total of EUR 13 thousand (2018: EUR (15) thousand) recognised on both financial assets at FVTPL and financial assets designated at fair value through profit or loss.

08
Net impairment loss on financial assets

	Notes	2019 EUR'000	2018 EUR'000
Loans to banks	14	(54)	(33)
Loans to customers	15	(9,640)	(699)
Investment securities measured at amortised cost	16	128	(300)
Other liabilities	21	(371)	689
		(9,937)	**(343)**

The position "Other Liabilities" includes EUR 281 thousand (2018: EUR 28 thousand) with regards to impairment loss on open commitment.

09
Personnel expenses

	2019 EUR'000	2018 EUR'000
Employee compensation	(16,350)	(13,521)
Payroll related taxes	(2,117)	(1,742)
	(18,467)	**(15,263)**

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

	2019	2018
Senior management	4.0	2.3
Management	20.1	12.2
Employees	60.0	51.3
	84.1	**65.8**

10 Other general administrative expenses

	2019 EUR'000	2018 EUR'000
IT expenses	(2,833)	(2,927)
Communications and information services	(2,135)	(1,434)
Counselling and legal expenses	(1,367)	(1,351)
Rent, utilities and other building costs	(172)	(1,203)
Travel expenses	(624)	(362)
Audit fees	(225)	(275)
Advertising and marketing	(199)	(189)
Professional services	-	(167)
Insurance	(133)	(96)
Office supplies	(60)	(49)
Charity and sponsorship	(6)	(18)
Other	(1,308)	(901)
	(9,062)	**(8,972)**

In 2019 the rent expenses related to the offices is re-classed under IFRS 16 (see Note 27 Operating Lease).

11
Income tax expense

	2019 EUR'000	2018 EUR'000
Current year tax expense	(664)	(2,331)
Changes in estimates related to prior years	172	-
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	(600)	(743)
Total income tax gain (expense)	**(1,092)**	**(3,074)**

In 2019, the applicable tax rate for current and deferred tax is 24.94% (2018: 26.01%).

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

	2019 EUR'000	2019 %	2018 EUR'000	2018 %
Profit before tax	21,764	-	12,339	-
Income tax at the applicable tax rate	(5,428)	(24.94)	(3,209)	(26.01)
Recognition of previously unrecognised tax losses	-	-	522	4.23
Tax effect of non-deductible expenses and tax-exempt income	4,164	19.13	(387)	(3.13)
Changes in estimates relating to prior years	172	0.79	-	-
	(1,092)	**(5.02)**	**(3,074)**	**(24.91)**

(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 2019 and 2018.

Recognition of deferred tax assets of EUR nil (2018: EUR 64 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 24.94%.

The deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards is fully consumed.

Movements in temporary differences during the years ended 31 December 2019 and 2018 are presented as follows.

2019 EUR'000	Balance 01.01.2019	Recognised in other comprehensive income	Recognised in profit or loss	Balance 31.12.2019
Financial instruments at fair value through profit or loss	(4)	-	(532)	(536)
Derivatives held for trading	68	-	(68)	-
Other intangible assets	-	-	0	-
Tax loss carry-forwards	-	-	0	-
	64	**-**	**(600)**	**(536)**

2018 EUR'000	Balance 01.01.2018	Recognised in other comprehensive income	Recognised in profit or loss	Balance 31.12.2018
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**

12
Cash and deposits with central banks

	31.12.2019 EUR'000	31.12.2018 EUR'000
Nostro accounts with BCL	461,908	1,582,551

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 2019 held by the Bank with the Central Bank of Luxembourg amounted to EUR 15,304 thousand (31 December 2018: EUR 16,442 thousand).

(a) Cash and cash equivalents

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

	31.12.2019 EUR'000	31.12.2018 EUR'000
Cash and deposits with central banks	461,908	1,582,551
Loans to banks	138,266	230,080
	600,174	**1,812,631**

13
Financial instruments at fair value through profit or loss

Held by the Bank ASSETS Designated at fair value through profit and loss	31.12.2019 EUR'000	31.12.2018 EUR'000
- Corporate bonds		
rated from BBB- to BBB+	151,907	118,026
rated from BB- to BB+	39,204	143,376
rated below B+	369	363
not rated	42,122	-
Total corporate bonds	**233,602**	**261,765**
Total designated at fair value through profit and loss	**233,602**	**261,765**
Derivative financial instruments	579	376
Foreign currency contracts	556	695
Total financial instruments at fair value through profit or loss	**234,737**	**262,836**
LIABILITIES		
Designated at fair value through profit and loss		
Credit-linked deposits	243,790	270,249
Total designated at fair value through profit and loss	**243,790**	**270,249**
Derivative financial instruments	130	1
Foreign currency contracts	926	960
Total Financial instruments at fair value through profit or loss	**244,846**	**271,210**

The amount of the change in the fair value attributable to changes in credit risk on the financial assets and 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 2019 and 2018, 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	
	2019 EUR'000	2018 EUR'000	2019	2018
Buy USD sell EUR				
Less than 3 months	89,723	1,383	0.89205	-
Sell USD buy EUR				
Less than 3 months	127,150	600,902	0.89205	0.869295
More than 3 months to 12 months	47,408	30,175	0.88116	0.852475
More than 1 year to 2 years	-	1,847	-	0.827423
Buy RUB sell EUR				
Less than 3 months	9,149	7,652	0.014329	-
Sell RUB buy EUR				
Less than 3 months	16,024	8,858	0.014239	-
More than 3 months to 12 months	-	1,400	-	0.014314
Buy RUB sell USD				
Less than 3 months	107	-	61.9550	-
Buy USD sell RUB				
Less than 3 months	3,359	-	61.8084	-
Buy CHF sell USD				
Less than 3 months	-	17,464	-	0.990000

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:

	31.12.2019 EUR'000	31.12.2018 EUR'000
• rated A- to A+	-	62
• rated from BB- to BB+	1,135	74
• rated from BBB- to BBB	-	559
	1,135	**695**

14 Loans to banks

	31.12.2019 EUR'000	31.12.2018 EUR'000
Loans and deposits		
rated from AA- to AA+	10,849	19,348
rated A- to A+	9,129	2,876
rated BBB- to BBB+	98	6,536
rated from BB- to BB+	107,127	201,353
rated from B- to B+	11,148	-
	138,351	**230,113**
Impairment allowance	(85)	(33)
Total loans and deposits	**138,266**	**230,080**

(a) Concentration of loans to banks

As at 31 December 2019, the Bank has 1 bank (2018: 1 bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2019 is EUR 106,912 thousand (2018: EUR 150,000 thousand).

15
Loans to customers

	31.12.2019 EUR'000	31.12.2018 EUR'000
Corporate customers		
Direct loans	495,309	305,249
Loans participated by the Bank	55,206	104,760
Mortgage loans	22,995	24,043
Total loans to corporate customers	**573,510**	**434,052**
Private customers		
Loans to private customers	150	22
Total loans to private customers	**150**	**22**
Impairment allowance	(11,816)	(2,176)
Net loans to customers	**561,844**	**431,898**

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 2019, there were EUR 2,797 million loans participated by other banks through SFSP (2018: EUR 563.6 million).

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

	2019 EUR'000	2018 EUR'000
Impairment allowance on loans to corporate customers		
Balance at the beginning of the year	(2,176)	(905)
Net (charge) / recovery	(9,640)	(1,271)
Balance at the end of the year	**(11,816)**	**(2,176)**

The following table provides information by types of loan products as at 31 December 2019:

	Gross amount EUR'000	Impairment allowance EUR'000	Carrying amount EUR'000
Loans to corporate customers			
Direct loans	495,309	(11,454)	483,855
Loans participated by the Bank	55,206	(300)	54,906
Mortgage loans	22,995	(62)	22,933
Loans to private customers			
Loans to private customers	150	-	150
	573,660	**(11,816)**	**561,844**

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**

(a) Credit quality of loans to customers

The following table provides information by types of loan products as at 31 December 2019:

	Gross amount EUR'000	Impairment allowance EUR'000	Carrying amount EUR'000
Loans to corporate customers			
rated from BBB- to BBB+	16,749	(8)	16,741
rated from BB- to BB+	467,186	(1,348)	465,838
rated from B- to B+	67,483	(2,730)	64,753
rated from CCC- to CCC+	22,242	(7,730)	14,512
	573,660	**(11,816)**	**561,844**

The above table contains the following stage categorisation with regards to IFRS 9:

	Gross amount EUR'000	Impairment allowance EUR'000	Carrying amount EUR'000
Loans to corporate customers			
rated from B- to B+			
Stage 2	19,873	(2,180)	17,693
rated from CCC- to CCC+			
Stage 2	954	(108)	846
Stage 3	21,288	(7,621)	13,666
	42,115	**(9,909)**	**32,205**

All other exposures are classified as stage 1 with regards to IFRS 9.

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			
rated from BBB- to BBB+	4,599	(2)	4,597
rated from BB- to BB+	376,749	(1,774)	374,975
rated from B- to B+	53,726	(400)	52,326
rated from CCC- to CCC+	-	-	-
	434,074	**(2,176)**	**431,898**

All exposures have been classified as stage 1 with regards to IFRS 9 as at year-end 2018.

As per year-end 2019 the loans of two customers are classified as stage 2 with regards to IFRS 9, transferred from stage 1 classification as at year-end 2018, for a notional of EUR 20.8 million and an impairment of EUR 2.3 million. The loans of one customer are classified as stage 3, transferred from stage 1 classification as at year-end 2018, for a notional of EUR 21.3 million, non-collateralised and an impairment of EUR 7.6 million.

There were no other transfers from stages with regards to IRFS 9. All other loans are classified as stage 1 since initial recognitions, i.e. there is neither a significant increase in their credit risk nor amounts are in default.

(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 2019, the Bank had 3 mortgage loans of EUR 22,933 thousand (2018: 3 of EUR 24,043 thousand). The collateral value of these loans, represented by residential properties, as at 31 December 2019 is EUR 28,509 thousand. All mortgage loans are overcollateralised.

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

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

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

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

Based on the methods how credit risk is managed at the Bank, it has been decided not to develop any specific internal methodology for the allocation of capital to credit risk. Thus, the Bank has conservatively decided to use the result of the Standardized Approach for its quantification of the credit risk. The standardized risk approach increases the risk sensitivity of the capital framework by recognizing that different counterparties within the same loan category present different risks to the lending institution. Thus, instead of placing all commercial loans in the 100% risk weighting basket, the standardized approach takes into account the credit rating of the borrower and additional risk mitigating collaterals. The Bank considers only cash pledged under Luxembourg Law and guarantees provided as eligible credit risk mitigating assets. For the counterparty risk related to banks, the Bank takes external ratings into account. The Bank is also using netting agreements to mitigate credit risks.

The Bank has legally enforceable netting agreements for on-balance sheet exposures (loans and deposits) and off-balance sheet exposures (derivatives) for which the Bank may calculate capital requirements on the basis of net credit exposures, subject to specific regulatory conditions. The Bank has not exercised any of such legally enforceable agreements during the year (2018: 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:

	31.12.2019 EUR'000	31.12.2018 EUR'000
Manufacturing	53,599	65,769
Energy	144,451	94,058
Mining	23,203	60,921
Trade	123,816	79,649
Finance	96,596	56,929
Agriculture, forestry and timber	56,798	39,362
Real estate	23,010	24,055
Loans to private customers	151	22
Transport	46,785	12
Other	5,251	13,297
	573,660	**434,074**
Impairment allowance	(11,816)	(2,176)
	561,844	**431,898**

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

	31.12.2019 EUR'000	31.12.2018 EUR'000
Trade	103,728	887,401
Manufacturing and chemical industry	24,254	37,869
Transport	7,639	-
Agriculture, forestry and timber	103,795	259
Energy and oil	414,483	199,330
Finance	19,133	10,000
Mining	156,730	33,206
Loans to private customers	-	-
Other	578	-
	830,340	**1,168,065**
Impairment allowance	(280)	(28)
	830,060	**1,168,037**

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

	31.12.2019 EUR'000	31.12.2018 EUR'000
Luxembourg	47,471	29,051
OECD countries (excl. Luxembourg)	298,452	330,299
Other countries	227,736	74,724
	573,660	**434,074**
Impairment allowance	(11,816)	(2,176)
	561,844	**431,898**

(e) Significant credit exposures

As at 31 December 2019, the Bank has 5 connected borrowers (2018: 7) whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2019 is EUR 179,664 thousand (2018: EUR 196,704 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

	31.12.2019 EUR'000	31.12.2018 EUR'000
Held by the Bank		
Corporate bonds		
rated from BBB- to BBB+	159,589	139,824
rated from BB- to BB	55,852	112,878
rated from B- to B+	23,900	-
Total corporate bonds	**239,341**	**252,702**
Impairment allowance	(756)	(883)
Total net corporate bonds	**238,585**	**251,819**

17
Property, equipment and intangible assets

EUR'000	Equipment	Other equipment	Land and Building
Cost			
Balance as at 31 December 2018	292	-	-
Recognition of right-of-use asset on initial application of IFRS 16	-	75	2,936
Balance as at 1st January 2019	292	75	2,936
Additions	106	-	-
Transfers	-	-	-
Balance as at 31 December 2019	**398**	**75**	**2,936**
Depreciation, amortisation and impairment losses			
Balance at 1 January 2019	(246)	-	-
Depreciation and amortisation for the year	(61)	(21)	(934)
Balance at 31 December 2019	**(307)**	**(21)**	**(934)**
Carrying amount at 31 December 2019	**91**	**54**	**2 002**

EUR'000	Fixtures and fittings	Computer software	Computer software (internally generated)	Construction in progress	Total
Cost					
Balance as at 31 December 2018	629	2,547	-	439	3,907
Recognition of right-of-use asset on initial application of IFRS 16	-	-	-	-	3,011
Balance as at 1st January 2019	629	2 547	-	439	6,918
Additions	489	1 688	-	1	2,724
Transfers	-	-	440	(440)	-
Balance as at 31 December 2019	**1,118**	**4,235**	**440**	**-**	**9,202**
Depreciation, amortisation and impairment losses					
Balance at 1 January 2019	(202)	(1,645)	-	-	(2,093)
Depreciation and amortisation for the year	(105)	(607)	(147)	-	(1,875)
Balance at 31 December 2019	**(307)**	**(2,252)**	(147)	**-**	**(3,968)**
Carrying amount at 31 December 2019	**811**	**1 983**	**293**	**-**	**5,234**

There are no capitalised borrowing costs related to the acquisition or construction of plant and equipment during 2019 nil (2018: nil).

EUR'000 Cost/revalued amount	Equipment	Fixtures and fittings	Computer software	Construction in progress	Total
Cost					
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 amortization 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**

18
Other assets

	31.12.2019 EUR'000	31.12. 2018 EUR'000
VAT receivables	502	294
Other tax assets	1,010	801
Other prepayments	691	706
Total other non-financial assets	**2,203**	**1,801**

19
Deposits and balances from banks

	31.12.2019 EUR'000	31.12. 2018 EUR'000
At sight	182,332	504,555
With agreed maturity	214,919	168,081
	397,251	**672,636**
rated from A- to A+	69,955	72,968
rated from AA- to AA+	43,626	-
rated from BBB- to BBB+	-	15,700
rated from BB- to BB+	283,105	583,756
not rated	565	212
	397,251	**672,636**

As at 31 December 2019, the Bank has 4 banks (2018: 3 banks) whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2019 is EUR 395,852 thousand (2018: EUR 645,332 thousand).

20
Current accounts and deposits from customers

	31.12.2019 EUR'000	31.12.2018 EUR'000
Current accounts and demand deposits		
- Private	28,114	19,018
- Corporate	396,285	285,979
Term deposits		
- Private	182,829	115,475
- Corporate	122,833	1,203,317
	730,061	**1,623,789**

As at 31 December 2019, the Bank has 4 customers (2018: 8 customers) whose balances exceed 10% of equity. These balances as at 31 December 2019 are EUR 359,435 thousand (2018: EUR 1,372,260 thousand).

21
Other liabilities

	31.12.2019 EUR'000	31.12.2018 EUR'000
Other financial liabilities	1,541	1,433
Total other financial liabilities	**1,541**	**1,433**
Employees remuneration	3,300	2,900
Provision for loan commitments issued	281	28
Lease liabilities	2,108	-
Other non-financial liabilities	2,181	940
Total other non-financial liabilities	**7,870**	**3,868**
	9,411	**5,301**

22
Share capital and reserves

(a) Issued capital and share premium

The Bank's authorised and fully paid subscribed capital comprises 231,690 registered shares with a nominal value of EUR 1,000 each amounting to a total of EUR 231.7 million (2018: 181,690 registered shares with a nominal value of EUR 1,000 each amounting to a total of EUR 181.7 million).

The Shareholder approved the capital increase in cash of EUR 50.0 million in February 2019. All new shares were again subscribed by the Shareholder. The holders of ordinary sharesare 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.

(b) Legal reserve

Under Luxembourg Law, the Bank must appropriate to a legal reserve an amount equivalent to 5% of the annual net profit until such reserve is equal to 10% of the share capital. This appropriation is made in the following year. Legal reserve may not be distributed during the life of the Bank.

As at 31 December 2019, the legal reserve amounts to EUR 463 thousand (2018: EUR nil). During 2019 an amount of EUR 463 thousand, 5% of the annual net profit 2018, was allocated to the legal reserve.

(c) Other reserves

In accordance with paragraph 8a of the net wealth tax law and the resolution of the General Meeting of Shareholders held on 11 April 2019, an amount equal to five times the net wealth tax, amounting to a total of TCHF 4,689 (2018: nil allocation) has been allocated to the special reserve in relation to net wealth tax which may not be distributed during a minimum of five years.

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.

In April 2019, the Bank changed the corporate governance structure from a one-tier (board of directors) to a two-tier (Supervisory Board and Management Board) structure. The function of the Supervisory Board is to ensure they maintain a complete overview and give general strategic advice to the executive management vested in the Management Board. Specialised audit, risk, remuneration and human resources committees were created at the level to ensure closer supervision of relevant areas.

The general shareholders' meeting elects the Supervisory Board. The Supervisory Board is the highest controlling and supervisory body of the Bank. The Supervisory Board is responsible for overall governance of the Bank's activities however, it may not interfere in the management of the Bank.

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 Supervisory Board.

As at 31 December 2019,
the Supervisory Board consists of:

- Mr Alexey A. Matveev
  Chairman of the Supervisory Board
- Mr Alexander I. Sobol
  Vice Chairman
- Mr. Alexey P. Belous
  Member
- Mr. Thomas R. Kiefer
  Member
- Mr. Chlodwig Reuter
  Member.

General activities of the Bank are managed by the Management Board. The Management Board is vested with the broadest powers to act in the name of the Bank and to take any actions necessary or useful to fulfil the Bank's purpose, except for the powers reserved by applicable law, the Articles of Incorporation, Organizational Guidelines and Regulations or other resolutions to the Supervisory Board or to the general meeting of shareholders. The Management Board is in charge of the effective, sound and prudent day-to-day business (and inherent risk) management of the Bank.

The Management Board has collective responsibility for managing the Bank's business. Notwithstanding this principle, the allocation of functional responsibility to the individual members of the Management Board and their substitution (in case of temporary absence) are approved by the Supervisory Board.

The Supervisory Board elects the Members of the Management Board, determines their remuneration and term of office. The Management Board reports to the Supervisory Board of the Bank and to the general shareholders' meeting.

As at 31 December 2019,
the Management Board consists of:

- Mr Dmitry Derkatch
  Chairman of the Management Board
- Mr. Sergey U. Nekrasov
  Deputy Chairman
- Mr. Sergey Belousov
  Managing Director – Member
- Mr. Pavel Bolshakov,
  Managing Director – Member.

(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 mana gement, execution (i.e. business and related support functions) and control functions.*

All policies and procedures are approved by the Management Board 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 applicable laws. 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 12/552 on Central Administration, Internal Governance and Risk Management. 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). Since 2019, the internal audit function is maintained in-house and falls within the responsibility of the Chief Internal Auditor reporting directly to the Supervisory Board.

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 direct access to the highest level of hierarchy, including Supervisory Board.*

Furthermore, the Bank ensures that the appropriate level of security, integrity and confidentiality is at all times 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 organized so as to ensure 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 Supervisory Board and the Management Board 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 Derivative report, including 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.
- Daily ALM report (contractual gap, static gap, dynamic gap, stress gap, LCR and NSFR; values as of previous end of business day, amounts of short-term funds)
- Detailed LCR report with overview of bond portfolio by ISIN
- Intraday LCR calculation
- Intraday nostro positions report

Weekly monitoring:

- Monitoring of CLD`s.
- Liquidity gap by type of products with daily cash-flows over the next 30 days
- Updated FTP table

Monthly monitoring:

- Country Risk reporting
- Corporate Risk report
- Dashboard report
- Monthly Key Risk Indicators report
- Group OpRisk report
- Regulatory Additional Liquidity Monitoring Metrics (“ALMM”) reporting
- Monthly liquidity risk report
- Update of the Operating Liquidity Plan, planned new assets and funding

Quarterly reports:

- Report on Audit Findings & Recommendations
- Group Op-Risk
- Update of the stable profile of short-term liquidity
- Liquidity report for Audit and Risk Committee (“ARCO”)

Semi Annual Reports:

- Interest Rate Risk Report (regulatory)

Annually monitoring:

- Annual Risk Assessment
- Annual Summary of the Risk Control Function
- AAnnual ICAAP and ILAAP Reports, jointly expressed as ICLAAP
- Recovery Plan
- Short Form and Long Form Reports
- Annual review of utilization rate of other products and services

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 Audit and Risk Committee of the Supervisory Board, the Management Board 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 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 Management Board and the Supervisory Board. It is structured so that it can implement risk policies and control the risk management framework.

Risk Management is headed by the Chief Risk Officer ("CRO"). The CRO has the exclusive responsibility for 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:

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

— Risk control:

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

Risk Management reports:

- *on a regular basis to the Management Board and/or the Supervisory Board;*
- *on an ad hoc basis to the Management Board and/or the Supervisory Board (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 Audit and Risk Committee of the Supervisory Board by submitting to the latter a summary report on its activities and its operation and an ICAAP Report for acknowledgment.*

(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.

The Bank acted during the business year 2019 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.

The Bank has limited exposure to foreign currency market risk assured through very low internal FX limit. The Bank did not enter into proprietary trading activities.

Interest rate risk is primarily managed by assessing the impact of parallel shift of interest rates.

There are no trading book activities planned nor any increase in strict FX limitation policy is expected.

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.

The Bank established a set of interest rate limits and early warning indicators ("EWI") tomonitor and manage interest rate risk.

The following table provides an overview of the limits and their utilization as of 31 December 2019:

Limit	Amount	EWI	Value EUR m
Net interest income (NII) sensitivity	EUR 2.67 mln	EUR 2.4 mln	2.25
Limit revaluation impact on P&L	EUR 2.0 mln	EUR 1.8 mln	0.41
+/- 100bp parallel shift	EUR 9.0 mln	EUR 8.1 mln	4.08
Interest rate gap	<= 1y - EUR 500 mln	90% of the limit amount	125.83
	1y <= 2y - EUR 330 mln		47.43
	2y <= 3y - EUR 330 mln		109.08
	3y <= 4y - EUR 80 mln		58.24
	4y <= 5y - EUR 80 mln		7.88
	>5Y - EUR 50 mln		18.45
VaR limit	EUR 8.0 mln	EUR 7.2 mln	0.30

Interest rate sensitivity analysis

Interest rate result		**Result on the capital, EUR'000**
Variation	**Scale**	
Increase of	200bp	(7,153)
Decrease of	200bp	7,863
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 7,153 thousand in case of the increase of interest yield curve (+200 bps) and +EUR 7,863 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 2019.

(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 2019:

	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	461,908	-	-	-	-	461,908
Financial instruments at FVTPL	24,567	190,563	35	3,101	16,471	234,737
Loans to banks	125,817	7,585	342	12	4,510	138,266
Loans to customers	386,528	175,316	-	-	-	561,844
Investment securities measured at amortised cost	150,229	88,356	-	-	-	238,585
Investment in subsidiary	222	-	-	-	-	222
Deferred tax assets	-	-	-		-	-
Other financial and non-financial assets	7,411	3	14	-	9	7,437
Total assets	**1,156,682**	**461,823**	**391**	**3,113**	**20,990**	**1,642,999**

	EUR EUR'000	USD EUR'000	RUB EUR'000	CHF EUR'000	Others EUR'000	Total EUR'000
LIABILITIES						
Financial instruments at FVTPL	(22,065)	(202,001)	(78)	(3,090)	(17,612)	(244,847)
Deposits and balances from banks	(371,400)	(22,378)	(1,280)	-	(2,193)	(397,252)
Current accounts and deposits from customers	(400,888)	(318,887)	(9,193)	(24)	(1,069)	(730,061)
Current tax liability	(2,646)	-	-	-	-	(2,646)
Deferred tax	(536)	-	-	-	-	(536)
Other liabilities	(9,075)	(321)	(4)	(11)	-	(9,411)
Capital and reserves	(237,576)	-	-	-	-	(237,576)
Total liabilities, capital and reserves	**(1,044,186)**	**(543,587)**	**(10,555)**	**(3,125)**	**(20,874)**	**(1,622,327)**
Net position	**112,496**	**(81,764)**	**(10,164)**	**(12)**	**(166)**	**20,672**
The effect of derivatives held for risk management	**(91,710)**	**81,583**	**10,127**	**-**	**-**	**-**
Net position after derivatives held for risk management purposes	**20,786**	**(181)**	**(37)**	**(12)**	**116**	**20,672**

The following table shows the 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 amorti-sed cost	155,098	96,721	-	-	-	251,819
Investment in subsi-diary	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**

For each major FX- and precious metal position there is a limit of EUR 150 thousand in place. The overall FX and precious metal 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 2019 and 2018, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2017 | EUR'000	2018 | EUR'000
10% appreciation of USD against EUR	(1)	12
10% appreciation of RUB against EUR	(5)	1
10% appreciation of CHF against EUR	4	(1)

(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 equity securities prices based on positions existing as at 31 December 2019 and 2018 and a simplified scenario of a 10 percent change in all equity securities prices is as follows:

	2019		2018	
	Net profit or loss EUR'000	Equity EUR'000	Net profit or loss EUR'000	Equity EUR'00
10% increase in security prices	-	-	(1,223)	(1,223)
10% decrease in security prices	-	-	1,223	1,223

(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 introduced 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:	Tightening of sanction regime → 1 notch rating downgrade CIS/Russia
Scenario 2:	Economic downturn world-wide → 2 notches rating downgrade for all counterparties
Scenario 3:	Unchanged conditions → unchanged ratings
Scenario 4:	Improving economic conditions → 1 notch rating upgrade for all counterparties.

Weighting of the results under scenarios 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 losses 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, without 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 basis 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 originated (assessment was made by comparing the original probability of default applicable to the period after the reporting date as determined when the instrument was originated with the current assessment of the lifetime probability of default as 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 are indicated in internal Loan Monitoring and Watch List Policy and comprise combination of rating downgrades with respective Watch List status based on analysis of severity of refinancing issues confirming occurrence of Significant Increase in Credit Risk. There is a rebuttable presumption that the **credit risk** has increased significantly when material contractual payments are more than 30 days past due.*

Stage 3: applies if financial assets exhibit objective indicators 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 remains at **Lifetime ECLs,** but interest revenue will be calculated by applying the effective interest rate (EIR) to the net carrying amount (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 an asset is **credit impaired** when material contractual payments are more than 90 days past due. The transfer criteria are elaborated in the Loan Monitoring and Watch List, and Definition of Default internal policies and presume that the asset must meet the definition of Default and be classified as Non-Performing.*

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

- *The assessment of changes in credit risk since initial recognition is symmetrical in its application, which means, that if there is no longer a significant increase in default risk concluded on the balance sheet date after 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), such instrument is transferred back to Stage 1. The criteria of return of the asset from defaulting to non-defaulting status are elaborated in Definition of Default Policy.*

Definition of default event:

- *A key consideration in measuring expected losses is identifying when a "default" may occur. The Bank's Definition of Default Policy contains the list of events of default any of which can lead to considering an obligor of the Bank in default. Such events include inter alia past due days, distressed restructuring, sale of the credit obligation at loss, default on financial markets transaction, enforcement, potential bankruptcy and bankruptcy criteria, unlikeliness to pay. The Policy also addresses in particular criteria of occurrence for each of the above events. It also contains criteria for return to a non-defaulting status.*

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:

- *Model-based individual estimation of risk provision (Stage 1 or Stage 2)*
- *Specific individual estimation of risk provision (Stage 3)*
- *Expected credit losses would normally not be expected to equal to zero, because the Bank takes into account the possibility that a loss would occur, even if such probability is considered as very small.*
- *The ECL is calculated depending on the financial asset type and the stage allocation within the general approach, which can be simplified as follows:*

Stage 1:
$ECL = PD_{(Max\ 1\ year)} * LGD * EAD * Df$
Stage 2:
$ECL = \Sigma PD(marginal)_t * LGD_t * EAD_t * Df_t$
Stage 3:
$ECL = \textit{Gross Carrying Amount} - \Sigma \textit{Recovery}_t * Df_t$

In detail, the calculation / algorithm within the Bank is done as mentioned in the document "Expected Credit Loss estimation methodology".

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

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 Management Board 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 2019, a specific loan allowance has been established for one corporate client, where the Bank calculated ECL based on discounted cash flow of the expected cash recoveries under several scenarios (2018: 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. The Bank's forbearance measures are regulated by Forbearance Policy.

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. 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 Supervisory Board 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 2019 is as follows:

	less than 3 months	> 3 months to 1 year	> 1 year to 5 years	more than 5 years	no maturity	Total
Cash and deposits with central banks	461,908	-	-	-	-	461,908
Loans to banks	138,266	-	-	-	-	138,266
Loans to customers	148,301	139,138	274,405	-	-	561,844
Investment securities measured at amortised cost	14,951	23,584	200,050	-	-	238,585
Financial instruments at fair value through profit or loss	4,239	35,642	194,856	-	-	234,737
Total financial assets	**767,665**	**198,364**	**669,311**	**-**	**-**	**1,635,340**
Deposits and balances from banks	248,245	105,380	43,626	-	-	397,251
Current accounts and deposits from customers	687,047	43,014	-	-	-	730,061
Financial instruments at fair value through profit or loss	4,741	39,589	200,516	-	-	244,846
Other financial liabilities	1,541	-	-	-	-	1,541
Total financial liabilities	**941,574**	**87,983**	**244,142**	**-**	**-**	**1,373,699**
Total	**(173,909)**	**10,381**	**425,169**	**-**	**-**	**261,641**

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 maturity	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 Liquidity Coverage Ratio (LCR) as per 31 December 2019 is as follows:

	31.12.2019 EUR'000	31.12.2018 EUR'000	31.12.2017 EUR'000
Liquidity Buffer	525,671	1,652,753	685,598
Net Liquidity Outflow	227,710	749,760	100,094
Liquidity Coverage Ratio (%)	230.85%	220.44%	684.96%

The liquidity risk is managed in line with the liquidity risk appetite of the Supervisory Board, 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 Supervisory Board, the Management Board 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 324 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:

	31.12.2019 EUR'000	31.12.2018 EUR'000	31.12.2017 EUR'000
Operational Risk (basic indicator approach)	6,519	4,047	2,381

Mitigation of risk is performed through the setup 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 2019.

The Bank's general management of own funds and liquidity is governed by the "ICAAP Policy".

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

EUR million	2019	2018	2017
Paid-up capital	231.7	181.7	130.0
Reserves	5.9	(3.3)	(13.0)
Intangible assets	(2.3)	(1.3)	(1.6)
Net profit of the current year	20.7*	9.3*	10.2
Other	(0.2)	(0.4)	-
Total own funds	**235.1**	**176.7**	**125.6**

* 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:

EUR million	31.12.2019		31.12.2018		31.12.2017	
	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount	Capital requirement
Credit risk	952.9	114.4	719.5	86.3	738.9	85.0
Operational risk	81.5	6.5	50.6	4.0	29.8	2.4
Credit valuation adjustment	0.2	0.0	1.2	0.2	2.4	0.3
Total Pillar I	**1,034.6**	**120.9**	**771.3**	**90.5**	**771.1**	**87.7**

Putting the total Pillar I risk exposure amount in relation to the Bank's own funds as per 31 December 2019, the Bank has a CET1 ratio of 22.7% (2018 and 2017: 22.9% and 16.3%, respectively) which is above the regulatory minimum of 12.0% for the Bank (2018 and 2017: 12.0% and 11.5%, respectively).

During the financial year 2019, the Bank has complied with its entire externally imposed capital requirement.

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.

	31.12.2019 EUR'000	31.12.2018 EUR'000
Contracted amount		
Loan and credit line commitments	831,540	1,143,097
Guarantees and letters of credit	26,477	24,940
	858,017	**1,168,037**

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 had to be reached by the end of 2018 through annual contributions. The contributions have been made in the form of annual payments during the years 2016 to 2018. Having reached the level of 0.8%, 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 in 2016 a contribution of EUR 19,712 to the FGDL and FRL.

As at 31 December 2019, the 2019 cash contribution for FGDL was recorded in the caption "Other general administrative expenses" for an amount of EUR 20,008.

Additionally, the 2019 FRL contribution for an amount of EUR 568,902 was paid by the Bank and recorded in the caption "Other general administrative expenses" (2018: EUR 190,468).

27
Operating leases IFRS 16

(a) Leases as lessee

Please refer as well to note 17 "Property, equipment and intangible assets".

Right-of-use assets as at 31 December are as follows:

	2019 EUR'000
Less than 1 year	-
Between 1 and 5 years	(2,056)
More than 5 years	-
	(2,056)

Lease liabilities as at 31 December are as follows:

	2019 EUR'000
Less than 1 year	-
Between 1 and 5 years	(2,056)
More than 5 years	-
	(2,056)

Profit and loss accounts with regards to IFRS 16 Leases as at 31 December 2019 are as follows:

	2019 EUR'000
Interest expense on lease liabilities	(50)
Depreciation on right to use assets	(955)
	(1,005)

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.

For further information with regards to IFRS 16 Leases please refer to 2 (e) "Changes in accounting policy and presentation".

Non-cancellable operating lease rentals as at 31 December 2018 are payable as follows:

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

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.

	31.12.2019 EUR'000	31.12.2018 EUR'000
Fiduciary loans	-	102,377
Fiduciary deposits	-	(102,377)

(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 2019 the Bank provides custodian services for 112 securities with a nominal of EUR 184,618 thousand (2018: 99 securities with a nominal of EUR 59,468 thousand).

30 Related party transactions

(a) Control relationships

The Bank's parent company is Gazprombank (JSC), Moscow ("Parent Bank"). As at 31 December 2019, PJSC Gazprom owns 29.76% of the outstanding ordinary shares of the Parent Bank.

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 Management Board'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 Management Board.

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 Supervisory and Management Boards

Director's fees to two external members of the Supervisory Board in the amount of EUR 140,000 have been provided for in 2019 (2018: EUR 46,377)..

Remuneration granted to the senior management and management during 2019 amounted to EUR 7,235 thousand (2018: EUR 6,463 thousand).

There have been no loans or advances granted to the members of the Management Board 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 2019 and 2018 for transactions with members of the Supervisory Board and the Management Board are as follows:

	31.12.2019 EUR'000	Average effective interest rate, %	31.12.2018 EUR'000	Average effective interest rate, %
Statement of financial position				
Current accounts and deposits from customers	1,570	8.47	1,275	5.82

Transactions with related parties are not secured.

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

	2019 EUR'000	2018 EUR'000
Profit or loss		
Interest expense	(133)	(10)

(c) Transactions with other related parties

In 2019, 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 2019 and related profit or loss amounts of transactions for the year ended 31 December 2019 with related parties are as follows (excluding the subsidiary):

	2019 EUR'000	2018 EUR'000
ASSETS		
Financial instruments at fair value through profit or loss	**234,737**	**262,836**
Thereof: Parent bank	*-*	*126,081*
Loans to banks	**138,266**	**230,080**
Thereof: Parent bank	*106,912*	*173,816*
Thereof: Affiliated bank	*124*	*648*
Loans to customers	**561,844**	**431,898**
Thereof: Other related parties	*-*	*-*
Investment securities measured at amortised cost	**238,585**	**251,819**
Thereof: Parent bank	*-*	*53,599*
LIABILITIES		
Financial instruments at fair value through profit or loss	**244,846**	**271,210**
Thereof: Parent bank	*-*	*-*
Deposits and balances from banks	**397,251**	**672,636**
Thereof: Parent bank	*282,990*	*572,795*
Thereof: Affiliated bank	*109*	*10,961*
Current accounts and deposits from customers	**730,061**	**1,623,789**
Thereof: Other related parties	*-*	*572,795*
Thereof: Parent bank	*-*	*517,573*

	2017 EUR'000	2018 EUR'000
P&L		
Interest receivable and similar income	**46,808**	**46,492**
Thereof: Parent bank	*2,723*	*6,816*
Thereof: Other related parties	*128*	*11*
Interest payable and similar charges	**(22,516)**	**(26,563)**
Thereof: Parent bank	*1,270*	*(2,323)*
Thereof: Other related parties	*-*	*(8,727)*
Commission receivable	**28,052**	**13,037**
Thereof: Parent bank	*8*	*790*

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	
	31.12.2019 EUR'000	31.12.2018 EUR'000	31.12.2019 EUR'000	31.12.2018 EUR'000
ASSETS				
Cash and deposits with central banks	461,908	1,582,551	491,908	1,582,551
Financial instruments at FVTPL	234,737	262,836	234,737	262,836
Loans to banks	138,265	230,080	138,265	230,080
Loans to customers	562,161	432,137	561,844	431,898
Investments securities measured at amortised cost	244,553	246,791	238,585	251,819
LIABILITIES				
Financial instruments at FVTPL	243,790	271,210	243,790	271,210
Deposits and balances from banks	397,251	671,762	397,251	672,636
Current accounts and deposits from customers	733,369	1,620,366	730,061	1,623,789

The estimates of fair value are intended to reflect 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 forced transaction (e.g. a forced liquidation or distress sale) but rather assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities.

Fair values of financial assets and financial liabilties 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, where the selection of valuation techniques is aimed at maximising the use of observable market inputs.

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. Observable prices and model inputs are usually available in the market for listed debt and equity securities, currency markets and exchange-traded derivatives..

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, respective yields of related quoted assets based on current market parameters form the basis for the discounting of the future cash flows (DCF). The resulting discounted cash-flows values are checked with the early termination value of the CLD transactions to ensure that they are not lower the amount that would be paid in case the early termination is initiated by clients. If the DCF value is lower than the termination value, the termination value is taken as a basis for fair value estimate for accounting purposes.

(b) Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy, which reflects the characteristics of significant 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 significant inputs not based on observable data. 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 2019 (2018: none). The amounts in the table below are presented based on the carrying amounts recognised in the statement of financial position:

	31.12.2019 EUR'000		31.12.2018 EUR'000	
EUR'000	**Level 1**	**Level 2**	**Level 1**	**Level 2**
ASSETS				
Cash and deposits with central banks	-	461,908	-	1,582,551
Financial instruments at FVTPL	234,737	-	262,836	-
Loans to banks	-	138,665	-	230,080
Loans to customers	-	561,844	-	431,898
Investments securities measured at amortised cost	238,585	-	251,819	-
LIABILITIES				
Financial instruments at FVTPL	-	244,846	-	271,210
Deposits and balances from banks	-	397,251	-	672,636
Current accounts and deposits from customers	-	730,061	-	1,623,789

In 2019, as well as in 2018, no reclassification between Level 1 and other Levels has taken place.

32
Independent Auditors’ fees

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

	2019 EUR’000	2018 EUR’000
Audit fees	(217)	(200)
Audit-related fees	(69)	(111)
Tax fees	-	(29)
Other permissible non-audit services	(108)	(37)
	(394)	**(377)**

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 Investment in subsidiary

	2019 EUR'000	2018 EUR'000
Balance as at 1 January	**356**	-
Additions	-	1,690
Impairment	(134)	(1,334)
Balance as at 31 December	**222**	**356**

As at 31 December 2019 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.á r.l. has not been doing any business in 2019. During the year ended 31 December 2019, the Bank impaired its investment in GPB Finance S.á r.l. by EUR 134 thousand.

GPB Finance S.á 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.

34 Events after the reporting period

COVID-19

On 11 March 2020, World Health Organisation declared the outbreak of COVID-19 as pandemic. COVID-19 is a significant challenge for humanity and for the economy globally, and at the date of these financial statements its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices.

In order to ensure continuity of the Bank's operations the Management undertakes all necessary steps envisaged by developed BCP strategy addressing relevant aspects of existing challenging operating environment. The Bank closely monitors all the developments and follows respective recommendations of the CSSF and EU authorities.

It is the responsibility of the Directors to make estimates particularly about recoverability of loans to customers and investment securities measured at amortised cost and the appropriateness of the related disclosures and of the going concern basis of preparation of the financial statements.

When preparing these financial statements, the Directors of the Company considered that the COVID-19 outbreak and its related impacts are non-adjusting events. The valuation of the loans to customers and investment securities measured at amortised cost as at 31 December 2019 as disclosed in the financial statements reflects the management estimate and economic conditions in existence at that date.

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