Annual Report

2020

BANK GPB INTERNATIONAL S.A.
MEMBER OF GAZPROMBANK GROUP

Bank GPB International S.A.
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Bank GPB International S.A.
Financial Statements
for the year ended
31 December 2020
(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 the 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 and 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 2020, and the Statement of 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 2020 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 EU.

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 the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF 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 Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Impairment of loans to customers

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 2020

Loans to customers amounted to EUR 591.1 million that represent 27% of total assets as at 31 December 2020. Certain aspects of the accounting for impairment of loans to customers require significant judgements, and inappropriate judgements 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 judgements include matters such as the definition of criteria to identify significant increase in credit risk (SICR) or default, as well as estimation of input parameter for determining Expected Credit Loss(es) (ECL), namely probability of default (PD) 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 judgements include estimating recoverable cash flow, the effect of guarantees received, valuation of collaterals received and forbearance measures applied.

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

The key inputs and assumptions used by management in its assessment of loans 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" for the accounting policy for the loans to customers.

b) How the matter was addressed in our audit

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

- *We tested the design and implementation and effectiveness of key 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 ECL 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 assess the classification of the IFRS 9 staging. For all Stage 2 and Stage 3 exposures at year-end, we verified the estimation of impairment allowance on loans 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.*

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

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 2020

The financial instruments that are measured at fair value and are significant for the financial statements are financial liabilities designated at FVTPL.

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 FVTPL amounting to EUR 225.7 million that represent 10% of total equity and liabilities as at 31 December 2020. 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. The financial liabilities designated at FVTPL include various types of credit-linked deposits (CLD). To consider own credit adjustments (OCA) and calculate the fair value of liabilities, certain judgement is required from management, who also use an internal developed model for such valuation.

Refer to Note 3(c) "Financial instruments" for the accounting policy, Note 13 "Financial instruments at FVTPL" 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 FVTPL 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 FVTPL 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 key internal controls around review of valuation of unquoted financial liabilities designated at FVTPL.*
- *We involved our financial risk management specialists to assist us in performing independent valuations on the full population of unquoted financial liabilities designated at FVTPL.*

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- *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.*

Other information

The Management Board is responsible for the other information. The other information comprises the information stated in the financial statements including the management report but does not include the financial statements and our report of the "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 supervisory board for the financialstatements

The Management Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted by the EU, 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 the "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 judgement and maintain professional scepticism 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 that 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 as to the appropriateness of the 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 as to 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 the "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 the "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 Shareholders on 5 May 2020 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is eight 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 N° 537/2014 were not provided and that we remained independent of the Bank in conducting the audit.

Luxembourg, 25 March 2021

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

02 Management Report

The year 2020 was an unprecedented year in which the global community was tested by the emergence and spread of a virus pandemic. The business environment was affected across all jurisdictions to a varying extent. The Bank worked tirelessly to adapt to the new situation and to emerge from the difficult times unscathed. The Bank has implemented safety measures in order to ensure that the wellbeing of its staff is maintained and to mitigate the risk of disruption to its business. Furthermore, a full and in-depth review of the lending book has been performed in order to assess the potential impacts of the current situation on the standing of the Bank's borrowers.

At the commercial level, the Bank has managed to grow across all of its main business areas, namely: Corporate Banking, Private Banking and Global Markets.

In general terms, the Bank strives to play an even greater role in promoting business co-operation as well as economic and trade relationships between the Russian Federation and the EU. With this aim, the Bank continues to build strong relationships with European financial institutions and with Russian enterprises and entrepreneurs to enable them to do business in Europe.

From a regulatory and risk management perspective, the Bank has dedicated its efforts primarily towards the review and enhancement of the underwriting criteria and loan origination processes as well as with regards to Securities Financing Transactions underwriting standards.

At the same time, the Bank further streamlined its internal processes and governance as well as reviewed and extended the product offer for its Corporate and Private Banking clients.

We are delighted to report strong financial results for the year 2020 despite the challenging social and macroeconomic environment where the Bank's pre-tax profit amounted to EUR 14.3 million, compared to EUR 21.8 million in 2019.

In August 2020, the rating agency, S&P Global Ratings, affirmed our BB+/B rating based on our core status as a subsidiary of Bank GPB (JSC) and confirmed our outlook as stable which is identical to the rating and outlook of our Parent Bank.

Political and macroeconomic developments in 2020

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, Bank GPB (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. 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 extraterritorial reach of the US sanctions and any spill-over 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 Bank GPB (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 our Banking Recovery and Resolution plan and business model.

The year 2020 was a very difficult time from the global macroeconomic perspective, yet there are still reasons to be hopeful. Testing and treatment capabilities have been broadly revamped, and vaccination efforts are under way across the globe following positive trials and approvals by numerous health administrations. The global economy, although significantly hit in March and April 2020, has shown signs of recovery and adjustment to the current situation. The global real GDP is expected to have shrunk by 3.5% in 2020, which although severe, is an improvement from the initial expectations established mid 2020.

Even though commodity prices were affected in early 2020, later in the year they were subject to a rebound driven by a surge in global demand following the recovery from the COVID-19 shock.

Lending rates have stabilised at their historical lows, reflecting the continued impact of the measures taken by the ECB as well as other central banks.

Corporate Banking

In 2020 we continued to be a reliable partner for our corporate clients and maintained a trend of steady business growth, increasing our corporate client base to 318 active relationships (2019: 286). Lending remained at the centre of our Corporate Banking proposition as we continued to provide high-quality financing solutions to key corporate clients of Gazprombank Group i.e. to major Russian/CIS commodity producers and industrial corporations, their European subsidiaries and our international clientele.

We helped our clients to meet their financing requirements for trade finance, working capital and financing of investment projects. By the end of 2020 our corporate loan portfolio increased by 5% to EUR 591 million (2019: EUR 562 million). The credit underwriting criteria and security requirements were reviewed to address adverse external developments and minimise the negative impact on our corporate loan portfolio. Thanks to a prudent and farsighted credit strategy and additional risk management measures undertaken, the quality of our portfolio remained strong, although the cost of risk has increased to 4% from 2.1% in 2019.

The COVID-19 pandemic caused the increased volatility on major commodity markets and disrupted established supply chains across many industries and geographies. The situation was further aggravated by a number of defaults among large commodity trading firms, forcing major banks, active in commodity trade finance, to substantially revise their underwriting standards or even exit the market. To address possible negative impact on our commodity trade finance portfolio, the Bank reviewed and tightened the credit lines available to our commodity trading customers. On the back of the positive market developments and recovery demonstrated by commodity markets in the second half of 2020, we released some of the earlier introduced lending restrictions and continued to provide the commodity trade finance proposition to our customers.

We continued to develop and diversify our trade finance and documentary business. In particular, the Bank has made substantial efforts to enhance its delivery and execution capabilities by implementing a new dedicated system for managing documentary business operations, which meaningfully improved the decision-making and risk-assessing capabilities within this business line. We also further expanded our major hard-currencies correspondent banking network by setting-up clearing accounts with additional industry-leading international banks, and as a result, substantially increased our clearing capabilities and handling of deal flows.

Private Banking

The Private Banking segment provided a solid performance in 2020. The Bank opened 28 new accounts strengthening its position as provider of Private Banking solutions for Gazprombank Group's clients in the EU.

Assets under management increased by 23% in 2020 compared to the previous year reaching EUR 462 million. During the year, we observed flow of clients' assets out from our performance-linked deposits into transactions with securities. Our performance-linked deposits portfolio decreased by 8% while the portfolio of securities held in custody increased by more than 74%, also due to the fact that many private clients participated in primary placements of Russian Eurobonds where the Bank acted as lead or co-lead arranger. We expect that this trend might be extended for future operations.

Customer term deposits, which form an important element of our funding base, increased by 56% compared with year-end 2019, reaching EUR 280 million. Irrespective of the growth, we maintain our efforts to encourage further deposit placements from Private Banking clients and to strengthen our good reputation as a reliable financial institution.

From a strategic perspective, we observe growing expectations of our existing and potential clients, especially in terms of investment advice and assets diversification. A market study carried out by the Bank and a related survey conducted among existing customers clearly showed that today, due to the low yield's environment, Private Banking clients are more open to professional investment advice, especially when it comes to complex financial instruments or structuring portfolios. In December 2020, the Bank launched an Investment Advisory project with scheduled completion in 2021. The implementation of this important initiative would allow the Bank to make a gradual migration of clients from money market and execution only to the Investment Advisory mandate, meeting client expectations, while increasing commission income and enhancing the Private Banking franchise within Gazprombank Group.

Global Markets

Our Global Markets business was again very active in primary placements of securities in 2020, executing eleven Eurobond and two equity mandates issued by Russia-related companies. More than USD 3.45 billion were raised in demand for the primary market syndications and for two mandates with the Russian Federation as the issuer; the Bank successfully fulfilled its role 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 EUR 862 million. In 2020, the Bank onboarded five new institutional clients for secondary trading. Furthermore, we joined the MarketAxess trading platform as a market maker which significantly boosted secondary trading volumes arising from servicing large EU institutional clients.

We further expanded our treasury products offering FX and commodity derivatives to corporate clients. To strengthen the liquidity profile of the Bank, we actively worked with top Russian corporate clients to facilitate liquidity placements.

Our investment securities portfolio reached EUR 251 million and consists of Russian and European fixed income securities. The portfolio provides a stable interest income stream for us and is also used for liquidity management with a significant part of the portfolio being refinanced by renowned investment grade European financial institutions. In 2020, the Bank also started refinancing operations with the Central Bank of Luxembourg against high-quality bonds as collateral.

The Bank also actively used reverse repo market for placements of excess short-term liquidity.

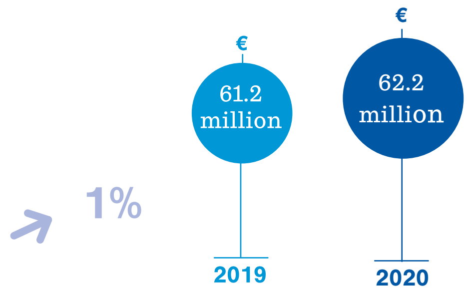
In 2020, the Bank engaged in active co-operation with Luxembourg Green Exchange to promote environmental, social and governance (ESG) considerations to key clients of Gazprombank Group. This is a strategic direction that the Bank will further pursue in 2021.

In order to cope with a fast-growing business environment and to ensure a comprehensive approach towards new developments, changes and upgrades, we further strengthened our dedicated Product Development and Transformation management team which helps to run complex projects, such as implementation of new modern E-Banking applications.

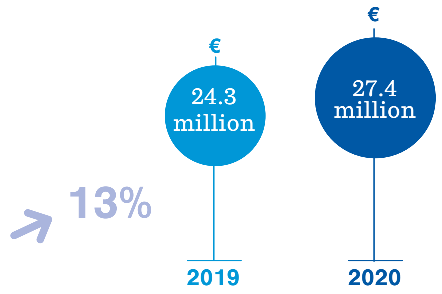
Financial performance and position

In 2020, we generated a pre-tax profit of EUR 14.3 million (2019: EUR 21.8 million). The Bank continued strong performance during the year which partially offset the impacts of the challenging business environment resulting in only a 34% decrease in pre-taxed profit.

Operating income



Net interest income



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

Net fee income amounted to EUR 25.6 million and decreased by 9% from the 2019 levels. The decrease was largely due to less commission income received from the mandated lead arranger (MLA) function as well as underwriting services than in the previous year which was partially offset by the increase in fees related to underwriting activities on the primary securities market.

Net gain (loss) on financial instruments at FVTPL and net foreign exchange income (loss) amounted to EUR 7.2 million in 2020, a decrease of EUR 1.2 million from EUR 8.4 million in 2019.

Net other operating income amounted to EUR 1.9 million, against net other operating income of EUR 0.5 million in 2019.

Expenses, in particular personnel expenses, and other general administrative expenses, depreciation and amortisations on tangible and intangible assets, amounted to EUR 34.9 million as compared to EUR 29.4 million in 2019. The increase is mainly driven by the increase in staff and investments in new business, IT and regulatory projects.

Net impairment loss on financial assets increased from EUR 9.9 million in 2019 to EUR 12.9 million in 2020. Additional impairment charges were recognised on a small number of defaulted structured commodity finance exposures, affected by the global macro-economic situation. In response, the Bank performed a full review of its lending exposures and reviewed its underwriting standards to ensure stable performance in accordance with its defined strategy.

Profit and total comprehensive income decreased from EUR 20.7 million in 2019 to EUR 12.6 million in 2020, and was impacted by increased impairment and general administrative expenses primarily as a result of the global macroeconomic situation and its impact on the Bank and the Bank's clients.

Our total assets at 31 December 2020 amounted to EUR 2,199 million compared with EUR 1,643 million at 31 December 2019.

Cash and cash equivalents, including balances with central banks, increased to EUR 910.3 million (2019: EUR 461.9 million), mainly related to the higher outstanding balances at Banque Centrale du Luxembourg (BCL) as at reporting date.

Loans to banks in the amount of EUR 220.1 million (2019: EUR 138.3 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.

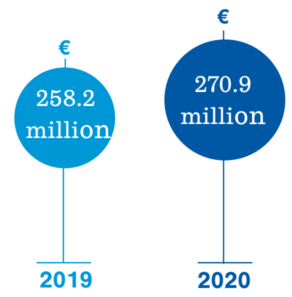
Loans to customers increased from EUR 561.8 million at 31 December 2019 to EUR 591.1 million at year-end 2020. Our loan portfolio consists mainly of commercial lending transactions in the form of bilateral lending, Structured Trade Finance lending and participations in syndicated loan facilities.

Financial instruments at FVTPL amounted to EUR 218.9 million (2019: EUR 234.7 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 251.2 million (2019: EUR 238.6 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 653.6 million (2019: EUR 397.3 million), thereof EUR 79 million of repo refinancing, financial liabilities at FVTPL of EUR 233.1 million (2019: EUR 244.8 million) and current accounts and deposits from customers of EUR 1,034.0 million (2019: EUR 730.1 million).

Our total equity increased



At 31 December 2020, the common equity Tier 1 ratio was 24.2% (31 December 2019: 22.7%), well above the minimum capital requirements defined for the Bank by the supervisory authorities.

Staff, projects and organisational developments

In 2020, our headcount increased by 8 to 103 employees by the end of the year. The recruitment is driven by supporting the teams with highly skilled new professionals mainly in central and control functions of the Bank such as IT, Information Security, Project Management, Operations and Compliance to ensure compliance with regulatory requirements.

In order to protect our employees and safeguard continuity of core operations, the Bank implemented teleworking practices as well as necessary sanitary measures in strict adherence with relevant regulatory requirements and deadlines.

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.

Social responsibility and international cultural cooperation

Whilst being vastly experienced in the areas of economics and finance management, Gazprombank Group has always paid attention to the social aspect of its activities. Following our Group's standards, Bank GPB International undertakes continuous and systematic efforts across multiple social responsibility areas. In 2020 these included protection of underprivileged social groups, multicultural and multilingual environment al patronage and viable support of small local businesses in these challenging times.

Due to pandemic response restrictions, most of the sports and cultural events in Luxembourg in 2020 were been cancelled or postponed. In these circumstances we accumulated funds and increased our annual donation to UNICEF by allocating to it a substantial part of the "New Year 2021 greetings campaign" budget. This year's donation was sent to the UNICEF "Global COVID-19 response" Initiative — Humanitarian Action for children aimed to provide conflict and disaster-affected children with access to water, sanitation, nutrition, education, health and protection services.

It has become an annual tradition to issue a modest donation to a local charity organisation AEHGD — focusing on providing help to children with disabilities.

While cultural life was largely restricted in 2020, we have continued to support the multilingual environment of Luxembourg by providing Russian language courses to all interested staff and Luxembourgish language courses to all team members who moved to Luxembourg from abroad (to help with the integration process).

Being an integral part of the Luxembourgish community, we understand the vulnerability of local small businesses in these unprecedented times. As a result we decided to allocate the remaining budget from the "New Year 2021 greetings campaign" to locally designed and manufactured products, in general support of local agencies, producers, artists and farmers.

In 2020, we had no opportunity to support any sports events. We continued to encourage our colleagues to maintain a healthy lifestyle however by exercising within governmental guidelines.

Risk management

Our business activities are closely linked with our risk capacity and our ultimate appetite for risk in general. Risk control and management is therefore a central element of our day-to-day activities and business planning. In order to promote a strong risk culture, the Bank has grounded its governance arrangements by means of a of sound internal control system (ICS) based on the implementation of three lines of defence and the avoidance of conflicts of interests.

- *First line of defence composed of functions that take or acquire risks under a predefined policy and limits and carry out operational controls (risk owners).*
- *Second line of defence encompasses support functions, including the financial and accounting function, the IT function, and the compliance and risk control functions, that contribute to the independent risk control.*
- *Third line of defence i.e. the internal audit function that provides an independent, objective and critical review of the first two lines of defence.*

The three lines of defence complement each other assuming their own control responsibilities independently of the other lines.

Our risk and capital strategy is defined and monitored by the 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 significant risks:

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

The Bank's continued operations are assured by its strong capital and liquidity position. The current capital and liquidity ratios are well above the regulatory minimum levels and are subject to rigorous risk management activities. The Internal Capital and Liquidity Assessment Processes at the Bank manage and assure the maintenance of adequate capital and liquidity levels on prospective bases even in plausible stress situations.

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 gives 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.

Whilst rating financial institutions, we apply the ratings issued by internationally recognised independent rating agencies. Internal stakeholders, our Management and 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 a comprehensive 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 group expertise and obtain additional information on assessments, events and developments on the Russian market via our Shareholder, Bank GPB (JSC), Moscow.

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 institution. We have limited exposure to market risk assured through tightly managed foreign exchange and interest rate risk limits. Our Risk Control Function closely monitors all limits and periodically reports the status of key risks to our Management and Supervisory Boards as well as to our Parent Bank.

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 Supervisory 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 stand-alone 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 win 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.

In order to manage the assets under the view of the liquidity risk we have put in place different limits and Early Warning Indicators (EWIs) to ensure compliance with applicable prudential liquidity requirements.

Placement risk

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

This service gives rise to risk of non-placement in transactions where we act on our own behalf. The risk is considered to be acceptably 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 Bank GPB (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.

The operational risk framework relies on the following elements:

– *Loss Data Collection Process.*
– *Risk Assessment and Accountability.*
– *Definition and follow-up of action plans.*

In order to assess the potential operational risk stemming from new initiatives, the Bank introduced a new Products, Processes and Technologies Committee in 2020. It is a transversal management committee with delegated powers from the Management Board and is responsible for new products, services and ensuring efficient allocation and utilisations of resources based on suggestions from all units of the Bank.

We constantly improve our policies, procedures and workflows to ensure compliance with industry best practices as well as Gazprombank 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. It is managed by our Risk Management and Compliance teams with proper escalation to our Management and Supervisory Boards where the issues that may pose a reputational risk are presented and discussed. We assess 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.

Other required information

The Bank did not carry out any research activities in 2020. For information on the Bank's development of intangible assets, please refer to Note 17.

The Bank did not acquire any of its own shares in 2020.

The Bank has no branches.

Subsequent events

No material subsequent events occurred from 31 December 2020 until the date of this report.

Future outlook

Whilst the global economy is gradually improving back, the return will likely be long, uneven, and uncertain. Multiple vaccine approvals and the launch of vaccination in some countries in late 2020 raised hopes of a long-awaited end to the pandemic. Moreover, recent economic forecasts suggest on average stronger-than-projected momentum in the second half of 2020. Despite the high and rising human toll of the pandemic, economic activity appears to be adapting to subdued contact-intensive activity.

We will continue to develop and expand our product portfolio and lending book in 2021 in a cautious and structured way. 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 which might arise.

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

In order to stimulate further growth and to streamline future development efforts, the Bank is currently finalising its new business strategy for the years 2021–2025.

Luxembourg, 17 April 2021
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	2020 EUR'000	2019 EUR'000
Interest income calculated using the effective interest method	4	33,495	29,975
Other interest income	4	12,251	16,833
Interest expense	4	(18,367)	(22,516)
Net interest income		**27,379**	**24,292**
Fee and commission income	5	25,853	28,052
Fee and commission expense	6	(218)	(32)
Net fee and commission income		**25,635**	**28,020**
Net gain / (loss) on financial instruments at FVTPL	7	7,155	8,449
Net foreign exchange income / (loss)		-	(35)
Other operating income / (expenses)		1,930	513
Operating income		**62,099**	**61,239**
Depreciation and amortisation on tangible and intangible assets	17	(2,503)	(1,875)
Net impairment loss on financial assets	8	(12,935)	(9,937)
Net impairment loss on investment in subsidiary	33	(18)	(134)
Personnel expenses	9	(19,982)	(18,467)
Other general administrative expenses	10	(12,378)	(9,062)
		(47,816)	**(39,475)**
Profit /(loss) before income tax		**14,283**	**21,764**
Income tax expense	11	(1,660)	(1,092)
Profit /(loss) and total comprehensive income for the year		**12,623**	**20,672**

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	31.12.2020 EUR'000	31.12.2019 EUR'000
ASSETS			
Cash and deposits with central banks Financial instruments at FVTPL	12	910,310	461,908
Financial instruments at FVTPL			
- Held by the Bank	13	218,928	234,737
Loans to banks	14	220,095	138,266
Loans to customers	15	591,052	561,844
Investment securities measured at amortised cost	16	251,156	238,585
Investment in subsidiary	33	204	222
Property, equipment and intangible assets	17	3,806	5,234
Deferred tax assets	11	-	-
Other assets	18	3,834	2,203
Total assets		**2,199,385**	**1,642,999**

	Notes	31.12.2020 EUR'000	31.12.2019 EUR'000
LIABILITIES			
Financial instruments at FVTPL	13	233,119	244,846
Deposits and balances from banks	19	653,594	397,251
Current accounts and deposits from customers	20	1,033,988	730,061
Current tax liability		1,288	2,646
Deferred tax liabilities	11	373	536
Other provisions	21(a)	1,729	1,377
Other liabilities	21(b)	4,423	8,034
Total liabilities		**1,928,514**	**1,384,751**
EQUITY			
Share capital	22	231,690	231,690
Legal reserve		1,497	463
Other reserves		8,331	4,689
Retained earnings (accumulated losses)		16,730	734
Profit attributable to Owners of the Bank		12,623	20,672
Total equity		**270,871**	**258,248**
Total liabilities and equity		**2,199,385**	**1,642,999**

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

	2020 EUR'000	2019 EUR'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) and total comprehensive income for the year	12,623	20,672
Adjustment for:		
– Interest income	(45,746)	(46,808)
– Net gain (loss) on financial instruments at FVTPL	(7,155)	(8,449)
– Interest expense	18,367	22,516
– Net foreign exchange income (loss)	-	35
– Income tax expense	1,660	1,092
– Personnel expenses	3,705	3,908
– Depreciation and amortisation on tangible and intangible assets	2,503	1,875
– Net impairment loss on financial assets	12,935	9,937
– Net impairment loss on investment in subsidiary	18	134
	(1,090)	**4,912**
Changes in:		
– Other liabilities and other provisions	(6,862)	(2,158)
– Loans to customers	(40,767)	(141,550)
– Other assets	(1,632)	(401)
– Current accounts and deposits from customers	309,534	(911,852)
– Financial instruments designated at FVTPL	(392)	(23,848)
– Financial instruments at FVTPL (excluding financial assets designated at FVTPL)	7,834	5,668
– Deposits and balances from banks	257,591	(274,696)
	524,216	**(1,343,925)**
Income tax paid	(3,181)	(553)
Interest received	50,335	53,074
Interest paid	(17,552)	(24,541)
Net cash from / (used in) operating activities	**553,818**	**(1,315,945)**

		2020 EUR'000	2019 EUR'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investments securities measured at amortised cost		(110,029)	(91,679)
Repayment of investments securities measured at amortised cost		84,640	102,045
Acquisition of financial assets designated at FVTPL		(35,147)	(73,784)
Sale and repayment of financial assets designated at FVTPL		38,496	120,144
Acquisition of property, equipment and intangible assets	17	(358)	(2,284)
Net cash from / (used in) investing activities		**(22,398)**	**54,442**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		-	50,000
Payment of lease liabilities		(1,189)	(955)
Net cash from / (used in) financing activities		**(1,189)**	**49,045**
Net increase / (decrease) in cash and cash equivalents		**530,231**	**(1,212,458)**
Cash and cash equivalents at 1 January	12a	600,174	1,812,631
Cash and cash equivalents at 31 December	**12a**	**1,130,405**	**600,173**

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 1 January 2020	**231,690**	463	4,689	**21,406**	**258,248**
Total comprehensive income					
Profit for the year	-	-	-	12,623	12,623
Transfer to legal reserve (Note 22(b))	-	1,034	-	(1,034)	-
Transfer to other reserves (Note 22(c))	-	-	3,642	(3,642)	-
Total comprehensive income for the year	**231,690**	**1,497**	8,331	**29,353**	**270,871**
Transactions with owners, recorded directly in equity	-	-	-	-	-
Total transactions with owners	-	-	-	-	-
Balance as at 31 December 2020	**231,690**	**1,497**	**8,331**	**29,353**	**270,871**

EUR'000	Share capital	Legal reserve	Other reserves	Retained earnings (accumulated losses)	Total equity
Balance as at 1 January 2019 **Total comprehensive income**	**181,690**	-	-	**5,886**	**187,576**
Profit (loss) for the year	-	-	-	20,672	20,672
Transfer to legal reserve (Note 22(b))	-	463	-	(463)	-
Transfer to other reserves (Note 22(c))	-	-	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**

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) Organisation and operations

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

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

The financial statements for the year ended 31 December 2020 have been prepared in accordance with IFRS 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.

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 25 March 2021.

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except for financial instruments at FVTPL.

(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 judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, 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 the notes below and are mainly related to calculation of expected credit losses, determining fair values and the classification of financial assets and liabilities:

- Notes 15(b) and 23(e) – Loans to customers.
- Note 31 – Financial instruments designated at FVTPL.

(e) Changes in accounting policies and presentation

A number of new or amended standards are effective from 1 January 2020 but they do not have a material effect on the Bank's financial statements.

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 the Bank, except as explained in Note 2(e), which addresses changes in accounting policies.

Reclassification of comparatives

Provision for loans commitments issued in the amount of EUR 281 thousand, provision for invoices payable in the amount of EUR 731 thousand and "Other provisions" in the amount of EUR 365 thousand were reclassified from "Other liabilities" to "Other provisions" caption in Statement of Financial Position for the year ended 31 December 2019 to ensure comparability with the figures for the year ended 31 December 2020.

(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 effecttive interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

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

Foreign currency differences arising on translation are generally recognised in profit or loss.

(b) Cash and cash equivalents

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

(c) Financial instruments

i. Classification

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and 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 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).*
- *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.

Financial liabilities are classified as measured at amortised cost or FVTPL. Financial liabilities at FVTPL are financial liabilities that are:

- *Acquired or incurred principally for the purpose of selling or repurchasing in the near term.*
- *Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.*
- *Derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments). Or*
- *Upon initial recognition, designated as at FVTPL.*

The Bank may designate financial liabilities at FVTPL where either:

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

Under IFRS 9 fair value changes of liabilities designated as at FVTPL 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 Other Comprehensive Income (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 than 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.

Financial liabilities apart from those at FVTPL are subsequently measured at amortised cost using the effective interest method.

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 cost based on the effective interest rate (EIR) of the instrument.

v. Impairment

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking 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 recognised 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 an amount equal 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 considers 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 unfavourable 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) SICR on other transactions of the same borrower, or significant changes in the expected payment behaviour of the borrower, where known.
m) SICR 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 unfavourable 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 behavioural 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 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 ongoing review and shall be formally updated at least on an 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 a 12-month ECL is recognised are considered to be in Stage 1; financial assets that have experienced a SICR 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 ECLs is required to be unbiased and probability-weighted. It 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.

The calculation of ECLs is based on the PD x LGD x EAD approach, 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

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original Effective Interest Rate (EIR) and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original EIR is used to calculate the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by recomputing the EIR on the instrument.

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 capitalised 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:

Depreciation methods, useful lives and residual

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

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

Subsequent expenditure on computer software licences 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 three to five years.

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

(f) Leases

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.

ii. Leases in which the Bank is a lessee

As a lessee, the Bank leases office premises and vehicles (see Note 27). 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 2020 despite a newly leased additional part of the building as well as an additional vehicle.

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.

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 straight-line basis over 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 2020.

(g) Provisions

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

(h) Credit-related commitments

In the normal course of business, the Bank enters

into credit-related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

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

A financial guarantee liability is recognised initially at fair value and the initial fair value is amortised over the life of the guarantee.

Subsequently, they are measured as follows:

- *at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 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 Note 3(c)v).

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

(i) Share capital

i. Ordinary shares

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

ii. Repurchase of share capital

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

(j) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within OCI 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 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 the 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 judgements about future events. New information may become available that causes the Bank to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

(k) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method. The EIR 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 EIR, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the EIR includes fees and points paid or received, if any, that are an integral part of the EIR. 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.

(k) New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Bank has not adopted the new standards in preparing these financial statements early.

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

– *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).*
– *COVID-19-Related Rent Concessions (Amendment to IFRS 16).*
– *Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).*
– *Reference to Conceptual Framework (Amendments to IFRS 3).*
– *Classification of Liabilities as Current or Non-current (Amendments to IAS 1).*
– *IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts.*

4 Net interest income

	2020 EUR'000	2019 EUR'000
Interest income		
Financial instruments at FVTPL	12,251	16,833
Loans to banks	884	708
Loans to customers	23,328	20,825
Investment securities measured at amortised cost	9,283	8,442
Total interest income calculated using the effective interest rate method	**33,495**	**29,975**
	45,746	**46,808**
Interest expense		
Deposits and balances from banks	(3,292)	(4,472)
Interest expense on lease liabilities (IFRS 16)	(41)	(51)
Financial instruments at FVTPL	(349)	(728)
Current accounts and deposits from customers	(14,685)	(17,265)
	(18,367)	**(22,516)**

Included in interest income linked to the amortisation of premium and discount relates to financial assets not carried at FVTPL is EUR (1,137) thousand (2019: EUR (568) thousand).

Included in interest expense on deposits and balances from banks is negative interest charged by BCL on cash and deposits with central banks of EUR 2,194 thousand (2019: EUR 3,508 thousand).

5
Fee and commission income

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

	2020 EUR'000	2019 EUR'000
Credit fees, guarantee and letter of credit issuance	7,241	17,176
Underwriting and corporate finance	15,337	7,982
Settlement	1,913	1,586
Fiduciary services	-	686
Brokerage	1,362	622
	25,853	**28,052**

The "Credit fees, guarantee and letter of credit issuance" include EUR 5,176 thousand of arrangement fees related to MLA functions (2019: 12,953 thousand).

The "Underwriting and corporate finance" include EUR 14,812 thousand of fees related to Lead Manager Services in conjunction with bond and equity issuances in public offering for leading Russian / CIS corporates (2019: EUR 7,038 thousand).

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

	Note	31.12.2020 EUR'000	31.12.2019 EUR'000
Contract liabilities (included in Other liabilities)	21	-	1,541

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 receiving agency services. The weighted average expected period is n/a (2019: 1 month).

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 services 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.

6
Fee and commission expense

	2020 EUR'000	2019 EUR'000
Brokerage	(218)	(32)
	(218)	**(32)**

7
Net gain/(loss) on financial instruments at FVTPL

	2020 EUR'000	2019 EUR'000
Debt financial instruments	2,040	2,812
Derivatives	5,115	5,637
	7,155	**8,449**

Included in net gain / (loss) on financial instruments at FVTPL for the year ended 31 December 2020 is a total of EUR 24 thousand (2019: EUR 13 thousand) recognised on both financial assets at FVTPL and financial assets designated at FVTPL.

8
Net impairment loss on financial assets

	Notes	2020 EUR'000	2019 EUR'000
Loans to banks	14	12	(54)
Loans to customers	15	(12,690)	(9,640)
Investment securities measured at amortised cost	16	75	128
Other liabilities	21	(332)	(371)
		(12,935)	**(9,937)**

The position "Other liabilities" includes EUR 153 thousand (2019: EUR 281 thousand) with regards to impairment loss on open commitment.

9
Personnel expenses

	2020 EUR'000	2019 EUR'000
Employee compensation	(17,482)	(16,350)
Payroll-related taxes	(2,500)	(2,117)
	(19,982)	**(18,467)**

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

	2020	2019
Senior management	4.0	4.0
Management	16.9	20.1
Employees	69.6	60.0
	90.5	**84.1**

10
Other general administrative expenses

	2020 EUR'000	2019 EUR'000
IT expenses	(3,798)	(2,833)
Communications and information services	(2,682)	(2,135)
Counselling and legal expenses	(2,968)	(1,367)
Rent, utilities and other building costs	(354)	(172)
Travel expenses	(260)	(624)
Audit fees	(292)	(225)
Advertising and marketing	(206)	(199)
Insurance	(161)	(133)
Office supplies	(43)	(60)
Charity and sponsorship	(32)	(6)
Other	(1,582)	(1,308)
	(12,378)	**(9,062)**

11
Income tax expenses

	2020 EUR'000	2019 EUR'000
Current year tax expenses	(1,288)	(664)
Changes in estimates related to prior years	(535)	172
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	163	(600)
Total income tax gain (expenses)	**(1,660)**	**(1,092)**

In 2020, the applicable tax rate for current and deferred tax is 24.94% (2019: 24.94%).

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

	2020 EUR'000	2020 %	2019 EUR'000	2019 %
Profit before tax	14,283	-	21,764	-
Income tax at the applicable tax rate	(3,562)	(24.94)	(5,428)	(24.94)
Tax effect of non-deductible expenses and tax-exempt income	2,437	17.07	4,164	19.13
Changes in estimates relating to prior years	(535)	(3.75)	172	0.79
	(1,660)	**(11.62)**	**(1,092)**	**(5.02)**

(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 2020 and 2019.

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 2020 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 2020 and 2019 are presented as follows:

2020 EUR'000	Balance 01.01.2020	Recognised in OCI	Recognised in profit or loss	Balance 31.12.2020
Financial instruments at FVTPL	(536)	-	163	(373)
Derivatives held for trading	-	-	-	-
	(536)	**-**	**163**	**(373)**

2019 EUR'000	Balance 01.01.2019	Recognised in OCI	Recognised in profit or loss	Balance 31.12.2019
Financial instruments at FVTPL	(4)	-	(532)	(536)
Derivatives held for trading	68	-	(68)	-
	64	**-**	**(600)**	**(536)**

12 Cash and deposits with central banks

	31.12.2020 EUR'000	31.12.2019 EUR'000
Nostro accounts with BCL	910,310	461,908

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 2020 held by the Bank with the Central Bank of Luxembourg amounted to EUR 15,050 thousand (31 December 2019: EUR 15,304 thousand).

(a) Cash and cash equivalents

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

	31.12.2020 EUR'000	31.12.2019 EUR'000
Cash and deposits with central banks	910,310	461,908
Loans to banks	220,095	138,266
	1,130,405	**600,174**

13
Financial instruments at Fair Value through Profit or Loss (FVTPL)

Held by the Bank ASSETS Designated at FVTPL	31.12.2020 EUR'000	31.12.2019 EUR'000
- Government bonds		
rated from BBB- to BBB+	10,579	-
Total corporate bonds	10,579	-
- Corporate bonds		
rated from BBB- to BBB+	112,599	151,907
rated from BB- to BB+	52,997	39,204
rated below B+	37,947	369
not rated	-	42,122
Total corporate bonds	203,543	233,602
Total designated at FVTPL	214,122	233,602
Derivative financial instruments	1,965	579
Foreign currency contracts	2,841	556
Total financial instruments at FVTPL	218,928	234,737
LIABILITIES		
Designated at FVTPL		
CLDs	225,674	243,790
Total designated at FVTPL	225,674	243,790
Derivative financial instruments	1,526	130
Foreign currency contracts	5,919	926
Total Financial instruments at FVTPL	233,119	244,846

The amount of the change in the fair value attributable to changes in credit risk on the financial assets and liabilities designated at FVTPL was not significant.

The Bank developed an investment product, through which high-net-worth clients can place a time deposit with the Bank, which is linked to the performance of an underlying asset acquired by the Bank for such purposes 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 CLDs have been designated at FVTPL, since designation eliminates or significantly reduces an accounting mismatch that would otherwise arise between CLDs and underlying assets.

(a) Foreign currency contracts

The table below summarises, by major currencies, the contractual amounts of forward exchange contracts outstanding at 31 December 2020 and 2019, 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 FVTPL, as appropriate.

			Weighted average contractual exchange rates	
	2020 EUR'000	2019 EUR'000	2020	2019
Buy USD sell EUR				
Less than 3 months	631	89,723	0.8229	0.89205
Sell USD buy EUR				
Less than 3 months	419,522	127,150	0.81862	0.89205
More than 3 months to 12 months	-	47,408	-	0.88116
More than 1 year to 2 years	-	-	-	-
Buy RUB sell EUR				
Less than 3 months	26,111	9,149	0.01085	0.014329
More than 3 months to 12 months	6,014	-	0.01073	-
Sell RUB buy EUR				
Less than 3 months	50,926	16,024	0.01113	0.014239
More than 3 months to 12 months	-	-	-	-
Buy USD sell RUB				
Less than 3 months	6,223	3,359	77.91	61.8084
More than 3 months to 12 months	21,412	-	77.833	-
Sell USD buy RUB				
Less than 3 months	6,223	107	77.91	61.955
More than 3 months to 12 months	21,412	-	77.833	-

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 and foreign currency derivatives, which are assets:

	31.12.2020 EUR'000	31.12.2019 EUR'000
rated A- to A+	991	-
rated from AA- to AA+	7	-
rated from BB- to BB+	2,553	1,135
rated from BBB- to BBB+	63	-
	3,614	**1,135**

14 Loans to banks

	31.12.2020 EUR'000	31.12.2019 EUR'000
Loans and deposits		
rated from AA- to AA+	83,037	10,849
rated A- to A+	42,051	9,129
rated BBB- to BBB+	26,091	98
rated from BB- to BB+	68,893	107,127
rated from B- to B+	96	11,148
	220,168	**138,351**
Impairment allowance	(73)	(85)
Total loans and deposits	**220,095**	**138,266**

(a) Concentration of loans to banks

As at 31 December 2020, the Bank has two banks (2019: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2020 is EUR 94,045 thousand (2019: EUR 106,912 thousand).

15 Loans to customers

	31.12.2020 EUR'000	31.12.2019 EUR'000
Corporate customers		
Direct loans	565,921	495,309
Loans participated in by the Bank	28,705	55,206
Mortgage loans	20,808	22,995
Total loans to corporate customers	**615,434**	**573,510**
Private customers		
Loans to private customers	124	150
Total loans to private customers	**124**	**150**
Impairment allowance	(24,506)	(11,816)
Net loans to customers	**591,052**	**561,844**

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 a 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 an 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 an SFSP participant.

According to the conditions of the SFSP loans, an 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 an SFSP participant or it mitigates payment risk through adequate means.

As at 31 December 2020, there were EUR 1,716 million loans participated in by other banks through SFSP (2019: EUR 2,797 million).

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

2020

EUR'000	Stage 1	Stage 2	Stage 3	Total
Impairment allowance on loans to corporate customers				
Balance at the beginning of the year	(1,907)	(2,288)	(7,621)	(11,816)
Transfer to Stage 2	125	(125)	-	-
Transfer to Stage 3	14	108	(122)	-
Net remeasurement of loss allowance	(410)	(1,610)	(10,670)	(12,690)
Balance at the end of the year	**(2,178)**	**(3,915)**	**(18,413)**	**(24,506)**

2019

EUR'000	Stage 1	Stage 2	Stage 3	Total
Impairment allowance on loans to corporate customers				
Balance at the beginning of the year	(2,176)	-	-	(2,176)
Transfer to Stage 2	36	(36)	-	-
Transfer to Stage 3	48	-	(48)	-
Net remeasurement of loss allowance	185	(2,252)	(7,573)	(9,640)
Balance at the end of the year	**(1,907)**	**(2,288)**	**(7,621)**	**(11,816)**

The following table provides information by types of loan products as at 31 December 2020:

	Gross amount EUR'000	Impairment allowance EUR'000	Carrying amount EUR'000
Loans to corporate customers			
Direct loans	565,921	(24,224)	541,697
Loans participated in by the Bank	28,705	(277)	28,428
Mortgage loans	20,808	(5)	20,803
Loans to private customers			
Loans to private customers	124	-	124
	615,558	**(24,506)**	**591,052**

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 in 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**

(a) Credit quality of loans to customers

The following table provides information by types of loan products as at 31 December 2020:

	Gross amount EUR'000	Impairment allowance EUR'000	Carrying amount EUR'000
Loans to corporate and private customers			
rated from BBB- to BBB+	4,743	(6)	4,737
rated from BB- to BB+	435,461	(1,043)	434,418
rated from B- to B+	148,892	(5,044)	143,848
rated from CCC- to CCC+	-	-	-
rated from D- to D+	26,462	(18,413)	8,049
	615,558	**(24,506)**	**591,052**

The above table contains the following stage categorisation with regards to IFRS 9 as at 31 December 2020:

	Gross amount EUR'000	Impairment allowance EUR'000	Carrying amount EUR'000
Loans to corporate customers			
rated from B- to B+			
Stage 2	37,859	(3,915)	33,944
rated from D- to D+			
Stage 3	26,462	(18,413)	8,049
	64,321	**(22,328)**	**41,993**

All other exposures are classified as Stage 1 with regards to IFRS 9.
Exposures which are overdue for more than 30 days consist entirely of Stage 3 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 as at 31 December 2019:

	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+			
Stage2	954	(108)	846
Stage3	21,288	(7,621)	13,667
	42,115	**(9,909)**	**32,206**

(b) Key assumptions and judgements for estimating loan impairment

i. Loans to corporate customers

The Bank estimates ECLs for loans to corporate customers which are not considered as credit impaired based on the probability-weighted present value of expected future cash shortfalls discounted with the loan's original EIR. In estimation of the likelihood of default and the expected future shortfalls, the Bank uses its own rating models.

For credit-impaired loans, the Bank bases its estimate on the expectation of likely recovery scenarios using a probability-based discounted cash flow model. The establishment of ECLs on credit-impaired loans 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 2020, the Bank had two mortgage loans of 20,803 thousand (2019: 3 of EUR 22,933 thousand). The collateral value of these loans, represented by residential properties, as at 31 December 2020 is EUR 24,687 thousand. All mortgage loans are considered as 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. None of the credit-impaired loans as at 31 December 2020 are collateralised (31 December 2019: none).

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 small and medium-sized enterprises (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 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 credit-worthiness of borrowers.

Based on 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 for the purpose of regulatory capital adequacy. Thus, the Bank has conservatively decided to use the result of the Standardised Approach for its quantification of the credit risk. The Standardised Approach increases the risk sensitivity of the capital framework by recognising that different loan categories or even 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 Standardised Approach takes into account the credit rating of the borrower and additional risk mitigating impact of collateral. The Bank considers only cash pledged under Luxembourg Law and guarantees provided as eligible credit risk mitigation techniques.

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 (2019: 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:

	31.12.2020 EUR'000	31.12.2019 EUR'000
Manufacturing	52,632	53,599
Energy	131,525	144,451
Mining	17,247	23,203
Trade	185,651	123,816
Finance	119,376	96,596
Agriculture, forestry and timber	52,929	56,798
Real estate	20,847	23,010
Loans to private customers	124	151
Transport	35,186	46,785
Other	41	5,251
	615,558	**573,660**
Impairment allowance	(24,506)	(11,816)
	591,052	**561,844**

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

	31.12.2020 EUR'000	31.12.2019 EUR'000
Trade	121,198	103,728
Manufacturing and chemical industry	40,433	24,254
Transport	7,550	7,639
Agriculture, forestry and timber	53,525	103,795
Energy and oil	107,045	414,483
Finance	10,000	19,133
Mining	180,306	156,730
Other	478	578
	520,535	**830,340**
Impairment allowance	(434)	(280)
	520,101	**830,060**

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

	31.12.2020 EUR'000	31.12.2019 EUR'000
Luxembourg	53,680	47,471
OECD countries (excl. Luxembourg)	293,167	298,452
Other countries	268,711	227,736
	615,558	**573,660**
Impairment allowance	(24,506)	(11,816)
	591,052	**561,844**

(e) Significant credit exposures

As at 31 December 2020, the Bank has 11 connected borrowers (2019: 5) whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2020 is EUR 404,672 thousand (2019: EUR 179,664 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

	31.12.2020 EUR'000	31.12.2019 EUR'000
Held by the Bank		
Corporate bonds		
rated from BBB- to BBB+	108,885	159,589
rated from BB- to BB+	134,782	55,852
rated from B- to B+	8,170	23,900
Total corporate bonds	**251,837**	**239,341**
Impairment allowance	(681)	(756)
Total net corporate bonds	**251,156**	**238,585**

17
Property, equipment and intangible assets

EUR'000	Equipment	Other equipment	Land and building	Fixtures and fittings
Cost				
Balance as at 1 January 2020	398	75	2,936	1,118
Additions	63	77	637	66
Balance at 31 December 2020	**461**	**152**	**3,573**	**1,184**
Depreciation, amortisation and impairment losses				
Balance at 1 January 2020	(307)	(21)	(934)	(307)
Depreciation and amortisation for the year	(46)	(42)	(1,140)	(143)
Balance at 31 December 2020	**(353)**	**(63)**	**(2,074)**	**(450)**
Carrying amount at 31 December 2020	**108**	**89**	**1,499**	**734**

EUR'000	Computer software	Computer software (internally generated)	Construction in progress	Total
Cost				
Balance as at 1 January 2020	4,235	440	-	9,202
Additions	232	-	-	1,075
Balance at 31 December 2020	**4,467**	**440**	**-**	**10,277**
Depreciation, amortisation and impairment losses				
Balance at 1 January 2020	(2,252)	(147)	-	(3,968)
Depreciation and amortisation for the year	(1,108)	(24)	-	(2,503)
Balance at 31 December 2020	**(3,360)**	(171)	**-**	**(6,471)**
Carrying amount at 31 December 2020	**1,107**	**269**	**-**	**3,806**

There are no capitalised borrowing costs related to the acquisition or construction of plant and equipment during 2020 (2019: nil).

EUR'000	Equipment	Other equipment	Land and building	Fixtures and fittings
Cost				
Balance as at 31 December 2018	292	-	-	629
Recognition of right-of-use asset on initial application of IFRS 16	-	75	2,936	-
Balance as at 1January 2019	292	75	2,936	629
Additions	106	-	-	489
Transfers	-	-	-	-
Balance at 31 December 2019	**398**	**75**	**2,936**	**1,118**
Depreciation, amortisation and impairment losses				
Balance at 1 January 2019	(246)	-	-	(202)
Depreciation and amortisation for the year	(61)	(21)	(934)	(105)
Balance at 31 December 2019	**(307)**	**(21)**	**(934)**	**(307)**
Carrying amount at 31 December 2019	**91**	**54**	**2,002**	**811**

EUR'000	Computer software	Computer software (internally generated)	Construction in progress	Total
Cost				
Balance as at 31 December 2018	2,547	-	439	3,907
Recognition of right-of-use asset on initial application of IFRS 16	-	-	-	3,011
Balance as at 1 January 2019	2,547	-	439	6,918
Additions	1,688	-	1	2,284
Transfers	-	440	(440)	-
Balance at December 2019	**4,235**	**440**	**-**	**9,202**
Depreciation, amortisation and impairment losses				
Balance at 1 January 2019	(1,645)	-	-	(2,093)
Depreciation and amortisation for the year	(607)	(147)	-	(1,875)
Balance at 31 December 2019	**(2,252)**	(147)	**-**	**(3,968)**
Carrying amount at 31 December 2019	**1,983**	**293**	**-**	**5,234**

18
Other assets

	31.12. 2020 EUR'000	31.12.2019 EUR'000
VAT receivables	-	502
Other tax assets	2,523	1,010
Other prepayments	1,311	691
Total other non-financial assets	**3,834**	**2,203**

19
Deposits and balances from banks

	31.12. 2020 EUR'000	31.12.2019 EUR'000
At sight	568,509	182,332
With agreed maturity	85,085	214,919
	653,594	**397,251**
rated from AAA- to AAA+	6,050	-
rated from AA- to AA+	-	43,626
rated from A- to A+	79,489	69,955
rated from BB- to BB+	567,619	283,105
not rated	436	565
	653,594	**397,251**

As at 31 December 2020, the Bank has two banks (2019: four banks) whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2020 is EUR 617,892 thousand (2019: EUR 395,852 thousand).

20
Current accounts and deposits from customers

	31.12.2020 EUR'000	31.12.2019 EUR'000
Current accounts and demand deposits		
- Private	76,329	28,114
- Corporate	280,467	396,285
Term deposits		
- Private	270,677	182,829
- Corporate	406,515	122,833
	1,033,988	**730,061**

As at 31 December 2020, the Bank has nine customers (2019: four customers) whose balances exceed 10% of equity. These balances as at 31 December 2020 are EUR 645,893 thousand (2019: EUR 359,435 thousand).

21
(a) Other provisions

	31.12.2020 EUR'000	31.12.2019 EUR'000
Provision for loans commitments issued	613	281
Provision for invoices payable	670	731
Other provisions	446	365
Total other provisions	**1,729**	**1,377**

(b) Other liabilities

	31.12.2020 EUR'000	31.12.2019 EUR'000
Other financial liabilities	178	1,541
Total other financial liabilities	**178**	**1,541**
Employee remuneration	3,300	3,300
Other	945	3,193
Total other non-financial liabilities	**4,245**	**6,493**
	4,423	**8,034**

22
Share capital and reserves

(a) Issued capital and share premium

As at 31 December 2020 and 2019 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.

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

(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 2020, the legal reserve amounts to EUR 1,497 thousand (2019: EUR 463). During the year an amount of EUR 1,034 thousand, 5% of the annual net profit 2019, was allocated to the legal reserve. This allocation to the legal reserve is expected to be approved at the Annual General Meeting of the Bank in April 2021.

(c) Other reserves

In accordance with paragraph 8a of the net wealth tax law, an amount equal to five times the net wealth tax, amounting to a total of EUR 3,642 thousand (2019: EUR 4,689 thousand) has been allocated during the year to the special reserve in relation to net wealth tax which may not be distributed during a minimum of five years. This allocation to the other reserves is expected to be approved at the Annual General Meeting of the Bank in April 2021.

The net wealth tax reserve is analysed as follows:

	31.12. 2020 EUR'000	31.12.2019 EUR'000
2019	4,689	4,689
2020	3,642	-
	8,331	**4,689**

23 Risk management, corporate governance and internal control

(a) Corporate governance framework

The Bank is established as a “société anonyme” in accordance with Luxembourg Law. The supreme governing body of the Bank is the general shareholders’ meeting that is called for annual or extraordinary meetings. The General Shareholders’ meeting makes strategic decisions on the Bank’s operations.

The Bank has a two-tier (Supervisory Board and Management Board) corporate governance structure. The function of the Supervisory Board is to ensure it maintains a complete overview and gives general strategic advice to the executive management vested in the Management Board. Specialised audit and risk as well as remuneration committees of the Supervisory Board were created 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 within the competence of the general shareholders’ meeting and that are approved by the Supervisory Board.

As at 31 December 2020, 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.
– Mr. Franciscus Kuijlaars
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, Organisational Guidelines and Regulations or other resolutions to the Supervisory Board or to the general shareholders’ meeting. 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) is approved by the Supervisory Board.

The Supervisory Board elects the Members of the Management Board, determines their remuneration (within activities of the remuneration

committee) 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 2020, the Management Board consists of:

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

(b) Internal control policies and procedures

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

— *Integrity.*
— *Reliable and operate on an ongoing basis;*
— *Effective.*
— *Adequate for the Bank as a whole and all of its organisational and business units;*
— *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).*
— *Transparent towards the management, execution (i.e. business and related support functions) and control functions.*

All policies and procedures are approved by the Management Board, as well as by the Audit and Risk Committee (ARCO) or the Supervisory Board if so required by local legal or regulatory frameworks 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 outlined in the Circular 12/552 on Central Administration, Internal Governance and Risk Management as subsequently amended. 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). 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 and 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 Security Officer who is:

— *Independent from the operational functions.*
— *Released from the implementation of security actions.*
— *reporting directly to the Chief Risk Officer (CRO).*

Furthermore, the Bank ensures at all times that the appropriate level of security, integrity and confidentiality is applied in relation to any type of information related directly or indirectly to a client or employee of the Bank. The IT function of the Bank is organised so as to ensure 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 has also put 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 HTM Portfolio Report.*
- *Daily P&L.*
- *Daily Capital Adequacy Estimate.*
- *Daily Cash Position.*
- *Daily Liquidity Report and Liquidity Coverage Ratio (LCR) Control.*
- *Daily Portfolio Limits/Utilisation Report.*
- *Daily Margin Calls Calculation.*
- *Daily FX-Position Calculation.*
- *Daily Economic Risk and Collateral by Countries.*
- *Daily Asset Liability Management (ALM) Report (contractual gap, static gap, dynamic gap, stress gap, LCR and Net stable funding ratio (NSFR); values as at previous end of business day, amounts of short-term funds).*
- *Detailed LCR Report with overview of bond portfolio by ISIN.*
- *Intra-day LCR Valculation.*
- *Intra-day Nostro Positions Report.*

Weekly monitoring:

- *Monitoring of CLDs.*
- *Liquidity Gap by type of products with daily cash flows over the next 30 days.*
- *Updated funds transfer pricing (FTP) Table.*
- *Financial Risk Overview.*

Monthly monitoring:

- *Country Risk Reporting (discontinued since September 2020).*
- *Corporate Portfolio Report (discontinued since September 2020).*
- *Dashboard Report (discontinued since September 2020).*
- *Monthly Key Risk Indicators (KRI) Report (discontinued since September 2020).*
- *Monthly Liquidity Risk Report (discontinued since September 2020).*
- *Group OpRisk Report (discontinued since September 2020).*
- *Monthly Reporting to the Supervisory Board - Risk, Capital and Liquidity Management Report (issued from August 2020, which includes information included previously in the discontinued reports outlined above).*
- *Regulatory Additional Liquidity Monitoring Metrics (ALMM) Reporting.*
- *Update of the Operating Liquidity Plan, planned new assets and funding.*

Quarterly reports:

- *Report on Audit Findings and Recommendations.*
- *Group OpRisk.*
- *Update of the stable profile of short-term liquidity.*
- *Liquidity Report for ARCO.*

Semi-Annual Reports:

- *Interest Rate Risk Report (regulatory).*

Annual monitoring:

- *Annual Risk Assessment.*
- *Annual Summary of the Risk Control Function.*
- *Annual ICAAP and ILAAP Reports, jointly expressed as ICLAAP.*
- *Recovery Plan.*
- *Short Form and Long Form Reports.*

Report on Audit Findings and 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 ARCO 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

Risk Management and Risk Control department ("Risk Management") is responsible for the risk management and control of the Bank as a whole. In this context, 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.

Risk Management is an independent function with unrestricted rights of information, access and inspection. It reports periodically to the Management Board, ARCO 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 Management Board, Audit and Risk Committee and the Supervisory Board to understand the Bank's overall risk profile.

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

- Risk management:

- *Design and set up of the risk management processes and models.*
- *Design of ICS and its regular adequacy check;*
- *Design of KRI 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 ICS 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 KRI.*
- *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, ARCO and/or the Supervisory Board.*
- *On an hoc basis to the Management Board, ARCO and/or the Supervisory Board (in particular to directly discuss key risk issues including developments that may be inconsistent with the Bank's risk tolerance and strategies).*
- *On an annual basis to the ARCO and the Supervisory Board by submitting to the latter a summary report on its activities and its operation and an ICAAP Report for approval.*

(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 primarily currency risk and interest rate risk. 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 2020 as a non-trading unit. All risks related to the ALM 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 situation.profile and liquidity and capital situation.

The Bank has limited open exposure to foreign currency market risk assured through adherence to very low internal FX limits. 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 is any increase in strict FX limitation policy expected.

The main task of the trading desk was to handle execution of client orders in accordance with the Bank's Order and 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 EWIs to monitor and manage interest rate risk.

The following table provides an overview of the limits and their utilisation as at 31 December 2020:

Limit type	Limit Amount	EWI	EUR mln
Net interest income (NII) sensitivity	EUR 4.72 mln	EUR 4.24 mln	1.50
Limit revaluation impact on P&L	EUR 2.00 mln	EUR 1.80 mln	-
+/- 100bp parallel shift	EUR 9.0 mln	EUR 8.10 mln	3.07
Interest rate gap	<= 1y - EUR 500 mln	90% of the limit amount	86.83
	1y <= 2y - EUR 330 mln		88.98
	2y <= 3y - EUR 330 mln		60.51
	3y <= 4y - EUR 80 mln		46.73
	4y <= 5y - EUR 80 mln		39.25
	5Y – EUR 50 mln		16.27
VaR limit	EUR 8.00 mln	EUR 7.20 mln	0.41

Interest rate sensitivity analysis

Interest rate result		2020	2019
Variation	**Scale**	**Result on the capital, EUR'000**	
Increase of	200bp	(5,527)	(7,153)
Decrease of	200bp	5,930	7,863
Standard shock description		Parallel shock applied to all maturities	

Due to the fact that the market risk is 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 200 bps scenario as adequate for the Bank. The stress test is performed on all interest rate risk positions. The effects on the capital are reasonable: -EUR 5,527 thousand in case of the increase of interest yield curve (+200 bps) and +EUR 5,930 thousand in case of decrease of interest rate curve (-200 bps).

The Bank has chosen the Standardised Approach to calculate own funds requirements for market risk. According to this method, there was no capital requirement to cover market risk as at 31 December 2020.

(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 are not subject to application of hedge accounting in accordance with IFRS.

The following table shows the foreign currency exposure structure of assets and liabilities as at 31 December 2020:

	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	910,310	-	-	-	-	910,310
Financial instruments at FVTPL	38,747	164,976	-	3,061	12,144	218,928
Loans to banks	113,289	104,265	242	1,459	840	220,095
Loans to customers	380,941	161,979	48,132	-	-	591,052
Investment securities measured at amortised cost	183,449	67,707	-	-	-	251,156
Investment in subsidiary	204	-	-	-	-	204
Other financial and non-financial assets	7,640	-	-	-	-	7,640
Total assets	**1,634,580**	**498,927**	**48,374**	**4,520**	**12,984**	**2,199,385**

	EUR EUR'000	USD EUR'000	RUB EUR'000	CHF EUR'000	Others EUR'000	Total EUR'000
LIABILITIES						
Financial instruments at FVTPL	(41,220)	(176,356)	-	(3,087)	(12,456)	(233,119)
Deposits and balances from banks	(651,615)	(1,485)	(494)	-	-	(653,594)
Current accounts and deposits from customers	(263,056)	(739,920)	(28,989)	(1,508)	(515)	(1,033,988)
Current tax liability	(1,288)	-	-	-	-	(1,288)
Deferred tax liabilities	(373)	-	-	-	-	(373)
Other provisions	(1,729)	-	-	-	-	(1,729)
Other liabilities	(4,212)	(211)	-	-	-	(4,423)
Capital and reserves	(258,248)	-	-	-	-	(258,248)
Total liabilities, capital and reserves	**(1,221,741)**	**(917,972)**	**(29,483)**	**(4,595)**	**(12,971)**	**(2,186,762)**
Net position	**412,839**	**(419,045)**	**18,891**	**(75)**	**13**	**12,623**
The effect of derivatives held for risk management	**(400,090)**	**418,891**	**(18,801)**	**-**	**-**	**-**
Net position after derivatives held for risk management purposes	**12,749**	**(154)**	**90**	**(75)**	**13**	**12,623**

The following table shows the 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
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 liabilities	(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**

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 Management. All overdrafts, if any, must be justified.

A weakening of the EUR, as indicated below, against the following currencies at 31 December 2020 and 2019, 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.

	2020 | EUR'000	2019 | EUR'000
10% appreciation of USD against EUR	(2)	(1)
10% appreciation of RUB against EUR	1	(5)
10% appreciation of CHF against EUR	(2)	4

(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 the form of exchange of cash, securities or other assets may fail.

Impairment and ECL

IFRS 9 introduced a forward-looking impairment model, requiring banks to provide for ECLs which will be used in the Bank. The scenarios and weightings below were used for both 2020 and 2019.

The current four forward-looking scenarios are as follows:

Scenario 1:	Tightening of sanction regime → one notch rating downgrade CIS/Russia
Scenario 2:	Further severe economic downturn world-wide → two notches rating downgrade for all counterparties
Scenario 3:	Unchanged conditions → unchanged ratings
Scenario 4:	Improving economic conditions → one 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

The scenarios described above provide for potential future changes to the ratings. The Bank regularly monitors the credit quality of its counterparties in order to reflect changes in their creditworthiness in a timely manner.

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: three-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 considered as low	There is objective evidence of impairment at the reporting date
Rebuttable presumption	-	Recognised not later than when exposure becomes overdue by more than 30 days	Recognised not later than when exposure becomes overdue by more than 90 days
Impairment, allowance, interest	12-month ECL interest revenue based on gross amount	Lifetime ECL interest revenue based on gross amount	Lifetime ECL interest revenue based on net carrying 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 ECLs (measurement basis: **12-month ECL**).*
- *12-month ECL is a portion of the lifetime ECL that is associated with the PD events occurring within the 12 months after the reporting date.*
- *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 an SICR 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 an SICR (SICR) so the measurement basis changes to **Lifetime ECLs**.*
- ***Criteria for a transfer** from Stage 1 to Stage 2 are indicated in the 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 SICR. There is a rebuttable presumption that the **credit risk** has increased significantly when material contractual payments are more than 30 days past due.*
- *At each balance sheet date, SICR must be assessed since the instrument was originated (assessment is made by comparing the original PD applicable to the period after the reporting date as determined when the instrument was originated with the current assessment of the lifetime PD 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 it is for Stage 1. In the case of transfer in Level 2, the necessary additions to risk provisions must be recognised in profit and loss in the income statement.*

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 remain at **Lifetime ECL**, but interest revenue will be calculated by applying the 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 an SICR concluded on the balance sheet date after a defined cure period (best market practice commonly set at three to six 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 "non-performing" to "performing" status are elaborated in the*

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, days past due, distressed restructuring, sale of the credit obligation at loss, default on financial markets transaction, enforcement, potential bankruptcy and bankruptcy criteria, and 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 "performing" status.*

Depending on the quantitative materiality and whether a significant increase in the credit risk (SICR) 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).*
- *ECLs would normally not be expected to equal zero because the Bank takes into account the possibility that a loss would occur, even if such probability is considered 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:
$ECL = Gross\ Carrying\ Amount - \Sigma Recovery_t * Df_t$

In detail, the calculated / algorithm within the Bank is 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.

During 2020, specific loan allowances were created for three clients who were considered to be in default, one of whom had already entered default in 2019. The Bank calculates ECL based on discounted cash flow of the expected cash recoveries under several scenarios. The Bank has performed sensitivity assessment of its ECL estimate for all inputs deemed as significant in the estimation process. The sensitivity analysis quantified the impact of:

a) *+/- 10% relative change in the LGD.*
b) *+/- 1 rating change.*
c) *+/- 10 percentage points in the likelihood of a specific scenario, whilst maintaining the relative probability of other scenarios constant.*

The following table summarises the results of the analysis (positive amounts should be interpreted as increase of ECL):

	Relative +/-10%	Rating change	Stress on scenario probability***			
EUR thousand	**LGD***	**Rating****	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**
Stress +10% or +1 rating	752.07	(3,532.81)	(470.29)	(248.02)	90.16	971.40
Stress -10% or -1 rating	(752.07)	4,409.00	470.29	248.02	(90.16)	(971.40)
% ECL change	**LGD**	**Rating**	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**
Stress +10% or +1 rating	2.9%	(13.6%)	(1.8%)	(1.0%)	0.3%	3.7%
Stress -10% or -1 rating	(2.9%)	17.0%	1.8%	1.0%	(0.3%)	(3.7%)

* +/- 10% relative change in the LGD
** +/- 1 rating change
*** +/- 10% in the likelihood of a specific scenario; maintaining the relative probability of other scenarios constant

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 analyses and an approval process for any credit exposure. These directives and guidelines also cover the monitoring of outstanding loans. The Bank is using internal credit rating systems and classifies all counterparties into twenty-two/twenty-one rating categories for corporate/ Financial Institution (FI) clientele respectively. The internal credit rating system for FIs has been implemented recently. In the absence of internal ratings for third party banks and to assess the issuer risk, the Bank is applying the ratings issued by internationally recognised rating agencies. The Management Board receives a regular overview of the internal credit ratings of all counterparties.

Given potential significance of country risk concentration, the Bank has a Country Risk Management Framework and a Country Risk Management Policy in place. The framework is 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 in the relevant risk taking and management activities.

Below are the highlights of the country risk management applied in the Bank:

- *The definition of country risk is defined across certain sub-types 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 affect its repayment ability.
– 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 months' maturity threshold) and long-term (above six months' 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 the department responsible for the product; the eligible risk transfer and mitigation tools were aligned with respective requirements applied to credit exposures set out in the CRR.*
– *Country risk treatment stipulated in the Country Risk Directive assumes an overall high-level country risk-bearing capacity of the Bank in accordance with which more specific country risk limits are planned to establish that 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.*

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 a Forbearance Policy.

Country and credit 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.

The Russian Federation 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 the Russian Federation. This leads to significant Russian Federation involvement 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; credit default swap (CDS) costs of Russian Federation to become part of margin requirements for transactions with Russian borrowers without transfer risk mitigation schemes have been put 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

The 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 stand-alone 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 tests to understand the likely impact of potential developments in the Bank's business, and external market conditions on its liquidity profile, to assess whether current exposures still remain within the liquidity risk appetite. The outcomes of such analysis serve as an input to liquidity contingency planning.

The Bank defines the following types of stress test scenarios as:

– *The Basel Committee on Banking Supervision (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 approved by ALCO.*
– *Ad hoc stress tests at the discretion of the ALM team, which includes sensitivity analyses and testing of potential new scenarios.*

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

The liquidity buffer is formed from highly liquid assets that are clearly segregated from all other assets and securities in terms of Management Information Systems (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 the amount of required liquidity bwuffer 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 at 31 December 2020 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	910,310	-	-	-	-	910,310
Loans to banks	220,095	-	-	-	-	220,095
Loans to customers	221,358	30,575	312,400	26,719	-	591,052
Investment securities measured at amortised cost	9,343	16,683	225,130	-	-	251,156
Financial instruments at FVTPL	10,022	11,486	145,287	52,133	-	218,928
Total financial assets	**1,371,128**	**58,744**	**682,817**	**78,852**	**-**	**2,191,541**
Deposits and balances from banks	637,260	-	16,334	-	-	653,594
Current accounts and deposits from customers	719,561	222,614	91,813	-	-	1,033,988
Financial instruments at FVTPL	15,378	11,558	152,811	53,372	-	233,119
Other financial liabilities	4,423	-	-	-	-	4,423
Total financial liabilities	**1,376,622**	**234,172**	**260,958**	**53,372**	**-**	**1,925,124**
Total	**(5,494)**	**(175,428)**	**421,859**	**25,480**	**-**	**266,417**

The general term structure of financial assets and liabilities as at 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 FVTPL	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 FVTPL	4,741	39,589	200,516	-	-	244,846
Other financial liabilities	1,541	-	-	-	-	1,541
Total financial liabilities	**941,574**	**187,983**	**244,142**	**-**	**-**	**1,373,699**
Total	**(173,909)**	**10,381**	**425,169**	**-**	**-**	**261,641**

The LCR as at per 31 December 2020 is as follows:

	31.12.2020 EUR'000	31.12.2019 EUR'000	31.12.2018 EUR'000
Liquidity Buffer	986,757	525,671	1,652,753
Net Liquidity Outflow	616,506	227,710	749,760
Liquidity Coverage Ratio (%)	160.06%	230.85%	220.44%

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).

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

Lastly, they highlights the need for 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 476 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 levels and across business and support functions.

To strengthen its operational risk management framework, the Bank drew up 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 years' 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 the 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 common reporting framework (COREP) are as follows:

	31.12.2020 EUR'000	31.12.2019 EUR'000	31.12.2018 EUR'000
Operational Risk (BIA)	8,216	6,519	4,047

Mitigation of risk is performed through the set-up of an operational risk framework in order to ensure that all risks are properly managed and controlled. All identified risks are tracked and monitored in the Risk Inventory and reported via the KRI 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 and Risk Control Function.*

The separate reporting of compliance functions as well as risk management functions 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. The Bank does not hold any Tier 2 or Tier 3 Capital as at 31 December 2020.

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

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

EUR million	31.12.2020	31.12.2019	31.12.2018
Paid-up capital	231.7	231.7	181.7
Reserves	26.6	5.9	(3.3)
Intangible assets	(1.4)	(2.3)	(1.3)
Net profit of the current year	12.6*	20.7*	9.3*
Other	(0.7)	(0.2)	(0.4)
Total own funds	**256.2**	**235.1**	**176.7**

* 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 total capital requirements by risk category are given in the following table:

EUR million	31.12.2020		31.12.2019		31.12.2018	
	Risk exposure amount	Capital require-ment	Risk exposure amount	Capital require-ment	Risk exposure amount	Capital require-ment
Credit risk	954.3	76.3	952.9	76.3	719.5	57.6
Operational risk	102.7	8.2	81.5	6.5	50.6	4.0
Credit valuation adjustment	0.7	0.1	0.2	-	1.2	0.1
Total Pillar I	**1,057.7**	**84.6**	**1,034.6**	**82.8**	**771.3**	**61.7**

Putting the total Pillar I risk exposure amount in relation to the Bank's own funds as per 31 December 2020, the Bank has a CET 1 and total capital ratio of 24.2% (2019 and 2018: 22.7% and 22.9%, respectively) which is above the regulatory minimum CET 1 ratio and total capital ratio of respectively 4.5% and 8%.

During the financial year 2020, the Bank has complied with the overall capital requirement as established for the Bank by the CSSF.

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 a 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.

	31.12.2020 EUR'000	31.12.2019 EUR'000
Contracted amount		
Loan and credit line commitments	520,535	831,540
Guarantees and letters of credit	58,234	26,477
	578,769	**858,017**

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
Fonds de garantie des dépôts Luxembourg (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 authorised 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 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 2016 to 2018. Having reached the level of 0.8%, the Luxembourgish credit institutions are to continue to contribute for eight 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 of 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 2020, the 2020 cash contribution for FGDL was recorded in the caption “Other General Administrative Expenses” for an amount of EUR 23,209.

Additionally, the 2020 FRL contribution for an amount of EUR 1,084,864 was paid by the Bank and recorded in the caption “Other General Administrative Expenses” (2019: EUR 568,902).

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:

	2020 EUR’000	2019 EUR’000
Less than 1 year	-	-
Between 1 and 5 years	(1,589)	(2,056)
More than 5 years	-	-
	(1,589)	**(2,056)**

Lease liabilities as at 31 December are as follows:

	2020 EUR’000	2019 EUR’000
Less than 1 year	-	-
Between 1 and 5 years	(1,633)	(2,056)
More than 5 years	-	-
	(1,633)	**(2,056)**

Profit and loss accounts with regards to IFRS 16 Leases as at 31 December 2020 are as follows:

	2020 EUR’000	2019 EUR’000
Interest expense on lease liabilities	(41)	(50)
Depreciation on right-to-use assets	(1,181)	(955)
	(1,222)	**(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 include contingent rentals.

For further information with regards to IFRS 16 Leases please refer to Note 3 (f) “Leases”.

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.

	31.12.2020 EUR'000	31.12.2019 EUR'000
Fiduciary loans	-	-
Fiduciary deposits	-	-

(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 2020 the Bank provides custodian services for 173 securities with a nominal of EUR 302,882 thousand (2019: 112 securities with a nominal of EUR 184,618 thousand).

30
Related party transactions

(a) Control relationships

The Bank's parent company is Gazprombank (JSC), Moscow ("Parent Bank"). As at 31 December 2020, 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

Directors' fees to five external members of the Supervisory Board in the amount of EUR 247,917 have been provided for in 2020 (2019: EUR 140,000).

Remuneration granted to the senior management and management during 2020 amounted to EUR 8,490 thousand (2019: EUR 7,235 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 EIR as at 31 December 2020 and 2019 for transactions with members of the Supervisory Board and the Management Board are as follows:

	31.12.2020 EUR'000	Average EIR, %	31.12.2019 EUR'000	Average EIR, %
Statement of Financial Position				
Current accounts and deposits from customers	16,828	4.82	1,570	8.47

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:

	2020 EUR'000	2019 EUR'000
Profit or loss		
Interest expense	(812)	(133)

(c) Transactions with other related parties

In 2020, 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 co-operation 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 EIR as at 31 December 2020 and related profit or loss amounts of transactions for the year ended 31 December 2020 with related parties are as follows (excluding the subsidiary):

	2020 EUR'000	2019 EUR'000
ASSETS		
Financial instruments at FVTPL	**218,928**	**234,737**
Thereof: Parent Bank	*2,550*	*-*
Loans to banks	**220,095**	**138,266**
Thereof: Parent Bank	*58,960*	*106,912*
Thereof: Affiliated Bank	*1,572*	*124*
Loans to customers	**591,052**	**561,844**
Thereof: Other related parties	*-*	*-*
Investment securities measured at amortised cost	**251,156**	**238,585**
Thereof: Parent Bank	*-*	*-*
LIABILITIES		
Financial instruments at FVTPL	**233,119**	**244,846**
Thereof: Parent Bank	*10*	*-*
Deposits and balances from banks	**653,594**	**397,251**
Thereof: Parent Bank	*557,922*	*282,990*
Thereof: Affiliated Bank	*9,961*	*109*
Current accounts and deposits from customers	**1,033,988**	**730,061**
Thereof: Parent Bank	*-*	*-*
Thereof: Other related parties	*34,253*	*-*

	2020 EUR'000	2019 EUR'000
P&L		
Interest receivable and similar income	**45,746**	**46,808**
Thereof: Parent Bank	*952*	*2,723*
Thereof: Other related parties	*10*	*128*
Interest payable and similar charges	**(18,368)**	**(22,516)**
Thereof: Parent bank	*(1,611)*	*1,270*
Thereof: Other related parties	*(8)*	*-*
Commission receivable	**25,853**	**28,052**
Thereof: Parent Bank	*492*	*8*
Thereof: Other related parties	*10*	*-*
Commission payable and similar charges	**(218)**	**(32)**
Thereof: Parent Bank	*(2)*	*-*

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	
	31.12.2020 EUR'000	31.12.2019 EUR'000	31.12.2020 EUR'000	31.12.2019 EUR'000
ASSETS				
Cash and deposits with central banks	910,310	461,908	910,310	491,908
Financial instruments at FVTPL	218,928	234,737	218,928	234,737
Loans to banks	220,095	138,265	220,095	138,265
Loans to customers	591,052	562,161	591,052	561,844
Investments securities measured at amortised cost	260,500	244,553	251,156	238,585
LIABILITIES				
Financial instruments at FVTPL	233,119	243,790	233,119	243,790
Deposits and balances from banks	653,594	397,251	653,594	397,251
Current accounts and deposits from customers	1,033,988	733,369	1,033,988	730,061

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 judgement, 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 liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques, 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 premiums 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 judgement. 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 financial liabilities at FVTPL (CLD transactions), 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 DCF values are checked with the early termination value of the CLD transactions to ensure that they are not lower than the amount that would be paid in the case of early termination initiated by clients. If the DCF value is lower than the termination value, the termination value is taken as a basis for a fair value estimate for accounting purposes.*

Both CLDs and related financial assets (bonds) are classified by the Bank at FVTPL in order to eliminate the potential accounting mismatch. As a result, the change in the fair value of the underlying bonds closely matches the change in the fair value of related CLDs and offsets the impacts of revaluation in the Bank's statement of comprehensive income.

(b) Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy, which reflects the characteristics 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 quoted 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 2020 (2019: none). The amounts in the table below are presented based on the carrying amounts recognised in the Statement of Financial Position:

	31.12.2020 EUR'000		31.12.2019 EUR'000	
EUR'000	Level 1	Level 2	Level 1	Level 2
ASSETS				
Cash and deposits with central banks	-	910,310	-	461,908
Financial instruments at FVTPL	218,928	-	234,737	-
Loans to banks	-	220,095	-	138,665
Loans to customers	-	591,052	-	561,844
Investments securities measured at amortised cost	251,156	-	238,585	-
LIABILITIES				
Financial instruments at FVTPL	-	233,119	-	244,846
Deposits and balances from banks	-	653,594	-	397,251
Current accounts and deposits from customers	-	1,033,988	-	730,061

In 2020, as well as in 2019, 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):

	2020 EUR'000	2019 EUR'000
Audit fees	(248)	(217)
Audit-related fees	(83)	(69)
Tax fees	(1)	-
Other permissible non-audit services	(18)	(108)
	(350)	**(394)**

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

	Year ended 31.12	
	2020 EUR'000	2019 EUR'000
Balance as at 1 January	222	356
Additions	-	-
Impairment	(18)	(134)
Balance as at 31 December	**204**	**222**

As at 31 December 2020 the Bank holds directly 100% of GPB Finance S.à.r.l., incorporated in Luxembourg (formerly GPB Asset Management S.A.). GPB Finance S.à.r.l. did not do any business in 2020. During the year ended 31 December 2020, the Bank impaired its investment in GPB Finance S.à.r.l. by EUR 18 thousand.

GPB Finance S.à.r.l. is not consolidated in the financial statements of the Bank because the subsidiary, on an individual basis, would be immaterial in both qualitative and quantitative terms for the purpose of giving a true and fair view of the 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

Up to the moment of signing these financial statements the Bank did not detect any adjusting or non-adjusting post-balance sheet events.

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