

EAST-WEST UNITED BANK S.A.

**ANNUAL ACCOUNTS AND REPORT OF THE
REVISEUR D'ENTREPRISES AGREE**

DECEMBER 31, 2017

10, Boulevard Joseph II
L-1840 Luxembourg
R.C.S. Luxembourg: B12049

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MANAGEMENT REPORT

to the Annual General Meeting of Shareholders to be held on May 18, 2018

The Management of East-West United Bank S.A. ("EWUB" or "the Bank") is pleased to present the Annual accounts for the year ending December 31, 2017. The total assets have increased and amounted to EUR 721 million compared to EUR 506 million as of end of the previous year. The shareholder's equity at the year's end has increased to EUR 111 million compared to EUR 107 million in the previous year in accordance with Luxembourg GAAP.

In 2017, the Bank has recorded a profit on its operations amounting to EUR 3.3 million compared to a EUR 2.4 million in 2016. In 2017, the Bank has continued implementation of the new business plan launched in 2016 that has resulted in significant improvements in credit quality of portfolio of risk bearing assets that has become more diversified and composed of higher rated assets, with shift from investments primarily into Russian and CIS markets to diversified investments in debts of European and US based borrowers. This continued restructuring of the core lending and investment activities and subsequent decrease of the total size of the loan portfolio observed during the year, has led to the decrease of net interest income to the level of EUR 10.4 million compared to EUR 15.7 million in 2016, but compensated by significant improvements in credit quality resulting in net decrease of specific provisions for loans and securities by EUR 7.2 million compared to EUR 2.0 million in 2016. At the same time, the Bank has focused on further development of Corporate and Private banking activities that has enabled the Bank to maintain stable operating banking profit before provisions. The net commission income has stabilized at EUR 3.1 million compared to EUR 2.9 million recorded in 2016, generated mainly from recurring operations and products defined in the new strategy. General administrative expenses decreased in 2017 by equivalent of EUR 0.4 million reflecting successful restructuring of organization while assuming new expenses incurred by the Bank in order to accommodate future growth and development of business. In 2017 the Bank has also launched one of the key pillars of the new strategy in order to diversify and stabilize its funding structure through a collection of retail deposits on Luxembourg and German market through web based distribution platform – Direkt bank resulting into increase of funding resources by EUR 141 million by the year end.

Since the end of 2007 EWUB's capital is controlled by JSFC Sistema – one of the largest public diversified investment holdings in Russia and the CIS, which manages fast growing companies operating in the telecommunications, high-tech, oil and energy, radio and aerospace, banking, retail, mass-media, tourism and healthcare services and has over 100 million customers. During 2017 it has increased its direct ownership up to 81% of the Bank's capital with remaining 19% held indirectly through MTS Bank.

During the year, the Management was raising to the challenge of change in business model, assessing existing as well as newly revealed risks together with assessment of the new opportunities to further develop and professionalize services to Bank's clients, to diversify product lines and to contribute to the bottom-line results. The strategy is focused on development of Corporate and Private Banking activities accompanied with the complementary products of Transactional Banking and Global Markets, supported by the new teams within the Bank, by synergies with the shareholders and group companies. The Management continued to show its commitment to further improvement of the corporate governance and of strong internal control environment in the Bank. The Management has been carrying out a comprehensive review and update of internal procedures applicable to various aspects of the Bank's activity in order to address any recent developments in the economic, regulatory environment and internal organisation of the Bank. Additional investments in the infrastructure and human resources have been determined to provide the basis for the further development of the Bank's activities. The Bank has strengthened its conservative approach to risk management providing sufficient confidence that its risk exposures are adequately mitigated and covered. In line with this prudent

approach to adequately mitigate all relevant risks, the Bank has thoroughly assessed specific provisions to the existing exposures as well as continued to create country risk provisions on uncovered exposures. The level of country risk provisions is reviewed on regular basis in order to reflect the risk related to the country of origin of the borrower.

The Board of Directors possesses the authority to set up the principles on which investment decisions are made and to fix rules relating to granting, extending, or restructuring of a credit by the Bank (general credit policy, country limits and other strategic matters). The Credit Committee is responsible for the application of these principles. The continuous improvements of the internal procedures relating to the credit risk assessment implemented in previous year combined with a prudent policy resulted in changes implemented to continue de-risking of the current portfolio through increased focus on investment grade rated assets and by further diversification to decrease concentration of the assets.

The Bank continued to improve a prudent policy in matching the maturity profile of its assets and liabilities and maintains a liquidity ratios well in excess of the required minimums with a high percentage of short-term liquid funds placed with highly reputable banks and financial institutions within the OECD. The governing objective in currency risk management is to maintain a system of authorised position limits and to monitor them closely.

Increased proprietary securities investment activities were carried out by EWUB during the year 2017, subject to stringent restrictions on volumes and issuer as defined in the new Risk appetite statement in line with the business strategy. All the trading activities have been focused on improvements of the liquidity characteristics of the securities portfolio by acquisition of high liquid assets eligible for REPO transactions with central banks.

Operational risk, being the risk of losses in relation to human error and fraud, is addressed by adapting appropriate operational and administrative systems to the Bank's activities and by maintaining adequate working procedures and strong internal control environment.

The return on assets as of December 31, 2017 and 2016 amount respectively to 0.46% and 0.48%.
As of December 31, 2017 and 2016 the Bank did not acquire any of its own shares.

There were no significant post balance sheet events affecting EWUB's financial position, as presented at the financial year-end, to report.

The Bank's Board of Directors approved the annual accounts on April 24, 2018. The management of the Bank wishes to express its gratitude to the shareholders for their support, to our customers and banking partners for the loyalty as well as to Bank's staff for ensuring the ongoing development of East-West United Bank, and looks forward to a prosperous 2018.

The Management of East-West United Bank S.A.

April 24, 2018



Sergey Pchelintsev
Managing Director
Chief Executive Officer



Martin Pcola
Managing Director
Chief Financial Officer

To the Board of Directors of
East-West United Bank S.A.
10, Boulevard Joseph II
L-1840 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the Audit of the annual accounts

Opinion

We have audited the annual accounts of East-West United Bank S.A. (the "Bank"), which comprise the balance sheet as at December 31, 2017, and the profit and loss account for the year then ended, and notes to the annual accounts, including a summary of significant accounting policies.

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of the Bank as at December 31, 2017, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Basis for Opinion

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

Key Audit Matters

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

Provisions for doubtful loans and advances to customers

Refer to the Accounting policies in Note 2.3 and further disclosures in Note 6 to the annual accounts. The Bank's loans portfolio is composed predominantly by the loans acquired on the secondary market and granted to various companies located in Europe and U.S. Loans and advances to customers are stated at their acquisition price, less any specific provision.

Loans and advances to customers before provisions for doubtful debts amount to EUR 186 million at December 31, 2017 and represent 26% of total assets. The majority of doubtful loans and advances to customers have a risk concentration in Ukraine for an amount of EUR 20 million before provisions. These represent 64% of the doubtful loans and advances to customers. The Bank's provisions for doubtful loans and advances to customers amounts at EUR 35 million as of December 31, 2017 representing 5% of total assets.

The determination of such provisions requires significant judgement, such as the identification of loans that are deteriorating, the assessment of objective evidence for value adjustments, the value of collateral and the assessment of the recoverable amount.

Accordingly, identification of provisions for doubtful loans and advances to customers is considered to be a key audit matter due to the significance of the balance to the annual accounts as a whole, combined with the judgment associated with determining the provisions. Inappropriate judgment made in relation to the methodology and inputs used or the assumption taken may have a material impact on the valuation and timely identification of impairment of loans and advances to customers.

How the Matter was addressed in the Audit

Our audit procedures included the testing of the Bank's relevant controls over clients' credit assessment and the management's decision for specific provision.

We have also performed substantive procedures in order to address the risks of material misstatement related to the valuation of loans and receivables and provision for credit losses. These procedures included the testing of loans and advances to customers year-end balances by direct confirmations or reconciliation to contractual agreements.

We have analysed the past due positions in order to ensure that each such exposure has been assessed for specific provision.

For a sample of these loans, we have also reviewed the value of the collaterals and guarantees as well as how the respective provision was calculated and recorded in accounting.

We also considered the appropriateness of the related disclosures in the annual accounts of the Bank.

Provisions for litigations and claims

As described in Note 32 of these annual accounts, the Bank is involved in a number of litigation and claims in the ordinary course of business. In preparing the annual accounts, management and those charged with governance perform an assessment of all legal matters to determine as to whether these require the recognition of a provision or need for a disclosure as contingent liability in the annual accounts. Such assessment involves significant degree of judgment and subjectivity.

In accordance with methodology established by the management, provisions are recognized for legal obligations arising from past events, if there is a probable outflow of resources and the amount can be reliably estimated. Management also uses external legal counsels to determine probability of outflow and quantify the potential financial impact.

How the Matter was addressed in the Audit

Our procedures included the assessment of the completeness of the litigation and claims considered in the management's assessment through the circularization of the external legal counsels.

We challenged the judgment of the management by independently assessing the probability and magnitude of the outcome of the pending legal proceedings.

We finally assessed the fair presentation and disclosure in the annual accounts.

Other information

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

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

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

Responsibilities of the Board of Directors and Those Charged with Governance for the annual accounts

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Responsibilities of the Réviseur d'Entreprises Agréé for the Audit of the annual accounts

The objectives of our audit are to obtain a reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of *Réviseur d'Entreprises Agréé* that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of July 23, 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 annual accounts.

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

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the *Réviseur d'Entreprises Agréé* to the related disclosures in the annual accounts 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 annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual accounts 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 Board of Directors on October 2, 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 40 years.

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

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

We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014 were not provided and that we remain independent of the Bank in conducting the audit.

In addition to the audit of the accompanying annual accounts, our tax department has provided the Bank with advice on income tax return filing.

For Deloitte Audit, *Cabinet de Révision Agréé*



Ekaterina Volotovskaya, *Réviser d'Entreprises Agréé*
Partner

April 24, 2018

East-West United Bank S.A.

BALANCE SHEET AND OFF BALANCE SHEET ITEMS

December 31, 2017

(expressed in EUR)

BALANCE SHEET

As at December 31, 2017

(expressed in EUR)

A s s e t s

	Note	2017	2016
Cash, balances with central banks and post office banks	3, 4	272,922,088	149,096,126
Loans and advances to credit institutions:	4, 5, 12	116,164,079	86,058,654
a) repayable on demand		115,775,367	86,058,654
b) other loans and advances		388,712	0
Loans and advances to customers	4, 6, 12	154,586,708	152,061,175
Debt securities and other fixed-income securities:	4, 7, 8, 9, 12	162,653,289	106,234,768
a) issued by public bodies		13,444,795	31,934,551
b) issued by other borrowers		149,208,494	74,300,217
Tangible assets	9, 10	5,258,242	5,804,842
Intangible assets	9, 10	1,829,837	1,260,211
Other assets	11	3,916,129	3,891,952
Prepayments and accrued income		3,681,138	2,005,222
 TOTAL ASSETS	 13	 <u>721,011,510</u>	 <u>506,412,950</u>

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

BALANCE SHEET

As at December 31, 2017

(expressed in EUR)

- continued -

Liabilities

	Note	2017	2016
Amounts owed to credit institutions:	4, 14	10,577,472	3,125,975
a) repayable on demand		1,040,672	1,195,575
b) with agreed maturity dates or periods of notice		9,536,800	1,930,400
Amounts owed to customers:	4, 15, 21	557,636,529	356,566,804
a) other debts repayable on demand		279,560,072	292,148,395
b) other debts with agreed maturity dates or periods of notice		278,076,457	64,418,409
Other liabilities	16	1,612,949	872,012
Accruals and deferred income		3,790,744	2,570,352
Provisions for liabilities and charges:	30	9,850,889	9,034,824
a) provisions for taxation		5,361,896	4,716,180
b) other provisions		4,488,993	4,318,644
Fund for general banking risks	2.6	26,821,615	26,821,615
Subscribed capital	19	80,600,000	80,600,000
Reserves	20	26,821,368	24,409,800
Profit for the financial year		3,299,944	2,411,568
TOTAL LIABILITIES	22	721,011,510	506,412,950

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

East-West United Bank S.A.
OFF BALANCE SHEET ITEMS
As at December 31, 2017
(expressed in EUR)

Off balance sheet items

	Note	2017	2016
Contingent liabilities	4, 23	35,123,471	37,830,024
<u>of which:</u>			
- guarantees and assets pledged as collateral security		35,123,471	37,830,024
 Commitments	 4, 24	 -	 6,644,017
 Fiduciary operations	 26	 -	 -

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

East-West United Bank S.A.

PROFIT AND LOSS ACCOUNT

Year ended December 31, 2017

(expressed in EUR)

East-West United Bank S.A.
PROFIT AND LOSS ACCOUNT
Year ended December 31, 2017
(expressed in EUR)

	Note	2017	2016
Interest receivable and similar income		15,390,865	20,766,605
<u>Of which:</u>			
That arising from fixed-income securities		4,029,688	3,418,720
Interest payable and similar charges		(4,956,235)	(5,043,436)
Commission receivable		3,974,265	4,409,311
Commission payable		(852,074)	(1,518,835)
Net profit on financial operations		2,260,734	(1,514,282)
Other operating income	27	695,512	395,477
Extraordinary Income	28	998,128	-
General administrative expenses:		(16,628,600)	(17,050,279)
a) staff costs	18, 30	(11,672,985)	(10,765,958)
<u>Of which</u>			
- wages and salaries		(10,003,323)	(8,972,029)
- social security costs		(1,219,036)	(1,371,359)
<u>Of which:</u>			
Social security costs relating to pensions		(391,165)	(465,763)
b) other administrative expenses	29	(4,955,615)	(6,284,321)
Value adjustments in respect of tangible and intangible assets		(974,864)	(1,162,257)
Other operating charges		(3,151,593)	(298,700)
Value adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments		(7,432,090)	(8,574,286)
Value re-adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments		14,193,846	7,290,163
Value (adjustments)/re-adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings		438,666	5,373,834
Carried forward:		3,956,560	3,073,315

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

East-West United Bank S.A.
PROFIT AND LOSS ACCOUNT
Year ended December 31, 2017
(expressed in EUR)
- continued -

	Note	2017	2016
Brought forward:		3,956,560	3,073,315
Taxes on ordinary activities		(649,989)	(659,250)
Profit on ordinary activities after tax		3,306,571	2,414,065
Other taxes not shown under the preceding items		(6,627)	(2,497)
Profit for the financial year		3,299,944	2,411,568

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

East-West United Bank S.A.

NOTES TO THE ACCOUNTS

December 31, 2017

NOTES TO THE ACCOUNTS

December 31, 2017

NOTE 1 - GENERAL

1.1. Corporate matters

East-West United Bank S.A. (the "Bank") was incorporated in Luxembourg on June 12, 1974 as a société anonyme.

As at December 31, 2017, the Bank's subscribed and paid-up capital amounts to EUR 80,600,000 (2016: EUR 80,600,000), represented by 806,000 (2016: 806,000) shares with a nominal value of EUR 100 each. Sistema Joint-Stock Financial Corporation ("SISTEMA JSFC") directly owns 81% of the Bank's shares, the remaining 19% belongs to MTS Bank, former Moscow Bank for Reconstruction and Development (MBRD). The change in ownership of the Bank took place on May 30, 2017. As at December 31, 2017 Sistema JSFC directly or indirectly owned 94.66% (2016: 93.49%) of the share capital of the Bank. Mr. V.P. Evtushenkov owns a controlling stake in Sistema JSFC.

The members of the Board of Directors are mostly Senior Executives of the shareholders complemented by the Independent directors represented by the financial sector professionals. The business policy and valuation principles, unless prescribed by Luxembourg rules and regulations, are determined and monitored by the Board of Directors.

1.2. Nature of the Bank's business

In accordance with its Articles of Incorporation, the object of the Bank is to undertake any banking and savings activities and more particularly to undertake any banking and trust operations including to receive deposits in cash, securities and other assets, to grant loans and to extend credits in any form whatsoever, to conclude any transactions relating to securities, precious metals, fiduciary arrangements, to provide financial services to collective investment undertakings and other persons, companies or entities as well as to hold such interests in other companies and perform such operations which permits the Bank to achieve the above objectives in any part of the world, either as principals or agents or otherwise, and by or through trustees, agents or otherwise and either alone or in conjunction with others.

The Bank has been focusing its activities on investment opportunities on diversified European as well as Russian capital market both for its own account and for the account of customers and sees its future operations centring on the provision of private banking and asset management products and services.

NOTES TO THE ACCOUNTS

December 31, 2017

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1.3. Annual accounts

The capital of the Bank is expressed in Euro (EUR) and the annual accounts are prepared in this currency.

The Bank's accounting year coincides with the calendar year.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank prepares its annual accounts under the historical cost principle, in accordance with the laws and regulations in force in the Grand-Duchy of Luxembourg and on the basis of accounting principles generally accepted in the banking sector in the Grand-Duchy of Luxembourg.

In observing these, the following significant accounting policies are applied:

2.1. Foreign currencies

The Bank maintains a multi-currency accounting system, which records all transactions in the currency or currencies of the transaction on the day on which the contract is concluded.

Revenues and expenses in foreign currencies are translated into EUR daily at the prevailing exchange rates.

At the year-end, tangible assets in foreign currencies not covered in either the spot or the forward markets are translated into EUR at the rate of exchange ruling at the date of their acquisition.

All other assets and liabilities are converted into EUR at the spot rates applicable at the balance sheet date.

Both realised and unrealised profits and losses arising on revaluation are accounted for in the Profit and Loss Account of the year.

Results on uncompleted forward transactions linked to spot transactions and on swap transactions are accrued at the balance sheet date. The revaluation of these transactions does not affect the Profit and Loss Account since any revaluation gains or losses are neutralised in the transitory accounts.

NOTES TO THE ACCOUNTS

December 31, 2017

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Uncovered forward transactions, if any, are valued individually on the basis of forward exchange rates applicable at the balance sheet date. Unrealised revaluation profits are ignored, whereas a provision is set up in respect of any unrealised revaluation losses. This provision is included on the liabilities side of the Balance Sheet under "Provisions".

2.2. Financial instruments derivatives

The Bank's commitments deriving from financial instruments derivatives, if any, are recorded on the transaction date as off Balance Sheet items. At the year-end, where necessary, a provision may be set up in respect of individual unrealised losses resulting from the revaluation of the Bank's commitments at market value. This provision, if required, is included on the liabilities side of the Balance Sheet under "Provisions".

No provision is set up in those cases where a financial instrument clearly covers an asset or a liability and economic unity is established or where a financial instrument is hedged by a reverse transaction so that no open position exists.

2.3. Loans and advances

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

2.4. Transferable securities

Transferable securities are recorded initially in their issue currencies at purchase price.
The average cost method is used for valuation purposes.

NOTES TO THE ACCOUNTS

December 31, 2017

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2.5. Lump-Sum Provision for risk exposures

In accordance with the Luxembourg tax legislation, it is the Bank's policy to establish a lump-sum provision for risk exposures, as defined in the legislation governing prudential supervision of banks. The purpose of the provision is to take account of risks that are likely to crystallise but which have not yet been identified as at the date of preparation of the annual accounts.

Pursuant to the Instructions issued by the "Directeur des Contributions" on December 16, 1997, the provision is made before taxation and may not exceed 1.25% of the Bank's risk exposures. As of December 31, 2017, the Bank's established the lump-sum provision amounting to EUR 2,500,000 (2016:EUR EUR 1,600,000).

2.6. Fund for general banking risks

The Bank established a fund for general business risks intended to cover particular risks associated with banking operations, pursuant to Article 63 of the law on the accounts of banks, which is shown separately on the liabilities side of the Balance Sheet. Increases or decreases to this fund are determined based on the profit after tax, but before determining the profit of the financial year, and are not subject to limitations.

Transfers to this account are shown separately in the Profit and Loss Account under "Transfers to the fund for general banking risks".

2.7. Debt securities and other fixed-income securities

The Bank has divided its portfolio of fixed-income securities into three categories, whose principal characteristics are the following:

- an investment portfolio of financial fixed assets, which are intended to be used on a continuing basis in the Bank's activities;
- a trading portfolio of securities purchased with the intention of resale in the short term; and
- a structural portfolio of securities which do not fall within either of the two other categories.

At the year-end, the Bank's fixed-income securities are allocated to the investment and the structural portfolios.

NOTES TO THE ACCOUNTS

December 31, 2017

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Fixed-income securities comprising investment and structural portfolios are valued at the lower of cost and market value. Fixed-income securities held for trading purposes are marked to their market values.

If market values are not freely available, the Bank determines the intrinsic value of such securities on the basis of the expected level of debt recovery.

2.8. The "Beibehaltungsprinzip"

It was the Bank's policy to retain value adjustments in respect of certain categories of assets made previously but which no longer correspond to a reduction in the value of assets in question, in accordance with Articles 56 (2) (f) and 58 (2) (e) of the law on the accounts of banks.

As at December 31, 2017 and December 31, 2016 the Bank did not apply this principle.

2.9. Country Risk

It is the Bank's policy to create a General Country Risk provision in order to address the risk of political or economic instability. The Bank has applied different percentage rates for the creation of this General Country risk provision, those rates have been set for each country based on the risk assessment of the different financial and non financial factors.

2.10. Tangible fixed assets

Tangible fixed assets are carried at purchase price.

The value of tangible fixed assets with limited useful economic lives is reduced by value adjustments calculated to write off the value of such assets systematically over their useful economic lives.

2.11. Taxes

Taxes are accounted for on an accrual basis.

NOTES TO THE ACCOUNTS

December 31, 2017

- continued -

NOTE 3 - CASH, BALANCES WITH CENTRAL BANKS AND POST OFFICE BANKS

In accordance with the requirements of the European Central Bank, the Central Bank of Luxembourg implemented effective January 1, 1999, a system of mandatory reserves which applies to all Luxembourg credit institutions. The minimum reserve balance as at December 31, 2017 held by the Bank with Central Bank of Luxembourg amounted to EUR 5,330,647 (2016: EUR 2,245,145).

The main balance of this caption is made of an amount of EUR 267,420,340 (2016: EUR 146,618,412) relating to amount held by the Bank with Central Bank of Luxembourg repayable on demand.

NOTE 4 - ANALYSIS OF FINANCIAL INSTRUMENTS

Primary non-trading financial instruments may be analysed according to their remaining maturity as follows:

	Not more than 3 months	3-12 months	1-5 years	More than 5 years	Total 2017
2017					
EUR (at carrying amount)					
Financial assets					
Cash, balances with central banks and post office banks	272,922,088	-	-	-	272,922,088
Loans and advances to credit institutions	116,164,079	-	-	-	116,164,079
Loans and advances to customers	5,001,929	-	47,365,951	102,218,828	154,586,708
Debt securities and other fixed income securities	-	10,263,483	36,424,278	115,965,528	162,653,289
	<u>394,088,096</u>	<u>10,263,483.00</u>	<u>83,790,229</u>	<u>218,184,356</u>	<u>706,326,164</u>
Financial liabilities					
Amounts owed to credit institutions	75,472	965,200	9,536,800	-	10,577,472
Amounts owed to customers	438,277,571	90,884,080	28,474,878	-	557,636,529
Contingent liabilities	1,859	20,440,000	11,856,500	2,825,112	35,123,471
	<u>438,354,902</u>	<u>112,289,280</u>	<u>49,868,178</u>	<u>2,825,112</u>	<u>603,337,472</u>

NOTES TO THE ACCOUNTS

December 31, 2017

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	Not more than 3 months	3-12 months	1-5 years	More than 5 years	Total 2016
2016					
EUR (at carrying amount)					
Financial assets					
Cash, balances with central banks and post office banks	149,096,126	-	-	-	149,096,126
Loans and advances to credit institutions	86,058,654	-	-	-	86,058,654
Loans and advances to customers	25,034,987	7,702,651	62,878,786	56,444,751	152,061,175
Debt securities and other fixed income securities	-	381,616	70,403,982	35,449,170	106,234,768
	<u>260,189,767</u>	<u>8,084,267</u>	<u>133,282,768</u>	<u>91,893,921</u>	<u>493,450,723</u>
Financial liabilities					
Amounts owed to credit institutions	1,195,575	-	1,930,400	-	3,125,975
Amounts owed to customers	296,962,730	24,790,058	34,814,016	-	356,566,804
Contingent liabilities	-	-	37,699,075	130,949	37,830,024
Commitments	-	644,017	5,000,000	1,000,000	6,644,017
	<u>298,158,305</u>	<u>25,434,075</u>	<u>79,443,491</u>	<u>1,130,949</u>	<u>404,166,820</u>

NOTE 5 - LOANS AND ADVANCES TO CREDIT INSTITUTIONS

Loans and advances to credit institutions may be analysed according to their geographic origin as follows:

	2017	2016
	EUR	EUR
Luxembourg	20,307,655	15,890,610
OECD (Other than Luxembourg)	39,078,890	69,208,582
Other countries	<u>56,777,534</u>	<u>959,462</u>
	<u>116,164,079</u>	<u>86,058,654</u>

NOTES TO THE ACCOUNTS

December 31, 2017

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NOTE 6 - LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers net of provisions may be analysed according to their geographic origin as follows:

	2017	2016
	EUR	EUR
Luxembourg	9,829,987	354,822
OECD (Other than Luxembourg)	135,346,322	116,659,990
Other countries	9,410,399	35,046,363
	<u>154,586,708</u>	<u>152,061,175</u>

The General Country Risk provision as at December 31, 2017 amounted to EUR 5,506,912 (2016: EUR 3,578,743). The Specific Provision as at December 31, 2017 amounted to EUR 30,152,805 (2016: EUR 65,811,187).

NOTE 7 - TRANSFERABLE SECURITIES

Transferable securities shown under "Debt securities and other fixed-income securities" may be broken down as follows into listed and unlisted securities:

	Listed	Unlisted	Total
	2017	2017	2017
	EUR	EUR	EUR
Debt securities and other fixed-income securities	<u>162,653,289</u>	<u>-</u>	<u>162,653,289</u>

	Listed	Unlisted	Total
	2016	2016	2016
	EUR	EUR	EUR
Debt securities and other fixed-income securities	<u>106,234,768</u>	<u>-</u>	<u>106,234,768</u>

NOTES TO THE ACCOUNTS

December 31, 2017

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NOTE 8 - DEBT SECURITIES AND OTHER FIXED-INCOME SECURITIES

As at December 31, 2017, transferable securities shown under "Debt securities and other fixed-income securities" which will become due within one year of the balance sheet date amount to EUR 10,263,483 (2016: EUR 381,616).

Transferable securities shown under "Debt securities and other fixed-income securities" are to be regarded as financial fixed assets for EUR 130,254,374 (2016: EUR 37,873,504) since these assets are purchased with the intention of holding them until maturity. These securities are classified within the Bank's investment portfolio. The remaining balance of the Bank's fixed-income securities portfolio is classified within the structural portfolio for EUR 32,398,915 (2016: EUR 68,361,349).

Debt securities and other fixed-income securities may be broken down as follows according to their geographic origin:

	2017	2016
	EUR	EUR
Luxembourg	17,982,581	-
OECD (Other than Luxembourg)	127,144,101	77,479,318
Other countries	17,526,607	28,755,450
	<u>162,653,289</u>	<u>106,234,768</u>

NOTES TO THE ACCOUNTS

December 31, 2017

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NOTE 9 - MOVEMENTS IN FIXED ASSETS

The following movements have occurred in the Bank's fixed assets in the course of the financial year:

FIXED ASSETS (EUR)							
ITEM	Gross value at the beginning of the financial year	Additions	Disposals / Maturities / Transfers	FX movement	Gross value at the end of the financial year	Cumulative value adjustments at the balance sheet date	Net value at the end of the financial year
1. Other fixed-income securities	38,217,791	74,297,380	(26,674,743)	(566,372)	85,274,056	(1,267,320)	84,006,736
2. Intangible assets	3,342,901	995,459			4,338,360	(2,508,524)	1,829,836
3. Tangible assets	16,240,129	10,341	-	-	16,250,470	(10,992,228)	5,258,242
<u>of which:</u>							
a) Land and buildings	14,470,664	3,006	-	-	14,473,670	(9,276,964)	5,196,706
b) Other fixtures and fittings, tools and equipment	1,769,465	7,335	-	-	1,776,800	(1,715,264)	61,536

* EUR 37,116,957 included in "Additions" in the above table, previously grouped under "structural portfolio" has now been grouped under "debt securities and other fixed-income securities" due to a change of classification of the Bank's debt securities. This reclassification did not result in any adjustment to the Profit and Loss Account.

As at December 31, 2017, the market value of other fixed-income securities amounted to EUR 138,609,932 (2016: EUR 38,543,063).

NOTES TO THE ACCOUNTS

December 31, 2017

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NOTE 10 - TANGIBLE ASSETS

Tangible assets include a net amount of EUR 5,258,242 (2016: EUR 5,804,842), which represents the land and buildings used by the Bank for its own activities.

Intangible assets include a net amount of EUR 1,829,837 (2016: EUR 1,260,211), which represents mainly software used by the Bank.

As at December 31, 2017, these land and buildings were subject to a mortgage against a loan received. The outstanding amount of this loan as at the year-end was EUR 965,200 (2016: EUR 1,930,400).

As at December 31, 2017, the market value of buildings pledged as collateral was EUR 20,440,000 (2016: EUR 19,800,000).

NOTE 11 - OTHER ASSETS

	2017	2016
	EUR	EUR
Short term receivable	5,663	14,035
Advances on taxes	3,180,370	2,586,532
Other assets	730,096	1,291,385
	<u>3,916,129</u>	<u>3,891,952</u>

NOTE 12 - RELATED PARTY BALANCES - ASSETS

As at December 31, 2017, balances with related parties are included on the assets side of the Balance Sheet under "Loans and advances to credit institutions" for EUR 599,336 (2016: EUR 897,218), under "Loans and advances to customers" for EUR 3,481 (2016: EUR 11,679,306) and under "Debt securities and other fixed-income securities" for EUR 8,806,663 (2016: EUR 12,395,077).

NOTES TO THE ACCOUNTS

December 31, 2017

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NOTE 13 - FOREIGN CURRENCY ASSETS

As at December 31, 2017, the aggregate amount of the Bank's assets denominated in foreign currencies after deducting any value adjustments, translated into EUR, is EUR 261,640,860 (2016: EUR 213,716,803).

NOTE 14 - AMOUNTS OWED TO CREDIT INSTITUTIONS

Amounts owed to credit institutions may be analysed according to their geographic origin as follows:

	2017	2016
	EUR	EUR
Luxembourg	985,711	2,928,380
OECD (Other than Luxembourg)	9,541,112	4,345
Other countries	<u>50,649</u>	<u>193,250</u>
	<u><u>10,577,472</u></u>	<u><u>3,125,975</u></u>

Carrying value of loans received under repurchase agreements and market value of assets pledged as at December 31, 2017 amounted to EUR 9,536,800 and EUR 11,856,436 respectively (2016: EUR nil and EUR nil).

NOTE 15 - AMOUNTS OWED TO CUSTOMERS

Amounts owed to customers may be analysed according to their geographic origin as follows:

	2017	2016
	EUR	EUR
Luxembourg	192,510,090	54,390,970
OECD (Other than Luxembourg)	155,077,666	35,347,453
Other countries	<u>210,048,773</u>	<u>266,828,381</u>
	<u><u>557,636,529</u></u>	<u><u>356,566,804</u></u>

NOTES TO THE ACCOUNTS

December 31, 2017

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Carrying value of loans received under repurchase agreements and market value of assets pledged as at December 31, 2017 amounted to EUR nil and EUR nil respectively (2016: EUR 14,752,356 and EUR 17,719,075).

NOTE 16 - OTHER LIABILITIES

	2017	2016
	EUR	EUR
Preferential creditors	476,003	514,620
Sundry creditors	1,136,946	357,392
	<u>1,612,949</u>	<u>872,012</u>

NOTE 17 - SUBORDINATED LIABILITIES

In 2017 and 2016 the Bank had no subordinated loans.

NOTE 18 - STAFF NUMBERS and MANAGEMENT REMUNERATION

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

	2017	2016
	Number	Number
Senior management	6.0	7.0
Middle management	32.7	31.0
Employees	34.7	33.0
	<u>73.4</u>	<u>71.0</u>

NOTES TO THE ACCOUNTS

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The Bank has granted the following emoluments in respect of the financial year to the members of the administrative and managerial bodies of the Bank by reason of their responsibilities and has entered into commitments in respect of retirement pensions for current members of these bodies as follows:

	Emoluments	Pension	Number
2017			
Administrative bodies	255,645	-	8
Managerial bodies	2,213,993	235,491	9
	<u>2,469,638</u>	<u>235,491</u>	

	Emoluments	Pension	Number
2016			
Administrative bodies	170,000	-	8
Managerial bodies	2,071,034	176,249	7
	<u>2,241,034</u>	<u>176,249</u>	

NOTE 19 - SUBSCRIBED CAPITAL

As of December 31, 2017, the Bank's authorised, subscribed and paid-up capital amounts to EUR 80,600,000 (2016: EUR 80,600,000), represented by 806,000 (2016: 806,000) shares with a nominal value of EUR 100 each (2016: EUR 100).

NOTES TO THE ACCOUNTS

December 31, 2017

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NOTE 20 - MOVEMENTS IN RESERVES AND PROFIT OR LOSS BROUGHT FORWARD

	Legal reserve	Other reserve
	EUR	EUR
Balance as at January 1, 2017	3,157,607	21,252,193
Appropriation of profit - Transfer to reserves	<u>120,578</u>	<u>2,290,990</u>
Balance as at December 31, 2017	<u><u>3,278,185</u></u>	<u><u>23,543,183</u></u>

Under Luxembourg law, the Bank must appropriate to a legal reserve an amount equivalent to at least 5% of the annual net profit until such reserve is equal to 10% of the share capital, distribution of the legal reserve is restricted.

NOTE 21 - RELATED PARTY BALANCES - LIABILITIES

	2017	2016
	EUR	EUR
Amounts owed to customers	<u>276,226,129</u>	<u>195,643,663</u>
	<u><u>276,226,129</u></u>	<u><u>195,643,663</u></u>

NOTE 22 - FOREIGN CURRENCY LIABILITIES

As at December 31, 2017, the aggregate amounts of liabilities denominated in foreign currencies, translated into EUR was EUR 271,575,875 (2016: EUR 227,341,503).

NOTES TO THE ACCOUNTS

December 31, 2017

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NOTE 23 - CONTINGENT LIABILITIES

The Bank's contingent liabilities may be analysed as follows:

	2017	2016
	EUR	EUR
Guarantees and other direct substitutes for credit	35,123,471	37,830,024
	<u>35,123,471</u>	<u>37,830,024</u>

Balances with related parties are amounting to EUR nil (2016: EUR nil).

NOTE 24 - COMMITMENTS

The Bank's commitments may be analysed as follows:

	2017	2016
	EUR	EUR
Confirmed credits, not used	-	5,644,017
Forward purchase of assets	-	1,000,000
	<u>-</u>	<u>6,644,017</u>

The Bank has no significant commitments to disclose in connection with fixed rental payments for premises or leasing contracts.

Credit derivatives

Credit derivatives are OTC contracts designed to transfer the credit risk in an underlying financial instrument from one counterparty to another. In credit derivative TRS contracts, one counterparty agrees to pay or receive cash amounts based on the returns of a reference asset, including interest earned on these assets in exchange for amounts that are based on prevailing market funding rates. Upon the occurrence of a credit event the parties may either exchange cash payments according to the value of the defaulted assets or exchange cash based on the notional amount for physical delivery of the defaulted assets. The Bank has no open contracts as at December 31, 2017 and December 31, 2016.

NOTES TO THE ACCOUNTS

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NOTE 25 - OPERATIONS LINKED TO CURRENCY EXCHANGE RATES AND INTEREST RATES

The following types of forward transactions are outstanding as at December 31, 2017:

Operations linked to currency exchange rates

Forward exchange transactions (swaps and forwards)

Operations linked to currency exchange rates are made for the purposes of covering the effects of fluctuations in exchange rates.

Operations linked to currency exchange rates may be analysed according to their remaining maturity at December 31, 2017 as follows:

	2017	2016
	EUR	EUR
Currencies receivable		
Not more than three months	182,221,328	34,139,004
Three to twelve months	-	-
	<u>182,221,328</u>	<u>34,139,004</u>
Currencies to be delivered		
Not more than three months	181,948,347	33,702,367
Three to twelve months	-	-
	<u>181,948,347</u>	<u>33,702,367</u>

NOTES TO THE ACCOUNTS

December 31, 2017

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	2017	2016
	EUR	EUR
Interest Rate Futures		
Not more than three months	104,921,402	-
Three to five years	-	-
	<u>104,921,402</u>	<u>-</u>
Interest Rate Swaps		
Not more than three months	-	-
Three to five years	8,319,959	-
	<u>8,319,959</u>	<u>-</u>

NOTES TO THE ACCOUNTS

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The following table shows the credit risk on operations linked to currency exchange rates by applying the original exposure method.

	Notional	Risk-equivalent
	2017	amount
	EUR	2017
		EUR
Forward leg of currency swaps and forwards:		
- Credit institutions	142,473,510	2,846,408
- Other financial institutions	39,747,818	792,559
	<u>182,221,328</u>	<u>3,638,967</u>
Interest rate derivatives		
- Other financial institutions	113,241,361	2,264,827
	<u>113,241,361</u>	<u>2,264,827</u>

	Notional	Risk-equivalent
	2016	amount
	EUR	2016
		EUR
Forward leg of currency swaps and forwards:		
- Credit institutions	31,335,367	635,866
- Financial institutions	2,367,000	46,914
	<u>33,702,367</u>	<u>682,780</u>

Transactions in high-risk instruments or complex instruments such as leveraged derivative instruments have not been entered into by the Bank.

As at December 31, 2017, the fair value of outstanding currency swaps and forwards amounts to EUR (272,981) (2016: EUR 436,637) and the fair value of interest rate derivatives is EUR 77,361 (2016: nil).

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NOTE 26 - INVESTMENT MANAGEMENT SERVICES AND UNDERWRITING FUNCTIONS

The Bank provides services, which consist of custody, administration of transferable securities, as well as fiduciary operations.

NOTE 27 - OTHER OPERATING INCOME

As at December 31, 2017, other operating income is represented as follows:

	2017	2016
	EUR	EUR
Renting of office space / building	512,847	68,481
Reversal of PY expenses	36,589	91,246
AGDL Reversal	-	219,315
State subsidies	139,976	16,435
Renovation Subsidy	6,100	-
	<u>695,512</u>	<u>395,477</u>

NOTE 28 - EXTRAORDINARY INCOME

As at December 31, 2017, extraordinary income is represented by reimbursement of VAT of previous years

NOTES TO THE ACCOUNTS

December 31, 2017

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NOTE 29 - FEES PAYABLE TO THE AUDIT FIRM

Fees (excluding VAT) charged to the Bank by the audit firm and its respective entire network are analysed as follows:

	2017	2016
	EUR	EUR
Annual audit fees	144,400	139,400
Other assurance services	36,475	19,375
Tax advisory fees	10,000	3,120
Other services	-	146,021
	<u>190,875</u>	<u>307,916</u>

Fees are shown on an accrual basis for the financial year.

NOTE 30 - PROVISIONS

Amounts of provisions may be analysed as follows:

	2017	2016
	EUR	EUR
Provisions for taxation	5,361,896	4,716,180
Other provisions		
Provision for claims	70,000	70,000
Provision for emoluments (incl. directors' fees)	2,876,828	2,001,000
Provisions for general administrative expenses	<u>1,842,165</u>	<u>2,247,644</u>
	<u>9,850,889</u>	<u>9,034,824</u>

NOTES TO THE ACCOUNTS

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Deposit guarantee scheme

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

The deposit guarantee and investor compensation scheme which was before in place through the "Association pour la Garantie des Dépôts Luxembourg" (AGDL) was replaced in 2016 by a new contribution based system of deposit guarantee and investor compensation. 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 provisions which have been created in the past by credit institutions for the purpose of AGDL in their annual accounts will be used according to the contributions of the banks to the new Luxembourg banking resolution fund "Fonds de resolution Luxembourg" (FRL), respectively to the new Luxembourg deposit guarantee fund "Fonds de garantie des dépôts Luxembourg" (FDGL), which is established.

The funded amount of the FRL shall reach by the end of 2024 at least 1% of covered deposits, as defined in article 1 number 36 of the Law, of all authorized credit institutions in all participating Member States. This amount will be collected from the credit institutions through annual contributions during the years 2015 to 2024. The target level of funding of the FDGL is set at 0.8% of covered deposits, as defined in article 163 number 8 of the Law, of the relevant credit institutions and is to be reached by the end of 2018 through annual contributions. The contributions are to be made in the form of annual payments during the years 2016 to 2018. For the year ended December 31, 2017, the Bank paid an amount of EUR 76,266 in relation to FRL.

When the level of 0.8% is reached, the Luxembourgish credit institutions are to continue to contribute for 8 additional years in order to constitute an additional safety buffer of 0.8% of covered deposits as defined in article 163 number 8 of the Law.

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NOTE 31 - RELATED PARTY BALANCES - article 67bis

The Bank has not entered into any material transaction with related parties (as defined in International Accounting Standard 24 "Related Party Disclosures") which were not made on terms equivalent to those that prevail in arm's length transactions, as of December 31, 2017 and for the year then ended.

NOTE 32 - LITIGATION AND CLAIMS

As at December 31, 2017, the Bank has been involved in a court case open against the former management and shareholders of one of its clients, a Latvian Bank. The Bank is a third party in relation to the court process and is neither defendant nor claimant in the case. The specific proceedings concern the funds in amount of EUR 15 million that were pledged by the bank as financial collateral for a loan granted by the Bank to a borrower located in Switzerland. The Swiss borrower defaulted and the pledge was exercised by the Bank in 2012 in accordance with Luxembourg law and the contractual terms.

The Latvian Bank in 2012 became insolvent. Following this insolvency the Latvian Court in the first instance as well as the Latvian Court of Appeal have ruled that the funds of the insolvent bank placed with the Bank have to be returned to the insolvent bank (operated by its liquidator). The decision of the Latvian Courts has been recognized in Luxembourg in June 2016. Funds pledged by the insolvent bank were set off against the defaulted loan and no longer located in the account at the Bank. The Bank on February 20, 2017 filed a lawsuit in the Luxembourg court with Latvijas Krajbanka and the Luxembourg Prosecutor's Office as defendants, whereby the court is asked to consider all actions done by the Bank in respect of setting-off funds from the pledged account as conformant to the requirements of the loan documentation and Luxembourg laws. On September 20, 2017 Latvijas Krajbanka filed a counterclaim for damages in the amount of EUR 15,025,222.21. Both proceedings are currently undergoing with parties delivering its argumentations.

In Mid-February 2016 the liquidator of Bank Snoras Lithuania has filed a claim against the Bank at Lithuania court. The claim concern the funds in amount of EUR 41 million that were pledged by the bank as financial collateral for a loan granted by the Bank to a borrower located in Switzerland. The Swiss borrower defaulted and the pledge was exercised by EWUB in 2012 in accordance with Luxembourg law and the contractual terms. EWUB has replied to the notice obtained in April 2016, contesting all merits of the claim. The court of Vilnius denied trial of the case filed by Snoras because the jurisdiction of Lithuanian courts was found inappropriate - as requested by the Bank in June 2017, which was confirmed by the Court of appeal in January 2018.

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The Liquidator of Bank Snoras has filed an appeal in cassation to the Supreme Court of Lithuania that is currently under assessment for admission.

As of December 31, 2017, no provisions were created by EWUB in relation with those court cases (Snoras Bank and Latvijas Krajbanka) as there is no reliable and measurable estimate for the potential losses caused considering that we believe that under the Luxembourg law that governs all mentioned transactions exercising the pledge of funds on the accounts by way of set-off against the underlying loan claim is legal and enforceable.

NOTE 33 - SUPPLEMENTARY FINANCIAL INFORMATION

Risk Management

Through its normal operations, the Bank is exposed to a number of risks the most significant of which are credit, liquidity, market and operational risk. Risks arising from the Bank's activities are closely monitored by senior management with the primary objective of minimizing risk exposures, safeguarding the assets of clients and shareholders and retaining its clients' trust.

Senior management identifies and analyses banking risks on a continual basis in line with the evolution of the Bank's activities, determines the appropriate operating limits and reporting tools and establishes a sound control environment to promote compliance with internal rules and limits, as well as the relevant legal and regulatory requirements.

Credit Risk Management

Credit risk is the risk that a customer or counterparty will not settle an obligation for full value, either when due or any time thereafter.

The Board of Directors alone possesses the authority to set up the principles on which decisions are made and to fix rules relating to the granting, extension, or restructuring of a credit by the Bank (general credit policy, country limits and other strategic matters). The Credit Committee is responsible for the application of these principles.

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The control measures implemented by the Bank, in order to monitor and limit credit risk, focus on analysis of the financial standing and reputation of borrowers, the existence and sufficiency of collateral pledged as security for loan facilities and periodic reviews of the creditworthiness of borrowers. In order to minimise the credit risk in relation with money market operations, limits for authorised counterparties have been fixed.

Securities transactions for the Bank's investment and structural portfolios are deliberated upon by the Credit Committee, considering the quality of the issuer, the maturity profile of the security, its currency and investment return.

Liquidity Risk Management

Liquidity risk is the risk of loss arising from the possibility of the Bank not having sufficient funds to meet its obligations as and when they fall due or from the Bank's inability to unwind a position at market prices because of inadequate market depth or disruption in the market.

The Bank follows a prudent policy in matching the maturity profile of its assets and liabilities.

The Bank maintains a liquidity ratio well in excess of the required ratio with a high percentage of short-term liquid funds placed with highly reputable banks and financial institutions within the OECD.

Market Risk Management

Market risk is the risk of loss arising from adverse changes in market conditions, including interest rates, foreign exchange rates and from market prices of investments.

The Bank primarily matches its structure of assets and liabilities as far as possible to ensure congruence in terms of maturity and interest base. The Bank may conclude interest rate swaps periodically to hedge against its exposure to interest rate risk. The hedging possibilities of fixed rate assets are deliberated upon, as and when appropriate, by the Treasury Committee.

The governing objective in currency risk management is to maintain a system of authorised position limits and to monitor them closely.

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The Bank has undertaken proprietary securities trading activities on a restricted basis during the year, Comprehensive limits have been established by the Bank's senior management for trading activities.

Operational Risk Management

Operational risk is the risk of losses in relation with human error and fraud is addressed by adapting appropriate operations and administrative systems to the Bank's activities and by maintaining adequate working procedures and a strong internal control environment.

Exchange rate risk

Exchange rate risk is the risk of loss arising from future movements in the exchange rates applicable to foreign currency assets, liabilities, rights and obligations is managed through placing limits for intraday and overnight open currency positions by the Board of Directors. The Bank maintains low levels of open positions.

FX trading is suspended and therefore there have been no trading related risk exposures incurred during the year.