Credit Europe Bank (Suisse) SA

Annual Report 2018

Contents

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Chairman's Statement

The global economy started 2018 with an upswing amid strong manufacturing and trade momentum of 2017. This upswing lost pace and recession concerns emerged as the trade war intensified and caused major economies to increase tariffs. The business confidence indexes showed declines and the volatility in financial markets increased uncertainty in investment decisions.

The US economy grew at an upbeat pace of 2.9% in 2018 thanks to reduced corporate taxes and increased government spending. The FED kept increasing short term interest rates throughout the year by 100bps to 2.50%, however the increase in long term treasury notes was marginal due to increased recession expectations in the future. In Eurozone, concerns of slowdown raised after the economy stagnated at the end of 2018, and Italy, the third-largest economy in the Eurozone, fell into a technical recession after its second consecutive quarter of contraction. The ECB has stopped its bond-buying scheme, worth €30bn a month and pledged to keep interest rates on hold at zero percent at least until summer of 2019. China's economy grew 6.6% and met its target in 2018 with the help of accommodative central bank policies; however the growth was its slowest pace in nearly 30 years.

Global growth for 2019 is projected to remain steady at its 2018 level; however downside risks to growth outbalance the potential for upside surprises. Escalation of trade war, Brexit uncertainty and slowdown in China are the major risk factors in 2019. On the positive side, global inflation often remained below target with weak wage growth giving central banks more room to implement accommodative policies.

Turkey has experienced a financial turmoil in the second half of 2018, mainly because of its high external debt and its vulnerability to rising USD interest rates. A diplomatic controversy with US and the independence of the central bank were the triggering factors that caused a 30 percent slide in the value of the lira. We expect the growth to recover in 2020 to positive territory as a fall in domestic demand will be offset by an increase in exports. Tight stance of Central bank and its regained credibility could ensure that inflation remains under control and currency would stabilize.
The Bank has consistently developed its activities in the Corporate and Trade Finance in 2018 and reached to USD 1.4 billion volume in 2018. In line with its low risk policy as the volatility in the markets including Turkey and continuous political tensions around the World have been high, the Bank maintained its conservative approach in extending the loans to the third parties while having additional liquidity through its diversified funding sources. Accordingly, the total due from customers was CHF 230 million with a slight increase in comparison to the exposure at the end of 2017. The Bank continued to maintain a diversified funding base consisting of customer deposits, bilateral bank borrowings and money market instruments.

The Bank realised CHF 5.4 million gross profit before any provisions in 2018 and CHF 8.6 million net profit for the same period, after allocating specific and country reserves CHF 5.9 million and CHF 15.4 million, respectively. The Bank reclassified its reserves by releasing CHF 27.6 million from the general reserves to its current year income for 2018.

The appropriation of the retained earnings proposed by the Board of Directors as at December 31, 2018, is as follows:

Available profit carried forward in Chf

Profit carried forward at the beginning of the year	9,034,570
Dividend paid during the year	(8,000,000)
Transferred to the statutory retained earnings reserve	(625,000)
Profit carried forward after dividend distribution	**409,570**
Profit for the year	8,583,760
Available profit carried forward	**8,993,330**

Proposition for distribution by the General Meeting of Shareholders

Dividend proposed	8,000,000
To be transferred to the statutory retained earnings reserve	625,000
To be carried forward	368,330
Total	**8,993,330**

Taking this opportunity, I would like to thank the Management and the Staff for their dedication and teamwork without which these results could not have been achieved.

Geneva March 26, 2019

Chairman
Eric W. Fiechter

Board of Directors

Eric W. Fiechter	Chairman
Otto Bruderer	Vice-Chairman
Hüsnü M. Özyeğin	Member of the Board
Fevzi Bozer	Member of the Board
E. Murat Başbay	Member of the Board
Frederik Bernard Deiters	Member of the Board

Audit and Risk Group

Eric W. Fiechter	Chairman
Frederik Bernard Deiters	Member of the Board

Due to the requirements of the Dutch regulators in charge of the parent company, the Board composition of the Bank had to be changed, and the only two independent directors, who are also not members of the credit committee, accepted to be designated to perform the audit tasks assigned to Board members, one of them being the Chairman.

The Management

H. Oktay Gümrükçü[1]	Chief Executive Officer
Y. Aykut Çimir	Deputy Chief Executive Officer
M. Bulent Ilgün	Deputy Chief Executive Officer, *Responsible from Private Banking, Treasury and Financial Institutions*

[1] Mr. Levent Karaca has been appointed as a new CEO effective from 1st of March, 2019.

Information about the Board of Directors

Eric W. FIECHTER, Chairman
(Independent)

Mr. Fiechter who was born in 1949, graduated from the Geneva Law School in 1973 and, after one year of postgraduate research at the University of Basle, he obtained his master degree from New York University in 1975. He was admitted to the Geneva Bar in 1977, after having practiced law for one year in New York at Serko & Simon and at what has become Fox Horan & Camerini, LLP. He practiced under the banner of Secretan Troyanov from 1979 until 2011. He practiced in the "Banking and Finance", "Corporate and Commercial" and "Trust and Private Clients" groups of Secretan Troyanov and thereafter worked with Des Gouttes & Associés. He was Deputy Judge at the Geneva Court of Appeals from 1997 to November 2011. Since 2013, he is the Managing Director of ASBS Pte. Ltd., Singapore. Mr. Fiechter continues to work as attorney at law with Des Gouttes & Associés for legal work that needs to be done in or out of Geneva as well. Since September 1993, he has been Board Member of Credit Europe Bank (Suisse) SA.

Dr. Otto BRUDERER, Vice Chairman
(Independent)

Mr. Bruderer, born in 1952, after completing his studies in economics and law in 1978 he earned his doctorate from the HSG in 1980. He then started his career at the UBS in Zurich in the corporate finance department where he worked for three years before becoming assistant of the board's director. After another two years Dr. Otto Bruderer went to New York where he was responsible for UBS Securities in the corporate finance department again. When he came back to Switzerland in 1987, he stayed loyal to the UBS and acted as Manager of M&A Europe during five years. Since September 1993, he has been Board Member of Credit Europe Bank (Suisse) SA.

Hüsnü M. ÖZYEĞİN, Member

Born in 1944, Mr.Özyeğin graduated from Robert Academy in 1963. Also, Mr. Özyeğin holds a BS degree in Civil Engineering from Oregon State University and an MBA degree from Harvard Business School. He was the General Manager of Pamukbank during 1977-1984 and General Manager and CEO of Yapı ve Kredi Bank during 1984-1987. Mr.Özyeğin founded Finansbank in 1987 and served as the Founder and Chairman of Finansbank A.Ş. between 1987-2010. Today Mr. Özyeğin still continues to serve as the Chairman of Fiba Holding A.Ş., Fibabanka A.Ş. and Credit Europe Bank (Russia). Since 1990, he has been Board Member of Credit Europe Bank (Suisse) SA. Hüsnü M. Özyeğin is also the Chairman of the Board of Trustees of Özyeğin University and Member of the Board of Dean's Advisors of Harvard Business School.

Frits DEITERS, Member
(Independent)

Mr. Deiters who was born in 1940, has been in a successful 35-year career with ABN Amro Bank (and its predecessors) in corporate- and private banking, and lastly as Country Manager for Luxembourg. In the recent past, he was -inter alia- a Non-Executive Board Member and Chairman of the Audit, Risk and Compliance Committee of Lombard International Assurance, Luxembourg (a subsidiary of Friends Life in London) and a Supervisory Board Member and Chairman of the Audit Committee of Akbank NV. Mr Deiters has a graduate degree in Economics from the University of Amsterdam. Since November 2014, he has been Board Member of Credit Europe Bank (Suisse) SA.

Fevzi BOZER, Member

Mr. Bozer who was born in 1955, holds a BA degree in Business Administration from Indiana University and an MBA degree from Roosevelt University. He started his banking career in 1984 at Citi Bank. He joined Finansbank as branch manager in 1988 and then appointed as the General Manager of Finansbank (Credit Europe Bank) Suisse S.A. between 1991 and 1993. Then Mr.Bozer served as the General Manager of Finansbank A.Ş. between 1995-1999. Since the 2nd of half 1999, he has been the Executive Board Member of Fiba Group's international Banks and Fiba Holding A.Ş. Since July 2002, he has been Board Member of Credit Europe Bank (Suisse) SA.

E. Murat BASBAY, Member

Mr. Başbay was born in 1968 and holds a BSc degree in business administration from Bosphorus University in Istanbul. He began his career in 1992 at Arthur Andersen Worldwide and worked in Istanbul and Dubai offices. In 1997 he joined the founding team of Credit Europe Bank in Russia. In 1999 he joined the management team of Credit Europe Bank NV in the Netherlands and he took an active role in the expansion of the Bank as CFO and member of the Managing Board. Mr. Başbay returned to Russia in 2005 as CEO. Under his leadership, the Russian subsidiary of Credit Europe Bank N.V. grew substantially. As of June 2010 he became CEO of Credit Europe Group. Since May 2011, he has been Board Member of Credit Europe Bank (Suisse) SA.

Information about the Management

Mr. Halim Oktay GUMRUKCU, Chief Executive Officer

Mr. Gumrukcu was born in 1967 in Istanbul, Turkey. He graduated from TED Ankara College in 1985 and holds a BSc.in Metallurgical Engineering from Middle East Technical University (M.E.T.U) and an MBA in Business Administration from Moscow University Touro.

His banking career started off in Iktisat Bankasi, Istanbul (1990-1992). He joined with Finansbank group in November 1992 and has worked for the Finansbank group over a period of 15 years in several locations like Geneva, Moscow, Frankfurt, Hamburg, Amsterdam and Kiev as a senior Banker. His last position in the group was the founding General Manager of the group bank CJSC Finansbank in Kiev Ukraine. During the period 2007-2013, he was Deputy Country Manager and the Global Head of the Structured Trade and Commodity Finance Department at National Bank of Greece SA in London. Since March 2013, he has been the CEO of the Credit Europe Bank (Suisse) SA.

Mr. Yavuz Aykut CIMIR, Deputy Chief Executive Officer

Yavuz Aykut Cimir was born in 1966 in Turkey. He has a Major in Finance from the Bosphorus University, Business Administration in Istanbul. His career started off in auditing with Ernst & Young, Istanbul Office (1988 – 1993), and in New York Office (for 1 year) and became Senior Auditor. Afterwards, he joined Fiba Holding A.S. as Group Head – Internal Audit and Financial Coordination in 1993 and worked till 1996. He has been with the Credit Europe Bank (Suisse) SA since August 1996. He has been appointed as the Deputy of CEO in April 2010.

Mr. Mehmet Bulent ILGUN, Deputy Chief Executive Officer

Mr. Ilgun was born in 1975 and has a Major in Economics from Bilkent University in Ankara, Turkey. He served as senior dealer in treasury at Finans Invest A.S. in Istanbul followed by 10 years at Credit Europe Bank in Moscow where he served as a deputy CEO and Head of Treasury. For four years, he was also a member of the Management Board Credit Europe Bank in Russia. He has been Head of Rates and FX trading for Russia operations and Head of Treasury at Deutsche Bank AG since July 2010. He was responsible for Deutsche Bank's industry leading local rates and fx business in Russia and CIS region. In 2015, he appointed as Co-Head of Markets, Russia & CIS responsible for the debt, derivatives, structuring, fixed income as well as debt capital markets, sales trading, local structuring trading and research. In 2016, he re-joined CEB group as the Deputy CEO responsible from Treasury, Private Banking and Financial Institutions of the Credit Europe Bank (Suisse) SA.

Credit Europe Bank (Suisse) SA in Brief

History

Credit Europe Bank (Suisse) SA (formerly Finansbank (Suisse) SA), “**the Bank**”, was acquired by Finansbank AŞ Turkey in 1990 as the first non-Turkish subsidiary of FIBA Group. Due to the sale of Finansbank A.S. in August 2006, FIBA Group Banks were re-branded into Credit Europe Bank.

The Bank is fully owned by Credit Europe Bank NV, the Netherlands and under the consolidated supervision of the Dutch Parent Bank.

Business Activities

The Bank has two main business lines:

- Trade Finance and Corporate Lending
- Private Banking

The Bank has continued to focus on Trade Finance activities and will continue to increase its concentration in handling more structured trade and commodity finance transactions.

Private Banking activities would be still the second major business line contributing the gross profit of the Bank.

The asset growth that would be achieved in accordance with the business plan will be financed by diversified funding sources such as club loans, bi-lateral agreements, deposits, re-purchase (repo) transactions and money market borrowings.

In terms of capital planning for the next three years considering the severe adverse stress scenario assumptions, the Bank is well capitalized to implement its business plan for the future.

The Bank has outsourced its operational activities and IT core banking software since October 2007, to Azqore SA, joint venture of Credit Agricole Group and Capgemini (previously Credit Agricole SA – PBS) who has resilient experiences in supplying operational services to third parties.

There is no other assignment change at Management level except for new CEO appointment mentioned under footnote 1 (page 4) and no significant mandates given to the third parties other than the outsourced operations mentioned above.

The Bank does not have any research or development activities.

The number of full-time positions was 53 on average for 2018.

Risk Management

The Bank has defined the risks, set out the measures and implementation of risk mitigation factors, monitoring tools, review and reporting procedures in its Risk Management Framework and its Risk Appetite Policy. The Framework and the Policy cover all related risks under major captions as credit risk, market risk and operational risk. There are specific policy and procedures issued by the Bank for each caption to manage the related risks such as Credit Policy, Country Limits, Sector Limits, Trading and Investment limits as well as Operational Risk and New Product policies. Besides, the Bank has implemented an Internal Control System Framework in order to achieve effective internal control.

The Bank has a conservative risk approach and defined its risk appetite as “low” and has designed its risk management approach with 3 lines of defence consisted of: 1st line of defence carried out by business line Management, 2nd line of defence performed by the control functions and 3rd line of defence represented by Internal Audit. The risk management is under the supervision of Audit and Risk Group and the Board of Directors and the risk assessments and risk evolutions are monitored regularly and closely by the Management, Audit and Risk Group and the Board of Directors.

Extraordinary Events

The Bank did not have any extraordinary events occurred subsequently in 2018.

Financial Highlights & Review

Financial Highlights

CHF - thousands	31.12.2018	31.12.2017	2018 vs 2017 Change
Receivables from Banks	121,478	56,890	114%
Receivables from Customers	221,561	229,466	-3%
Total Assets	467,745	387,346	21%
Bank Borrowings	189,744	104,261	82%
Customer Deposits	140,511	98,494	43%
Shareholders’ Equity	103,622	136,923	-24%
Assets Under Custody (USD - millions)	634.20	876.23	-28%
Trade Finance Volume (USD - millions)	1,408.11	1,369.67	3%
BIS (%)	31.77%	37.45%	
Operating Income *	20,365	27,057	-25%
Operating Expense	14,977	16,317	-8%
Operating Profit *	5,388	10,740	-50%
Net Income	8,583	8,769	-2%

* *Before "Changes in value adjustments for default risks and losses from interest operations"*

Financial Review

The Bank has continued to increase its focus on the trade and corporate finance activities in 2018 and the volume exceeded USD 1.4 billion in 2018 (in 2017 – USD 1.37 billion). Private banking activities remained one of the main business lines and total assets under custody amounted to USD 0.6 billion at the end of 2018.

The receivables from customers as of December 31, 2018 were CHF 222 million and total net assets realized as CHF 468 million for the same period after deduction of country risk provision. The Bank has maintained its diversified funding sources consisting of customer deposits, club loans and money market instruments.

The Bank voluntarily puts aside certain provisions called “Country Risk Provision” and “Other Provisions” based on the internal policies and those provisions are different from the “Specific Provisions” (please refer to notes 2.8 and 3.8 in the audit report). We would like to underline that the Bank has very conservative country risk provisioning policy for the countries below investment grade. Accordingly, the Bank has increased its provision for the Country Reserve amounting to CHF 15.4 million as of December 31, 2018 and allocated the amount to its current year income for 2018. At the same time, the negative impact of such provisions has been compensated by releasing the reserves from “Other Provisions” for the same period. In accordance with Swiss GAAP, the Country Risk provision (increases or decreases) are allocated to “Charges in value adjustments for default risks and losses from interest operations” whereas the changes to the Other Provisions are presented under “Extraordinary Income/Expenses” item. Therefore, it would be better to net-off the Country Provision (together with the Specific Provision) under interest income as per the Swiss GAAP with Extra Ordinary Income amount (Please see the Notes to Financial Statements Note 2.5 and 5.5) in order to reflect the actual net interest income and net provision figures.

The Gross result from interest operations declined and realized as CHF 14.2 million in 2018 (in 2017 – CHF 18.2 million). As the Bank’s balance sheet size increased by 21% in 2018, the country reserve of CHF 15.4 million has been added and total country reserve amount has increased to CHF 27.6 million. The net commission income slightly decreased in 2018 and reached to CHF 4.4 million.

The operational costs were managed well and decreased by 8% in 2018 compared to 2017. Accordingly, the gross profit realized as CHF 5.4 million and the net income was 8.6 million in 2018 after release of provisions from other reserves.

The Bank maintained its strong capital base at CHF 103 million and the BIS ratio at 31.77% in 2018.

Presentation of the Eligible Regulatory Capital, as well as Capital Adequacy & Leverage Ratio and Liquidity Ratio

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Based on the circular 2016/1 "Disclosure-Banks" margin no. 12 &13, we used the exemption option of disclosure requirement as our Parent Company (Credit Europe Bank NV) publishes[2] comparable information at a group level therefore the Bank only discloses Table KM1 annually under Annex 2 of the same circular.

Capital Adequacy & Leverage Ratio

CHF - thousands

	Available capital (amounts)	31.12.2018	31.12.2017
1	Common Equity Tier 1 (CET1)	46,877	54,294
1a	Fully loaded ECL accounting model CET1	-	-
2	Tier 1	46,877	54,294
2a	Fully loaded ECL accounting model Tier 1	-	-
3	Total capital	103,622	136,923
3a	Fully loaded ECL accounting model Total capital	-	-
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	326,176	365,586
4a	Minimum capital requirements (CHF)	26,094	29,247
	Risk-based capital ratios (as a percentage % of RWA)		
5	CET1 ratio (%)	14.37%	14.85%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	-	-
6	T1 ratio (%)	14.37%	14.85%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	-	-
7	Total capital ratio (%)	31.77%	37.45%
7a	Fully loaded ECL accounting model total capital ratio (%)	-	-
	Additional CET1 requirements (buffers) as a percentage of RWA		
8	Capital conservation buffer requirement according to Basel minimum requirements (%)	1.875%	1.250%
9	Countercyclical buffer requirement according to Basel minimum requirements (%)	-	-
10	Bank G-SIB and/or D-SIB additional requirements	-	-
11	Total of bank CET1 specific buffer requirements according to Basel minimum requirements (%)	1.875%	1.250%
12	CET1 available after meeting the bank's minimum capital requirements (%)	8.372%	8.851%
	Target capital ratios according to Annex 8 of the Capital Adequacy Ordinance (CAO) (% of RWA)		
12a	Capital conservation buffer according to CAO, Annex 8 (%)	2.500%	2.500%
12b	Countercyclical capital buffer according to CAO, Art. 44 and Art. 44a (%)	-	-
12c	CET1 capital target (%) according to CAO, Annex 8 + countercyclical buffer according to CAO, Art. 44 and 44a	7.00%	7.00%
12d	T1 capital target according to CAO, Annex 8 + countercyclical buffer according to CAO, Art. 44 and 44a	8.50%	8.50%
12e	Total capital target according to CAO, Annex 8 + contercyclical buffer according to CAO, Art. 44 and 44a	10.50%	10.50%
	Basel III Leverage Ratio		
13	Total Basel III leverage ratio exposure measure (CHF)	489,857	426,100
14	Basel IIII Leverage Ratio	9.57%	12.74%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%)	-	-

CHF - thousands

Minimum Capital Requirements	Approach used	31.12.2018	Approach used	31.12.2017
Credit risk	SA-BIS	21,639	SA-BIS	24,128
of which price risk from the equity securities in the banking book				
Non counterparty related risk	SA-BIS	68	SA-BIS	58
Market risk	Standardized approach	456	Standardized approach	951
of which interest-rate instruments (general and specific market risk)		*354*		*362*
of which equity shares		*50*		*505*
of which foreign currencies and precious metals		*51*		*82*
of which commodities		-		-
Operational risk	Basic indicator approach	3,931	Basic indicator approach	4,111
Total Minimum Capital Requirements		**26,094**		**29,247**

[2] Please see consolidated disclosure of Credit Europe Bank "Risk Management and Capital Adequacy Pillar III Report" under link: https://www.crediteuropebank.com/financials.html

Presentation of the Eligible Regulatory Capital, as well as Capital Adequacy & Leverage Ratio and Liquidity Ratio (Continues)

Liquidity Coverage Ratio (LCR)

The Bank has implemented its Liquidity Policy as an integral part of the asset and liability management process in order to mitigate the liquidity risk. The Bank monitors its Liquidity Coverage Ratio (LCR) closely and has kept LCR ratio always above 100% that is the legal minimum requirement for Banks in 2018.

CHF - thousands	Average	Average	Average	Average	Average
Liquidity Coverage Ratio (LCR)	**Q4'2018**	**Q3'2018**	**Q2'2018**	**Q1'2018**	**Q4'2017**
Total High Quality Liquid Assets (HQLA)	110,841	134,606	62,829	63,645	81,556
Net cash outflow	54,440	60,362	36,944	32,265	67,247
Short-term Liquidity Coverage Ratio, LCR (in %)	204%	223%	170%	197%	121%

Information about the Business Activities

Trade Finance and Corporate Banking

The Bank provides tailor-made services to its clients in international finance with focus on structured trade finance tools such as export and import letters of credits, documentary collections, guarantees as well as working capital loans to the Corporate Entities. Thanks our experience on Trade Finance and Corporate Lending activities, credit products are formulated to accommodate specific needs of each and every client.

The Bank has continued to focus on more trade finance activities in different geographies with the additional Relationship Managers.

As a result of our dedication on customer-oriented marketing strategy, company-specific service approach and perspective that consider clients’ needs as priority, the Bank has realized a trade finance and corporate lending volume above 1.4 billion USD in 2018.

Seeing customer relations as the basis for long-lasting partnerships and opting to stand by its customers under all circumstances, the Bank aims to further solidify its business relationships with its existing clients via innovative products and cash/non-cash loan facilities in 2019 while broadening its corporate segment activities through new customer acquisitions.

Private Banking

The Bank maintained its Private Banking objectives and continued to focus on achieving its targets in 2018. The ongoing relationships with its current client base has been further enhanced while keeping intact its aim of attracting more customers into private banking client portfolio that are compliant with the Swiss and Dutch KYC and AML regulations. Thanks to the wide range of products by accessing international markets, the Bank could attract new clients and serve to its existing clients’ needs.

The total assets under custody were around USD 0.8 billion in average during 2018.

The Bank will increase product ranges to achieve its Private Banking targets through the dedicated staff.

Financial Institutions

The Bank has increased its relationship and services with various financial institutions in terms of trade finance, documentary credits and bilateral funding as well as treasury products. Thanks to its experience in global financial markets, the Financial Institutions Department has supported the growth in trade finance activities and helped to diversify the funding sources. The Bank has a dynamic and flexible structure that can adapt easily to the changing global conditions when it comes to creating, borrowing and serving the clients’ needs on the international front.

Treasury

The Treasury Department is responsible from the liquidity management of the Bank within risk management guidelines and principles. Besides, the Department conducts investments in fixed income securities and equities as part of this strategy and risk appetite. In addition, thanks to their in-depth market knowledge and client oriented focus, the Treasury Department provides tailor-made investment solutions for clients' needs.

The Treasury Department performs its business by installing the efficient risk management techniques, taking into account global market developments and other risk factors.

Auditors' Report & Financial Statements