Credit Europe Bank (Suisse) SA

Annual Report 2019

Contents

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Chairman’s Statement

Trade policy uncertainty, geopolitical tensions, and idiosyncratic stress in key emerging market economies continued to weigh on global economic activity—especially manufacturing and trade—in the second half of 2019. Intensifying social unrest in several countries posed new challenges, as did weather-related disasters. Despite these headwinds, some indications emerged toward year-end that global growth may be bottoming out. Moreover, monetary policy easing continued into the second half of 2019 in several economies.

The early signs of stabilization reinforced financial market sentiment already shored up by central bank rate cuts. Markets appeared to have internalized the outlook for US monetary policy and the Fed’s shift to “on hold” forward guidance following three rate cuts in the second half of 2019. Intermittent favourable news on US-China economic relations and diminished fears of a hard Brexit supported investors’ risk appetite. Equities continued to advance in the large advanced economies over the fall; core sovereign bond yields rose from their September low; and portfolio flows to emerging market economies strengthened, particularly to bond funds. Currency movements between September and early January reflected the general strengthening of risk sentiment and reduced trade tensions as the US dollar and the Japanese yen weakened by about 2 percent, while the Chinese renminbi gained about 1½ percent. The most notable movement across major currencies was the appreciation of the British pound (4 percent since September) on perceptions of reduced risks of a no-deal Brexit. Financial conditions thus remain broadly accommodative across advanced and emerging market economies.

Turkey's economy shook off recession to grow 0.9 percent in 2019. Substantial government stimulus is lifting domestic demand and currency depreciation is supporting exports. Yet, weak external trade demand, geopolitical uncertainties and impaired private balance sheets may keep GDP growth well below potential growth which itself has weakened and which may decline further due to increased policy-related distortions in the economy. Investor confidence remains fragile and investment has declined sharply. At the same time, the exchange rate, which had depreciated by 33% against the US dollar after the August 2018 shock, and the country risk premium, which had risen severely, regained some ground. Monetary policy has benefitted from the very benign global monetary conditions by sharply cutting the policy interest rate from 24% in July to 12%.
The Bank has significantly increased its activities in the Corporate and Trade Finance in 2019 by 53% compared to 2018 and total volume reached to USD 2.1 billion in 2019. Trade Finance business contributed to the total volume with USD 1.9 billion (in 2018 – USD 1 billion). The total assets realized as CHF 497 million and Amount Due from Customers boosted to CHF 315 million with 27% rise compared to 2018. While increasing the lending activities, the Bank managed its liquidity through diversified funding sources and monitored its LCR requirements closely.

In accordance with the increased trade finance activities starting from Q2 ’19, the Bank has achieved CHF 3.6 million gross profit before tax and CHF 2.6 million net income as of December 31, 2019.

The Bank continued to maintain solid equity base amounting to CHF 111 million and had CAR of 27% at the end of 2019.

The appropriation of the retained earnings proposed by the Board of Directors as at December 31, 2019, is as follows:

Available profit carried forward in CHF	
Profit carried forward at the beginning of the year	8,993,330
Dividend paid during the year	(8,000,000)
Transferred to the statutory retained earnings reserve	(625,000)
Profit carried forward after dividend distribution	**368,330**
Profit for the year	2,604,195
Available profit carried forward	**2,972,525**

Proposition for distribution by the General Meeting of Shareholders	
To be carried forward	2,972,525
Total	**2,972,525**

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 April 17, 2020

Chairperson
Eric W. Fiechter

Board of Directors

Eric W. Fiechter	Chairperson
Otto Bruderer	Vice-Chairperson
Murat 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 Committee (ARC)

Otto Bruderer	Chairperson of the ARC
Frederik Bernard Deiters	Member of the ARC

The Management

Levent Karaca	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*

Information about the Board of Directors

Eric W. FIECHTER, Chairperson
(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 Chairperson
(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.

Murat ÖZYEĞİN, Member

Born in 1976, Mr. Özyeğin joined Fiba Group in 2003. He is the Head of Strategic Planning & Business Development of Fiba Group, Executive Board Member of Fina and Fiba Holding and Chairman of all Fiba Group's non-banking businesses. Additionally he is Chairman of the Board of Endeavor Turkey, Executive Board Member of Hüsnü M. Özyeğin Foundation, Turkish Industry & Business Association (TUSIAD), Member of the Board of Trustees of Özyeğin University and World Wildlife Fund, Member of Global Relations Forum and Member of Global Advisory Council of Harvard University. Since May 2019, he has been Board Member of Credit Europe Bank (Suisse) SA.

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. Levent KARACA Chief Executive Officer

Mr. Karaca was born in 1970 in Turkey. He has an MBA degree in Finance and Economics from Marmara University in Istanbul.

He began his career in Istanbul with Finansbank AS, worked for Banque de Bosphore in Paris, France and in 2000 he joined Credit Europe Bank NV. From 2000 till 2006 he worked with the Belgian branch of the bank, responsible for the set-up of the corporate- as well as retail division of such branch. In 2006 he moved to Russia to work as Head of the Corporate Banking division and member of the management team. He returned to Amsterdam in 2010 to become Division Director Corporate Banking responsible for the corporate banking activities of the bank on consolidated level. Mr. Karaca was the Managing Board Member of Credit Europe Bank NV responsible from Corporate Banking and Legal (2012 – 2019). Since March 2019, 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 is mainly active in Trade Finance and Corporate Banking and continued to increase its concentration in handling more structured trade and commodity finance transactions.

Private Banking had been the second major business line; however, it has been decided to discontinue the private banking activities in 2020 that are no longer a strategic fit for the Bank. The related activities would be wind down till the end of 2020.

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.

Mr. Levent Karaca has been appointed as a new CEO effective from March 2019. There is no other assignment change at Management level 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 53.6 on average for 2019.

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 Committee and the Board of Directors and the risk assessments and risk evolutions are monitored regularly and closely by the Management, Audit and Risk Committee and the Board of Directors.

Subsequent Extraordinary Events

As it is mentioned under the Business Activities section, it has been decided to discontinue the private banking business in 2020. However, the impact on the financials would not be negative since it does not represent the Bank's main source of income. Furthermore, exiting from private banking activities has no impact on the Bank's ability to develop its Corporate and Trade Finance activities.

The outbreak of the Covid-19 virus in China, its spread to Europe and other nations as well as quarantine and other efforts to contain the outbreak appear to have an adverse economic effect. The future effects of the outbreak of Covid-19 are unclear at this time and the impact cannot be quantified. A significant rise in the number of Covid-19 infections or a prolongation of the outbreak could adversely affect economic growth; affect specific industries or countries, including Switzerland, and affect operational resilience.

Following the measures taken by the Swiss government and to limit the spread of the virus, the Bank has taken immediate measures and implemented its Pandemic Plan. At present all associated activities and customer services continue to be guaranteed. The Bank has moved to remote working plan as per the Pandemic Policy and physically distributed its staff in order to allow business continuity and reduce the risk of interruptions in the provision of services. The Bank has taken all necessary measures in order not to have any significant impact on its financial performance arising from those developments.

Financial Highlights

CHF - thousands	31.12.2019	31.12.2018	2019 vs 2018 Change
Receivables from Banks	106,408	121,478	-12%
Receivables from Customers	285,068	221,561	29%
Total Assets	466,537	467,745	0%
Bank Borrowings	202,085	189,744	7%
Customer Deposits	137,660	140,511	-2%
Shareholders' Equity	111,412	103,622	8%
Assets Under Custody (USD - millions)	417.94	634.20	-34%
Trade Finance Volume (USD - millions)	2,161.88	1,408.11	54%
BIS (%)	26.88%	31.77%	
Operating Income *	18,951	20,365	-7%
Operating Expense	15,149	14,977	1%
Operating Profit *	3,802	5,388	-29%
Net Income	2,605	8,583	-70%

* *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 2019 and the volume exceeded USD 2.1 billion in 2019 (in 2018 – USD 1.4 billion). On the other hand, Private banking activities declined and total assets under custody amounted to USD 0.4 billion at the end of 2019.

The receivables from customers as of December 31, 2019 were CHF 285 million and total net assets realized as CHF 467 million for the same period after deduction of country risk provision. The Bank has maintained its diversified funding sources consisting of customer deposits, post finance 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 2.6 million as of December 31, 2019 (in 2018 – CHF 15.4 million) and allocated the amount to its current year income for 2019. 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 10.4 million in 2019 (in 2018 – CHF 14.2 million). As the Bank's balance sheet size remained same as in 2019, the country reserve of CHF 2.6 million has been added and total country reserve amount has increased to CHF 30.3 million. The net commission income increased by 25% in 2019 and reached to CHF 5.6 million thanks to increased trade finance volume by 54% in 2019 in comparison to previous year.

The operational costs were increased only 1% in 2019 compared to 2018. Accordingly, the gross profit realized as CHF 3.8 million and the net income was 2.6 million in 2019 after release of provisions from other reserves.

The Bank maintained its strong capital base at CHF 111 million and the BIS ratio at 26.88% in 2019.

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[1] 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)	31.12.2019	31.12.2018
1	Common Equity Tier 1 (CET1)	49,480	46,877
1a	Fully loaded ECL accounting model CET1	-	-
2	Tier 1	49,480	46,877
2a	Fully loaded ECL accounting model Tier 1	-	-
3	Total capital	111,412	103,622
3a	Fully loaded ECL accounting model Total capital	-	-
	Risk-weighted assets (amounts)		
4	Total risk-weighted assets (RWA)	414,504	326,176
4a	Minimum capital requirements (CHF)	33,160	26,094
	Risk-based capital ratios (as a percentage % of RWA)		
5	CET1 ratio (%)	11.94%	14.37%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	-	-
6	T1 ratio (%)	11.94%	14.37%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	-	-
7	Total capital ratio (%)	26.88%	31.77%
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 (%)	2.500%	1.875%
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 (%)	2.500%	1.875%
12	CET1 available after meeting the bank's minimum capital requirements (%)	5.937%	8.372%
	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)	535,963	489,857
14	Basel IIII Leverage Ratio	9.23%	9.57%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%)	-	-

CHF - thousands

Minimum Capital Requirements	Approach used	31.12.2019	Approach used	31.12.2018
Credit risk	SA-BIS	29,388	SA-BIS	21,639
of which price risk from the equity securities in the banking book				
Non counterparty related risk	SA-BIS	92	SA-BIS	68
Market risk	Standardized approach	362	Standardized approach	456
of which interest-rate instruments (general and specific market risk)		*89*		*354*
of which equity shares		*27*		*50*
of which foreign currencies and precious metals		*245*		*51*
of which commodities		-		-
Operational risk	Basic indicator approach	3,318	Basic indicator approach	3,931
Total Minimum Capital Requirements		**33,160**		**26,094**

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[1] 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 2019.

CHF - thousands	Average	Average	Average	Average	Average
Liquidity Coverage Ratio (LCR)	**Q4'2019**	**Q3'2019**	**Q2'2019**	**Q1'2019**	**Q4'2018**
Total High Quality Liquid Assets (HQLA)	55,708	44,247	97,980	96,411	110,841
Net cash outflow	39,934	23,951	72,629	71,140	54,440
Short-term Liquidity Coverage Ratio, LCR (in %)	139%	185%	135%	136%	204%

Trade Finance and Corporate Banking

Switzerland today continues to be one of the World's leading centers for trading commodities. The city of Geneva handles about one fifth of the World's shipping activities, more than half of the world's coffee and metal transactions, one third of the world's traded cotton, cereal and oil products.

Having strong expertise and know-how accumulated for the past 30 years, the Bank is active in all main commodity groups such as energy, metals and soft commodities.

The Bank offers tailor-made solutions 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.

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 2.1 billion USD in 2019.

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 developing suitable products for the needs of the clients and cash/non-cash loan facilities in 2020 while broadening its corporate segment activities through new customer acquisitions.

Financial Institutions

Thanks to its strategy, the Bank has further increased its relationship and services with various financial institutions in terms of trade finance, documentary credits and bilateral funding as well as treasury products, with a focus to geographical diversification. Experienced 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. Significant increase in activity has helped us in establishing new banking relations in a wider geography.

Treasury

The Treasury Department is responsible from the asset and liability 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 both private and institutional clients' needs.

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

Auditors' Report & Financial Statements