Report of the statutory auditor

with financial statements as of 31 December 2018 of

Credit Europe Bank (Suisse) SA, Geneva

Building a better working world

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To the General Meeting of
Credit Europe Bank (Suisse) SA, Geneva

Geneva, 25 March 2019

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Credit Europe Bank (Suisse) SA, Geneva, which comprise the balance sheet, income statement, cash-flow statement, statement of changes in equity and notes, for the year ended 31 December 2018.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion
In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Milena De Simone
Licensed audit expert
(Auditor in charge)

Jean-Christophe Le Floch

Enclosures
- ► Financial statements (balance sheet, income statement, cash-flow statement, statement of changes in equity and notes)
- ► Proposed appropriation of available earnings

Balance Sheet as at 31 December

ASSETS	Notes	2018 CHF '000	2017 CHF '000
Liquid assets		76,919	24,369
Amounts due from banks		121,478	56,890
Amounts due from customers	3.1	221,561	229,466
Trading portfolio assets	3.2	1,228	8,318
Positive replacement values of derivative financial instruments	3.3	7,730	25,819
Financial investments	3.4	33,210	36,968
Accrued income and prepaid expenses		2,754	3,543
Tangible fixed assets	3.5	855	721
Other assets	3.6	2,010	1,252
Total assets		**467,745**	**387,346**

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2018 CHF '000	2017 CHF '000
Amounts due to banks		189,744	104,261
Amounts due in respect of customer deposits		140,511	98,494
Negative replacement values of derivative financial instruments	3.3	4,031	24,709
Accrued expenses and deferred income		3,372	2,278
Other liabilities	3.6	475	979
Provisions	3.8	74,735	102,331
Share capital	3.9	35,000	35,000
Statutory retained earnings reserve		10,884	10,259
Profit carried forward		410	266
Profit for the year		8,583	8,769
Total liabilities and shareholders' equity		**467,745**	**387,346**

Off-balance sheet transactions	Notes	2018	2017
Contingent liabilities	3.1, 4.1	41,169	28,918
Irrevocable commitments	3.1	228	262
Credit commitments	3.1, 4.2	21,280	19,187
		62,677	**48,367**

Income Statement
for the year ended 31 December

	Notes	2018 CHF '000	2017 CHF '000
Result from interest operations			
Interest and discount income		40,926	54,842
Interest and dividend income from trading portfolios		190	106
Interest and dividend income from financial investments		921	1,819
Interest expense		(27,836)	(38,517)
Gross result from interest operations		**14,201**	**18,250**
Changes in value adjustments for default risks and losses from interest operations	3.8	(21,334)*	9,977
Subtotal net result of interest operations		**(7,133)**	**28,227**
Result from commission business and services			
Commission income from securities trading and investment activities		2,317	2,900
Commission income from lending activities		2,554	3,022
Commission income from other services		437	490
Commission expense		(862)	(1,066)
Subtotal results from commission business and services		**4,446**	**5,346**
Result from trading activities and the fair value option	5.2	1,708	3,492
Other result from ordinary activities			
Other ordinary income		49	65
Other ordinary expenses		(39)	(95)
Subtotal other result from ordinary activities		**10**	**(30)**
Operating expenses			
Personnel expenses	5.3	(10,262)	(10,851)
General and administrative expenses	5.4	(4,715)	(5,466)
Subtotal operating expenses		**(14,977)**	**(16,317)**
Gross income		**(15,946)**	**20,717**
Value adjustments on participations and depreciation and amortisation of tangible fixed and intangible assets		(139)	(104)
Changes to provisions and other value adjustments, and losses	3.8	-	(8,866)
Operating result		**(16,085)**	**11,748**
Extraordinary income	5.5	27,617	-
Extraordinary expenses		-	-
Taxes	5.6	(2,949)	(2,979)
Profit for the year		**8,583**	**8,769**

* Thereof CHF 15,403 is due to increase in country risks provision as of 31 December 2018 (see notes 2.8 and 3.8), and is compensated by the release of other reserves that are classified under Extraordinary income (see note 2.5).

Cash-flow Statement
for the year ended 31 December

CHF '000	2018		2017	
	Source of funds	**Use of funds**	**Source of funds**	**Use of funds**
Cash flow from operating activities (internal financing)				
Profit for the year	8,583	-	8,769	-
Value adjustments on participations, depreciation and amortisation of tangible fixed assets and intangible assets	139	-	104	-
Provisions and other value adjustments	-	27,596	8,663	-
Change in value adjustments for default risks and losses	6,359	-	4,135	-
Accrued income and prepaid expenses	789	-	470	-
Accrued expenses and deferred income	1,094	-	430	-
Dividend paid during the year	-	8,000	-	8,000
Subtotal	**16,964**	**35,596**	**22,571**	**8,000**
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets				
Other tangible fixed assets	-	273	-	150
Subtotal	**-**	**273**	**-**	**150**
Cash flows from banking operations				
Medium and long-term business (> 1 year)				
Other liabilities	-	503	190	-
Amounts due from customers	18,072	-	67,168	-
Financial investments	4,744	-	15,971	-
Other accounts receivable	-	758	413	-
Short-term business				
Amounts due to banks	85,483	-	28,196	-
Liabilities from securities financing transactions	-	-	-	11,433
Amounts due in respect of customer deposits	42,017	-	-	184,330
Negative replacement values of derivative financial instruments	-	20,678	-	66,419
Amounts due from banks	-	64,588	36,997	-
Amounts due from securities financing transactions	-	-	5,941	-
Amounts due from customers	-	16,527	-	17,194
Trading portfolio assets	7,090	-	-	6,567
Positive replacement values of derivative financial instruments	18,089	-	64,895	-
Financial investments	-	986	15,866	-
Liquidity				
Liquid assets	-	52,550	35,885	-
Subtotal	**175,495**	**156,590**	**271,522**	**285,943**
Total	**192,459**	**192,459**	**294,093**	**294,093**

Statement of changes in equity
for the year ended 31 December

	Share capital	Statutory retained earnings reserve	Profit carried forward	Profit for the year	Total
Equity at 31 December 2017	**35,000**	**10,259**	**266**	**8,769**	**54,294**
Transfer of income to retained earnings	-	-	8,769	(8,769)	-
Dividends and other distributions	-	625	(8,625)	-	(8,000)
Net income for the year	-	-	-	8,583	8,583
Equity at 31 December 2018	**35,000**	**10,884**	**410**	**8,583**	**54,877**

Notes to the Financial Statements
31 December 2018
(Amount expressed in Swiss Francs thousands unless otherwise stated)

1. Business Activities

Credit Europe Bank (Suisse) SA is a bank incorporated under laws of Switzerland and performs all of its activities through its headquarters in Geneva.

The Bank started its operations in 1990 and has activities on trade and corporate finance, private banking and treasury operations.

The Bank has no branches or representative offices at the end of 2018.

The Bank has outsourced its IT systems and back office operations with a third party in Switzerland since October 2007.

2. Significant accounting and valuation principles

The Bank's bookkeeping and accounting and valuation principles are in accordance with the Swiss Code of Obligations, the Swiss Banking Act and its related ordinance, as well as with the statutory provisions and directives issued by the FINMA. The financial statements as at 31st December 2018 are presented in accordance with the reliable assessment principles defined in the accounting rules for banks, securities dealers, financial groups and conglomerates (ARB) : FINMA Circ. 15/01 "Accounting – banks" (hereafter "FINMA Circ. 15/01"). The accompanying reliable assessment statutory single-entity financial statements present the economic situation of the Bank such that third party can form a reliable opinion. The financial statements are allowed to include hidden reserves.

2.1 General valuation principles

The financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. Therefore the financial statements are prepared using the going concern basis of accounting.

The disclosed balance sheet items are valued individually.

2.2 Revenue and expense recognition

Interest income and expense as well as fiduciary deposit commissions, custody fees and account maintenance fees are recorded on accrual basis. All other commissions are recognized as income and expense when they are collected or paid. Asset related negative interest is debited to "Interest and discount income".

2.3 Changes to accounting and valuation principles

No change in accounting principles during the year.

2.4 Financial instruments

2.4.1 Liquid assets, amounts due from banks and amounts due from customers

These items are reported in the balance sheet at their nominal value, less individual valuation adjustments for any impaired receivables.

2.4.3 Amounts due to banks and amount due in respect of customers deposits

These items are recognised at their nominal value.

2.4.4 Trading portfolio assets

Securities held for trading purposes are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer’s margin, or are securities included in a portfolio in which a pattern of short term profit taking exists. After initial recognition, trading securities are valued at fair value based on quoted bid prices. All related realized and unrealised gains or losses are recognized in securities and precious metals held for trading purposes. The cost of financing of such securities is recorded as interest expense.

Notes to the Financial Statements
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2.4.5 Financial investments

Investment securities with fixed or determinable payments and fixed maturity where Management has both the intent and the ability to hold to maturity are classified as financial investments. In addition, long term debt instruments such as participations in securitisations, which are not held for short term gain, but not necessarily until maturity, are classified as financial investments. The management determines the appropriate classification of its investments at the time of purchase.

Financial investments intended to be held to maturity are valued based on the acquisition cost principle with the agio/disagio (premium/discount) accrued/deferred over the residual term to maturity (accrual method). The agio/disagio is accrued/deferred over the residual term to maturity via the "Financial investments". Value adjustment for default risk are recorded immediately under "Changes in value adjustments for default risk and losses from interest operations".

If held-to-maturity financial statements are sold or reimbursed early, the realised gains and losses, which correspond to the interest component, are accrued/deferred over the residual term to maturity of the transaction via the captions "Other assets" or "Other liabilities".

Financial investments intended not to be held to maturity are valued at the lower of cost and market value, gains and losses are recognized in other ordinary income or other ordinary expense.

Interest earned whilst holding financial securities is reported as interest and dividend income from financial investments.

2.4.6 Positive and negative replacement values of derivative financial instruments

Derivative instruments include foreign exchange contracts such as swaps, options and forwards, securities options, interest swaps. Swaps transactions are carried out by the bank for its own portfolio and for its clients.

The valuation is done according to the fair value and the positive and negative replacement value is recorded in the corresponding caption. The fair value is based on market prices and option pricing models.

The realised result from trading operations and the unrealised result from valuation relating to trading operations are recorded via the caption "Result from trading activities and the fair value option".

2.4.7 Tangible fixed assets

The fixed assets are stated at cost less accumulated depreciation over the estimated operating life, except for paintings.

Depreciation is computed using the straight-line method using the following rates:

Furniture and fixtures	20 %
IT equipment	20 to 33.3 %
Leasehold improvements	over the term of the lease (max. 5 years)
Paintings	not subject to depreciation, but subject to regular impairment reviews

2.4.7 Tangible fixed assets (Continued)

The carrying values of each tangible fixed assets are reviewed for impairment periodically. If the asset is impaired, the book value is reduced to match the recoverable value and the impairment is recorded via the caption “Value adjustments on participations and depreciation and amortisation of tangible fixed and intangible assets”.

Realised gains from the sale of tangible fixed assets are recorded via the caption “Extraordinary income” and realised losses are recorded via the caption “Extraordinary expenses”.

2.4.8 Provisions

In accordance with ordinary banking practice, other provisions are made in terms of risks existing at the balance sheet date.

Legal and factual obligations are valued regularly. If an outflow of resources is likely and can be reliably estimated, a provision must be created.

Provisions are released via the income statement if they are no longer needed and cannot be used for other similar purposes at the same time.

Country risk provisions related to the off-balance-sheet positions are presented in “Provisions”.

2.4.9 Taxes

Current income taxes are recurring, usually annual, taxes on profit and capital. Transaction-related taxes are not included in current taxes. Liabilities from current income and capital tax are disclosed via the caption “Accrued expenses and deferred income”. Expense due to income and capital tax is disclose in the income statement via the caption “Taxes”.

2.4.10 Pension benefit obligations

Pension benefit obligations are all plans, schemes and arrangements to provide benefits for retirement, death or disability.

Notes to the Financial Statements
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(Amount expressed in Swiss Francs thousands unless otherwise stated)

2.4.10 Pension benefit obligations (Continued)

The economic impact of pension plans are deemed to be either an economic benefit (excess coverage) or an obligation (funding shortfall). In the case of excess coverage, an economic benefit arises if there is a potential positive effect on future cash flows and if it is permissible and intended to either use the surplus or lower the employer's contributions. Future economic benefits are always capitalized when recognition criteria are satisfied. In the case of a funding shortfall, an economic obligation exists if the conditions for creating a provision are met.

Determining the economic impact of the pension plan is based on the financial situation of the pension funds at its latest annual financial reporting date but not more than 12 months ago.

Pension benefit obligations are carried on the balance sheet under "Provisions", while benefits are recognized under "Other assets". Changes from the corresponding value in the previous financial year are recognized for the pension fund under "Personnel expenses". The same accounting method applies to adjusted contributions for the period.

The Bank has entered into a defined contribution pension plan with Allianz Switzerland for its employees.

2.4.11 Off-balance sheet transactions

Off-balance-sheet transactions are valued at nominal value. Irrevocable commitments arising from documentary letters of credit are recorded in the position “Contingent liabilities”.

2.5 Treatment of translation differences of foreign currencies

Gains and losses arising from foreign currency transactions are reflected in the statement of income as realised during the course of the period at the respective daily exchange rate. Foreign currency assets and liabilities have been translated into Swiss Franc equivalents at year-end foreign currency rates. Tangible fixed assets are valued using the historical exchange rates. The price gain or loss resulting from the currency translation is recorded via the caption “Result from trading activities and the fair value option”.

The year-end foreign currency rates for major currencies used for the translation into Swiss Franc are as follows:

	2018	**2017**
USD / CHF	0.9838	0.9746
EUR / CHF	1.1261	1.1702
CHF / TRY	5.3648	3.8805

2.6 Treatment of past-due interest

Past-due interest and the corresponding commissions are not included as interest income. Such transactions are interests and commissions that are over 90 days past due and not yet paid. Over 90 days, no accrued interest and commission is recorded in “Interest and discount income” until there is no more past-due interest longer than 90 days.

Notes to the Financial Statements
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(Amount expressed in Swiss Francs thousands unless otherwise stated)

2.6 Treatment of past-due interest (Continued)

Past-due interest is not cancelled retroactively. The liabilities from the accumulated interest up to the expiry of the 90-day term (due unpaid interest and accumulated accrued interest) are written down via the caption “Change in value adjustments for default risks and losses from interest operations”.

2.7 Recording of transactions

Transactions are entered into the balance sheet following the value date accounting principle.

2.8 Risk management, market risks, credit risk and other risks

The Board of Directors has conducted an analysis of the main risks incurred by the Bank. This analysis is based on data and risk managements tools developed by the Bank and taking into consideration the risks to which the Bank is exposed. During this risk analysis, the Board of Directors took into consideration the existing internal control system to manage and reduce the risks.

Risk control is based on limits set for the various categories of risks to which the Bank is exposed. The necessity for value corrections and provisions resulting from current risk evaluation is taken into account each time the situation occurs.

Credit risks are valued and controlled by the Credits Department. In addition, the Bank implemented the Group credit internal rating system based on the qualitative and quantitative criteria of the counterparty.

Credit risk is the risk that a client or counterparty to a financial asset fails to meet its contractual obligations and causes the Bank to incur a financial loss. It arises principally from the amounts due from customers, amounts due from banks and financial investments. Credit risk includes counterparty risks, country risks and sector risks. The Bank has established Risk Management Framework and Risk Appetite Framework for Risk Management in which controls implemented by the Bank are described. Country risk and sector risk are monitored through limit based controls. The Board of Directors approves regularly country limits and sector limits by taking into consideration the capital base in order to control these exposures.

Regarding counterparty risk, the Bank monitors its credit risk for private banking clients by principally granting loans collateralized by securities and fiduciary deposits and by the application of margin limits based on the quality of collateral. For commercial credit risks, the Bank mitigates these credit risks through careful diversification, by being highly selective on the quality of the borrowers, by requiring tangible guarantees and by means of adequate and appropriate limits, and by ensuring appropriate documentation is in place. For commercial credit risk, the recovery capabilities of borrowers and debtor’s creditworthiness is assessed according to an internal risk rating evaluation (scaled from 1 to 21, 1 standing for very high credit quality) based on credit analysis performed by the Credits Department.

The Bank maintains a list for Non-Performing Loans and Sub-standard Loans, in which risky loans are carefully followed up.

(Amount expressed in Swiss Francs thousands unless otherwise stated)

2.8 Risk management, market risks, credit risk and other risks (continued)

Loan provisioning on the methods used to identify default risks

Loans and other receivables are classified and monitored as indicated below according to their recovery capabilities and debtor's creditworthiness:

Type of loans and other receivables	Credit quality level
Standard Loans	Internal rating from 1 to 18
Sub-standard Loans	Internal rating from 19 to 21

Sub-standard loans include performing forborne loans and loans of customers who are rated between 19 and 21 according to the internal rating.

Observation of negative trend in debtors' payment capability or cash flow positions, delays in principal and/or interest payments of more than 30 days after the due date, suffered credit quality deterioration revision of repayments terms.

Non-Performing Loans (NPLs)	Subject to individual assessment

Limited means of recovery, being overdue more than 90 days are some of the indicators of the NPL status, other signs/criteria should also be closely monitored; such as the debtor has been placed in bankruptcy or similar protection.

All significant exposures, including sub-standard loans and NPLs are subject to individual assessment. The commercial portfolio is reviewed every quarter based on the significance and impairment criteria. A limited review is conducted over the loans with signs of impairment on a monthly basis.

Individual assessment is performed on commercial loan portfolio with significant exposures including sub-standard loans and nonperforming loans (Please refer to note 3.2).

Measurement of required value adjustments for loans

Impaired loan, defined as loan for which it is unlikely that the debtor will be able to fulfil his future obligations, are valued on an individual basis and the impairment is covered by individual valuation adjustment. A loan is considered impaired when there are conclusive signs that future contractual payments of principal and/or interest are unlikely.

A principle or interest overdue by more than 90 days after its respective due date is considered non-performing, if the necessary collaterals are not in place and there is objective evidence that the Bank will not be able to collect all amounts. Such loans are considered impaired and an allowance is established, which is classified as value adjustments and provisions.

Notes to the Financial Statements
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2.8 Risk management, market risks, credit risk and other risks (continued)

Impairment in value corresponds to the difference between the book value of the loan and the amount which the Bank can expect to recover, with due consideration for the counterparty risk and the net proceeds from the realization of any collateral held. These individually assessed value adjustments are directly deducted from the corresponding asset.

When a loan is considered totally or partially uncollectible, a write-off is made by charging against previously established provisions and the principal amount of the loan.

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and negotiating new loans conditions. Once the terms have been renegotiated, the loan is no longer considered as past due.

Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. These loans continue to be subject to an individual impairment assessment.

A loan is no longer considered impaired if capital and interest in arrears are repaid, the servicing of the debt has resumed normally, additional tangible guarantees have been obtained for a value in excess of the existing unsecured debt and other solvency criteria have been met. Recoveries of loans with provisions and written off in earlier periods are recorded changes in value adjustments for default risk and losses from interest operations.

Valuation of collateral for loans, in particular key criteria for the calculation of the current market value and the lending value

The Bank tries to mitigate credit risk by obtaining collateral when possible. Note 3.1 describes the “Amounts due from customers”, “Contingent liabilities”, “Irrevocable commitments” and “Credit commitments” which are covered by collateral, and where the nature of collateral are classified as “mortgage collateral” and “other collateral”.

Collateral values are periodically controlled by types of security and latest value, with any shortfalls identified in weekly exception reports created automatically by the Bank’s system. The financial standing of borrowers is also regularly reviewed and updated throughout the year based on appropriate documents and regular communication with the clients. The Bank also performs regular monitoring on any exposures existing beyond their maturity date, regular monitoring of any overdue payments of interests and regular review on overdrafts arising which are not covered by approved credit lines.

An immediate corrective action is taken by the Bank if any issues are identified.

The Bank has defined a list of collaterals together with related values to be taken based on the Internal Business Rules. The lending values are calculated in accordance with those pre-defined percentages, in case secured loans are granted.

Notes to the Financial Statements
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(Amount expressed in Swiss Francs thousands unless otherwise stated)

2.8 Risk management, market risks, credit risk and other risks (continued)

When a commercial loan granted as unsecured becomes impaired, the Bank performs an individual assessment of impairment based on the net value of collaterals according to the type of assets pledged during the collection process:

Mortgage on real estate (depending on the amount and degree of the mortgage),
Customers cheques (according to the value of cheques received),
Pledge of goods,
Assignment of receivables, if any.

Regarding the estimation of the provision, the analysis on the recoverable amount is performed by the Credits Department and then is discussed with Management for final decision. The detailed Forbearance and NPL List including the detail of provisions are presented to the Board of Directors every quarter.

For mortgage collateral, the Bank defines the market value of collaterals based on appraisal report obtained from independent and recognized experts selected by the Bank.

The Bank's approach to the management of country risk follows the guidelines of the Swiss Bankers' Association. The identification and evaluation of risks are under the responsibility of the Financial Control and Risk Management Department. Provisions for country risk are made for positions where the ultimate risk is in countries with ratings below A3 grades according to the Moody's rating agency, and also on the basis of maturity split and type of counter party (e.g. Turkey, Russia). Country risk provisions related to the balance-sheet positions are directly deducted from the corresponding asset and related to the off balance-sheet positions are presented in "Provisions".

The interest rate risk on operations on both the balance sheet and off-balance-sheet are identified and controlled by the Asset Liability Management Committee of the Bank. Interest rate changes may affect the Bank's current income (income effect) or from a reduction of future earnings which reduce the economic value of the eligible equity of the Bank (value effect).

The exposures to unforeseen changes in the interest rates are controlled by simulations, which are performed periodically.

For other market risks related to trading operations, financial investments as well as foreign exchange activities, the Bank has set up its own limits as per the business rules. The controls are performed on a daily basis.

The liquidity risk is controlled in accordance with the legal requirements. The short term liquidity monitoring is made via the Liquidity Coverage Ratio. The bank respects on a permanent basis liquidity demand and maintains sufficient liquid assets with respect to the maturities of assets and liabilities.

The operational risks are mainly related with the organisational issues including electronic data processing, transaction processing, fraud, human resources and securing the assets of the Bank. The Bank has policies and procedures regarding the operational risks, which are reviewed and approved by the Board of Directors.

Notes to the Financial Statements
31 December 2018
(Amount expressed in Swiss Francs thousands unless otherwise stated)

2.8 Risk management, market risks, credit risk and other risks (continued)

The Compliance Officer controls legal and compliance risks in coordination with the legal counsel. The Bank has internal rules and regulations for due diligence and anti-money laundering as required by the relevant laws and regulations. All legal cases and contractual agreements are under the supervision of the legal counsel.

2.9 Business policy regarding the use of derivative financial instruments and hedge accounting

Derivative instruments include foreign exchange contracts such as swaps, options and forwards, securities options, interest swaps. The gross replacement value of derivative contracts reflects the market value of all unsettled trades at the year-end. The positive replacement value is included in the caption “positive replacement values of derivative financial instruments” whereas the negative replacement value is represented in “negative replacement values of derivative financial instruments”.

The significant part of the derivative instruments are positions with clients per their demands that are covered with counterparts in the market. Derivative financial instruments are also used by the Bank for own treasury risk management purposes, mainly to cover against interest rate and foreign currency risks.

The Bank does not apply hedge accounting.

Notes to the Financial Statements
31 December 2018
(Amount expressed in Swiss Francs thousands unless otherwise stated)

3. Information concerning the balance sheet

3.1 Presentation of collateral for loans / receivables and off-balance sheet transactions, as well as impaired loans / receivables

		Type of collateral			
		Secured by mortgage	**Other collateral**	**Unsecured**	**Total**
Loans (before netting with value adjustments)					
Amounts due from customers		-	21,241	210,166	231,407
Total loans (before netting with value adjustments)	**2018**	**-**	**21,241**	**210,166**	**231,407**
	2017	-	*56,685*	*186,667*	*243,352*
Total loans (after netting with value adjustments)	**2018**	**-**	**21,241**	**200,320**	**221,561**
	2017	-	*56,685*	*172,781*	*229,466*
Off-balance sheet					
Contingent liabilities		-	3,387	37,782	41,169
Irrevocable commitments		-	-	228	228
Credit commitments		-	9,325	11,955	21,280
Total off-balance sheet as of	**2018**	**-**	**12,712**	**49,965**	**62,677**
	2017	-	*8,137*	*40,230*	*48,367*

Loans (before netting with value adjustments) are presented after deduction of CHF 27.7 million Country risk provisions (please see notes 2.8 and 3.8).

		Gross debt amount	**Estimated liquidation value of collateral**	**Net debt amount**	**Individual value adjustments**
Total impaired loans / receivables	**2018**	**18,121**	**8,275**	**9,846**	**9,846**
	2017	*23,202*	*3,251*	*19,951*	*13,886*

The specific provision for impaired loans and receivables is directly deducted from the corresponding asset.

Notes to the Financial Statements
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(Amount expressed in Swiss Francs thousands unless otherwise stated)

3.2 Breakdown of trading portfolios and other financial instruments at fair value (assets and liabilities)

Assets	2018	2017
Trading portfolio assets		
Debt and money market securities / transactions	1,228	6,934
- *of which, listed*	*913*	*5,162*
Equity interests	-	*1,384*
Total trading portfolio assets	**1,228**	**8,318**
Total assets	**1,228**	**8,318**
- *of which, determined using a valuation model*	-	-
- *of which, securities eligible for repo transactions in accordance with liquidity requirements*	-	-

Listed definition refers to securities which are traded in recognized markets.

Notes to the Financial Statements
31 December 2018
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3.3 Presentation of derivative financial instruments (assets and liabilities)

		Trading instruments		
		Positive replacement values	**Negative replacement values**	**Contract volume**
Interest rate instruments				
- Swaps		-	-	7,883
Foreign exchange / precious metals				
- Forward contracts		535	510	39,016
- Combined interest rate / currency swaps		5,487	1,813	703,340
- Options (OTC)		1,671	1,671	92,987
Equity securities / indices				
- Options (OTC)		37	37	1,968
Total before netting agreements	2018	**7,730**	**4,031**	**845,194**
- of which, determined using a valuation model		*1,708*	*1,708*	-
Total before netting agreements	2017	*25,819*	*24,709*	*3,175,183*
- of which, determined using a valuation model		*14,850*	*14,850*	-

The bank does not apply netting on financials to derivative financial instruments.

Breakdown by counterparty		**Central clearing houses**	**Banks and securities dealers**	**Other customers**	**Total**
Positive replacement values	2018	-	4,137	3,593	**7,730**
	2017	-	*10,003*	*15,816*	*25,819*

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3.4 Financial investments

	Book value		Fair value	
Breakdown by financial investments	**2018**	**2017**	**2018**	**2017**
Debt instruments	33,210	36,968	32,576	37,571
- of which intended to be held to maturity	*33,210*	*36,968*	*32,576*	*37,571*
Total	**33,210**	**36,968**	**32,576**	**37,571**
-of which, securities eligible for repo transactions in accordance with liquidity requirements	*19,315*	*19,519*	*19,312*	*19,527*

The Bank has classified its debt instruments into categories, by using credit ratings published by Moody's.

Breakdown of counterparties by Moody's rating	**2018**	**2017**
Aaa	3,948	3,929
Aa1 to Aa3	1,966	1,947
A1 to A3	197	1,332
Baa1 to Baa3	8,240	5,277
Ba1 to B3	3,492	8,118
Not rated by Moody's rating	15,367	16,365
Total debt instruments	**33,210**	**36,968**

The amount which is presented under not rated caption by Moody's consists of securities with external ratings from Fitch and Standard & Poor's (S&P) rating agencies.

Breakdown of financial investments not rated by Moody's on the table above:

Rated by Fitch	**2018**	**2017**
BB	-	775
Total	**-**	**755**

Rated by S&P	**2018**	**2017**
AA-	15,367	15,590
Total	**15,367**	**15,590**

Total not rated by Moody's	**15,367**	**16,365**

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3.5 Presentation of tangible fixed assets

			end of 2017	2018			end of 2018
	Aquisition cost	**Accumulated depreciation**	**Book value**	**Additions**	**Disposals**	**Depreciation**	**Book value**
Proprietary or separately acquired software	3,234	(3,101)	133	124	-	(107)	150
Other tangible fixed assets	2,833	(2,245)	588	149	-	(32)	705
Total tangible fixed assets	**6,067**	**(5,346)**	**721**	**273**	**-**	**(139)**	**855**

Operating leases (off-balance sheet leasing obligations)		**within 1 year**	**from 1 to 3 years**	**from 3 to 5 years**	**Total**
	2018	**30**	**37**	**11**	**78**
Future lease payments	*2017*	*29*	*28*	**-**	*57*

- *Of which, may be terminated within one year: none (2017: none)*

3.6 Breakdown of other assets and other liabilities

	Other assets		**Other liabilities**	
	2018	**2017**	**2018**	**2017**
Indirect taxes	93	87	73	88
Interest components of financial investments intended to be held to maturity but sold before maturity	1,833	1,165	402	594
Other	84	**-**	**-**	297
Total	**2,010**	**1,252**	**475**	**979**

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3.7 Employees' benefits

The company has signed an affiliated contract with the collective foundation Allianz in Zurich, a collective pension fund applying the legal requirements on employees' benefits (LPP) in Switzerland. The Pension Fund is based on the principle of defined contributions. It is contributed to by the employer (60%) and the employees (40%) based on the contributions fixed in the pension plan rules.

The plan covers between the minimum salary of CHF 21.1 up to a maximum amount of CHF 150. As of December 31, 2018, 55 employees are covered (2017: 63 employees).

The employer's contributions are recognized in the profit and loss account as current charges for the period amounting to CHF 582 (2017: CHF 610).

Employer's contributions reserve
There is no employer's contributions reserve.

Economical advantage / liability and pension plan costs
Each year the Bank must determine if the degree of coverage or the particular situation of the Pension Fund presents an economic advantage or obligation from the Bank's point of view.

As of December 31, 2018, the Bank held no liabilities towards the Pension Fund. The coverage ratio of the Pension Fund scheme is 100% which is due to full reinsurance of the pension fund. There is no economic benefit or obligation resulting from the pension plan.

Presentation of the economic benefit / obligation and the pension expenses

	Contributions paid for the reporting period	Pension expenses in personnel expenses	
	2018	**2018**	**2017**
Pension plans without overfunding / underfunding	610	582	610
Total	**610**	**582**	**610**

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3.8 Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year

	Balance at end of 2017	Use in conformity with designated purpose	Currency differences	New creations charged to income	Releases to income	Balance at end of 2018
Provisions for default risks	68	-	-	4	-	72
Other provisions	102,263	-	-	-	(27,600)	74,663
Total provisions	**102,331**	**-**	**-**	**4**	**(27,600)**	**74,735**
Value adjustments for default and country risks	**26,096**	**(10,490)**	**91**	**21,758**	**-**	**37,455**
- of which, value adjustments for default risks in respect of impaired loans / receivables	13,886	(10,490)	91	6,359	-	9,846
- of which, value adjustments for country risks	12,210	-	-	15,399	-	27,609

As at December 31, 2018 “Provisions for default risks” only consist of country risk provisions related to off –balance sheet positions (please see note 2.8 for more details).Other provisions are provisions set aside to cover other banking risks explicit to credit exposures, and no taxation has been made on these provisions.

The “New creations charged to income” consists of country risk and specific risk provisions. The country risk of CHF 15.4 million based on the Country Risk Reserve Policy of the Bank (it is not a specific provision or an impairment on the assets and please see note 2.8 for further details) has been charged to income. On the other hand, CHF 27.6 million classified via the item “Releases to income” is in the nature of Change in the definition of purpose, where their impact is netted-off in the income statement. The impacts of these items are presented via different lines in the income statement; CHF 15.4 million via “Changes in value adjustments for default risks and losses from interest operations” and CHF 27.6 million via “Extraordinary income”.

Additional amount of value adjustments for default risk of CHF 6,359 is related to a loan that became impaired in 2017 and the remaining amount has been provisioned in 2018. This loan has been written off during the year. In addition, a loan exposure amounting to CHF 2,111 which was provisioned in 2017 was written-off in 2018.

As at December 31, 2018, in application of the country risk policy mentioned in note 2.8, the Bank has the following country risk reserves:

	2018	**2017**
Turkey	18,850	11,313
Other	8,831	965
Total	**27,681**	**12,278**

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3.9 Share capital

	2018			2017		
	Total par value	**No. of shares (unit)**	**Capital eligible for dividend**	**Total par value**	**No. of shares (unit)**	**Capital eligible for dividend**
Share capital (registered shares)	1	35,000	35,000	1	35,000	35,000
- of which, paid up	*1*	*35,000*	*35,000*	*1*	*35,000*	*35,000*
Total Bank's capital	**1**	**35,000**	**35,000**	**1**	**35,000**	**35,000**

3.10 Disclosure of amounts due from / to related parties

	Amounts due from		Amounts due to	
	2018	**2017**	**2018**	**2017**
Holders of qualified participations	7,134	1,916	105,402	1,023
Linked companies	2,722	24,614	45,836	27,403
Transactions with members of governing bodies	131	1,558	92	154

All balance sheet and off-balance-sheet transactions with related parties have been granted at arm's length.

3.11 Disclosure of holders of significant participations

Holders of significant participations and groups of holders of participations with pooled voting rights

		2018		2017	
	Type of shares	**Nominal value**	**Percentage of equity**	**Nominal value**	**Percentage of equity**
With voting rights:					
Credit Europe Bank N.V.	Nominal	35,000	100%	35,000	100%

		2018	2017
Main shareholders' of		in %	in %
Credit Europe Bank N.V.			
Credit Europe Group N.V.		100.00	100.00
Of which:	*Fiba Holding A.S.*	*89.31*	*89.31*
	Fiba Faktoring A.S.	*1.29*	*1.29*
	Fina Holding A.S.	*9.40*	*9.40*
Total		**100.00**	**100.00**

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3.12 Disclosure of composition of share capital

The Bank's equity is composed of 35’000 ordinary shares with a nominal value of CHF 1’000 each, which are entirely paid up. There is no specific restriction or corresponding reserve on these shares. Statutory retained earnings reserves are only distributable if they exceed 50% of the share capital. As at 31 December 2018, the amount of non-distributable reserves amounted to CHF 10.9 million (2017: CHF 10.3 million).

3.13 Presentation of the maturity structure of financial instruments

			Due				
	At sight	**Cancellable**	*within 3 months*	*within 3 and 12 months*	*within 12 months and 5 years*	*after 5 years*	**Total**
Assets / financial instruments							
Liquid assets	76,919	-	-	-	-	-	76,919
Amounts due from banks	29,480	-	83,945	8,053	-	-	121,478
Amounts due from customers	-	19,044	105,013	19,750	28,134	49,620	221,561
Trading portfolio assets	1,228	-	-	-	-	-	1,228
Positive replacement values of derivative financial instruments	7,730	-	-	-	-	-	7,730
Financial investments	-	-	986	-	15,967	16,257	33,210
Total	**115,357**	**19,044**	**189,944**	**27,803**	**44,101**	**65,877**	**462,126**
Previous period	*86,423*	*50,436*	*70,630*	*41,546*	*93,696*	*39,099*	*381,830*
Debt capital / financial instruments							
Amounts due to banks	1,088	-	157,237	31,419	-	-	189,744
Amounts due in respect of customer deposits	140,500	-	11	-	-	-	140,511
Negative replacement values of derivative financial instruments	4,031	-	-	-	-	-	4,031
Total	**145,619**	**-**	**157,248**	**31,419**	**-**	**-**	**334,286**
Previous period	*119,670*	-	*28,805*	*78,989*	-	-	*227,464*

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3.14 Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle

	2018		2017	
	Domestic	**Foreign**	**Domestic**	**Foreign**
Assets				
Liquid assets	76,919	-	24,369	-
Amounts due from banks	68,238	53,240	3,224	53,666
Amounts due from customers	97,426	124,135	27,043	202,423
Trading portfolio assets	634	594	1,772	6,546
Positive replacement values of derivative financial instruments	570	7,160	275	25,544
Financial investments	15,367	17,843	15,590	21,378
Accrued income and prepaid expenses	2,754	-	3,543	-
Tangible fixed assets	855	-	721	-
Other assets	2,010	-	1,252	-
Total assets	**264,773**	**202,972**	**77,789**	**309,557**

	2018		2017	
	Domestic	**Foreign**	**Domestic**	**Foreign**
Liabilities				
Amounts due to banks	-	189,744	45	104,216
Amounts due in respect of customer deposits	40,862	99,649	19,894	78,600
Negative replacement values of derivative financial instruments	89	3,942	738	23,971
Accrued expenses and deferred income	3,372	-	2,278	-
Other liabilities	475	-	979	-
Provisions	74,735	-	102,331	-
Share capital	35,000	-	35,000	-
Statutory retained earnings reserve	10,884	-	10,259	-
Profit carried forward	410	-	266	-
Profit for the year	8,583	-	8,769	-
Total liabilities	**174,410**	**293,335**	**180,559**	**206,787**

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3.15 Breakdown of total assets by country or group of countries (domicile principle)

	2018		2017	
ASSETS	**Absolute**	**%**	**Absolute**	**%**
Switzerland	264,775	56.6%	77,789	20.1%
Rest of Europe	182,004	38.9%	252,884	65.3%
North America	17,811	3.8%	31,150	8.0%
Asia	2,381	0.5%	18,912	4.9%
Australia / Oceania	773	0.2%	767	0.2%
Africa	1	0.0%	4,156	1.1%
Total assets	**467,745**	**100.0%**	**387,346**	**100.0%**

3.16 Breakdown of total assets by credit rating of country groups (risk domicile view)

Net foreign exposure

	2018		2017	
Moody's	**Absolute**	**%**	**Absolute**	**%**
Aaa	44,429	21.9%	51,939	16.7%
Aa1 to Aa3	11,236	5.5%	41,287	13.3%
A1 to A3	6,754	3.3%	12,802	4.1%
Baa1 to Baa3	2,876	1.4%	9,152	2.9%
Ba1 to B3	137,675	67.8%	195,369	62.9%
Caa	-	0.0%	10	0.0%
	202,970	**100.0%**	**310,559**	**100.0%**

The Bank’s net foreign exposure has been presented according to corresponding sovereign foreign currency long-term rating from Moody’s.

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3.17 Presentation of assets and liabilities broken down by the most significant currencies for the Bank

	2018						
	CHF	**EUR**	**USD**	**TRY**	**GBP**	**Others**	**Total**
Assets							
Liquid assets	76,831	40	39	-	9	-	76,919
Amounts due from banks	5,146	6,884	108,804	127	303	214	121,478
Amounts due from customers	111	81,408	128,274	11,745	23	-	221,561
Trading portfolio assets	319	-	909	-	-	-	1,228
Positive replacement values of derivative financial instruments	7,730	-	-	-	-	-	7,730
Financial investments	17,117	2,829	13,264	-	-	-	33,210
Accrued income and prepaid expenses	842	687	1,094	129	2	-	2,754
Tangible fixed assets	855	-	-	-	-	-	855
Other assets	167	70	1,773	-	-	-	2,010
Total assets shown in balance sheet	**109,118**	**91,918**	**254,157**	**12,001**	**337**	**214**	**467,745**
Delivery entitlements from spot exchange, forward forex and forex options transactions (*)	83,277	287,351	321,881	114,485	30,975	7,224	845,193
Total assets	**192,395**	**379,269**	**576,038**	**126,486**	**31,312**	**7,438**	**1,312,938**
Liabilities							
Amounts due to banks	177	99,195	78,600	11,744	25	3	189,744
Amounts due in respect of customer deposits	23,213	40,466	73,431	248	1,907	1,246	140,511
Negative replacement values of derivative financial instruments	4,031	-	-	-	-	-	4,031
Accrued expenses and deferred income	2,189	46	1,111	26	-	-	3,372
Other liabilities	73	-	402	-	-	-	475
Provisions	74,735	-	-	-	-	-	74,735
Share capital	35,000	-	-	-	-	-	35,000
Statutory retained earnings reserve	10,884	-	-	-	-	-	10,884
Profit carried forward	410	-	-	-	-	-	410
Profit for the year	8,583	-	-	-	-	-	8,583
Total liabilities	**159,295**	**139,707**	**153,544**	**12,018**	**1,932**	**1,249**	**467,745**
Delivery obligations from spot exchange, forward forex and forex options transactions (*)	1,364	255,225	434,618	114,328	29,379	6,178	841,092
Total liabilities	**160,659**	**394,932**	**588,162**	**126,346**	**31,311**	**7,427**	**1,308,837**
Net position per currency	**31,736**	**(15,663)**	**(12,124)**	**140**	**1**	**11**	**4,101**
Effect of country risk provision classification on currency	**(27,609)**	**15,810**	**11,794**	**2**	**1**	**2**	**-**
Net position per currency before the effect of country risk provision classification	**4,127**	**(147)**	**(330)**	**142**	**2**	**13**	**4,101**

(*) All option positions are back-to-back and presented in notional.
For the presentation purposes the currency effect of country risk provisions related to the balance sheet positions are directly deducted from the corresponding assets and related currencies (please see note 2.8 for more details).

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4. Information concerning off-balance sheet transactions

4.1 Breakdown of contingent liabilities and contingent assets

	2018	2017
Contingent liabilities		
Guarantees to secure credits and similar	848	2,380
Irrevocable commitments arising from documentary letters of credit	40,321	26,538
Total contingent liabilities	**41,169**	**28,918**

4.2 Breakdown of credit commitments

	2018	2017
Commitments arising from deferred payments	20,576	17,446
Commitments arising from acceptances	704	1,741
Total credit commitments	**21,280**	**19,187**

4.3 Breakdown of fiduciary transactions

	2018	2017
Fiduciary deposits with third-party companies	107,810	194,250
Fiduciary investments with group companies and linked companies	191,644	172,716
Fiduciary loans	787	19,189
Total fiduciary transactions	**300,241**	**386,155**

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5. Information concerning the Income statement

5.1 Analysis of interest income and expense

Interest income and interest expense from forex swap transactions was CHF 16.7 million (2017: CHF 27.0 million) and CHF 24.1 million (2017: CHF 35.3 million) respectively.

5.2 Securities and precious metals held for trading purposes

	2018	2017
Trading results for own account	(53)	1,108
Trading for the account of customers	1,761	2,384
Total trading results	**1,708**	**3,492**

Analysis by underlying risk and based on the use of the fair value option

	2018	2017
Interest rate instruments and equity securities (incl. funds)	(418)	159
Foreign currencies	2,126	3,333
Total result from trading activities	**1,708**	**3,492**

The Bank does not apply the fair value option.

5.3 Breakdown of personnel expenses

	2018	2017
Salaries (meeting attendance fees and fixed compensation to members of the Bank's governing bodies, salaries and benefits)	8,433	9,002
- of which, expenses relating to share-based compensation and alternative forms of variable compensation	-	-
Social insurance benefits	1,503	1,506
Other personnel expenses	326	343
Total personnel expenses	**10,262**	**10,851**

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5.4 Breakdown of general and administrative expenses

	2018	**2017**
Office space expenses	865	879
Expenses for information technology and communications technology	1,824	1,893
Expenses for outsourcing, equipment, furniture and other fixtures, and operating lease	537	823
Fees of audit firm(s) (Art. 961a no. 2 CO)	242	284
- of which, for financial and regulatory audits	*242*	*245*
- of which, for other services	-	*39*
Other operating expenses	1,247	1,587
Total general and administrative expenses	**4,715**	**5,466**

5.5 Explanations regarding material losses, extraordinary income and expenses, as well as material releases of hidden reserves, reserves for general banking risks, and value adjustments and provisions no longer required

The Bank has released 27.6 million from its other reserves, the income effect is carried out via the item Extraordinary income (2017: None.) (please see note 3.8 for more details).

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5.6 Presentation of current taxes, deferred taxes, and disclosure of tax rate

	2018	2017
Current year tax expenses	(2,949)	(2,979)
Total tax expenses	**(2,949)**	**(2,979)**
Effective tax rate	24%	24%

As at 31 December 2018, there were no losses carried forward (2017: none).

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Board of Directors' Proposed Appropriation of Retained Earnings as at December 31, 2018.

In CHF	**2018**
Available profit carried forward	
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**