Credit Europe Bank N.V.
Annual Report
As of and for the year ended
December 31, 2019

About Credit Europe Bank

Credit Europe Bank N.V. is a public limited company, established in 1994 in the Netherlands with full banking license. The Bank is head quartered in Amsterdam and has more than 1,100 employees in 9 countries. It operates 36 branches, 82 ATMs and around 8,500 point of sale terminals. About 915,000 retail and corporate customers around the world entrust their financial affairs to Credit Europe Bank.

Our mission is providing financial services that create value for customers.

Our vision is being the preferred bank in our core markets.

Contents

Bank Business Model and Strategy

We are a niche bank, which based on our history, has developed a unique identity over the past 25 years. On the one hand, we are a Dutch bank, licensed in the Netherlands and complying with all relevant local regulations. On the other hand, with our strong presence in emerging economies, we have built up specific experience and expertise that make us distinct from other banks. This unique identity is captured in our three core values: Dynamism, Diversity and Expertise. Also, it is exactly these values that enable us to meet the challenges of today's increasingly volatile, uncertain and complex world. Especially, with dynamism in our DNA since the bank's very inception, we are particularly well equipped to deal with the increasingly fast and substantial changes the banking sector is facing today and with those in emerging economies in particular. We serve an international corporate and retail customer franchise with a differentiated approach. Banking in its purest form is our business.

We offer **to our corporate customers** a wide range of banking products, including international trade and commodity finance, project & object finance and working capital loans. Represented in key trading hubs such as the Netherlands, Switzerland and the United Arab Emirates, as well as in raw material exporting and importing countries including Turkey and Ukraine, we are well positioned to finance our customers' transaction flows across the globe.

To our **retail and SME customers,** we offer non-complex and transparent products mainly in the form of savings and credit cards in five Western and Eastern European countries namely, the Netherlands, Germany, Romania, Malta and Ukraine.

We have maintained a strategy of effective management of assets, integration of business lines and close proximity to clients. We provide our services through a network of branches, ATMs and sales points in 7 countries, empowered by a wealth of local knowledge. We have more than 25 years of experience in international trade and commodity finance.

We have gained thorough experience and expertise to act as a bridge for our customers in key importing and exporting countries in Western Europe, the Black Sea region, the Gulf region, China and the Americas. We will continue to offer short-term, self-liquidating commodity financing, as well as balance sheet lending and project & object finance. In corporate banking, as a medium-sized bank with hands-on managers and short communication lines, we are fast to spot and react to our customers' needs and to create innovative, tailor-made solutions. Our flexible approach supported our customers during turbulent times and positioned us to take advantage of improving market conditions.

In the Netherlands and Germany, we offer retail banking products via online and telephone banking. Our services are facilitated by having a centralized, cross-border contact center applying high-quality information technology. Moreover, we use our branch network to serve our retail customers and consolidate our retail position in Romania. In all areas of the Bank, we invest in the professionalism, expertise and customer focus of our employees.

In order to sustain our long-term growth ambitions, we combine prudent capital and liquidity management with sound risk management, high level of compliance and transparent corporate governance. We believe this strategy safeguards the interests of all our stakeholders.

Our Network

Western Europe

- Corporate Banking and trade finance services from the Netherlands, Switzerland, Malta
- Strong focus on direct banking services
- Retail Banking services to 180,000 customers in Germany and the Netherlands mainly through the multilingual operations and contact center in Frankfurt

Romania

- Active in Retail and Commercial Banking
- 34 branches in 16 cities
- Dominant market player with 191,000 active credit cards *
- Strong partner merchant network with 8,500 point of sale terminals
- 82 ATMs

Ukraine

- Active in Corporate, Commercial and SME Banking

Turkey

- Representative office in Istanbul, Turkey

Outside Europe

- Trade finance services from DIFC, United Arab Emirates
- Representative office in Shanghai, PR China

* at least one transaction in the last 6 months

Our Core Values

Dynamism

With our passion and energy, we are agile in responding to challenges and changes. Our “can do” attitude enables us to focus on delivering solutions and meeting the expectations of our stakeholders.

Diversity

We promote diversity as one of the main aspects of our corporate culture. Our diversified background and footprint in different regions, allow us to see things from different perspectives.

Expertise

We are experts in selected markets and selected products. With our expertise, we deliver customized solutions to serve the needs of our customers.

Our Base Values

Customer Focus

The success of our customers is our own success. All of our decisions are therefore taken with the customer in focus.

Professionalism

Our professionalism embraces and stimulates the necessary skills, qualifications, knowledge and diversity. Our colleagues undertake their tasks in a competent and integer manner. Through teamwork we achieve our goals.

Integrity

Integrity defines our obligation to generate trust and confidence through ethical behaviour and by complying with laws, regulations and guidelines.

Transparency

Transparency is a key business best practice in our products and services, accounting standards and management decision-making.

Five-year Key Figures

€ millions	2019	2018	2017	2016	2015
Assets					
Cash and balances at central banks	737	652	829	1,041	532
Financial assets at fair value through profit or loss	228	88	53	3	8
Financial investments	537	692	751	767	1,022
Loans and receivables – banks	188	432	538	307	451
Loans and receivables – customers	2,742	2,699	4,487	5,188	5,501
Other assets	488	521	715	805	847
Total assets	4,920	5,084	7,373	8,111	8,361
Liabilities					
Due to banks	483	416	630	448	469
Due to customers	3,402	3,650	4,899	5,532	5,467
Issued debt securities	-	-	71	263	441
Other liabilities	236	259	304	473	547
Subordinated liabilities	178	174	594	531	562
Total liabilities	4,299	4,499	6,498	7,247	7,486
Total equity	621	585	875	864	875
Total equity and liabilities	4,920	5,084	7,373	8,111	8,361

€ millions	2019	2018	2017	2016	2015
Net interest income	119	165	168	303	274
Net fee and commission income	31	29	32	56	68
Operating income	35	1	16	25	123
Credit loss charges	(2)	(29)	(55)	(122)	(168)
Net operating income	183	166	160	262	297
Total operating expenses	(167)	(140)	(165)	(222)	(242)
Share of profit of associate	(1)	1	1	-	(1)
Operating profit before tax	15	27	(4)	40	55
Income tax expense	5	(6)	4	(6)	(16)
Profit for the year from continuing operations	20	21	0.3	34	39
Profit for the year from discontinued operations	-	(348)	14.7	-	-
Profit for the year	20	(327)	15	34	39

CEO Letter

I am pleased to announce that Credit Europe Bank has once again delivered a solid performance in 2019. As it was our silver jubilee year, 2019 will remain very special for us. When I look back on our 25 years of operations, it gives me immense pride to see that "as a team" we have done very well in creating a solid and effective business model at our Bank.

Global volatility in financial markets continued and it became an accepted norm; however, the global growth remained more or less aligned with the expectations. There were more positives than negatives in the financial markets - the rebound in 2019 included strong performances in many sectors and market caps compared to previous years. Three rate cuts by Fed and new repo programs helped reduce stresses in short term funding. On the negative side, trade war escalations and social/political unrests were the major happenings. Brexit execution plans and slow growth were the major discussion points in Europe. Emerging Markets were also not isolated from these global developments.

Credit Europe Bank has surely experienced consequences of these developments but still succeeded to reach most of its targets. We are happy to note that our trade finance business aspirations has developed as per our plan and the business volume has increased both in the Netherlands and Switzerland. In Romania, we continued to grow our market share in credit cards business. We continued our investments to further increase the quality of our services to our customers, especially through digital channels.

On the other hand, we decided to discontinue the private banking operations in Switzerland that are no longer a strategic fit for Credit Europe Bank. After a thorough review and due consideration it has been planned in December 2019 that the related activities would be wind down till the end of 2020.

Globally, at this point, 2020 looks like a year of very big challenges since the world is moving to an unchartered territory on many fronts - socially, politically and financially. The major impact creator now is the spread of coronavirus and its shockwaves in different geographies and markets will be inevitable during the rest of 2020. At Credit Europe Bank, we are closely monitoring the market developments and prudently managing our exposures.

Last and most importantly, I would like to express our gratitude to our customers, business partners and employees for the unstinted support and contribution during the course of 2019.

Amsterdam, March 25, 2020

E. Murat Başbay

Major Business Lines

Retail Banking

Becoming the preferred mobile banking partner

Guided by our vision to be a preferred mobile banking partner in home markets, the Retail Banking Division took important steps in driving its digital banking development. We laid a strong foundation for serving clients seamlessly via multiple channels, yet maintaining an IT landscape with highest security standards and process efficiency.

In 2019, the macroeconomic environment for retail banking remained challenging: Eurozone interest rates decreased to record low levels pressurizing margins. Regulatory and legislative bodies further stipulated compliance and data privacy related requirements, while increasing competition through Fintechs and digital-only banks pushed the incumbents to re-evaluate their value propositions.

The Retail Banking Division continued to offer competitive, transparent and non-complex products comprising deposits in the Netherlands and Germany supplemented mainly by credit cards and brokered insurance products in Romania. In 2019, we served more than 400,000 retail deposit-holders through telephone and internet banking, in Romania additionally through our branches.

Western Europe

Our Western European Retail operations, centralized in Frankfurt, serve around 180,000 customers in the Netherlands and Germany through its multi-lingual customer contact center, sales & marketing, and back office.

Our Euro-deposit volume of EUR 2.4 billion formed a solid and important pillar of funding for the Bank. Initiatives in business organization and IT infrastructure were launched and successfully completed to sustainably maintain and grow this vital funding source.

For 2020, the Bank has set clear and ambitious targets for customer satisfaction and efficiency. In this regard, we will continue our digitalization program for saving products. Our loyal customers also in 2019 valued our accessibility, the transparency of our products and the human touch of our service delivery.

Romania

In 2019, Credit Europe Bank reached 59,200 credit cards sales in the Romanian market. With the credit card portfolio, including Card Avantaj, Optimo Card and Diamond Card, the Bank has been offering its clients various payment instruments, suited to their needs. The total turnover of credit cards reached to EUR 274 million with an 11% increase. Credit Europe Bank remained one of the top players of credit card business in Romania with its over 191,000 active cards and approximately 18% market share among banks. The other focus was the stable and granular retail deposit base, which was EUR 316 million as at December 2019.

As of the beginning of March 2020, the Bank held meetings with several parties interested in purchasing its credit card portfolio in Romania in order to assess its strategic options. However, this process is currently put on hold due to the Coronavirus outbreak. In this regard, we do not foresee any major development in near future.

Corporate Banking

Being one of the major business lines of CEB, the Corporate Banking Division's activities play an important role in the 'Financial' and 'Non-Financial' footprint of the Bank. The products and services offered by our Corporate Banking Division can be listed as: 'Corporate Lending', 'Trade and Commodity Finance', 'Real Estate Finance' and 'Marine Financing', provided to an international client portfolio through our teams located in Amsterdam, Malta, Geneva, Bucharest, Dubai and Kiev.

Throughout 2019, the Corporate Banking Division has successfully achieved its targets, onboarding new and geographically well-diversified customers without compromising on up to date integrity and credit risk criteria. Such performance proved CEB's resilience in an environment challenged by 'Trade Wars' and 'Political Unrests'.

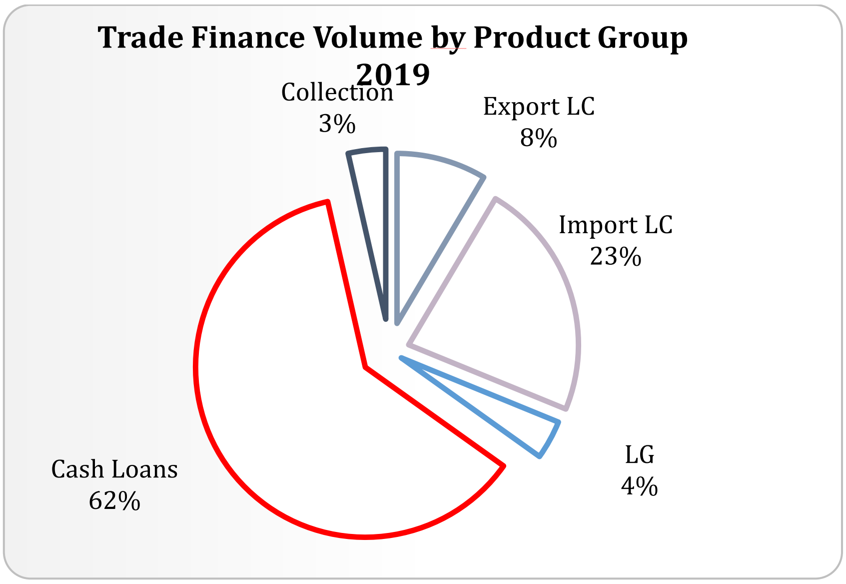
Considering the ever-increasing importance of 'Compliance' in a constantly evolving regulatory environment, the Corporate Banking Division followed strict CDD (Customer Due Diligence) and TDD (Transaction Due Diligence) procedures.

For the sake of achieving a better 'Risk Control' and 'Operational Excellence', the Corporate Banking Division has collaborated with other departments and external partners for improving and reinforcing its organization and human resources, as well as its business technology.

On the 'Corporate Landing', 'Real Estate Finance' 'Marine Financing' fronts, the Bank adapted a more prudent approach in 2019 and focused on more geographical diversification. An experienced team is strongly positioned to assist and to provide clients with a broad range of information and guidance to cope with the rising challenges and associated risks.

'Trade and Commodity Finance' continued to be one of main pillars of the Corporate Banking Division, expanding its client portfolio thanks to the synergy created among experienced teams in commodity trading hubs like Amsterdam, Geneva and Dubai. We managed to increase our trade finance volume from EUR 9.8 billion in 2018 to EUR 12.6 billion in 2019, covering a range of commodities as oil, petrochemicals, metals, fertilizers and soft commodities.

Table 2. 1 : Trade Finance Volume by Product



Outlook for 2020:

During the first quarter of 2020, world commodity markets have been facing important demand disruptions as well as weaker unit prices, mainly due to the global Coronavirus outbreak. The situation was further deteriorated with the crash in the Oil price due to the failure on a production-cut agreement between OPEC and Russia in early March.

As for CEB's trade finance activities during the same period; while the volumes and revenues have been lower than the budgeted levels in parallel to market developments, no particular losses have been faced on ongoing transactions so far. Considering the sensibility of the markets, follow-up on existing deals has been strengthened and a very conservative and selective approach has been adopted in accepting new transactions.

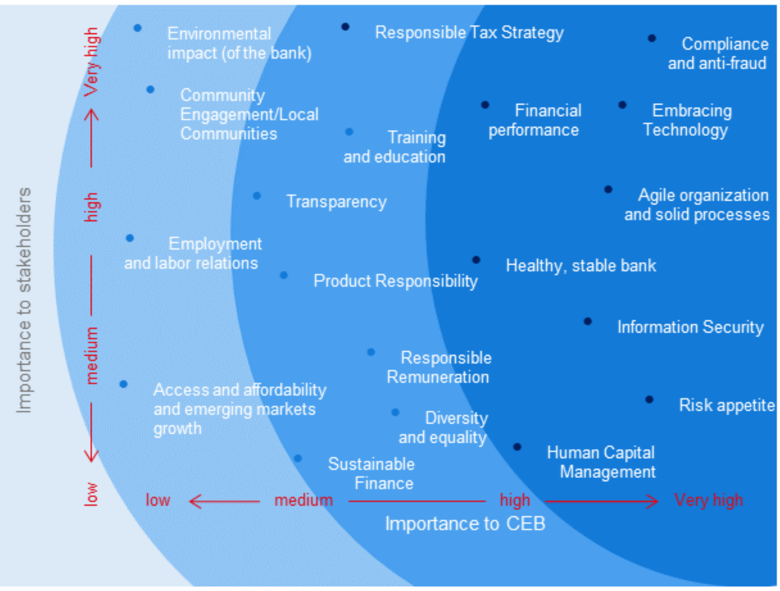
We expect those negative affects to weigh on the performance of CEB's trade finance activities at least during the first half of the year but then a gradual recovery may start in late 2020 during which all precautionary measures already in place will be maintained.

Non-financial review

This chapter on non-financial review is based on the reporting requirements included in Section 2:391 paragraphs 1 and 5 of the Dutch Civil Code (*Burgerlijk Wetboek*) pertaining to non-financial information.

For a description of the Bank's business model reference is made to page 4.

In order to report on the most important non-financial information, CEB assessed which topics are material for its development, performance, position and its impact. As part of this process, the Bank's stakeholder groups were identified (i.e. customers, employees, shareholder(s) and authorities, regulators and rating agencies). Furthermore, an internal and external prioritization was performed. This resulted in the picture below:



In the remainder of this chapter, CEB will report on each of the topics included in the materiality matrix:

Compliance

CEB including its branches, liaison offices and subsidiaries endeavors to maintain a company culture and business strategy whereby CEB's core and base values and standards of professional conduct are maintained at every business level and within all its activities. These standards include national, international and European legislation, regulations issued by the relevant local (supervisory) authorities, generally accepted business standards and CEB's own internal standards (including ethical standards). Herein below, an overview is provided of CEB's most material Compliance related topics in 2019.

Anti-Bribery and Anti-Corruption

Bribery and any other form of corruption are widespread across the globe and raise serious social, economic and political concerns. Furthermore, corruption undermines good governance, fair and competitive business, hinders local and global economic development, and distorts competition.

CEB strives to foster a culture in which bribery and any other form of corruption is never acceptable.

Therefore, the attitude of CEB is not only to comply with all applicable laws and regulations, but also to act in an ethical and socially responsible manner in accordance with the Bank's core and base values, principles and standards, in all of its relationships and business activities, wherever the Bank operates.

Corruption risk is associated with involvement of Politically Exposed Persons (PEPs) and the legal entities they own or control – openly or secretively, persons who are involved in awarding government contracts, businesses dependent on government contracts and permit, senior and mid-level administrators of state owned companies.

To diminish the risk of being involved in or associated with any form of corruption, CEB performs risk-based due diligence on customers posing a higher corruption risk, such as PEPs and customers located in jurisdictions with higher corruption risk. Furthermore, the Bank is currently reviewing its Anti-Bribery and Anti-Corruption Policy, which is targeted for completion by Q1 2020.

In addition, CEB's Code of Conduct provides strict rules to mitigate risks related to any form of corruption. For example, it is prohibited for all staff to use their position or power to gain personal or business related advantages. Furthermore, the Code of Conduct provides strict rules towards offering and receiving gifts, favors and entertainment. To see whether CEB's staff understands the provisions as included in the Bank's Code of Conduct, an online Compliance Awareness Training has been provided to all CEB staff, including several questions regarding bribery and other forms of corruption. The threshold for passing this test was set at 80% correct.

CEB encourages all staff to report immediately any activity, even if apparently insignificant, that might resemble corruption or is an actual act of corruption to management, the Compliance function or as a last resort, through the Bank's Internal Alert System.

Combating Money Laundering and Terrorist Financing

Banks play an important role in the global fight against financial economic crime, in particular in the fight against money laundering and terrorist financing. Recent global scandals show the importance and responsibility that banks bear as gatekeeper. CEB is aware of this responsibility and is therefore continually improving procedures, systems and controls to minimize the risk of being involved in or associated with money laundering and terrorist financing.

In 2019 CEB continued its efforts to further strengthen its risk management with respect to the detection of financial and economic crime, including money laundering and terrorist financing. For this, an AML Improvement Program was initiated which is targeted for completion in the first half of 2020.

The Bank's Anti-Money Laundering and Counter Terrorist Financing Policy ("AML/CTF Policy") functions as the overarching framework to mitigate risks of any involvement in or association with money laundering and terrorist financing. All offices of CEB have detailed AML/CTF procedures and AML/CTF processes in place, based on the provisions of the Global AML/CTF Policy as well as domestic AML/CTF requirements.

Furthermore, CEB establishes and maintains relationships exclusively with those customers whose source of funds and source of wealth, as well as the purpose and nature of business activities undertaken with CEB, are clearly understood and can be reasonably established as legitimate.
To ensure the above, CEB performs risk-based customer due diligence with regard to each prospective customer before entering into business relations with such customer and during the lifetime of the customer relationship. Furthermore, CEB continuously monitors the legitimacy of customer's business while providing banking services. This includes monitoring of transactions throughout the entire course of the relationship.

To ensure that all staff understands the risks associated with money laundering and terrorist financing, but also the necessity, background and objective of relevant requirements and procedures, CEB is organizing training and awareness sessions on a periodical basis.

Tax Integrity

CEB does not tolerate tax evasion. Tax evasion limits the capacity of countries worldwide to raise money and implement their economic and social policies, which could lead to cuts in public services and less economic growth. Therefore, tax evasion affects society as a whole.
CEB identified tax integrity related risks in its Systematic Integrity Risk Analysis ("SIRA"). The Bank has put several controls in place to assess the client's tax integrity risks during both the onboarding and review phase. CEB's Integrity Risk Appetite includes amongst others an overview of prohibited customers, prohibited services and restricted customers in the area of tax integrity.
In 2019, CEB's staff was provided with training and awareness sessions to understand the risks associated with tax integrity as well as the control measures to mitigate these risks.
During 2020, CEB will closely monitor regulatory developments with regard to tax integrity, for example regarding the implementation in Dutch law of the Mandatory Disclosure Directive, also known as "DAC6".

Financial performance (and funding)

In 2019, despite difficult market conditions, CEB has managed to reach most of its targets and realized a net profit of EUR 19.6 million. Reference is made to “Five-year Key Figures” section and the 2019 consolidated statement of the Bank’s financial position.

Credit Europe Bank has a stable, granular and geographically diversified deposit base, which is the core funding source for the Bank. We offer easy-to-use and transparent deposit products to our clients in all our branches and banking subsidiaries. The total size of customer deposits as of year-end 2019 is EUR 3.4 billion, 82% of which is originated from retail customers.

Embracing technology

Digitalization has been one of the main drivers in the financial industry in recent years. More and more customers are moving to digital channels and manage their financial life in self-service channels. Therefore, digital transformation and innovation became the top priority item of CEB in 2019. New projects and initiatives have been launched in order to provide faster and more convenient products and services to customers and all stakeholders, also these efforts will continue at full speed in 2020.
In order to be ready for open banking and new opportunities with PSD2 (the new payment service directive that enables customers to use new online payment and account information services through the third parties) new approaches on IT models have been launched.

Digitalization program

CEB closely follows the developments in the digital banking field and always seeks to offer seamless direct banking solutions to customers in an agile way.
In a time with historically low interest rates and increased competition, it is no longer enough or even possible to only compete with rates and price. Customers want a transparent, seamless experience that gives them control over their banking products. If you do not continue to meet these demands there is a risk of losing some customers. Therefore, in 2019 CEB introduced a new vision in retail banking (initially for the German and Dutch markets). The Bank’s aim is to modernize its digital offerings and to reach this goal a digitalization program was launched to make the Bank’s retail products more attractive and appealing to customers.

Based on a multi-channel ‘one truth’ approach in which customers will always have access to updated information, the biggest emphasis will be placed on mobile as a channel because this is where most customers will do most of their banking activities. In retail banking, offering new products and services through digital channels and through partnerships with Fintechs and retailers will be the main strategy in 2020 and beyond.

Furthermore, the PSD2 project was successfully completed and as of September 14, 2019, CEB became fully compatible with PSD2 and launched the API portal. Now, CEB together with Fintech players is able to develop new services and new products. Given that PSD2 opens up the banking sector to new entrants, CEB continues to put data privacy and security as a top priority. With its open banking capabilities, CEB can connect third party providers through APIs to better serve its customers. The failure of open banking adoption would be a risk for financial institutions to face in the future.

CEB is aware that a focus on digitalization and innovation is crucial in order to continue to be the preferred financial institution for customers. Realizing this proposition requires changes across a variety of dimensions. Most notably, it requires developing the right:

IT Systems and Platforms

Today's banking industry is mainly driven by technological innovations and CEB is offering various financial products to its clientele in a large geography. CEB's IT strategy aims to ensure that business strategy and information technology investments are well aligned in all subsidiaries. Customers remain at the center of the Banks' innovation efforts as organizations across the industry move to improve digital customer experience across new touch-points and channels. In line with this, delivery channels are the key focus of innovation, mobile and online will be the primary distribution channels in the future.

Cloud Infrastructure

Staying ahead of the needs of an increasingly connected and demanding customer base requires solutions, which are not only secure and supported, but also robust and scalable, where new features can be delivered in a timely manner. In order to meet these requirements CEB employed a new cloud infrastructure in 2019 and all digital banking related components, tools and processes will be running on this infrastructure with cloud native infrastructure in 2020.

Open Banking & API Gateway

As a core component of digitalization and due to new regulations such as PSD2, a new API Gateway was installed in 2019 and operational to publish and consume new APIs between external systems and CEB's Core Banking system.

Cyber Security

CEB considers cybersecurity as high in the management agenda and CEB is investing alongside with the digitalization. Modern SIEM (Security Information and Event Management), SCA (Strong Customer Authentication), Fraud Management, NAC (Network Access Control) and Swift Security were the major cybersecurity topics that CEB invested in in 2019.

Agile organization and solid processes

In competitive market conditions, stringent regulatory requirements, quickly changing technologies, high needs and expectations of stakeholders force banks to change their traditional organizations to contemporary and flexible organizations. Therefore, being an agile organization and having solid processes are becoming more important to respond to these challenges and obtain competitive advantages. In this manner, we believe that the three core values of CEB, namely Dynamism, Diversity and Expertise, enable the bank to adopt to these new market conditions.

CEB’s dynamism is demonstrated by its ability and speed of decision-making and action taking. This dynamism allows employees to contribute their full talents and capabilities to generate value for stakeholders. In order to improve this dynamism, the bank will explore an agile model and gradually implement more flexible ways of working. In this operating model, CEB will have the ability to quickly and effectively reconfigure strategy and structure, optimize processes and systems. In this respect, the Bank is planning to start an assessment of key processes in 2020 to accelerate processes and increase efficiency. At the end of this study, the Bank targets to achieve significant time shortening in processes by simplifying steps and decreasing drawbacks without compromising quality.

An agile organization consists of a dense network of empowered teams within a people-centered culture that aims to operate with high standards of alignment, accountability, expertise, and collaboration. To get benefit of this organizational approach, another important change is to shift away from hierarchies to networks and more collaborative work models, which brings people from multiple disciplines together to work autonomously. By means of this change, the work is done in self-organizing teams, the role of management is not to control whether those doing the work have done it, but rather to enable those doing the work to contribute all that they can and remove any inefficiencies that might be getting in the way. CEB is considering how it may embed this methodology into the organization. As part of the initial analysis in this respect, CEB is reviewing its workflows, roles and responsibilities.

Healthy, stable bank

Having a strong capital base while maintaining our risk profile within our risk appetite is the corner stone of CEB's strategy. To achieve this goal, we strive to improve our risk and capital management capabilities continuously. Through rigorous budgeting and internal capital adequacy assessment processes, CEB ensures that it holds enough capital to cover its material risks while maintaining a healthy balance sheet and profitable business over the next 3-years. In 2019, the budgeting process has significantly improved by incorporation of macro-outlook into 3 year-plan, improved scenario/stress testing capabilities and the increased involvement of risk management and internal audit in the budgeting process. Throughout 2019, CEB maintained its strong capital ratios. As of Dec 31 2019, we have already greatly exceeded our 2020 capital requirement, which is prudently calculated and agreed with DNB. Our common equity tier 1 (CET1) ratio, that is, our CET1 capital as a percentage of our risk-weighted assets, stood at 14.9% (2018: 14.9%) on December 31, 2019. In addition, with a 1 on 7 capital to asset leverage, CEB is currently one of the least leveraged banks in the Netherlands. In anticipation of Basel IV implementation in the next 3 years, CEB has run preliminary impact analysis and based on the results CEB does not expect any material Basel IV impact on its risk-weighted assets1.

As of March 2020, we have the following credit ratings:

(1) Fitch Long Term Issuer Default Rating BB-/Stable Outlook,(affirmed in November 2019)
    Viability Rating bb-
(2) Moody´s Long Term Deposit rating (affirmed in October 2019)
    Ba2/Negative Outlook,
    BCA and Adjusted BCA b1

Our longer-term strategical target is to become an investment grade bank. To achieve this, asset quality remains a key point of attention. In terms of asset quality, CEB is dedicated to reduce the percentage of non-performing loan (NPL) ratio to below CEB's risk appetite limit of <6% until 2022. In this regard, CEB has prepared an NPL strategy where realistic and sufficiently ambitious NPE reduction targets and the operation plan to achieve these targets are defined. In addition, within 2019, CEB took effective measures to reduce its repossessed assets (shipyard, vessels, real estate and art-works). Accordingly, we have prudently devaluated this portfolio and prepared a divestment plan. We expect that, by the end of

[1] The revised Basel Committee standardized approach for credit risk retains some use of external ratings for corporate and bank exposures is demanding, however CEB's technical and human resource capabilities are more than adequate to overcome these challenges.

2021, a significant portion of the problematic re-possessed assets will be sold.

Information Security

CEB operates in a business environment where there is an almost complete dependence on information, which is in most cases, processed on information systems and interconnected computer networks. The Bank therefore recognizes the potential strategic, regulatory, operational, financial and reputational risks associated with the use of information, information systems and –technology.

CEB sees essential for CEB's success that its information assets are protected at all times in accordance with applicable requirements, by managing the risks they are exposed to. Therefore, information security is fundamental to enable a proper response to:

(i) evolving threats and vulnerabilities to information assets;
(ii) the usage of complex information technology;
(iii) safeguard the privacy of CEB's customers and staff members; and
(iv) the increasing number of cases related to cybercrime worldwide (computer–based fraud, information theft, industrial espionage, hacking, etcetera.).

Therefore, CEB defines information security management as a continual cyclic process, which includes identification and assessment of information security risks as well as the implementation and monitoring of information security risk controls with the aim of mitigating the identified and assessed risks to an acceptable level. Information security management is a part of CEB's internal control framework. Key requirements of Defense in Depth, People, Third Parties, Facilities, Technology and Processes are taken into account when executing Information Security cyclic process.

The applied approach regarding the management of information security risks outcomes to (i) the increase of information security awareness across the Bank and (ii) risk based decision making for an essential level of information security and/or for increased protection of CEB's information assets.

CEB's risk management governance (line-of-defenses, tone at the top, management and committee structure) and crisis communication processes institutes the concept of cyber security risks which is not only focused on IT infrastructure, but also people, processes and technology. The governance represents the architecture within which information security management operates in the Bank. The information security governance provides a structure whereby each staff member of the Bank is accountable for managing the information security risks within their area of accountability. All staff members are therefore responsible for establishing an information security management process in their area of responsibility. The responsibilities of All Staff Members, 1st Line of Defense, 2nd Line of Defense and 3rd line of Defense are assigned and being governed.

CEB has set the following principles for sound and effective management of information security:

a) The confidentiality, integrity and availability of information assets are essential in maintaining the Bank’s competitive edge, cash flow, profitability, legal, compliance and respected company image;
b) Information security controls are determined upon the basis of a “cost-risk” analysis and achieved by technical means as much as possible; and
c) Information security is i) embedded in daily business and supportive processes and ii) demonstrated in the behavior of CEB employees.

Key Risks and Controls:

(i)CEB is aware of the risks of internet and cloud business models, digital transformation, and mobility – all changing banking industry. CEB’s approach is to put business strategy and risk at the heart of cyber decision-making. CEB acknowledges the risks of targeted attacks that may target our payment systems like Swift, TPP channels, and digitalization products that are entry points for external world, regardless of solutions are on premise or on cloud. All these channels have their respective regulations like Swift Customer Security Framework, Regulatory Technical Standards, EBA’s and DNB’s respective control objectives and guidelines. CEB’s compliance with these standards is at the highest level and all channels are extremely subject to risk assessments by both internal and external parties.
Targeted attacks to employees are also protected with regular phishing exercises and awareness trainings.

(ii)With planned digitalization projects, CEB will enable the collection of even more valuable consumer data. While this has significant business benefits, there are also risks to using consumer data. CEB naturally takes some risks to drive innovation, productivity and growth. To manage these risks, CEB approaches privacy as a business opportunity to gain control over our data, especially in digital transformation and applied many controls like:

- Installing Privacy and Security Policies, procedures and response plans;
- Defining clear roles and responsibilities;
- Maintaining an active data retention program;
- Defining Data Processing Agreements with Data Processors and standard clauses with Non-EU processors;
- Performing Data Privacy Impact Analysis and Information Security Due-Diligence for initiatives;
- Investing in Technology to improve CEB’s security defense; and
- Assigning a Data protection Officer.

(iii)CEB finds business continuity a key risk for continuing business. CEB performs impact analysis on required resources and performs periodic tests on important business processes. In 2019, CEB has performed business continuity tests on key business processes in an alternate location and data center with successful execution.

(iv)Additionally, CEB allocated enough capital for operational risk, which sufficiently covers the possible losses according to the above risks.

Key Performance Indicators:

CEB performs information security activities with general performance acceptations of:

(i)Compliance with security frameworks;
(ii)Comprehensive detection and monitoring of assets;
(iii)Timely detection and resolution of security/privacy events and intrusion attempts;
(iv)Continuous threat and vulnerability detection;
(v)Employees with a high level of security awareness;
(vi)Highly trained security workforce;
(vii)Security/privacy embedded business processes with key security risks and controls identified; and
(viii)Timely patching of systems.

Risk Appetite

Continual focus on risk awareness is an integral part of CEB's risk culture. The risk appetite of CEB is established in conjunction with the Bank's business plan and is aligned with CEB's vision and mission statements. The main principles are set by the Managing Board, and endorsed by the Supervisory Board. Risk appetite is then translated into policies and procedures that set the rules and regulations to ensure that these limits, where appropriate, are adhered to during the day-to-day activities of the Bank. The risk appetite of CEB is defined on a consolidated level and applies to all of its subsidiaries and branches.

Given the risk appetite statement, the Supervisory Board and the Managing Board in cooperation with the relevant committees and functions select the Key Risk Indicators (KRI's) and corresponding risk tolerance levels for monitoring. Such KRI's are an integral part of CEB's operating processes and its existing risk management and internal control framework.

Division and department managers are responsible for managing their areas in line with the tolerance levels described in the Risk Appetite Policy and the relevant policies and procedures. Senior management monitors the Bank's activities, based on the risk appetite. The KRIs and risk limits are reported on a periodical basis to the Managing Board and the Supervisory Board and reviewed at the relevant sub-committee meetings. If the limit of a KRI is breached, action is required to bring our risk profile back within the limit. To allow for timely action, early warnings are also in place to prevent breaches.

The main risk types are credit, market, interest rate on Banking book (IRRBB), liquidity, operational (non-financial) risk, business and integrity risk. These main risk types comprise various sub-risk types. Risk appetite statements are set for both the main and sub-risk types.

Examples of KRIs in our risk appetite include : concentration limits for single counterparties, industry sectors and countries, asset quality limits, capital ratio limits, liquidity ratio limits, market risk parameters limits, limits for risk parameters based on our operational, integrity and business risk assessments.
For more information about CEB's risk culture, please see chapter 37 Risk Management.

Human Resources - Human Capital Management, Training and Education, Responsible Remuneration, Community Engagement/Local Communities and Employment and Labour relations

The workplace is undergoing continuous transformation. This also impacts CEB and requires it to understand which external drivers are causing change and how the Bank can strengthen its focus on employees.

Transformation drivers

There are two key drivers for the current transformation of the workforce. On the one hand, the unprecedented speed of technological change, big data processing and the continuously expanding application of algorithms, are creating valuable insights, take away inefficiencies and allow for machine learning. On the other hand, there are demographic shifts, different ways of working, much longer working lives, changing priorities for those at the start of their careers, new demands regarding the workplace and working conditions – which all need to be addressed by employers.

At CEB we recognize the above and strongly believe that people are our most important asset in achieving the Bank's vision and strategy. To provide an excellent customer experience, we need the right people with the right skills and values in place at the right time. We need strong leaders and people managers who champion our culture, live our values and trigger and facilitate high performance.

Human Capital Management

In 2018, CEB decided to strengthen its HR Division and intensified its focus and investments. As a result, 2019 can be considered a transition year where the HR Division was taken to the next level with a renewed Human Capital Management (HCM).

“We enjoy enabling the business to achieve its goals. We do this by defining and smoothly executing the processes, policies and programs necessary to recruit and retain a high quality workforce.” This is our HCM vision and in order to achieve this, we have defined three key enablers which helped to prioritize in 2019 and continue to be our focus in 2020 and beyond:

- ⇨ Strategic partnership to ensure the HR view is represented in strategic decision making
- ⇨ Employee engagement to maximize performance and reduce regretted losses
- ⇨ Standardization to gain efficiency, predictability and credibility

Strategic partnership

In 2019 we offered HR advisory services to the business in areas such as recruitment, organizational design, change management, performance and people management. Throughout the year, managers liaised with their HR advisor to seek advice and soundboard on HR related topics. Strategic partnering also means that unsolicited feedback and advice was shared with management and/or employees to create awareness or make improvements. In 2020 and beyond these advisory services will continue to be offered.

Employee engagement

Happy employees create happy (internal) customers: it is as simple as that.

Employee engagement starts with listening to employees. Therefore, an engagement survey was used to gauge feedback: the outcome provided good insights into what employees very much value when working for CEB and where they see room for improvement.

In 2019, HR, together with dedicated employees who were keen to contribute, started many initiatives, which are ranging from improving communication by organizing content sessions to creating more career opportunities for employees by posting internal vacancies. From organizing fun events by the CEB Club to facilitating company bikes. From introducing a recruitment panel to launching a flexible working pilot. Afore mentioned initiatives have increased the engagement levels, but applying a solely instrumental approach is not enough to sustain high employee engagement. One of the learnings in 2019 is that in parallel CEB needs to further address the importance of people and change management skills in its aim to maximize performance and reduce regretted losses.

As a result, HR will increase its focus on this in 2020 and ensure that we recruit and promote managers who have a people and change management mindset and skillset. Furthermore, our existing leaders and managers will be participating in leadership and managerial programs throughout 2020 to create more awareness and better skills.

Performance Management

In 2019, we have redesigned our Performance Management process and system to facilitate more and qualitative performance dialogues between manager and employee. In addition, a clear link was created between company and individual goals. All employees have a KPI linked to the company focus of that specific Performance Management Cycle and managers have mandatory people management KPIs.

Next to company goals, all employees have been asked to reflect on their personal development and define personal development actions to be discussed with their manager. These actions were captured in the Performance Management system and were input for a Training Need analysis. The outcome of the analysis was a training curriculum, which is further specified under 'Learning and Development'.

In 2020, CEB will continue communicating its strategy and linking the company goals to individual KPIs to bridge from long term strategy to annual tangible expectations of employees. Equally important is frequently soliciting and sharing feedback about individual performance. Creating a feedback culture is crucial since positive and constructive feedback clarifies expectations, it helps people to grow since they learn from their mistakes and it builds confidence. CEB is ambitiously building a feedback culture and will continue to do so in 2020. However, HR will also take into account the 28 different nationalities, which requires a well-considered approach and timing when implementing this successfully.

Learning and Development (training and education)

With the rapidly changing environment around Financial Institutions both from a technological and regulatory perspective, organizations cannot afford to be static and have to stay in line with those changes. It is therefore crucial for CEB to establish a culture of a learning organization: an organization skilled at creating, acquiring and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights.

CEB has demonstrated in 2019 to be able to accommodate a Learning and Development (L&D) environment. As a result, L&D budgets have been shared with all managers who have been mandated to financially support their direct reports in their learning needs, provided it is in line with the budget. Based on the personal developments, a training curriculum has been designed with predominantly in-house training around competencies. Next to the curriculum, HR supported specific requests from the business to tailor technical knowledge and skill trainings.

In 2020 and beyond, CEB will continue to ensure that Learning & Development stays an integral part of an employee's performance. We have seen a significant increase in learning requests in 2019, which may have been triggered by the redesign of the Performance Management cycle. This section will continue to be part of the PMC beyond 2020 and should create a culture where learning is at the core of business success.

Responsible Remuneration

By means of a general remark, CEB is bound to the Group Remuneration Policy (at the level of Credit Europe Group N.V.) and has updated its policy in 2019 in accordance with applicable law and regulation (change(s)). In addition to the general practices and policies, there were two specific projects in 2019, which require further exploration.

1) Market conformity

The engagement survey showed that fair remuneration really matters to CEB employees. Therefore, CEB decided to engage with a financial consultancy agency to perform benchmarks of selected CEB roles where we faced a high turnover or experienced difficulty when hiring external employees. The data shows where CEB is currently paying against the market and provides us with valuable insights, which are used during recruitment and salary discussions. In 2020, CEB will perform a second benchmark exercise for the remaining CEB roles.

2) Link performance and reward

As described under 'Performance Management', the process was redesigned which also included a review of the existing methodology linking performance to reward. After having reviewed several scenarios, a new methodology has been selected to reward employees who are meeting and exceeding expectations.
Reference is also made to paragraph F (Remuneration Report) of the Corporate Governance chapter.

Community Engagement

Every year CEB chooses a charity and organizes a so-called ‘CEB Community Service Day’. In 2019, around 30 colleagues signed up for this event and organized a day in an elderly home in Amsterdam Zuid-Oost where the inhabitants have limited family support and financial resources. In the beginning of 2020 there will be a follow-up of this event. Next to the ‘CEB Community Service Day’, CEB annually sponsors a foster family during Sinterklaas time.

Employment and labour relations

Work environment and vitality

The topics of work environment and vitality are highly encouraged by unions and authorities in the Netherlands and have become part of many Collective Labor Agreements. Promoting physical and mental health aims to contribute to overall wellbeing and engagement and is expected to make employability more sustainable. That is why in 2020 we will create more awareness for healthy eating for performance, give guidance how to deal with stress and offer an employee wellness program that includes Yoga, Pilates and Mindfulness lessons within CEB premises to improve one’s health, well-being and productivity.

Flexible Working

The future of work and changing expectations by new generations in the workforce requires CEB to be open about flexible working and to think in output rather than throughput. In 2019, it was decided to implement flexible working by means of a phased approach. The first phase was launched in the second half of 2019. The recent events around COVID-19 accelerated the second phase and flexible working was further implemented and rolled-out across CEB including it branch offices. As a result, now almost all employees can work remotely and have the required IT tools available to continue to perform their daily tasks virtually.

Responsible Tax Strategy

CEB including its branches, liaison offices and subsidiaries ensure transparent tax procedure and policies in order to comply with all relevant local tax regulations as well as global tax guidelines set by OECD. Transparent tax control has a significant role in CEB’s commercial operations and business strategies. That is why each product is subjected to an initial tax perspective control before its release to market. Herein below an overview is provided of the CEB’s most material tax topics:

Responsible approach

We do not use structures for aggressive tax planning or tax avoidance. With this purpose, CEB does not use structures that clearly do not meet the intentions or spirit of the law, or where commercial motives to use such a structure are inferior to the tax motives.

Relationship with Tax Authorities

CEB aims to maintain transparent and mutually respectful relationship with tax authorities of countries where it operates. CEB collaboratively work with them in order to discharge the responsibility of being taxpayer. CEB engages with tax authorities prior to undertaking any transaction where there is significant uncertainty in relation to the interpretation of applicable tax law.

Transfer Pricing

CEB seeks for the arm's length principle as well as other principles/obligations set by OECD. Reports under BEPS 13 are prepared each year on time and Tax Team pursues relevant BEPS action plans in order to comply with recent development in international tax.

Tax risk and controls

CEB has its own risk matrixes for each tax field and measures possible risky areas under those tax fields. CEB's Internal Audit department controls and comments on those risky areas and CEB contacts with related tax authorities if needed. Besides that, APA (Advance Pricing Agreement), ARA (Advanced Ruling Agreement) are also requested with the help of external advisors.

Transparency

More attention is given to increasing transparency for all the stakeholders of CEB. As clearly stated in our business model and strategy, the products and services offered by CEB are non-complex, easy-to-understand and transparent. The Bank publishes its Annual Reports, Interim (semi-annual) Condensed Consolidated Financial Statements as well as Risk Management and Capital Adequacy Pillar III Reports semi-annual basis on its corporate website (www.crediteuropebank.com). Credit Europe Bank NV has two credit ratings from Moody's and Fitch and the rating reports are also published on the corporate website. CEB's Bank relations Division has the role of "investor relations" and provides answers for any question that may come from corporate lenders (mainly correspondent banks of CEB) and bond-holders. In order to increase the internal transparency, presentations are made by the Bank's CEO and/or CFO on financial and non-financial matters during the quarterly staff-events. In order to share these timely updates with all staff members, starting from 2020, the Quarterly CEO Letter will be sent to every employee by email.

Product Responsibility

Corporate Banking

Being one of the major business lines of CEB, Corporate Banking activities play an important role in the 'Financial' and 'Non-Financial' footprint of the Bank. The products and services offered by the Corporate Banking Division can be listed as: 'Corporate Lending', 'Trade & Commodity Finance', 'Real Estate financing' and 'Marine Financing', provided to an international client portfolio through its international presence in Amsterdam, Geneva, Bucharest, Dubai and Kiev.
In all above-mentioned 'Corporate Banking' activities, 'Product Responsibility' means, CEB's direct and/or indirect position with respect to the following criteria:
- Tax Integrity;
- Anti Money Laundering (AML);
- Corruption;
- Terrorist Financing; and
- National & International Sanctions.

CEB's strict compliance with the above-mentioned criteria, is not only important for being in line with the requirements of the national and international regulators, but also for the Bank's own ethical approach on legal, social and environmental issues.

Policies & Due Diligence

CEB's 'Integrity Risk Appetite Statement' and 'KYC Policies' documents clearly address the Bank's position with respect to most of the above mentioned criteria in detail. Additionally, a 'CEB Climate Policy' document is being developed in close collaboration with an external consultant and the regulator.

For the sake of being compliant with the above criteria, CEB follows strict CDD (Customer Due Diligence) and TDD (Transaction Due Diligence) procedures, within the frame of its activities.
All CDD procedures done for new and existing clients of CEB, must be in line with its clearly determined policies on the above-mentioned criteria, like Tax Integrity, AML (Anti Money Laundering), Corruption & PEP (Politically Exposed Persons), TF (Terrorist Financing), Sanctions, etc.

As per well-established TDD procedures, each and every transaction intermediated by CEB for its clients, is also checked and filtered within the frame of the above-mentioned policies.

Outcome

Procedures and policies in place help CEB to identify any potential or existing clients involved in Tax Evasion, Money Laundering, Corruption, etc. or convicted of any crime including environment or human rights related issues. Since the implementation of those procedures and policies, Corporate Banking has consequently become even more selective in onboarding new clients, while at the same time it certain current relationships were terminated and certain type(s) of transactions were stopped due to their critical risk ranking.

'The Climate Policy' -under preparation- will constitute a clear guidance for the future 'Corporate Banking' activities with respect to their impact on the environment.

Principal Risks & Their Management

Corporate Banking may face the following risks while onboarding new clients as well as handling existing ones:

- Involvement of Clients, namely companies, their UBOs (Ultimate Beneficial Owners) and Managers, in (potential) breach of national/international law and regulations on Money Laundering, Corruption, Terrorist Financing, Tax Evasion, Environment, Human Rights, etc.;
- Involvement of CEB with clients and third parties under national and international sanctions;
- Handling transactions related to goods and countries which are subject to national and international sanctions;
- Handling transactions that may be in (potential) breach of national/international law and regulations on: Money Laundering, Corruption, Terrorist Financing, Tax Evasion; and/or
- Handling with transactions, which may have negative impacts on the 'Nature' and 'Climate Change'.

For the purpose of managing those risks, CEB has developed clear internal procedures, and instruments including:

- Very detailed KYC processes addressing all the above risks for new clients, which is also repeated periodically for all current clients;
- Manual controls on each and every transaction handled, addressing the above risks;
- Establishment of electronic filters of artificial intelligence, for an additional control of each transaction handled, addressing the above mentioned risks;
- Close and continuous consultancy and collaboration with the Regulator and External Consultants for further improvement in management of the above risks;
- Working on the development of a new 'Climate Risk Policy' to address the environmental risks; and
- For 2020 the Bank's framework around Human Rights and related topics will be further improved.

Key performance indicators

For the sake of measuring and better controlling the above-mentioned risks, CEB is using different third party services like Worldcheck, Lloyds, etc. and also CEB has clearly identified the following:

- Low-Medium-High-Critical risk countries and jurisdictions;
- Black-listed countries based on sanctions, corruption, etc.; and
- High-risk ranking for certain sectors, goods and services.

The aforementioned data platforms are dynamic and revised continuously whenever needed based on internal and external developments.

Retail Banking

CEB's Retail banking offers simple and easy to use products to its customers.

In the Netherlands and Germany :

Sight deposits and term deposits are the only two products offered for retail customers.

In Romania :

Sight deposits and term deposits including the current accounts are the deposit products we offer to our retail customers. We also offer credit and debit cards as well as (on more selective basis) residential mortgage loans to our Romanian customers.

Our retail customers can apply and maintain their products 24/7 via Online Banking and Telebanking. The basic product specifications remained the same since the bank was established. Moreover, we have a branch network in Romania to serve our customers. This easy and understandable setup is also one of the main reasons why our customers are very loyal and continue to use CEB's saving products over decades.

The Dutch Deposit Guarantee Scheme (for Dutch and German customers) and the Romanian Deposit Guarantee Fund (for Romanian customers) guarantee deposits up to a maximum of EUR 100.000 and nearly covers all retail deposits held by the Bank. This governmental security combined with the low risk appetite of the Bank ensures the deposits of the customers.

Policies, Procedures & Regulations

Retail banking has many policies and procedures in place, which reflect the regulatory requirements in the EU but also in the local markets. The code of conduct in place provides the framework for maintaining the highest possible standards of professional conduct, which are applied within CEB.

The most important Policies & Procedures are inter alia:
-AML/KYC Procedure;
-Customer Complaint Handling Procedure;
-Code of Conduct;
-FATCA and CRS Policy;
-Internal Alert System Policy (Whistleblower Policy);
-Conflict of Interest Handling Policy; and
-Personal Data Disposal Procedure.

CEB's Internal Audit Department is checking, if these policies and procedures are correctly applied during their frequently audits performed.

Outcome

Application of the abovementioned policies and procedures enables the Bank to offer standardized, secure and compliant services and products to its customers. Risks arising from AML, loss of customer data, tax evasion and fraudulent activities are reduced to a minimum.

KPI

Adhering to the corporate governance framework through the aforementioned Policies and Procedures CEB aims to sustainably ensure delivering reliable, secure, compliant and easy to use products to its customer base. These pillars of trust, safety and convenience form the foundation to providing the necessary amount of funding in appropriate tenors to CEB group.

Non-Financial Risks

Competition

The retail deposit market in Western Europe is very competitive. The most important factors for customers are financial security, easy to use, transparent products, competitive interest rates and good customer service. Aside from competition among banks, new market participants started penetrating the deposits market with new products, speed of service and appealing customer experiences. The established or incumbent banks are increasingly challenged with this development in their product offering. CEB is closely monitoring the developments on markets and its current strategy is to sustain its position in the savings market.

Regulations

The banking sector is facing a multitude of tighter regulations to prevent among others market instabilities, tax evasion and money laundering, resulting in new and more data to be recorded, captured and reported. Some of these regulations have direct impact on processes and products offered. CEB is closely monitoring regulatory changes and developments, constantly embedding legal and regulatory requirements in its business processes.

Sustainable Finance

Today Sustainable Development Goals (SDGs) are on the course of being an inseparable part of the business framework and investment decisions. In this process, by being one of the most important medium between the commercial enterprises and the public, the financial institutions' commitment to climate alignment have become invaluable.

CEB is aware of its role in the transition period towards sustainability and therefore it aims to assist its customers and investors not only in financial terms but also in terms of sustainable development. In this regard, our number one priority lies on collaboration and transparent dialogue with our clients regarding the societal and environmental impacts of their business decisions and investments. In doing so, we assist our clients about the opportunities which lie in sustainable investment and the way of doing business.

CEB understands that environmental and social risks trigger financial losses and these risks should also be included into credit lending policy and procedures. In this regard, CEB's Social and Environmental Responsibility Policy is the framework providing general guidelines for responsible financing.

CEB is also aware more precise steps should be taken in client risk-assessment processes. Therefore, CEB has initiated a fruitful collaboration with Navigant, a Guidehouse company in 2019 as part of which it has reviewed best practices in climate risk management, deep-dived into its portfolio and identified the options to manage the risks and opportunities in this area. In 2020, CEB and Navigant's collaboration will continue to construct reliable and accurate carbon emission measurement methodologies and metrics. In addition, CEB is in the process of setting the governance structure to manage climate risk through establishing a Climate Change Committee in 2020. In the coming 18 months, CEB aims to prepare a climate policy. In line with this policy, CEB will integrate high-level principles on carbon-related businesses to its strategy and risk appetite. CEB has not set a target for disclosure yet since it will wait for the methodologies and the underlying data to mature both within CEB and within the financial service industry to be able to disclose reliable figures.

In addition to the above, the Bank is diligent in ensuring compliance with applicable laws and regulations and observing related local and international best practices. CEB's business activities are conducted in an ethical manner, setting priority to observation of basic ethical norms (such as values of human life, the right to work, fair working conditions and equal opportunities). To enhance a sustainable culture and ethical business practice, in 2017 the Bank's senior management attended a training program on culture and core values. As part of the training program new core values have been developed being dynamism, diversity and expertise (the Bank's previous core values being customer focus, integrity, professionalism and transparency will be maintained as base values). These core values have been rolled-out in 2018 and were further implemented in 2019. The Bank's board members and employees are being trained on the core values and these values are included in the different internal policies and guidelines of the Bank (such as the Bank's Code of Conduct). All board members and employees of CEB have taken the Banker's Oath/Affirmation.

Diversity and Equality

In order to promote diversity and inclusion in the workplace as drivers for innovation, growth and better balanced decision making, the Bank has drafted a diversity and inclusion policy. Reference is made to the chapter on Corporate Governance for further details on the Bank's policy in this regard.

Environmental impact

CEB is conscious of its responsibility to conserve resources and continuously aims at more efficient use of the resources required for its business practice. In 2019 CEB established a sustainability task force to inter alia develop/explore initiatives to contribute to a better environment. So far e.g. the following actions have been taken: all company plug in hybride cars are being replaced by full electric cars, the cooling machines used for CEB's head office's buildings have been replaced by more energy efficient ones, waste separation is being extended, plastic water bottles and plastic/paper cans are banned from the Bank and each employee has been provided with a CEB mug and also individual waste bins have been replaced by one waste bin per department to reduce the use of (plastic) waste bags. Furthermore, CEB performs the required energy audit(s). For 2020, the aim is to further improve the Bank's sustainability framework.

Risk Management and Business Control

Risk management and business control is anchored directly to the Bank's strategy and embedded in Credit Europe Bank's organisation. A risk management and internal control framework has been implemented in line with the Bank's business activities and geographical organisation. The purpose of such framework is to set the minimum requirements for risk management and business control in respect of major risks and successful achievement of Credit Europe Bank's strategic goals.

The Managing Board sets Credit Europe Bank's risk appetite and the Supervisory Board conducts oversight on overall risk management and business control, in light of applicable local and international legal and regulatory requirements, to respond to the various financial and non-financial risks the Bank is exposed to. The Managing Board is responsible for implementing and maintaining the risk management policies within the organisation, and monitoring the risk exposure to ensure that Credit Europe Bank's activities and portfolios are not exposed to unacceptable potential losses or reputational damage.

Credit Europe Bank based its governance framework on a "three lines of defence" model. The business units form the first line of defence. The second line consists of the risk management, compliance and other control functions. Within head office and each banking subsidiary local risk management and compliance functions are operating; such functions in the banking subsidiaries report both to local management and head office management. The Managing Board ensures that risk management, compliance and other control issues are addressed and discussed with sufficient authority. The third line of defence is the internal audit function, which assesses the functioning and effectiveness of business units, financial risk management and non-financial risk management activities.

Credit Europe Bank's risk management and internal control framework enables the Managing Board to control the financial and non-financial risks of business activities. This framework is governed by a system of policies, procedures, committees, as well as support and control functions. Limits and controls have been put in place to mitigate financial and non-financial risks to an acceptable level in line with Credit Europe Bank's risk appetite. The risk appetite has been approved by the Supervisory Board and is designed to i) set the maximum level of risk the Bank is willing to accept in order to achieve its business objectives and ii) protect the Bank's activities, not only in terms of profitability, sound capital adequacy and liquidity ratios, but also in terms of reputation and integrity risks. To maintain the quality of financial reports and to increase the effectiveness of reporting, the Bank has implemented internal financial reporting controls.

Note 37 to the Financial Statements elaborate in more detail on the risk management and internal control framework, the risks incurred, and the main risk factors attached to the strategy of the Bank. Our corporate website also provides information on risk management and compliance.

Key developments in 2019

In 2019, the following events required specific attention of the Managing Board:

The Finance and Risk Departments of CEB have jointly started a project in 2018 to improve CEB's financial budgeting and planning cycle in 2019. The aim of the project was to set an integrated view across all relevant financial resources that are part of the Group's budget figures, particularly the dynamic integration of the financial and liquidity planning of the CFO function with the capital and risk planning of the CRO function. Within 2019, CEB has developed macro-economic models to forecast key figures like funding rate, net interest margin (NIM), Probability of Default (PD) and Loss Given Default (LGD) for major portfolios to enable the integration of the macro-outlook into the 3 years budgeting and planning process. In 2019, the new tool and macro-economic forecasts are utilized to develop CEB's 2020-2022 budget and planning. Furthermore, the integration of comprehensive stress-testing functionalities into this budgeting tool set-up through macro-economic models enabled CEB to assess the sensitivity of its business towards changes in overarching macro-economic conditions.

Credit Europe Bank has also enhanced its credit risk quantification methodologies in 2019 by implementing an internal credit portfolio tool that facilitates economic capital requirement assessment for credit risk. CEB's new internal credit portfolio modelling solution applies a simulation-based approach in line with best practice. The internal credit portfolio modelling solution is a robust software that is customized in order to account for CEB's portfolio by incorporating a tailor-made correlation structure and internal PD assessment. In 2020, CEB's economic capital assessment will be utilized for periodic internal credit risk monitoring and bank's capital requirements calculation from a Pillar 2 (ICAAP) perspective. Compared to the top down regulatory concentration risk calculation recipes that are designed as one to fit all, the tool produces more accurate assessments for CEB's single name, sector and country concentration risks by taking into account the correlation between these concentration risks and the specifics of CEB's portfolio.

In consideration of the global interest rate benchmark reform and the transition to risk-free rates, CEB NV has been closely following industry discussions and available regulatory guidance to identify a roadmap and take the necessary steps to ensure a smooth transition. To this end a cross-departmental effort involving Treasury, Legal, FI, Operations, Finance, Risk and IT has been in place since 2019 to understand the risks, shortfalls, potential impact and communication requirements. The IBOR Transition project is currently under way to provide the flexibility required to the IT systems, futureproofing the bank for the post-transition requirements.

Credit Europe Bank also revised its Interest Rate Risk in Banking Book (IRRBB) calculation methodologies in 2019 based on the new EBA guideline on the management of interest rate risk arising from non-trading book activities that became applicable for CEB starting from 31 December 2019. In addition, CEB has enriched its policies and governance structure in relation to Risk Appetite Framework and Stress Testing.

In 2019, Credit Europe Bank's continued strengthening of its cyber security and resilience. Especially, with going online with the PSD2 channel, new requirements such as PSD2 Regulatory Technical Standards have been implemented. A Transaction Fraud management system has been implemented and we continue to improve the functionality of the fraud management process. Key areas of improvement have been determined in operational risk management, information security, data protection and business continuity and these improvement points have been implemented or the implementations are still ongoing throughout 2020. A GRC Program is launched, starting with round table discussions with business lines both as risk control self-assessment and 2nd line risk assessment combined.

The work under the AML Improvement Program, which started late 2017, continued throughout the year 2019. With the help of this Program Credit Europe Bank further strengthens its integrity risk management framework with a focus on its AML framework. In 2019, the focus – at solo level – was mainly on completing all remaining actions as defined under the Program. To date, all validation reports as issued by PwC – the independent party PwC engaged by Credit Europe Bank to validate all efforts as outlined in the Roadmap AML Improvement Program – , had the outcome 'adherence', meaning that the deliverable is in existence and meeting regulatory requirements.

Areas of improvement for 2020

The Bank continues to make necessary preparations to comply with changing regulatory requirements including new EBA technical standards and guidelines, such as 'fundamental reviews of the trading book', 'revised standard approaches in Basel 3 framework', 'disclosure of non-performing and forborne exposures', 'management of non-performing and forborne exposures' and the EU privacy regulations - General Data Protection Regulation (GDPR), among others. Fraud detection systems will be improved in parallel with regulatory requirements and business intensions and a digitalization program being at the center. Credit Europe Bank will improve its Internal Control Environment with the ongoing GRC Program, by focusing on risk-control framework and control testing.

Credit Europe Bank conducts internal and regulatory self-assessments and, where appropriate, takes necessary measures by updating its internal policies, procedures, processes and systems. In 2020, work will continue on further improving the financial and economic crime detection systems. With the help of such improved systems and established specialized units within the organization, the Bank is continuously monitoring its customers and their transactions for unusual or suspicious behaviour identification.

In the first half of 2020, PwC will finalize their validation activities on the deliverables as defined under the AML Improvement Program, which were implemented in the Bank in the last quarter of 2019.

In addition, CEB has initiated a project to improve the data centralization throughout its subsidiaries. The integration of the CORE banking system to CEB Suisse has started in early 2020 and the project is expected to be finalized in two years. In addition, several data centralization projects have been initiated to improve the content, quality and the automation of the data inflow from subsidiaries.

In control report

The responsibilities of the Managing Board include compliance with the principles of the Dutch Financial Supervision Act and other regulations. These responsibilities include the implementation of effective risk management and control systems. Credit Europe Bank's internal control framework is based on the framework developed by Committee of Sponsoring Organisations of the Treadway Commission (COSO). The risk management and internal control framework aims to ensure reliable financial reporting and to control operational risks and the strategic goals of Credit Europe Bank.

Effectiveness of risk management and internal controls

The Managing Board relies on the risk management and internal control framework and is supported by country management. The country management provide an annual In Control Statement to the Managing Board, based on a risk control self-assessment.

The management annually reviews the effectiveness of the risk management and internal control framework. The internal audit function reviews the self-assessment of the effectiveness of the risk management and internal control framework, taking into account their knowledge on policies and procedures and related audit findings. The Audit & Risk Committee monitors the risk management and internal control framework, reviews the results of the self-assessment and findings of the internal audit function. In addition, regular reports are presented to the Audit & Risk Committee by the Management, internal audit, risk management and financial control. Regular risk reports are distributed covering credit risk, market risk, liquidity risk, operational risk, etc. Compliance reports focusing on the management of integrity risks (i.e. conflicts of interest, money laundering, financial sanctions, improper conduct etc.) are regularly presented to the Compliance Oversight Committee. The risk management and internal control processes provide reasonable assurance that the financial reporting does not contain errors of material importance. This includes its going concern basis and that the risk management and internal control framework regarding financial reporting risks worked properly in the year under review.

In view of the above, the Managing Board of Credit Europe Bank believes it is in compliance with the requirements 1.4.2 and 1.4.3 of the Dutch Corporate Governance Code 2017.

Responsibility statement

Pursuant to article 5:25c section 2 part c of the Dutch Financial Supervision Act, the members of the Managing Board state that, to the best of their knowledge:

- the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Credit Europe Bank and the companies included in the consolidation;
- the annual report gives a true and fair view of the state of affairs on the balance sheet date and the course of affairs during the financial year 2019 of Credit Europe Bank and its affiliated entities whose information is included in its financial statements;
- the annual report describes the material risks which Credit Europe Bank faces.

A member of the Managing Board has been given compliance risk management as a focus area, ensuring that an effective compliance function is established and managed under his responsibility within the Bank and under responsibility of local management in each banking subsidiary. This member of the Managing Board is also responsible for i) the compliance of the Bank and relevant subsidiaries with or pursuant to the Wwft.

Outlook 2020

We have witnessed a relatively volatile 2019 in terms of global economic indicators. The most feared scenarios of no-deal Brexit and intensification of US-China trade disputes were avoided, but have not yet been completely off the table. As major central banks continued with their monetary policy support, governments were also pushing on the fiscal side to back-up their economies during 2019. Investors were less negative with their expectations of economic growth in 2020 at the beginning of the year, even if the major structural problems were still there. Nevertheless, the whole global economic spectrum has totally changed in March 2020 when the outbreak of corona virus and the very tough measures that the governments had to impose to fight against the pandemic created a global shock to markets. Despite the continuous rounds of aggressive quantitative easing offered by major central banks as well as the IMF, we expect a severe global economic recession in 2020, which may be followed by a strong rebound in 2021. At present, it is not possible to quantify the concrete economic consequences of this global shock. Our projection is subject to considerable uncertainty and is based on the most probable assumption that the pandemic will decline by the middle of 2020 and then we will witness a more positive economic climate and catch-up effect especially in emerging markets. A recession is also likely to be unavoidable in the Eurozone especially in Italy and Spain. It is forecasted that the unemployment rate in the Eurozone will rise again and the recent moderate increase in consumer prices will slow down noticeably. This pandemic will obviously be hitting all countries in the coming period, especially the ones with big infection rates in their populations as well as the ones depending on oil and tourism revenues.

Managing Board

Profile of the Managing Board as per March 2020

E. Murat Başbay (1968, male)
Chief Executive Officer

Enver Murat Başbay holds a BSc degree in business administration from Bosphorus University, Istanbul. He began his career in 1992 at Arthur Andersen Worldwide and worked in the 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 in the Netherlands and he played 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 (former) Russian subsidiary of Credit Europe Bank N.V. grew substantially. Since June 2010, Mr. Başbay, who has Turkish nationality, has been CEO of Credit Europe Group, currently responsible for treasury, corporate governance, corporate banking & STCF (including underwriting), legal and internal audit.

Şenol Aloğlu (1965, male)
Deputy Chief Executive Officer

A graduate of Bosphorus University, Istanbul, in business administration, Şenol Aloğlu started his banking career at Interbank in 1987, joining the Fiba Group in 1991. He held various positions at Finansbank AS and Finans Leasing AS in Istanbul. In November 2000, he was appointed Executive Vice President for Financial Institutions and also Country Manager for the Netherlands. In November 2005, he was appointed Managing Board member at Credit Europe Bank. Mr. Aloğlu, who is a Turkish national, is responsible for retail banking, bank relations, FI credits, information technology and corporate communications. Mr. Aloglu holds an MBA from UvA Business School, Amsterdam.

Umut Bayoğlu (1973, male)
Chief Financial Officer

Holds a BSc in economics from METU in Ankara. He began his career in 1996 as a management trainee with Finansbank AS. In 2001, he was appointed Head of Financial Control in Germany. In 2006, he became CFO of Credit Europe Bank and in 2008 he joined the Managing Board. He is responsible for financial control, accounting & central bank reporting (including data office & analytics) operations and human resources. Mr. Bayoglu holds the Dutch nationality.

Batuhan Yalnız (1973, male)
Chief Risk Officer

Holds a Post Graduate Diploma in Trade, Transport and Finance from City University Business School (Sir John Cass Business School) in London. He joined Credit Europe Bank in January 2008 as Division Director Risk Management, and has been working in risk management related functions within the banking industry for almost 19 years. Through many projects that have been executed under his responsibility, Batuhan Yalnız has proven his in-depth knowledge of the different aspects of risk management as well as his management skills. Since October 10, 2016, Mr. Yalnız, who has the Turkish nationality, is a member of the Managing Board currently responsible for financial and non-financial risk management, compliance and * corporate credits (i.e. 2nd line).

*Subject to DNB Approval

Corporate Governance

A. General

Credit Europe Bank N.V. (CEB) is a public limited company (naamloze vennootschap) established in Amsterdam on February 24, 1994. The company has registered shares and is not listed on any stock exchange.

Share capital

As at December 31, 2019, the total issued and fully paid-up share capital of the Bank amounted to € 563.000.000. The shares of CEB are fully owned by Credit Europe Group N.V. (CEG), a holding company established in the Netherlands. CEB makes up around 99% of CEG's assets.

CEG's shares are ultimately owned, through -inter alia- the investment company FIBA Holding AS in Turkey, by Mr. Hüsnü M. Özyeğin.

Dividend Distribution

Article 31 of the Bank's articles of association contains provisions on dividend and dividend distributions. Article 33, paragraph 2 under (c) states that the meeting agenda of the annual shareholders meeting includes the appropriation of the dividend.

Regulatory framework

CEB has had a full banking license in the Netherlands since 1994. The Dutch Central Bank (De Nederlandsche Bank or DNB) is the consolidated prudential supervisor: its supervision extends to CEB's banking activities in the Netherlands as well as to the banking activities of its subsidiaries.

Not only is the Dutch Central Bank the supervisor of CEB, it is also our regulator. The provisions of Supervisory Regulations and Policy Rules issued by DNB apply to CEB to the fullest extent. Furthermore, the international standards and guidelines from European and other relevant authorities are used by CEB as a tool to substantiate its due compliance to these regulations.

In addition, the Bank is registered as financial services provider with the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten* or *AFM*).

Although CEB is not listed, it supports and applies, to a large extent, the best practices of the Dutch Corporate Governance Code, mindful of its role as a financial institution in the Netherlands. This is also in line with DNB's recommendations to apply the best practices of the Dutch Corporate Governance Code. For more information on the Bank's application of the principles and best practices of the Dutch Corporate Governance Code, see page51.

Further CEB is subject to the provisions of the Banking Code (*Code Banken*) – insofar its principles are not 'overruled' in the meantime by legislation or other DNB rules. The sector-wide principles of the Banking Code were announced by the Dutch Bankers' Association (*Nederlandse Vereniging van Banken*) with effect from January 1, 2010 and have been updated as of 1 January 2015. The new Banking Code forms part of the set of documents titled 'Future Oriented Banking'. This package comprises a Social Charter, (an updated) Banking Code and a Bankers' Oath (with associated Rules of Conduct and a disciplinary system). All CEB's current employees working in the Netherlands have taken the Bankers' Oath/Affirmation. Each quarter a Bankers' Oath session is scheduled for new employees of CEB. As the members of the Supervisory Board and Managing Board already took their Oath/Affirmation in June 2013, in 2015 the board members signed a declaration through which they acknowledged the disciplinary regulations attached to the Bankers' Oath. For more information on our application of the principles of the Banking Code, please see a summary report in page 31, section D and a full report on www.crediteuropebank.com.

The statutory corporate rules in the Netherlands are laid down in the Bank's articles of association (*statuten*). The Managing Board, Supervisory Board and each subcommittee have their own charters (*reglementen*). The charters of the Managing Board, the Supervisory Board and its subcommittees are published on our corporate website.

For employees and others working with CEB, a Code of Conduct has been established to set standards for professional conduct. Furthermore, an extensive set of internal governance-related policies and procedures apply to our employees, ranging from 'whistle-blower' procedures to policies relating to expenses.

Credit Europe Bank N.V. as a parent bank

Per the end of 2019, CEB directly owns four banking subsidiaries in Switzerland, Romania, Ukraine and the United Arab Emirates, and two leasing companies in Romania and Ukraine.

To underpin the central position of the head office in Amsterdam, the Netherlands, the Bank applies a functional reporting structure: local managers in the subsidiaries maintain a direct reporting line to the functional head of the respective division in Amsterdam. This structure applies to divisions such as Internal Audit, Compliance, Treasury (asset-liability management), Corporate and FI Credits, Financial Risk Management, Financial Control and Corporate Banking. Moreover, the general managers of all subsidiaries report directly to the CEO of CEB. In addition, general manager's meetings are organized which are attended by the general managers of the Bank's subsidiaries and the members of the Managing Board. The main purpose of these meetings is to share knowledge and experience, to align group policies, and to consider the Bank's strategy and budgets. Throughout 2019, the Managing Board members and the general managers met on different occasions.

Finally, in order to ensure that CEB's business policies are applied consistently and for CEB to exercise control over its subsidiaries, the CEO of CEB sits on the Supervisory Board or Board of Directors of the subsidiaries of CEB. In addition to each of these local boards, one or two independent CEB Supervisory Board members have been appointed as board member.

B. Boards

CEB has a two-tier board structure, with a Managing Board and a Supervisory Board.

Managing Board

Composition

The Managing Board consists of 4 board members. It is composed in such a way that it is able to perform its tasks properly. The individual resumes of each of the members of the Managing Board can be found on pages 24-25.

Tasks

The Managing Board is responsible for the management of CEB, which includes realizing the Bank's goals and strategy, setting policies and achieving results. The Managing Board is also responsible for compliance with all relevant laws and regulations, management of the risks attached to our banking activities and the Bank's funding. The members of the Managing Board take the social role of the Bank and the interests of the Bank's various stakeholders into account in the performance of their management function.

Without affecting this collective and joint responsibility, the members of the Managing Board have agreed to allocate their tasks as follows[2]:

- Murat Başbay, CEO
  Treasury, Corporate Governance, Corporate Banking & STCF (incl. Underwriting), Legal and Internal Audit
- Şenol Aloğlu, Deputy CEO
  Retail Banking, Bank Relations, FI credits, IT and Corporate Communications
- Umut Bayoğlu, CFO
  Financial Control, Accounting & Central Bank Reporting, Operations and Human Resources
- Batuhan Yalnız, CRO
  Financial and Non-Financial Risk Management, Compliance and Corporate Credits (i.e. 2nd line)

Supervisory Board

For a full description of the Supervisory Board: its composition, tasks, subcommittees and 2019 report, see page 66.

Retirement Schedule of the Supervisory Board

Name	Member since	End of current term	Mandatory end of membership[1]
Hector de Beaufort (chairman)	February 2011	February 2021	February 2023
Murat Ozyegin	January 2006	January 2021	January 2021 [2]
Mehmet Gulesci	January 2006	January 2022	January 2022 [2]
Korkmaz Ilkorur	August 2012	August 2020	August 2024
Frederik Bernhard (Frits) Deiters	May 2012	May 2020	May 2020
Seha Ismen Ozgur	May 2019	May 2023	May 2031

[1] On the basis of the possibility of appointment for a maximum period of 8 years and extension of 2 times two years for specific reasons to be included in the report of the Supervisory Board (provision 2.2.2 of the Corporate Governance Code dated 8 December 2016).

[2] For more information on the structure and composition of the Supervisory Board and appointment terms of Messrs. Ozyegin and Gulesci reference is made to pages 46 and 47 of the Bank's annual report 2017.

C. Dutch Corporate Governance Code

This section contains a brief overview of CEB's compliance with the best practice rules of the Dutch

[2] Subject to DNB approval.

Corporate Governance Code (in this section known as the Code). On 8 December 2016 the Corporate Governance Code Monitoring Committee has published the revised Dutch Corporate Governance Code. It should be noted that due to our private ownership structure, the Code's provisions on shareholders/general meeting (rights, meetings, obligations, protective measures – see Chapter IV of the Code) are, to a large extent, not applicable to CEB. As CEB has adopted a two-tier structure, chapter 5 of the Corporate Governance Code (one-tier governance structure) does not apply.

In 2019 CEB reports on its compliance with the Corporate Governance Code as follows:

Long-Term Value Creation

The Bank's focus on long-term value creation (as opposed to achieving short-term gains) is inherent to its private ownership structure. The (long-term value creation) business strategy of the Bank for the period until 2022 is included in a strategy document (for more details on the contents of the Strategy Document reference is made to section D). This document has been prepared by the Managing Board and is extensively discussed with and approved by the Supervisory Board. Long term sustainability is given a prominent role in determining the Bank's strategy and in the decision-making process. All stakeholders' interests are carefully considered in this process. On an annual basis the strategy is being reviewed and where necessary updated (as a result of the most recent strategic discussions, the Bank will particularly focus on digital banking and trade finance activities). Inter alia through the regular updates that are given on the implementation of the Bank's strategy, the Supervisory Board monitors the implementation thereof. It is of great importance for the Bank to be continuously informed about the latest (technology) developments in this rapidly changing society. In order to adequately anticipate to this internal trainings are being organized, external seminars/courses are attended and the Bank became a member of TRAFEC (a web-based Trade and Finance Exchange Console).

CEB has established an Internal Audit department in accordance with the principles and best practice provisions of the Corporate Governance Code. CEB's risk management framework is comprehensive and managed by an independent risk management function under direct responsibility of the Chief Risk Officer. Risk management plays a central role in the Bank's decision making process. More information on CEB's Risk Management can be found in note 37 of the Consolidated Financial Statements. The Supervisory Board –inter alia– oversees the effectiveness of the design and the operation of the internal risk management and control systems. Within the Supervisory Board an Audit & Risk Committee ("ARC") has been established. Ernst & Young Accountants LLP has been appointed by the Bank's general meeting of shareholders (at the nomination of the Supervisory Board) as the Bank's external auditor. At least annually, the ARC discusses the Bank's audit plan and any findings of the external auditor. Exchange of information between the Managing Board/Supervisory Board and the external auditor takes places in meetings of the

ARC, in meetings between the Managing Board and the external auditor, but also outside meetings there is regular contact with the Bank's external auditor to share information and discuss specific topics in more detail.

Effective Management and Supervision

The current composition of the Supervisory Board and Managing Board is very well balanced inter alia taking into account the specific knowledge and experience of each of the members. Currently, the Supervisory Board has six members and the Managing Board has four members. Considering the size and nature of the Bank such number is deemed sufficient to properly perform their tasks. The independence of the Supervisory Board is not fully compliant with best practice provision 2.1.7 as half of the members will be independent. However, the current composition of the Supervisory Board is in line with DNB's requirements in respect of independence. At this moment, except for one female Supervisory Board member, all members of the Supervisory Board and Managing Board are male. The Supervisory Board is aiming to appoint another female board member before 2022. The Bank has adopted a diversity and inclusion policy. The main goal of the policy is to promote diversity and inclusion in the workplace as drivers for innovation, growth and better balanced decisions. The policy covers amongst others diversity/inclusion in the following areas: educational and professional background, gender composition, nationality composition and geographical provenance and age and seniority. The policy is being implemented by adjusting the Bank's recruitment policy, education of the Bank's staff and keeping board members (and staff) informed on diversity and inclusion trends, practices and achievements. The main item for improvement reflected in the diversity and inclusion policy is having a more balanced gender split amongst CEB's staff. In the past period gender diversity has increased (including senior management level).

The composition of the Bank's Supervisory Board and Managing Board diverges from the statutory target for the male/female ratio. In the past years the Bank maintained, as much as possible, the current composition of its Supervisory Board and Managing Board in order to keep up with the rapidly changing environment and subsequent effect thereof on the Bank's business plans. In order to be, by January 2022, more in line with the statutory targets for male and female members in the Managing Board and Supervisory Board, the aim is to appoint female candidates in case of new appointments to these boards and/or in case of replacements of current board members. In addition, the Bank adopted a diversity policy to have a more balanced gender split amongst CEB's staff and its boards.

The rules to be observed and procedures to be followed in case of appointment and reappointment of Supervisory Board and Managing Board members are set out in the Bank's internal policies/charters. A succession planning document for the Bank's senior management has been prepared. This document has taken the rationale of the diversity policy into account. Annually the functioning of the Managing Board and Supervisory Board and its individual members is being evaluated.

For the organisation of the Supervisory Board reference is made to relevant paragraphs of the Supervisory Board Report.

The diverse composition of the Supervisory Board and Managing Board in terms of age, background and expertise enables balanced decision-making by these bodies corporate. The high level of transparency between the Supervisory Board and Managing Board also contributes to effective and balanced decision-making. The Supervisory Board's sub-committees also support the balanced decision-making. The respective interests of the Bank's main stakeholders (being CEB's clients, employees and business partners, the shareholders as well as society) are taken into consideration in the decision-making process. The Supervisory Board and Managing Board members annually discuss other (board) positions held by the board members.

In order to promote and create the desired culture aimed at long term value creation, upon employment the Bank's employees participate in an induction program during which they are trained on the Bank's core values, its main policies/regulations (including the Bank's code of conduct and the staff handbook) and the Bank's culture. For all employees CEB organizes regular thematic awareness trainings and during quarterly staff events the (desired) culture within the Bank is highlighted and discussed. In 2017 the Bank's senior management attended a training program on culture and core values. As part of the training program new core values have been developed (these are dynamism, diversity and expertise). The initial roll-out of the new core values has taken place in 2018 and in 2019 the core values have been further embedded in the Bank's organization. Another way to promote a culture aimed at long term value creation is the Bank's remuneration policy (see herein below and section F).

To enable the Bank's employees to report and to deal with reporting of misconduct or actual or suspected irregularities within the Bank an internal alert system (whistle blower policy) has been established. This policy describes amongst others the purpose of the internal alert system, usage of the internal alert system, anonymous reporting, confidentiality and external whistleblowing procedures. In case of (material) misconduct or irregularities the Supervisory Board is informed. Through the Compliance Oversight Committee, the Supervisory Board monitors the operation of the internal alert system, how is dealt with signs of misconduct or irregularities and in case of misconduct or irregularities how adequate follow-up of any recommendations for remedial actions is performed.

The Bank has established different policies and procedures to manage and prevent conflicts of interests (these include a conflicts of interests handling policy and a related party transactions policy). For more information on the handling of potential conflicts of interests reference is made to section E.

Remuneration

CEB's Group Remuneration Policy is in line with national and international regulations. The policy applies to CEB and its subsidiaries. It also covers the remuneration of Managing Board members of CEB and its subsidiaries. Through its conservative remuneration policy CEB promotes a sound remuneration culture with a long term focus. The Group Remuneration Policy is reviewed and approved by amongst others the Supervisory Board. The Supervisory Board monitors the proper implementation of the policy by the Managing Board. Annually the compliance to the rules and procedures under the policy is reviewed in line with the Control Functions Remuneration Monitoring Procedure. The HR & Remuneration Committee meets at least each quarter and prepares the decision-making process for the Supervisory Board, taking into account the long-term interests of all stakeholders of CEB.

The Supervisory Board determines the level of remuneration for the members of the Managing Board in line with the principles of the Group Remuneration Policy.

The remuneration received by the members of the Supervisory Board is not dependent on the (financial) results of the Bank. Each Supervisory Board member receives an appropriate amount of compensation taking into account the total number of hours spent for the tasks and the compensation paid to Supervisory Board members of companies of comparable size and business.

The Bank's Remuneration Report is included in section F and is also made available on the Bank's website. The main elements of the agreement of a Managing Board member with the Bank are not published on the Bank's website as CEB holds the view that sufficient information is disclosed in the Bank's Remuneration Report.

D. Banking Code

This section summarizes how CEB applies the principles of the Banking Code and where we deviate from these. A full report on implementation of the Banking Code can be found on our website, www.crediteuropebank.com

Please find below a summary of our application of the principles of the Banking Code in 2019. The overview follows the sequence of the chapters of the Banking Code.

1. Sound and ethical operation

The Bank's strategy for the period to 2022 is set out in a Strategy Document. This document has been approved by the Supervisory Board. The Bank's strategy is based on and reflects its vision, mission, core values and strategic objectives. It outlines the defined business strategy and the set of key objectives appropriate for the current landscape for the period until 2022. The strategy includes both financial and non-financial measures; it defines the implementation process and timeline. Inter alia the following topics are included in the Strategy Document: profile of the bank and its environment, vision, ambitions and corporate strategy, retail and wholesale strategy, HR and IT. The Bank's strategy is embedded in the daily business of the different departments of the Bank.

CEB recognizes the social and environmental responsibility as an integral part of its business strategy, corporate decision-making and day-to-day practice and gives importance to the impact of its activities on its stakeholders as well as on society and the environment at large. In this respect the Bank has established a social and environmental management framework, which is built on the basis of the Bank's core values. We believe that it is essential to respect elementary ethical norms, such as values of human life, the right to work, fair working conditions, civil responsibility, equal opportunities and occupational health and safety. Reference is also made to the chapter on non-financial reporting pages 17 – 39.

When setting its strategy CEB has carefully considered its role in society. This appears amongst others from CEB's mission (i.e. providing financial services that create value for its customers), its (new) core values ('dynamism', 'diversity' and 'expertise') and its (internal) base values ('customer focus', 'integrity', 'professionalism' and 'transparency').

In order to ensure a proper governance structure CEB has instituted several committees in addition to the Supervisory Board and the Managing Board, such as the Asset & Liability committee, IT Steering committee, Risk committees and Credit committees. These committees meet on a regular basis. Further weekly management meetings are organized and regular General Managers' meetings are held. The committees/meetings support the Managing Board in its daily management of the Bank. The Supervisory Board monitors whether the Bank's governance structure functions properly. This is inter alia done through the quarterly Supervisory Board meetings and the meetings of the sub-committees of the Supervisory Board (such as the Corporate Governance & Nomination committee).

To enable the members of the Supervisory Board and the Managing Board to be a role model for the Bank's employees an introduction program for new board members has been developed. As a part of this program the members are trained on the Bank's core values, its main policies (e.g. code of conduct) and the Bank's culture. For the current Supervisory and Managing Board members regular awareness sessions are held during the board meetings and also trainings on this topic are organized. In connection with the annual evaluation of the members of the Managing Board the way in which they fulfil their exemplary role is assessed. The fulfilment of the exemplary role by the Supervisory board is reviewed in connection with their annual self-evaluation/suitability matrix and the external assessment.

The standards on integrity, morals and leadership are included in the Bank's base values, different internal policies/guidelines and in the Charters of the Supervisory Board and the Managing Board. Further, these standards are communicated through intranet, internal trainings (/e-learnings), staff mailings and staff events. The monitoring of the duly application of these standards is embedded in the daily practice of the Bank's departments. In addition, monitoring takes place by the HR and the Compliance division, Managing

Board, Supervisory Board (and its sub-committees including the Compliance Oversight committee) and the Internal Audit division. To further embed the core values in the Bank's culture in 2017 a senior management training program was organized. Following this training program new core values have been developed. In 2018 and 2019 these new values have been rolled-out in the Bank's organization.

The Supervisory Board and Managing Board ensure that proper check & balances are in place. Within the Bank the division director Compliance is a member of the management team. The division director Compliance has a direct reporting line to a Managing Board member and the (chairman of the) Compliance Oversight Committee of the Supervisory Board. CEB acknowledges that a solid IT-infrastructure is vital for the functioning of the Bank. Its system architecture is composed of industry proven technologies and payment systems supporting automated workflows. Transactions are secured with the latest encryption standards, while at the same time software vulnerabilities are continuously monitored, investigated and mitigated. This all enables CEB to process transactions and orders of customers fast, safe and accurate. Due to the use of technologies that are widely adopted within the financial industry and the service-oriented basis of the application structure, CEB can quickly adapt to changing demands of its customers. The IT Steering Committee and the Supervisory Board supervise, discuss and decide on IT related matters. Within the Supervisory Board 'IT Management' is a recurring agenda-item. In the past years there is an increasing focus on security related activities (such as vulnerability management, data leakage prevention etc.). Additionally, modernization of infrastructure components and mobile device management are continuous focus areas. Regular IT related trainings are organized in connection with the continuing education program.

Within CEB a healthy culture and responsible behaviour is promoted through different means. Upon employment the Bank's employees participate in an introduction program during which they are trained on the Bank's core values, its main policies/regulations (including the code of conduct and the staff handbook) and the Bank's culture. The new employees will also attend a Bankers' Oath session and take the Oath/Affirmation. For all employees CEB organizes regular thematic awareness trainings and during the quarterly staff events the (desired) culture within the Bank is highlighted/discussed. To further promote a healthy culture within the Bank CEB has adopted 3 (new) core values. These values are: dynamism, diversity and expertise. In 2018 and 2019 these new values have been rolled-out within the Bank. Another way to promote a healthy culture is CEB's remuneration policy. Please refer to section F herein below.

The guidelines of the Social Charter are covered by CEB's base and core values and its strategy and as such embedded in the Bank's culture.

2. Supervisory Board

Since the beginning of January 2013, CEB's Supervisory Board has consisted of six members. Taking into account the Bank’s size and nature, but also the composition of the Supervisory Board, such a number is deemed sufficient to perform its tasks properly. The members of the Supervisory Board are prepared and able to make sufficient time available for their duties and exhibit effort and commitment. It is standard practice within the Supervisory Board that each member is physically present at all board- and subcommittee meetings. Only in exceptional circumstances a member of the Supervisory Board may be absent during a meeting. The number of independent members and dependent members is equal at 3.

All members of the Supervisory Board have banking, investment or legal background and the majority of them are still active in the financial and/or legal services business on a day-to-day basis. As such they are duly aware of the social role of a bank and of the interests of the various stakeholders of a bank.

The Supervisory Board is supported by four committees: Audit and Risk, Corporate Governance & Nomination, HR & Remuneration and Compliance Oversight.

Each committee is composed as follows:

Committee	Members
Audit & Risk	Frits Deiters (chairman), Mehmet Guleşci (vice-chairman), Korkmaz Ilkorur
Corporate Governance & Nomination	Hector de Beaufort (chairman), Mehmet Guleşci, Murat Özyeğin
HR & Remuneration	Murat Özyeğin (chairman), Hector de Beaufort, Seha Ismen Ozgur
Compliance Oversight	Korkmaz Ilkorur (chairman),Frits Deiters, Seha Ismen Ozgur

The members of the Audit & Risk committee meet the specific competence and experience requirements as set out in the Banking Code.

CEB has a continuing education program in place with the aim to maintain (and to the extent necessary expand) the expertise of the members of the Supervisory Board at the required level. As part of this program in 2019 e.g. trainings were organized on ‘climate change, financial risks and opportunities’, cybersecurity, SIRA and PSD2. All members of the Supervisory Board participate in the continuing education program and attended the required number of trainings. The trainings for 2020 are currently being organized.

Also in 2019 the Supervisory Board performed an annual self-evaluation. The last external assessment took place in 2018 (i.e. an evaluation of the Supervisory Board under independent supervision (by an external assessor)). In 2021 the Supervisory Board will again be evaluated under independent supervision. The self-evaluations and the external evaluations focus on topics like the cooperation amongst board members, the culture within the Supervisory Board, the internal and external functioning of the Supervisory Board and the cooperation with the Managing Board. The assessment of the effectiveness of the education program is part of the annual self-evaluation of the Supervisory Board.

In terms of compensation, each Supervisory Board member receives an appropriate amount of compensation (fixed; no variable pay) taking into account the amount of time that is spent on the Supervisory Board tasks. The compensation does not depend on the results of the Bank.

3. Managing Board

With effect from 1 March 2019, the Managing Board of CEB consists of four members. All members have gained thorough expertise and knowledge of banking, of our company, and of the locations in the various countries where the Bank is active.

In order to ensure/enhance due balancing of the interests of the Bank's stakeholders several subcommittees and weekly (management) meetings have been formed (such as the Asset & Liability Committee, IT Steering Committee, Risk Committee and Compliance Management Committee). These committees meet on a weekly/monthly basis.

Without detriment to the collective responsibility of the Managing Board as a whole, the CRO, Mr. Yalniz, is responsible for financial and non-financial risk matters (plus Compliance and Corporate Credits (i.e. 2nd line) [3]) within the Bank and for preparing the decision-making with regard to risk management. The CRO does not bear any individual commercial responsibility for and operates independently from commercial areas. CEB's risk management also includes a focus on the impact that systematic risk might have on the Bank's risk profile.

The CEO ensures that a continuing education program is in place with the aim to maintain (and to the extent necessary expand) the expertise of the members of the Managing Board at the required level. All members of the Managing Board participate in the continuing education program and attended the required number of trainings. The trainings for 2020 are currently being organized.

[3] Subject to DNB approval.

4. Risk Management

Risk management plays a central role in CEB's management decision-making process, and is strongly supported at both the Managing Board and Supervisory Board level. The Supervisory Board (inter alia through its Audit & Risk committee) oversees the risk policy pursued by the Managing Board, while the Audit & Risk committee reviews and discusses the Bank's risk profile, capital management and funding policies as well as country risks, credit risks, market risks and operational risks in view of the pre-defined risk appetite. The CRO and the Risk Management division are the main sponsors of the Bank's consolidated-level Risk Appetite, ICAAP, ILAAP, Recovery Plan and other internal guidance documents. CEB's risk appetite statement is discussed and reviewed/approved annually in the relevant Supervisory Board meeting (and also any material interim changes to the risk appetite are subject to the approval of the Supervisory Board). More information on CEB's Risk Management can be found in note 37 of the Consolidated Financial Statements.

5. Audit

The Internal Audit Department (IAD) within CEB plays an important role in ensuring ever better governance. It represents an independent and objective assurance and consulting function as a third line of defence. Through the application of a risk-based methodology, IAD evaluates and examines whether proper measures are taken to ensure 'control' in the organization and its activities.

CEB's Head of Internal Audit has a direct reporting line to the Chairman of the Audit & Risk committee (and administratively reports to the Chief Executive Officer).

Exchange of information between IAD, the Audit & Risk committee and the external auditor inter alia takes place in the meetings of the Audit & Risk committee during which e.g. the risk analysis, audit plan and findings are presented and discussed. Also outside these meetings IAD, the members of the Audit & Risk committee and the external auditor have regular contact to share information and discuss and consult on specific topics.

At least once a year a so-called tripartite meeting between representatives of DNB, CEB's external auditor and IAD is organized in which the risk analysis, findings and each other's audit plan are discussed. The last tripartite meeting was held in November 2019.

External Auditor

CEB safeguards independency of the external auditor by monitoring and overseeing the external auditor activities. The Audit & Risk Committee half-yearly reviews the reports, audit fees and independence statements of the external auditor. Ernst & Young Accountants LLP has been appointed as CEB's external auditor from the financial year 2017.

6. Remuneration

CEB's Group Remuneration Policy is in line with national and international regulations (such as the Banking Code, DNB's regulation on sound remuneration, the Financial Supervision Act and the relevant provisions included in CRDIV). The total income of a member of the Managing Board is -at the time it is set- below the median for comparable positions within and outside the financial industry. Any variable remuneration paid to the Managing Board members is set in accordance with the applicable national and international regulations. For a summary of the remuneration policy in CEB, please revert to section F below.

E. Handling potential conflicts of interests

Credit Europe Bank has affected a group of procedures suitable for managing potential conflicts of interests. Such arrangements have to be complied with for professional integrity - and transparency reasons. The generic arrangements aim at setting criteria and controls that identify and govern potential conflicts of interest arising from amongst others private investment transactions by employees, senior management or members of the Managing and Supervisory Board.

In 2019 no actual conflicts of interest were identified.

A special category of potentially conflicting situations forms the Bank entering into a transaction with a related party. Parties related to Credit Europe Bank include all Fiba and Fina Group associated companies, any member of the Managing- or Supervisory Board as well as their close family members and any entities owned and/or controlled by them.

Related party transactions are settled in the normal course of business and on an arm's length basis, i.e. under the same commercial and market terms that apply to non-related parties. The kind of transactions that fall under related party transactions are various: loans, deposits or foreign exchange transactions.

The Bank has specific arrangements in place to ensure a proper management of potential conflicts of interests in related party transactions. These arrangements include procedures to identify, authorize and report related party transactions to the Managing Board and the Audit & Risk Committee. In every Audit & Risk Committee meeting, an overview with the exposures outstanding to related parties and information on whether the Bank acted in conformity with its established procedures is presented.

F. Remuneration Report

Decision making process to determine the remuneration

By virtue of CEB's Group Remuneration Policy, the key elements of the governance structure for the fixing, execution and evaluation of the remuneration management are as follows: CEB's Supervisory Board is responsible for the establishment, execution and evaluation of the Group Remuneration Policy and the Supervisory Board monitors the proper implementation of this by the Managing Board. The HR & Remuneration Committee (a subcommittee of the Supervisory Board – described in more detail below) meets at least each quarter and prepares the decision-making process for the Supervisory Board, taking into account the long-term interests of all in-and external stakeholders of CEB.

Remuneration of Identified Staff (defined in the Group Remuneration Policy and determined as described in the Assessment of Identified Staff procedure) is determined by the Supervisory Board. The remuneration of the other employees is determined and implemented by the Managing Board and supervised by the HR & Remuneration Committee. For senior managers in control functions, remuneration is directly supervised by the HR & Remuneration Committee.

As a general principle, CEB's Group Remuneration Policy authorizes the Supervisory Board to adjust the variable remuneration of (a group of) Employees – as defined in such Policy, if continuation on the same level would have an unfair and unintended effect. Moreover, the Supervisory Board has the right to reclaim the variable component of remuneration granted to Employees, if it turns out that such a variable was based on inaccurate data. Such reclaim is allowed until two years after the award of the variable pay.

Link between performance and pay

One of the key elements of CEB's Group Remuneration Policy is the description of the appraisal process. In this paragraph, a summary is given of this process:

On the basis of pre-determined and assessable objectives, comprising financial and non-financial elements, and also on the basis of (annually determined) company focus objectives and competences, an Employee's overall performance assessment is determined, at least once per year. The non-financial objectives form a substantial portion (with a minimum of 50%) of the total set of objectives for an employee.

Objective-setting

Each year, the Managing Board formulates its own objectives (financial and non-financial) and presents them for approval to the Supervisory Board. The approved objectives are then assigned (partially) to the relevant Identified Staff and Employees. Pursuant to the Group Remuneration Policy, financial objective setting for Employees in control functions may not be based on the commercial objectives of CEB, i.e. the objectives of these Employees are set independent from the financial targets and/or results of the business they control

Performance Assessment

Financial performance of an employee is assessed in the context of CEB’s financial stability and own fund requirements as well as the long-term interests of the shareholders and other stakeholders.

Financial performance shall be evaluated on the basis of (a) divisional/ departmental profitability, calculated on financial criteria such as Net Income and (b) the department’s attribution/claim to the risk profile of CEB.

Via a web-based performance management system, an overall ‘performance rating’ is generated. The three performance categories are Competencies, Company Focus and Objectives. For the overall score, the following weighting percentages apply per category: Competencies 40%, Company Focus 20% and Objectives 40%. The performance ratings vary as follows: ‘Exceptional performance’, ‘Exceeds expectations’, ‘Job well done’, ‘Needs improvement’, ‘Far below expectations’.

Performance evaluation of Identified Staff takes into account performance over several years and appraisals for Employees in control functions take into account the ‘countervailing function’ of these staff members.

Most important characteristics of the remuneration system

Apart from the governance structure and appraisal process, the CEB Group Remuneration Policy also incorporates rules and guidelines for the setting and determination of fixed and variable remuneration for Employees.

As a rule in CEB, fixed salary levels are conservatively aligned in comparison to similar functions in banking and the industry, nationally and internationally and validated by an external benchmark organization

One of the basic principles for granting variable pay (if any at all) is that variable pay may never exceed 100% of the fixed salary, and that guaranteed variable remuneration to Identified Staff is not allowed.

Phantom Share Plan

In CEB’s Phantom Share Plan the terms and conditions for the granting of Phantom Shares to Identified Staff are laid down. The Plan entails that variable remuneration awarded to an Identified Staff member will be for 60% unconditional and for 40% deferred. If an Identified Staff member is awarded a total of more than € 300.000 gross (or equivalent), 40% will be unconditional and for 60% deferred. At least 50% of the variable remuneration (deferred or unconditional) is in the form of financial instruments whose value is determined by/derived from the value of CEB shares: Phantom Shares. These financial instruments are rights – not shares.

The deferred part of the variable remuneration vests over a period of 3 years. Furthermore, vested Phantom Shares (whether deferred or unconditional) are subject to a retention period of 1 year. Vesting and exercise of the Phantom Shares is subject to the fulfilment of certain conditions. For example, the holder's performance rating (see paragraph (ii) above) must be at least 'Job well done'.

Most important parameters & motivation for variable remuneration

Pursuant to the Group Remuneration Policy, the granting of variable remuneration 'at all' depends on CEB's performance in a year. Additionally, the requirement applies that the granting of variable remuneration may not restrict CEB's possibilities to reinforce its regulatory capital, its solvency ratio or its own funds. CEB has no other non-cash benefits/non-cash variable remuneration elements.

Aggregate quantitative information on remuneration per business segment

In 2019, CEB paid out EUR 49,210,492 to employees working in the Wholesale Banking segment and EUR 11,390,454 to employees in the Retail Banking segment.

Aggregate quantitative information on remuneration for Identified Staff and senior managers

CEB has identified 62 Identified Staff members and 21 senior managers.

In 2019, the total amount of remuneration paid out to Identified Staff and senior managers amounted to €13'831'859, split into €10'889'935 for Identified Staff and €2'941'924 for senior managers. Such total remuneration was split into €13'023'391 fixed salary (for Identified Staff € 10'358'269 and senior managers €2'665'121) and €808'469 variable remuneration (for Identified Staff €531'666 and senior managers €276'803). Please note that the variable remuneration for Identified Staff was split in a deferred and unconditional part (respectively 40% and 60%, or respectively 60% and 40% if awarded a total of more than €300'000 gross) and awarded in cash or Phantom Shares (50/50). A retention period of 1 year applies to the vested Phantom Shares.

In 2019, there was one Identified Staff member who was classified as high earner.

The total amount of awarded & outstanding (vested and unvested) deferred remuneration in 2019 (for the variable remunerations over the performance year 2018) amounts to €1'314'729.

As part of CEB's Group Remuneration Policy, variable remuneration packages of all employees are granted based on the (financial and non-financial) performance over the respective reporting year and paid out in the form of cash and/or Phantom Share (both unconditional and conditional) in the preceding years. This

Remuneration Report refers to the performance year of 2018, with the related bonus payment executed in 2019.

By virtue of the rules in the Group Remuneration Policy, in 2019 there will be no ‘less than awarded’ deferred pay- out due to unsatisfactory performance adjustment.

Severance payment

In the reporting year 2019, CEB on a consolidated basis paid severance payments to a total of 19 employees – of which 1 was Identified Staff. For none of the Identified Staff members did the severance payment exceed one year's fixed salary. In total, CEB paid € 866’672 severance in 2019, of which €177’857 to an Identified Staff member.

CEB did not pay sign-on or entry awards to any Identified Staff member in 2019.

Supervisory Board

Profile of the Supervisory Board as per March 2020

Hector de Beaufort (1956, male)

Chairman

Holds a Master's degree in Law from Utrecht University, the Netherlands and from the University of Pennsylvania. He has been senior corporate partner at the leading international law firm Clifford Chance in the Netherlands since 2000. Prior to this, he was partner at Stibbe in the Netherlands and worked as a lawyer at Hughes Hubbard Reed in the USA. He has broad international experience in business law and corporate governance and has specific knowledge of corporate finance and capital market transactions. Mr. De Beaufort is chief legal officer at Pon Holdings B.V. and holds several board memberships in various companies (amongst which Optiver Holding B.V.). Mr. De Beaufort, who is a Dutch national, has been an independent member of the Supervisory Board since February 2011 and Chairman since January 2012 (current term expires in 2021).

Murat Özyeğin (1976, male)

Vice Chairman

Holds a BS in Industrial Management and Economics from Carnegie Mellon University and completed his MBA at Harvard Business School. He is the Chairman of the supervisory board and the Executive Committee of Fina and Fiba Holding and Chairman of all of Fiba Group's non-banking businesses. Mr. Özyeğin began his career in 1998 at Bear Stearns & Co. Inc. in New York City as a Financial Analyst within the Mergers & Acquisition Group. In 2000, he was appointed a Senior Analyst position at the London office of the same company. After his return to Turkey in 2003, he established the Strategy and Business Development Departments of Finansbank and Fiba Holding. Next to his Fiba and Fina positions, Mr. Ozyegin is Vice President of the Turkish Industrialists and Businessmen Association (TÜSİAD), President of DEIK/Turkey-The Netherlands Business Council, Chairman of the Advisory Board of Women on Board Association Turkey, Vice President of Energy Efficiency Association, Trustee of Ozyegin University, Trustee of Hüsnü M. Özyeğin Foundation, member of Harvard University Global Advisory Board, member of Endeavor Board of Directors, Trustee of WWF Turkey and member of Global Relations Forum and Honorary Consul-General of the Republic of Singapore. Mr. Özyeğin, who has the Turkish nationality, was appointed to the Supervisory Board of Credit Europe Bank in 2006 (current term expires in 2021).

Frits Deiters (1940, male)

Holds a graduate degree in Economics from the University of Amsterdam. He has had a successful 35-year career with ABN Amro Bank (and its predecessors) in corporate- and private banking, and lastly as Country Manager for Luxembourg. Until late 2012, he was 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. Mr. Deiters is a Dutch national and was appointed to the Supervisory Board as independent member in May 2012 (current term expires in 2020).

Mehmet Güleşci (1962, male)

Holds a BA and an MBA from Bosphorus University in Istanbul. He is a member of the supervisory board and the executive committee in Fiba Holding and Fina Holding and CFO of the Fiba Group companies and additionally serves as a board member of Fiba Group companies and a number of Credit Europe Bank subsidiaries. Before joining Fiba Group in 1997, he was an Audit Partner at EY in Turkey, responsible for the financial sector. He was CFO and subsequently executive board member of Finansbank AS until 2009. Mr. Güleşci, who is a Turkish national, was appointed to the Supervisory Board in 2006 (current term expires in 2022).

Korkmaz Ilkorur (1944, male)

Has an MA in Economics from the University of Pittsburgh, USA. He built up managerial experience as a professional in the financial world with several banks and insurance companies like The Industrial Development Bank of Turkey, Chemical Mitsui Bank AS, Yapi Kredi Bankasi AS and SBN Insurance. He has also served on the Board of Directors of several non- financial companies. Mr. Ilkorur was a member of the Board of Directors of The Turkish Industrialists and Businessmen Association in 1999-2001 and acted as the Chairman of its Governance Committee between 2001 and 2010. He also served as the Chairman of the Regulatory Governance Committee of the Business and Industry Advisory Committee (BIAC) to the OECD in the same period. Further Mr. Ilkorur was Senior Advisor of Oliver Wyman in Turkey between 1998 and 2014 and a member of its Senior Advisory Board for EMEA since 2004. Presently, Mr. Ilkorur serves as the Vice Chair of Finance Committee of BIAC at OECD. He is also (emeritus) trustee of the Robert College in Istanbul. Mr. Ilkorur is a Turkish national and was appointed to the Supervisory Board in August 2012 (current term expires in 2020). He qualifies as independent board member according to Dutch regulatory standards.

Seha Ismen Ozgur (1976, female)

Is Director of Strategy and Institutional Development at Ozyegin University in Istanbul, Turkey. Also acts as senior advisor to several fintech startups, and is a board member at TESEV (Turkish Economic and Social Studies Foundation). Prior to her current role, she was a Partner in Oliver Wyman's Financial Services practice, advising leading banks around the world on strategy, management and risk topics. She founded and led Oliver Wyman's Turkish office, served on a number of global and regional management committees, and was elected to serve on the global Partnership Committee. Ms. Ismen Ozgur holds an A.B. degree from Princeton University in Economics and Applied & Computational Mathematics. She is a Turkish national and was appointed to the Supervisory Board in May 2019 (current term expires in 2023).

Report of the Supervisory Board

Also in 2019 the global volatility of the previous year continued. This was amongst others caused by geopolitical tensions, political uncertainty, escalation of trade conflicts and climate change. However, towards the year end, some de-escalation of the US-China trade conflict took place and the most feared scenarios of a no-deal Brexit were avoided, which made the expectations for 2020 more positive.

Notwithstanding the instable market conditions, Credit Europe Bank managed to reach most of its targets. In 2019, CEB has realized a net profit of EUR 19.6 million. To make the Bank further future proof, in 2019 two major projects in the areas of Trade & Commodity Finance and digitalization of the Bank's retail business were successfully launched. On another note, 2019 was a special year, due to the 25th anniversary of the Bank. The Supervisory Board is proud to be part of a group that has proven its sustainability over such a time span.

With the recent developments around COVID-19 and the global shock that caused to the markets, a global economic recession is expected in 2020. Therefore, 2020 will be another challenging year. In such period, the Bank's ability to rapidly adapt to changing market conditions is of the essence.

The Supervisory Board wishes to extend its appreciation to all employees working in the CEB Group of companies for their dedication and energy expended in supporting the strength of the group. We are also grateful to our customers and correspondents for their support and cooperation, which had a significant impact on the results of the Bank.

Net result allocation

The Supervisory Board has reviewed the Report of the Managing Board and the financial statements for 2019, comprising the balance sheet and profit and loss accounts. The financial statements further include explanatory notes and other information, including the report of the external auditors, Ernst & Young Accountants LLP, for the year ending December 31, 2019.

We propose and advise that the General Meeting of Shareholders adopts these financial statements. Furthermore, we propose to add the full amount of net result for the year to the retained earnings (i.e. to pay no dividend to shareholders), thereby discharging the members of the Managing Board from their liability with respect to their management responsibilities and the members of the Supervisory Board with respect to their supervisory responsibilities.

Supervisory Board structure and composition

As at March 2020, the Supervisory Board of CEB consists of six members: Hector de Beaufort (Chairman), Murat Özyeğin (Vice Chairman), Mehmet Güleşci, Frits Deiters, Korkmaz Ilkorur and Seha Ismen Ozgur. All members of the Supervisory Board have a background and experience in banking, legal or investment. For more detailed information on the members of the Supervisory Board reference is made to the Profile of the Supervisory Board included in pages 66-68 (which profile is deemed to be incorporated herein by reference). The current term for which each Supervisory Board member has been appointed can be found in chapter B of the Corporate Governance chapter.

Mehmet Güleşci qualifies as financial expert in the meaning of Section 2 paragraph 3 of the 26 July 2008 Ruling on establishment of an audit committee. Hector de Beaufort, chairman of the Supervisory Board, is senior partner with Clifford Chance in Amsterdam (specialized in boardroom counselling and strategic advice and furthermore he focuses on (the legal side of) M&A transactions and corporate finance) and chief legal officer at Pon Holdings B.V.

The following statement applies to the Supervisory Board: 'half of the members are independent' (Messrs. Özyeğin, and Güleşci as well as Ms. Seha Ismen Ozgur are not considered independent in the meaning of best practice provision 2.1.8). As such the independence of the Supervisory Board is not fully compliant with best practice provision 2.1.7 of the Corporate Governance Code. However, the current composition of the Supervisory Board is in line with DNB's requirements in respect of independence. Mr. De Beaufort, chairman of the Supervisory Board, meets the independence requirements set out in best practice provision 2.1.9 of the Corporate Governance Code.

In line with corporate rules in the Netherlands, and as set out in CEB's Articles of Association and in the Charter of the Supervisory Board, the Supervisory Board's task is to supervise the policy of the Managing Board and the general affairs of the Bank, and to support the Managing Board with advice. Overall, the Supervisory Board is very much involved in the general affairs of the Bank and its strategy. In annual strategy sessions, the strategy for the coming year(s)/period are/is presented to and reviewed and approved by the Supervisory Board. Any interim (material) changes thereto are submitted for approval to the Supervisory Board as well. The execution of CEB's strategy is amongst others discussed in the quarterly Supervisory Board meetings.

The Remuneration Report can be found on page 36.

Committees

The Supervisory Board is supported by four committees: Audit & Risk, Corporate Governance & Nomination, HR & Remuneration and Compliance Oversight. All Supervisory Board members have a standing invitation to attend the sub-committee meetings of which they are not a member (and in practice the sub-committee meetings are also attended by Supervisory Board members who are not a member of the respective sub-committee).

The main objective of each committee is as follows:

Audit & Risk: advises the Supervisory Board on, and supervises the status of and developments in the Bank's risk management system, internal control systems, including the internal audit function and internal control related issues. The committee monitors the financial reporting process, oversees the accounting policies and practices and ensures that CEB maintains an adequate internal control system and processes. This includes the activities of the risk management function and internal audit function. The Committee also performs a review of CEB's financial statements and the reports of the external auditor. Moreover, it discusses the relationship with the external auditor, including his independence, remuneration and other permitted services executed for the Bank.

In 2019 the following Supervisory Board members were members of this subcommittee: Frits Deiters (Chairman), Mehmet Güleşci (Vice Chairman) and Korkmaz Ilkorur. The committee meetings were attended by all committee members.

Corporate Governance & Nomination: advises the Supervisory Board on corporate governance developments, reviews the implementation of corporate governance principles and practices within CEB and advises on adjustments. It is also responsible for nominations, which involves establishing and advising on the selection criteria, profile and nomination process for new Supervisory and Managing Board members.

The following Supervisory Board members formed the Corporate Governance & Nomination Committee in 2019: Hector de Beaufort (Chairman), Murat Özyeğin and Mehmet Güleşci. The committee meetings were attended by all committee members.

HR & Remuneration: acts as advisor of the Supervisory Board in all areas of HR and Remuneration in general and pertaining to the Managing Board/Identified Staff. Further, it proposes a policy and a structure relating to performance evaluation and target-setting for a certain level of senior employees of CEB and its subsidiaries, and oversees the implementation of relevant policies for the Supervisory Board. Also the committee is engaged in succession planning.

Members of the HR & Remuneration Committee in 2019 were: Murat Özyeğin (Chairman), Hector de Beaufort and Seha Ismen Ozgur. The committee meetings were attended by all committee members.

Compliance Oversight: assists the Supervisory Board in overseeing the Bank's overall compliance framework that is designed, in light of applicable local and international legal and regulatory requirements, to respond to the various compliance and regulatory risks the Bank is exposed to. It keeps the Supervisory Board informed and updated on developments and/or best practices in compliance and reviews these developments and/or best practices for applicability to CEB. It further gives guidance to the Managing Board on how to (further) develop and improve CEB's overall compliance framework.

In 2019, this committee consisted of the following Supervisory Board members: Korkmaz Ilkorur (Chairman), Frits Deiters and Seha Ismen Ozgur.

Supervisory Board meetings

In 2019, the Supervisory Board had four meetings in accordance with pre-determined schedules. In addition, several other meetings were held on specific times when certain matters were to be discussed. The meeting in December 2019 coincided with a global budget meeting.

In 2019, the meetings were attended by all Supervisory Board members, except for the December meeting of the Supervisory Board, which could not be attended by Mr. Deiters. As a rule, the Managing Board is always present at Supervisory Board meetings, with the exception of the 'executive session', in which the Supervisory Board discusses its own functioning as a whole, its culture and its relationship with the Managing Board.

Recurring topics in all Supervisory Board meetings are risk management and risk monitoring, capital adequacy, compliance, IT management, developments in the retail and corporate banking business, in treasury and in liquidity management and updates on (regulatory) corporate governance guidelines. Not only in collective meetings are these topics (and other relevant topics) discussed; also in various informal contacts between and with Supervisory Board members and (individual) members of the Managing Board and/or their direct reports, the developments in these areas are discussed or further explored. These contacts contribute to the Supervisory Board's engaging role and to the enhancing of the quality of the Board's supervisory responsibility.

In 2019, the Supervisory Board performed an annual self-evaluation. In this regard inter alia the functioning of the Supervisory Board, its committees, the cooperation amongst the board members and the cooperation with the Managing Board has been evaluated. The outcome of the evaluation/assessment is discussed in a separate meeting/session of the Supervisory Board. In addition, the Supervisory Board has evaluated the functioning of the Managing Board and its individual members in a 'closed' session of the Supervisory Board. The outcome thereof is communicated to/discussed with the (individual members of the) Managing Board.

Audit & Risk Committee

This committee met five times in 2019. Representatives of the Bank's external auditor, the Managing Board, Risk Management Department and the Internal Audit Department joined the meetings. In addition, the meetings were also regularly attended by other Supervisory Board members who have a standing invitation to join the meeting. Key topics were financial performance, risk management developments and the risk profile of the Bank, regulatory reports, internal audit activities and reports of the external auditor. This includes the review of the Bank's (interim) financial statements, Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP), CEB's risk appetite policy and periodical reporting on Information Security and Operational Risks. Each meeting the risk management function and internal audit function reported about the functioning of the internal control system and processes. The Committee took notice of the key audit reports, findings and recommendations and related follow-up activities. The Committee made sure that there is an open communication between the Audit & Risk Committee, management, risk management function, internal audit function and external auditor. Furthermore, a closed meeting has been held with the external auditor. In its December meeting the Committee performed a self-evaluation of its functioning.

Corporate Governance & Nomination Committee

This committee met two times in 2019. In addition to the recurring agenda-items (such as a review of the key decisions of CEB's subsidiaries and the key correspondence between CEB's subsidiaries and their local supervisors) several (other) key topics have been dealt with. These include amongst others external assessment/evaluation (part 2) i.e. session with Supervisory Board and Managing Board, appointment of Ms. Seha Ismen Ozgur as member to the Supervisory Board, succession planning critical roles CEB group, succession of Mr. Deiters (Supervisory Board member), recruitment policy for Supervisory Board and Managing Board, and analysis of duties and obligations of the Corporate Governance and Nomination Committee. The CEO and the Managing Board member -inter alia- responsible for compliance were present at all committee meetings.

HR & Remuneration Committee

In 2019, this committee met four times. Focus during the meetings was on group consolidated HR Report, performance evaluation 2018 (CEB's fixed and variable remuneration packages), follow-up employee engagement survey, salary benchmark analysis, recruitment policy for Supervisory Board and Managing Board, succession planning for critical roles CEB group, performance management redesign and Outlook HR 2020 and beyond. The CEO, CFO and the Bank's HR director participated in all meetings.

Compliance Oversight Committee

This committee met four times in 2019 and was joined during these meetings by members of the Managing Board, including the Chief Executive Officer, and the Division Director Compliance. During the meetings, the key focus was on the status of compliance topics at group level – in particular, the areas of anti-money laundering and sanctions compliance – presented through the Compliance Dashboard and regulatory issues affecting the Bank. In addition, the committee members received regular updates on the progress made regarding the AML Improvement Program, which the Bank started on their own initiative late 2017; the implementation of all remaining actions as defined under the AML Improvement Program as well as the validation thereof by an independent party is scheduled for completion by the first quarter of 2020.

* The Corporate Governance chapter 48-65 and the Remuneration Report (page 61) are deemed to be incorporated herein by reference

Amsterdam, March 25, 2020
Hector de Beaufort, Chairman
Murat Özyeğin Frits Deiters Mehmet Güleşci Korkmaz Ilkorur Seha Ismen Ozgur

Directory

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Germany

Malta (Branch)
Credit Europe Bank N.V.
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Malta

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China

CREDIT EUROPE BANK N.V.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the year ended December 31, 2019
In thousands of EURO

	Notes	31/12/2019	31/12/2018
Assets			
Cash and balances at central banks	5	737,249	651,773
Financial assets at FVTPL	6	227,913	87,728
- Trading assets		204,267	59,856
-Non-trading assets mandatorily at FVTPL		23,646	27,872
Financial investments at FVOCI	7	537,482	692,049
Loans and receivables - banks	8	187,948	431,978
Derivative financial instruments	9	169,794	189,861
Loans and receivables - customers	10	2,742,270	2,699,156
Current tax assets		4,568	4,435
Deferred tax assets	32	49,382	47,537
Other assets	12	60,047	49,494
Inventory	12	47,154	68,941
Assets held for sale	38	37,248	1,415
Investment in associates and joint ventures	13	8,849	7,129
Property and equipment	14	102,515	129,517
Investment property	14	2,876	14,638
Intangible assets	15	4,800	7,502
Total assets		**4,920,095**	**5,083,153**
Liabilities			
Due to banks	16	482,804	416,497
Derivative financial instruments	9	164,517	182,696
Due to customers	17	3,401,723	3,649,762
Current tax liabilities		927	3,633
Other liabilities	18	38,391	36,114
Provisions	19	11,115	11,765
Deferred tax liabilities	32	22,088	24,674
Sub-total liabilities (excluding subordinated liabilities)		**177,659**	**173,927**
Subordinated liabilities	20	177,659	173,927
Total liabilities		**4,299,224**	**4,499,068**
Equity			
Equity attributable to owners of the Company		617,660	580,907
Equity attributable to non-controlling interests		3,211	3,178
Total equity	21	**620,871**	**584,085**
Total equity and liabilities		**4,920,095**	**5,083,153**

CREDIT EUROPE BANK N.V.

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2019
In thousands of EURO

	Notes	January 1- December 31, 2019	January 1- December 31, 2018
Interest income from financial instruments measured at amortized cost and FVOCI		179,793	237,367
Interest income from financial instruments measured at FVTPL		22,808	24,553
Interest expense from financial instruments measured at amortized cost		(59,782)	(65,796)
Interest expense from financial instruments measured at FVTPL		(23,978)	(30,832)
Net interest income	22	**118,841**	**165,292**
Fees and commissions income		35,720	34,441
Fees and commissions expense		(4,679)	(5,437)
Net fee and commission income	23	**31,041**	**29,004**
Net trading results	24	(26,013)	(44,461)
Net results on derecognition of financial assets measured at amortized cost	25	363	-
Net results from investment securities	26	12,436	12,587
Other operating income	27	48,051	32,473
Operating income		**34,837**	**599**
Net impairment loss on financial assets	11	(1,911)	(28,904)
Net operating income		**182,808**	**165,991**
Personnel expenses	28	(60,601)	(59,091)
General and administrative expenses	29	(30,667)	(32,973)
Depreciation and amortization	14,15	(13,074)	(11,024)
Other operating expenses	30	(33,980)	(26,358)
Other impairment losses	31	(29,112)	(10,867)
Total operating expenses		**(167,434)**	**(140,313)**
Share of profit of associate	13	(1,216)	1,022
Operating profit before tax		**14,158**	**26,700**
Income tax expense	32	5,412	(5,318)
Profit for the year from continuing operations		**19,570**	**21,382**
Discontinued operations			
Net results before tax from discontinued operations	38	-	(330,548)
Income tax expense from discontinued operations		-	(17,329)
Net results for the year from discontinued operations		**-**	**(347,877)**
Net results for the year		**19,570**	**(326,495)**
Net results for the year attributable to:			
Equity owners of the Company		19,494	(326,286)
Non-controlling interests		76	(209)

CREDIT EUROPE BANK N.V.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2019
In thousands of EURO

	January 1-December 31, 2019	January 1-December 31, 2018
Net results for the year	**19,570**	**(326,495)**
Other comprehensive income that will be reclassified to the income statement		
Foreign currency translation:		
Net result on hedge of net investments	(7,116)	6,487
Exchange differences on translations of foreign operations	1,344	(41,981)
Income tax relating to the above	1,409	2,782
Reclassification adjustment for loss realized in discontinued operations	-	279,168
Net change on foreign currency translation	**(4,363)**	**246,456**
Cash flow hedges:		
Less: Reclassification adjustments to the income statement	-	112
Net change on cash flow hedges	**-**	**112**
Debt instruments at fair value through other comprehensive income		
Net change in fair value during the year	22,769	5,308
Changes in allowances for expected credit losses	161	(211)
Reclassification adjustments to the income statement	(12,389)	(13,247)
Income tax relating to the above	(1,158)	1,617
Reclassification adjustment for loss realized in discontinued operations	-	1,301
Net change on debt instruments at FVOCI	**9,383**	**(5,232)**
Other comprehensive income that will not be reclassified to the income statement		
Tangible revaluation reserves:		
Tangible revaluation reserves	7,957	91
Income tax relating to the above	(2,516)	22
Net change on tangible revaluation reserves	**5,441**	**113**
Equity instruments at FVOCI		
Net change in fair value during the year	8,444	(885)
Income tax relating to the above	(1,689)	177
Net change on equity instruments at FVOCI	**6,755**	**(708)**
Other comprehensive income for the year, net of tax	**17,216**	**240,741**
Total comprehensive income for the year, net of tax	**36,786**	**(85,754)**
Attributable to:		
Equity holders of the parent	36,753	(85,638)
Non-controlling interest	33	(116)

CREDIT EUROPE BANK N.V.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2019
In thousands of EURO

	Issued capital	Share premium	Retained earnings	Fair value reserve	Net investment hedge reserve	Tangible revaluation reserve*	Foreign currency translation reserve	Total equity attributable to equity owners of the company	Non-controlling interest	Total equity
At January 1, 2019	**563,000**	**163,748**	**19,547**	**(8,583)**	**(94,282)**	**-**	**(62,523)**	**580,907**	**3,178**	**584,085**
Total comprehensive income										
Change in fair value reserve	-	-	-	9,362	-	-	-	**9,362**	21	**9,383**
Change in foreign currency translation reserve	-	-	-	-	-	-	1,407	**1,407**	(63)	**1,344**
Change in net investment hedge reserve	-	-	-	-	(5,707)	-	-	**(5,707)**	-	**(5,707)**
Change in fair value of equity instruments at FVOCI	-	-	383	6,373	-	-	-	**6,756**	(1)	**6,755**
Change in tangible revaluation reserve	-	-	-	-	-	5,441	-	**5,441**	-	**5,441**
Profit for the year	-	-	19,494	-	-	-	-	**19,494**	76	**19,570**
At December 31, 2019	**563,000**	**163,748**	**39,424**	**7,152**	**(99,989)**	**5,441**	**(61,116)**	**617,660**	**3,211**	**620,871**

(*) Reference is made to Note 3a ‘Change in accounting policy’ and Note 14a ‘Property and equipment’

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*
For the year ended December 31, 2019
In thousands of EURO

	Issued capital	Share premium	Retained earnings	Fair value reserve	Net investment hedge reserve	Cash flow hedge reserve	Foreign currency translation reserve	Total equity attributable to equity owners of the company	Non-controlling interest	Total equity
At January 1, 2018	**653,658**	**163,748**	**423,882**	**(2,462)**	**(91,066)**	**(112)**	**(312,117)**	**835,531**	**1,821**	**837,352**
Total comprehensive income										
Change in fair value reserve	-	-	-	(6,547)	-	-	-	**(6,547)**	14	**(6,533)**
Change in foreign currency translation reserve	-	-	-	-	-	-	(42,059)	**(42,059)**	78	**(41,981)**
Change in net investment hedge reserve	-	-	-	-	9,269	-	-	**9,269**	-	**9,269**
Change in fair value of equity instruments at FVOCI	-	-	167	(875)	-	-	-	**(708)**	-	**(708)**
Change in other reserve	-	-	112	-	-	-	-	**112**	1	**113**
Profit for the year	-	-	(326,286)	-	-	-	-	**(326,286)**	(209)	**(326,495)**
Total comprehensive income	**-**	**-**	**(326,007)**	**(7,422)**	**9,269**	**-**	**(42,059)**	**(366,219)**	**(116)**	**(366,335)**
Decrease in share capital	(90,658)	-	-	-	-	-	-	**(90,658)**	-	**(90,658)**
Disposal of subsidiary without loss of control	-	-	-	-	-	-	-	**-**	1,473	**1,473**
Dividends declared and paid	-	-	(78,328)	-	-	-	-	**(78,328)**	-	**(78,328)**
Change in equity resulting from disposal of subsidiaries	-	-	-	1,301	(12,485)	112	291,653	**280,581**	-	**280,581**
At December 31, 2018	**563,000**	**163,748**	**19,547**	**(8,583)**	**(94,282)**	**-**	**(62,523)**	**580,907**	**3,178**	**584,085**

CREDIT EUROPE BANK N.V.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2019
In thousands of EURO

	Notes	January 1-December 31, 2019	January 1-December 31, 2018
Profit for the year from continuing operations		**19,570**	**21,382**
(Loss) for the year from discontinued operations		**-**	**(347,877)**
Adjustments for:			
Net impairment loss on financial assets	11	1,911	28,904
Depreciation and amortization	14, 15	13,074	11,024
Impairment loss	31	29,112	10,867
Income tax expense	32	(5,412)	5,318
Net interest income		(118,841)	(165,292)
Effect of exchange rate differences		3,941	11,405
Provisions		(945)	(1,446)
Loss on disposal of discontinued operations		-	354,755
		(57,590)	**(70,960)**
Changes in:			
Financial assets mandatorily at fair value through profit or loss		(5,287)	(1,635)
Loans and receivables - banks		244,030	(54,650)
Loans and receivables - customers		(53,578)	565,212
Other assets		14,787	42,651
Due to banks		73,880	(188,636)
Due to customers		(248,039)	(220,512)
Other liabilities		(20,906)	(6,767)
		4,887	**135,663**
Net change in financial assets at fair value through profit or loss	6	(139,412)	(5,037)
Interest received		213,593	265,895
Interest paid		(67,973)	(74,244)
Income taxes paid		(3,000)	(3,208)
Net cash used in operating activities		**(49,495)**	**248,109**
Cash flows from investing activities			
Acquisition of financial investments	7	(1,142,788)	(2,285,666)
Proceeds from sales of financial investments	7	1,308,643	2,361,741
Acquisition of property and equipment	14	(4,642)	(1,944)
Proceeds from sale of property and equipment	14	1,797	626
Acquisition of intangibles	15	(2,202)	(2,726)
Disposal of subsidiaries		-	564
Dividends received from associates		1,191	350
Disposal of discontinued operations	38	-	166,886
Net cash used in investing activities		**161,999**	**239,831**
Cash flows from financing activities			
Repayment of long-term funding	20	-	(336,428)
Interest paid	20	(13,783)	(31,439)
Proceeds from the issue of ordinary shares		-	(90,658)
Dividends paid to shareholders		-	(78,328)
Payment of lease liabilities		(3,480)	-
Net cash from financing activities		**(17,263)**	**(536,853)**
Net cash from continuing operations		**95,241**	**(48,913)**
Net cash from discontinued operations		**-**	**(111,646)**
Net change in cash and cash equivalents			
Cash and cash equivalents at January 1		573,123	742,651
Effect of exchange rate fluctuations on cash and cash equivalents held		1,972	(11,403)
Cash and cash equivalents at December 31	5	**670,336**	**573,123**

1. Corporate information

General

Credit Europe Bank N.V., herein after 'the Bank', is domiciled in Amsterdam, the Netherlands. Credit Europe Bank N.V. comprises four branches in the Netherlands, Germany, Belgium and Malta. The Consolidated Financial Statements of the Bank as of December 31, 2019, comprise the figures of the Bank, its subsidiaries and associates. Together they are referred to as the 'Bank'.

The Bank was founded as a specialized trade-finance bank, which aimed to actively participate in the wholesale financing of international trade. In later years, the Bank started retail-banking activities, including savings accounts, mortgage loans, consumer loans and credit cards.

The Bank's registered office is Karspeldreef 6A, 1101 CJ Amsterdam, Netherlands and Chamber of Commerce registration number is 33256675.

Changes to the Group

There is no significant change to the Group within 2019.

2. Basis of preparation

a) Statement of compliance

The Consolidated Financial Statements of Credit Europe Bank N.V. and all its subsidiaries are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and have been approved by the Managing Board and the Supervisory Board on March 25, 2020.

b) Basis of measurement

The Consolidated Financial Statements have been prepared on the historical-cost basis, except for 'financial investments', 'derivative financial instruments', 'investment properties' and 'financial assets (and liabilities) measured at fair value through profit or loss', which are measured at fair value and 'assets held for sale' which are measured at lower of the carrying amount or fair value. The amortized costs of financial assets and liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.

c) Functional and presentation currency

These Consolidated Financial Statements are presented in Euros, which is the Bank's functional currency. Amounts in the notes to consolidated financial statements are in thousands of Euros unless otherwise indicated. Financial information presented in Euros has been rounded to the nearest thousands, except where indicated.

d) Use of estimates and judgments

The preparation of Consolidated Financial Statements in conformity with IFRS requires the Bank's management to make judgments, estimates and assumptions that affect the application of policies, and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant use of judgments and estimates are as follows:

Judgments, assumptions and estimation uncertainties

i. Determination of control over investee

Management applies its judgment to determine whether the control indicators set out in 'Significant Accounting Policies' indicate that the Bank controls an entity.

ii. Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The chosen valuation technique makes maximum use of observable market input and relies as little as possible on estimates specific to the Bank.

iii. Impairment losses on loans and receivables

Collective impairment

The calculation of expected credit losses requires management to apply judgment and make estimates and assumptions. These judgments, estimates and assumptions are an inherent part of the calculation, which includes probability of default (PD), loss given default (LGD) and exposure at default (EAD) models, the determination of a significant increase in credit risk, the selection of appropriate scenarios and macroeconomic factors and the expected credit loss measurement period. These inputs are based on the best available information and are subject to frequent reassessment.

Individual impairment

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a debtor's financial position and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are approved by the Corporate Credit Committee independently.

iv. Change in impairment calculation methodology for Stage 3 portfolio

Parent company revised the existing Stage 3 impairment methodology in order to estimate expected credit loss charges by taking into account different scenario outcomes.

Main changes in current methodology are:

- Usage of probability-weighted scenarios,
- Revision on time-to-sell period based on legal guidance,
- Differentiated recovery rates

Probability-weighted scenarios

At least two different scenarios for each impairment assessment with probability-weighted estimates from Gone Concern (baseline, alternative) and/or Going Concern approaches are used.

The specific probability for each scenario is determined by taking into consideration past events, current conditions and forecast information within the following scales;

- 25% - Low likelihood
- 50% - Moderate
- 75% - Highly probable

For non-performing loans (NPL's) that are under legal proceedings, both baseline and alternative scenarios from Gone Concern approach are chosen, as the operating cash flow of a debtor ceased.

Appraisal companies declare two different value of the property in their valuation reports: Market Value (MV) and Urgent Sale Value (USV). USV is the announced cash sale price for a relevant property by the professional seller, who is conversant to offer it for sale in a certain period of time (3-6 months). "Urgent Sale Value" is used for non-consensual sales.

Time-to-sell

Parent company determines time-to-sell period based on asset type, quality, geographical area located, current and expected market conditions. Parent company also sets the period based on an expert judgment. For NPLs that the enforcement collection has already initiated and still ongoing, the period is determined by consulting legal department in each analysis term. Parent company executes foreclosure procedures for its portfolio in below listed countries:

- Russia 4 – 6 years
- Romania 3 – 5 years
- Turkey 3 – 5 years

Recovery rate

Parent company applies recovery rates based on asset type, quality and the way of liquidation (consensual or enforcement sale) in order to reflect the possible haircut during the sale of pledged assets.

The methodology change is a “change in accounting estimates” as described in IAS 8. Change in accounting estimate arises from gaining more experience as described above.

During 2019, the Bank recognized EUR 21,721 additional specific impairment for its stage 3 portfolio, out of which methodology change effect accounts for EUR 10,691.

Stage 3 impairment allowances reflect an unbiased and probability-weighted amount which is determined by the Bank through evaluating a range of possible outcomes. Management assess the probable scenarios and judges the suitability of respective weights to be applied. Changes in the scenarios and weights would have a significant effect on the impairment allowances. Due to this source of estimation uncertainty, analysis on the sensitivity of the probability-weights applied is presented below:

	Method	**Impairment allowance for stage 3 corporate exposures**
Reported	Probability weighted scenarios	29,817
Unweighted	Base scenario	19,690
Difference		**10,127**

v. Deferred tax assets

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax-planning strategies.

vi. Valuation of repossessed assets

The repossessed assets are initially measured at fair value and classified as non-current assets held for sale, property, plant and equipment, investment property or inventory depending on the nature and use of the asset and other pertinent facts and circumstances. The repossessed assets are measured subsequently at lower of the carrying amount and fair value less costs to sell, at cost less any accumulated depreciation and any accumulated impairment losses, at fair value or at the lower of cost and net realizable value, respectively. For the initial valuation, subsequent measurement or impairment assessment of the repossessed vessels, a valuation methodology based on a discounted cash flows (DCF) model was used, as there is a lack of comparable market data because of the nature of the vessels. Significant unobservable valuation inputs used in the calculation are forecasted charter rates, operating expenses, expected operational days, weighted average cost of capital, growth rate and scrap value as the terminal value of the vessels. Significant increases (decreases) in those inputs would result in a significantly lower (higher) fair value. For the repossessed assets other than the vessels, an independent valuation specialist is engaged by the Bank and the valuation has been performed using the most appropriate technique within income approach, cost approach or benchmarking approach.

e) Going concern

The Bank adopted going concern assumption in preparation of the consolidated financial statements.

f) Comparative information

In order to conform to presentation of consolidated financial position for the year ended 31 December 2019, the Bank has performed below changes in the consolidated financial position for the year ended 31 December 2018.

- ‘Investment properties’ has been presented separately in the consolidated financial position that was previously presented under ‘property, equipment and investment property’.

- ‘Assets held for sale’ has been presented separately in the consolidated financial position that was previously presented under ‘other assets’.

- ‘Provisions’ has been presented separately in the consolidated financial position that was previously presented under ‘other liabilities’.

3. Significant accounting policies

In these Consolidated Financial Statements, the Bank has applied IFRS 16, effective for annual periods beginning on or after 1 January 2019, for the first time. The accounting policies set out below have been applied consistently throughout the Bank.

The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

a) Change in accounting policies

The Bank re-assessed its accounting for property and equipment with respect to measurement of a certain class of property and equipment after initial recognition. Previously, all property, plant and equipment had been measured by the Bank using the cost model whereby, after initial recognition of the asset classified as property and equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

On 31 December 2019, the Bank elected to change the method of accounting for land and buildings classified as property and equipment, as the Bank believes that the revaluation model provides more relevant information to the users of its financial statements. The Bank also believes, the revaluation model reflects better the expected economic benefits from those assets. The Bank applied the revaluation model prospectively. After initial recognition, land and buildings are measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. For details please refer to 3-L and Note 14.

b) Basis of consolidation

Business combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Bank. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Gain on a bargain purchase is recognised in profit or loss immediately.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree`s employees (acquiree`s awards) and relate to past services, then all or a portion of the amount of the acquirer`s replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree`s awards and the extent to which the replacement awards relate to pre-combination service.

Non-controlling interests

NCI are measured at their proportionate share of the acquiree`s identifiable net assets at the date of acquisition.

Changes in the Bank`s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries

Subsidiaries are investees controlled by the Bank. The Bank controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Bank reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Bank having power over an investee.

The financial statements of subsidiaries are included into the consolidated financial statements from the date on which control commences until the date when control ceases.

Loss of control

When the Bank loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Investments in associates and joint ventures (equity-accounted investments)

Associates are those entities in which the Bank has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 and 50 percent of the voting power of another entity. Joint ventures are those entities over whose activities the Bank has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operational decisions. Investments in associates and joint ventures are accounted for using the equity method (equity-accounted investments) and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Bank’s share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Bank’s share of losses exceeds its interest in an equity-accounted investment, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

c) Foreign currency translation

Transaction and balances

Transactions in foreign currencies are translated to the respective functional currencies of the Bank entities at the spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date on which the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognized in profit or loss. However, foreign currency differences arising from the translation of the following items are recognized in other comprehensive income:

- equity investments measured at fair value through other comprehensive income;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent the hedge is effective.

Translation differences in the income statement accounts are included in 'net trading results'. Translation differences related to the disposal of debt securities at fair value through other comprehensive income are considered an inherent part of the capital gains or losses recognized in 'net results from investment securities'.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at average exchange rates of the year.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the income statement as part of the gain or loss on disposal.

When the Bank disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Bank disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the income statement.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency differences arising from such item are considered to form part of the net investment in the foreign operation and are recognized in other comprehensive income, and presented in the currency translation reserve in equity.

Hedge of a net investment in a foreign operation

Reference is made to note i.

d) Financial assets and liabilities

Recognition

Financial assets, with the exception of loans and advances to customers, are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instruments. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' account. Financial liabilities, with the exception of balances due to customers, are recognised on the date that the entity becomes a party to the contractual provisions of the instrument. The Bank recognizes due to customer balances when funds reach to the Bank. Forward purchases and sales other than those requiring delivery within the timeframe established by regulation or market convention are recognized as forward transactions until settlement.

Financial instruments are initially measured at fair value, except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount.

Classification and measurement

Financial assets

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in Note 3d)
- FVOCI, as explained in Note 3f)
- FVTPL

The Bank classifies and measures its derivative and trading portfolio at FVTPL.
The Bank may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

All debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVTPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVTPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- Instruments that are managed on a "hold to collect and sell" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, are measured at FVTPL.

Equity financial assets are required to be classified at initial recognition as FVTPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

Impairment allowances

IFRS 9 introduced forward-looking expected loss model for impairment allowances. Expected credit loss (ECL) amount is calculated on a probability-weighted basis as the difference between the cash flows that are due to the bank in accordance with the contractual terms of a financial instrument and the cash flows that the bank expects to receive. The Bank classifies its financial assets in 'three-stage' model ('general model') for impairment based on changes in credit quality since initial recognition.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition. For these assets, 12-month expected credit losses ('ECL') are recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months. Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the probability of default ('PD') as the weight. Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL is recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

The Bank recognizes a loss allowance for expected credit losses on amortized cost financial assets, debt securities classified as at FVOCI, and off balance sheet loan commitments and financial guarantees in accordance with IFRS 9.

The Bank's corporate ECL model leverages the data, systems and processes of the probability of default (PD) models that are developed for Internal Rating-Based Approach (IRB) purposes. Internally developed PD models produce the likelihood of default in the upcoming 12 months period and they are through the cycle (TTC) in nature with a margin of conservativism as required by IRB. However, IFRS9 calibration is required to be fair (unbiased), Point in Time (PIT) and forward looking. To meet IFRS9 requirements, IRB scores are calibrated to PIT and forward-looking anchor points that are constructed via macro economic models, which are developed for main portfolios, and the macro economic outlook expectations under multiple scenarios.

For ECL calculation, Loss Given Default (LGD) is also an important metric. LGD is the expected loss of the Bank as a percentage of Exposure at Default (EAD) arising in case a borrower defaults on a loan in the upcoming 12 months period. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. The Bank utilizes regulatory figures for TTC LGD parameters. Similar to PD adjustments, PIT and forward looking LGD measures are constructed based on macro-economic model output and the macro economic outlook expectations under multiple scenarios.

For retail and credit card portfolios new PD and LGD models dedicated to IFRS9 are developed and implemented. Newly developed models are customized based on country breakdown and product specifics to obtain homogeneous risk differentiation. Both PD and LGD models are calibrated to be point-in-time and forward looking.

IFRS 9 requires the consideration of past events, current market conditions and reasonable forward-looking supportable information about future economic conditions in determining whether there has been a significant increase in credit risk, and in calculating the amount of expected losses. In assessing information about possible future economic conditions, The Bank utilizes multiple economic scenarios representing the base case, benign and adverse forecasts. To generate alternative macro-economic scenarios and to forecast the key macro-economic factors globally under each scenario, The Bank collaborates with the external party TSKB (Industrial Development Bank of Turkey). TSKB is the first privately owned investment and development bank that was established in 1950 in Istanbul with the support of the World Bank, the Central Bank of the Republic of Turkey and Turkish private commercial banks. The Economic Research Department of TSKB provides consultancy services on macroeconomic scenario analysis and projections at global and local levels.

Key macroeconomic variables used in the determination of the allowance for credit losses include GDP, inflation rate, exchange rate, unemployment rate, crude oil price and export volume among others. The Bank uses regional economic variables in its models to reflect the geographical diversity of its portfolios, where appropriate. Forward looking adjustments are applied to 4 years term structure construction of ECL parameters, PD and LGD, utilizing macroeconomic model outputs.

The IFRS 9 macroeconomic models are developed based on statistical techniques and supported by expert judgements. The Bank diversifies macroeconomic models with regards to portfolio and risk country of the asset. Separate models are developed for the PD estimates of Balance Sheet Lending (BSL), Commercial Real Estate (CRE), Marine Finance (MF), and Trade Finance (TF) portfolios. Due to the macroeconomic volatility observed in Turkey in 2018, the Balance Sheet Lending macroeconomic model that is applied to Turkish corporate exposures is distinguished from the one that is applied to the exposures in other geographies. The macroeconomic models that are developed for Balance Sheet Lending portfolio utilize the Bank's own default rates as target variable to forecast PDs for the 4 upcoming years. Since Commercial Real Estate, Marine Finance and Trade Finance portfolios are low-default portfolios, appropriate proxies are utilized and changes between the consecutive projections for these proxies are used to obtain PD estimates for the upcoming 4 years. In addition, a global macroeconomic model is developed to produce forward looking LGD estimates for the upcoming 4 years. Since internal data is not adequate to establish a direct link between internal LGD values and macroeconomic variables, the global corporate LGD figures obtained from Moodys' Recovery Rate studies are used as proxy to estimate the direction and the level of LGD change. All the macroeconomic models have high performance ($R^2 \geq 67\%$) and are in line with the expert judgements. The table below shows the forward looking economic variables used in each of the model for the ECL calculations. The subsequent table shows the projections for these parameters under three scenarios and their weights.

ECL Parameter	Portfolio	Variable
PD	**Balance Sheet Lending - Turkey**	Exchange Rate (TRY/EUR) - change (%)
		Government budget balance (% of GDP)
	Balance Sheet Lending - Rest of World	Unemployment rate (Emerging and Developing Europe) (%)
		Inflation (Advanced Economies) (%) - Lagged
	Commercial Real Estate	Unemployment rate (Emerging and Developing Europe) (%)
		Volume of exports (Emerging and Developing Europe) (% of GDP) - Lagged
	Marine Finance	Crude oil price (US Dollars/Barrel)
	Trade Finance	Volume of exports (Emerging and Developing Europe) (% of GDP)
		GDP (world) - change (%)
		Crude oil price (US Dollars/Barrel)
LGD	**Global**	Volume of exports (Advanced Economies) - change (%)
		Government budget balance (Advanced Economies) (% of GDP)

		2020	2021	2022	2023	2024	Assigned Weighting
Balance Sheet Lending - Turkey / PD							
Upside	Exchange Rate (TRY/EUR) - change (%)	10.11	8.00	6.41	4.77	5.65	20%
	Government budget balance (% of GDP)	-2.50	-2.30	-2.00	-1.80	-1.40	
Base Case	Exchange Rate (TRY/EUR) - change (%)	13.12	9.87	4.79	5.00	5.77	50%
	Government budget balance (% of GDP)	-2.90	-2.90	-2.70	-2.60	-2.30	
Downside	Exchange Rate (TRY/EUR) - change (%)	12.82	15.64	10.17	9.12	8.74	30%
	Government budget balance (% of GDP)	-4.00	-3.80	-3.60	-3.50	-3.50	
Balance Sheet Lending - Rest of World / PD							
Upside	Unemployment rate (Emerging and Developing Europe) (%)	9.40	8.70	8.00	7.80	7.80	20%
	Inflation (Advanced Economies) (%) - Lagged	1.90	1.90	1.95	2.05	2.15	
Base Case	Unemployment rate (Emerging and Developing Europe) (%)	9.92	9.22	8.42	8.30	8.22	50%
	Inflation (Advanced Economies) (%) - Lagged	1.90	1.85	1.85	1.93	1.98	
Downside	Unemployment rate (Emerging and Developing Europe) (%)	10.00	10.50	9.70	9.50	9.20	30%
	Inflation (Advanced Economies) (%) - Lagged	1.90	1.80	1.65	1.60	1.65	
Commercial Real Estate / PD							
Upside	Unemployment rate (Emerging and Developing Europe) (%)	9.40	8.70	8.00	7.80	7.80	20%
	Volume of exports (Emerging and Developing Europe) (% of GDP) - Lagged	49.32	48.95	49.40	49.50	49.50	
Base Case	Unemployment rate (Emerging and Developing Europe) (%)	9.92	9.22	8.42	8.30	8.22	50%
	Volume of exports (Emerging and Developing Europe) (% of GDP) - Lagged	49.32	48.87	48.41	47.85	47.02	
Downside	Unemployment rate (Emerging and Developing Europe) (%)	10.00	10.50	9.70	9.50	9.20	30%
	Volume of exports (Emerging and Developing Europe) (% of GDP) - Lagged	49.32	48.57	47.97	47.32	46.12	
Marine Finance / PD							
Upside	Crude oil price (US Dollars/Barrel)	50.00	52.00	55.00	57.00	60.00	20%
Base Case	Crude oil price (US Dollars/Barrel)	58.00	59.00	63.00	67.00	68.00	50%
Downside	Crude oil price (US Dollars/Barrel)	63.00	67.00	70.00	78.00	85.00	30%
Trade Finance / PD							
Upside	Volume of exports (Emerging and Developing Europe) (% of GDP)	48.95	49.40	49.50	49.50	49.70	20%
	GDP (world) - change (%)	3.10	3.30	3.50	3.70	4.00	
	Crude oil price (US Dollars/Barrel)	63.00	67.00	70.00	78.00	85.00	
Base Case	Volume of exports (Emerging and Developing Europe) (% of GDP)	48.87	48.41	47.85	47.02	47.40	50%
	GDP (world) - change (%)	2.70	2.90	3.10	3.30	3.40	
	Crude oil price (US Dollars/Barrel)	58.00	59.00	63.00	67.00	68.00	
Downside	Volume of exports (Emerging and Developing Europe) (% of GDP)	48.57	47.97	47.32	46.12	46.82	30%
	GDP (world) - change (%)	2.50	2.50	2.70	2.90	3.00	
	Crude oil price (US Dollars/Barrel)	50.00	52.00	55.00	57.00	60.00	
Global / LGD							
Upside	Volume of exports (Advanced Economies) - change (%)	2.70	3.20	3.50	3.40	3.40	20%
	Government budget balance (Advanced Economies) (% of GDP)	-2.60	-2.50	-2.40	-2.30	-2.10	
Base Case	Volume of exports (Advanced Economies) - change (%)	2.60	2.80	3.00	3.20	3.10	50%
	Government budget balance (Advanced Economies) (% of GDP)	-2.70	-2.70	-2.60	-2.50	-2.50	
Downside	Volume of exports (Advanced Economies) - change (%)	1.00	0.50	1.00	2.00	2.00	30%
	Government budget balance (Advanced Economies) (% of GDP)	-3.20	-3.00	-2.90	-2.70	-2.50	

The Bank performs back-testing analysis semi-annually and reviews all macroeconomic models that are used for forward looking adjustments and PIT calibrations. Based on the back-testing results, the Bank decides whether model updates or re-calibration is necessary or not. If deemed necessary, in the second half of 2019, the Bank updates its calibrations in line with portfolio specific PIT anchor points, which are based on the most recent observed default rates for each portfolio and the forward looking adjustments. When the impact of the calibration updates on total impairment level as of 2019 year-end is analyzed, it is observed that the EUR 7,600 reversal from BSL-Turkey portfolio had the most significant impact on impairment levels within corporate portfolio. The back-testing analysis has shown that the 2 notches downgrade (on average) on Turkish BSL portfolio that was performed in 2018 year-end was overly conservative when the predicted default rates are compared with the realized default rates within 2019. In addition, the Bank has renewed its BSL-Turkey portfolio specific macro-economic model with the abovementioned parameters to obtain a model that fits the realized default rates better, especially during the volatile period in Turkey in 2018 and the stable period afterwards (in 2019). Due to these updates in calibration, the BSL-Turkey portfolio ratings has improved 1 notch on average.

The Bank performs several sensitivity analysis semi-annually to assess the impact of a potential deviation in the underlying assumptions (PD, LGD, macroeconomic scenario weights, macroeconomic variable projections) on impairment levels. The first sensitivity analysis shows that 5% increase in the LGD forecasts across the entire portfolio results in EUR 2,200 increase in impairment levels mainly due to higher sensitivity of Stage 2 exposures to changes in LGD level. The second scenario was designed to analyze the impairment impact of 1 notch downgrade throughout the entire corporate portfolio even though it is a very unlikely scenario. Downgrading all ratings by 1 notch results in EUR 14,200 increase in impairment. While this extreme scenario increases the PD levels by 150%, it also causes transitions from Stage 1 to Stage 2 for the exposures with lower PDs at origination. The third and fourth scenarios analyze the impact of changing scenario weights and worsening pessimistic scenario projections of macroeconomic variables by 25%, respectively. Scenario weights of scenario 3 are given in the table below. The third scenario has an impact of EUR 1,000 provision increase whereas the fourth scenario results in a provision increase of EUR 1,700. As it is the case for the initial scenarios, the provision increases mainly stem from the relatively large impact of Stage 2 exposures.

	Current Weight	Scenario 3 Weight
Base	50%	37%
Optimistic	20%	10%
Pessimistic	30%	52%

The staging assessment, especially for portfolios with longer tenor, has a significant impact on impairment calculation. The Bank has established a framework to perform an assessment at the end of each reporting period to determine whether the credit risk has increased significantly since initial recognition. The Bank recognizes significant credit quality deterioration if the PD at the impairment calculation date is at least 4 times higher than the PD at the value date of the credit exposure. In addition to a relative PD threshold used to complare the origination and current PDs, The Bank also has an absolute PD threshold to detect significant credit quality deterioration. If the credit exposure has a PD of 21% or higher at impairment calculation date, then it is classified as Stage 2 regardless of its initial PD. For the significant credit quality deterioration assessment, 12-month PDs are utilized instead of lifetime PDs as a proxy. That said; this assumption is validated annually through an analysis of stage assessment utilizing lifetime PDs. The Bank also classifies performing forborne exposures as Stage 2. Last but not the least; credit experts review the entire corporate portfolio semi-annually to qualitatively assess whether any obligor and all of its exposures have significant credit quality deterioration.

Assets can move in both directions through the stages of the impairment model. Certain probation or cure periods apply for forborne and non-performing exposures to move between stages, and these are applied to be compliant with the relevant European Banking Authority (EBA) guidelines. The non-performing forborne classification is discontinued and such an exposure is reclassified from Stage 3 to Stage 2 only after a 1-year cure period has passed and there are no concerns regarding the full repayment of the exposure. The performing forborne classification is discontinued and such an exposure is reclassified from Stage 2 to Stage 1 only after a 2 years probation period and there are no concerns regarding the full repayment of the exposure.

The Bank groups its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

Stage 1
Stage 1 corresponds to fully performing exposures. Fully performing exposures are defined as credit exposures that are not past-due or exposures past-due up to 30 days, provided that there is no "significant increase in credit quality deterioration" indicators like distressed restructuring, significant change in probability of default (PD) or other warning signals. An exposure is past-due when principal, interest or fee has not been paid at the date it was due.

Stage 2
There are three main reasons that cause classifying a loan from stage 1 to stage 2:
- Credit Quality Deterioration
    a. Warning Signals
    b. Significant Change in Probability of Default (400% deterioration since initial recognition)
- Performing Forborne
- Past-due 31 up to 90 days

Stage 3
Stage 3 corresponds to credit impaired exposures, where there is objective evidence of such impairment as a result of one or more events that occurred after the initial recognition of the exposure (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the exposure that can be reliably estimated. The Bank classifies all non-performing loans (NPL) as credit impaired. For corporate exposures, the stage 3 allowance is calculated on an individual basis whereas for retail exposures it is calculated on collective basis.

Stage 3 exposures are defined as exposures that satisfy either or both of the following criteria:
- exposures which are more than 90 days past-due
- the obligor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past-due.

The “unlikeliness to pay” definition at the Bank includes non-accrued status, a specific loan loss provision or a charge-off, sale of credit obligation, distressed restructuring of credit obligation, bankruptcy, specific treatments in specialized lending (SL) portfolios and other criterias which indicate deterioration of the counterparty’s creditworthiness and may require a status change into a default immediately and/or in the nearest future.

Write-offs

The Bank writes off the NPLs that are recognized as unrecoverable. When there are no reasonable expectations of recovery, than the Bank ensures that impaired exposure or part of it is written-off. The exposure could be written off when:

a) It is not legally enforceable to recover funds (or part of it) via sale or appropriate of collateral and from the borrower or from any third party;

b) It is legally enforceable to recover funds from the borrower or any third party, but there is very low probability of happening so.

A partial write-off can be done when there is evidence that the borrower is unable to repay the amount of the exposure in full, meaning that there is reasonable expectation of recovering a part of exposure.

Financial liabilities

The Bank classifies its financial liabilities and subsequently measures at amortized cost and fair value through profit and loss, except for financial guarantee contracts and loan commitments.

Derecognition

Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than for substantial modification of terms and conditions

Financial assets

The Bank derecognizes a financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) when:

- the contractual rights to the cash flows from the financial asset expire;
- the Bank retains the contractual rights to receive cash flows of the financial asset, but assumes a contractual obligation (‘pass-through’ arrangement) to pay the cash flows in full without material delay to a third party; or
- it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the income statement under “Net results on derecognition of financial assets measured at amortized cost” line.

The Bank enters into transactions whereby it transfers assets recognized on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred asset, or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the balance sheet. Transfers of assets with retention of all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Offsetting and collateral

The Bank enters into master netting arrangements with counterparties wherever possible, and when appropriate, obtains collateral. The Bank receives and gives collateral in the form of cash and marketable securities in respect of derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities lending and securities borrowing transactions.

The Bank obtained property and equipment by taking possession of collateral it held as security for loans and advances. The total amount of such assets held on 31 December 2019 amounted to EUR 67.6 million (2018: EUR 110.3 million). The Bank does not intend to use these assets in its operations and pursues timely realisation of the collateral in an orderly matter.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank

- currently has a legally enforceable right to set off the recognized amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Due to differences in the timing of actual cash flow, derivatives with positive and negative fair values are not netted, even if they are held with the same counterparty. In addition, current accounts with positive and negative balances held with the same counterparties are not netted.

Amortised cost measurement

The 'amortised cost' of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principle repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. The amortization is recognized in the income statement under interest income.

Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option-pricing models. The chosen valuation technique makes maximum use of relevant observable inputs, relies as little as possible on unobservable inputs specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instrument. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Assets and long positions are measured at a bid price, liabilities and short positions are measured at an ask price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk; to the extent that the Bank believes a third-party market participant consider them in pricing a transaction. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables only include data from observable markets, then the difference is recognized in the income statement (net trading results) on initial recognition of the instrument. In other cases, the difference is not recognized in the income statement immediately but is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

The principal methods and assumptions used by the Bank in determining the fair value of financial instruments are:

- Fair values for trading and financial investments are determined using market prices from active markets. If no quoted prices are available from an active market, the fair value is determined using discounted cash-flow models. Discount factors are derived from the swap curve (observable in the market), plus a spread reflecting the characteristics of the instrument.
- Fair values for derivative financial instruments are obtained from active markets or determined using, as appropriate, discounted cash-flow models. Discount factors are derived from the swap curve (observable in the market).
- Fair values for loans and deposits are determined using discounted cash-flow models based on the Bank's current incremental lending rates for similar types of loans. For variable-rate loans that re-price frequently and have no significant change in credit risk, fair values are approximated by the carrying amount.
- The fair value of loans that are quoted in active markets is determined using the quoted prices. The Bank uses valuation method to establish the fair value of instruments where prices quoted in active markets are not available. Parameter inputs to the valuation method are based on observable data derived from prices of relevant instruments traded in an active market. These valuation methods involve discounting future cash flows of loan with related yield curve plus spread on similar transactions and using recent offers if available.
- The carrying amounts are considered to approximate fair values for other financial assets and liabilities such as cash and balances at central bank and accounts receivable/payables.

e) Cash and cash equivalents

'Cash and cash equivalents', as referred to in the cash flows statement, comprises cash on hand and non-restricted balances with central banks with an insignificant risk of a change in value. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

The cash flows statement, based on the indirect method of calculation, gives details of the source of cash and cash equivalents that became available during the year, and the application of these cash and cash equivalents over the course of the year. The cash flows are analysed into cash flows from operations, including banking, investment and financing activities. Movements in loans and receivables and inter-bank deposits are included in cash flows from operating activities. Investment activities comprise sales and redemptions in respect of financial investments, and property and equipment.

The issuing of shares, and the borrowing and repayment of long-term funds are treated as financing activities. Movements due to currency translation differences and the effects of the consolidation of business acquisitions, where of material significance, are eliminated from the cash flows figures.

f) Financial assets measured at fair value through other comprehensive income

i. Debt securities

'Debt securities' are classified as at FVOCI when both of the following conditions are met;

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test.

These instruments are initially recognized and subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income as 'fair value reserve'. Interest earned while holding the instruments are reported as interest income using the effective interest rate. The expected credit losses for debt securities do not reduce the carrying amount of these assets in the statement of financial position, which remains at fair value. Instead, the loss allowance is recognized in other comprehensive income with a corresponding charge to profit or loss within 'net impairment loss on financial assets'.

ii. Equity instruments

Equity instruments at FVOCI comprise the investments which the Bank elects to classify irrevocably as such, on an instrument-by-instrument basis. Gains and losses are recorded in other comprehensive income as part of 'fair value reserves' without reclassification to profit or loss upon derecognition. Dividends are recognized as 'other operating income'. Equity instruments at FVOCI are not subject to impairment assessment.

g) Loans and receivables

The Bank only measures Due from banks, Loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Loans and receivables that do not meet "solely payments of principal and interest" (SPPI) criterion are classified as "non-trading assets mandatorily at fair value through profit loss".

Loans and receivables also include finance lease receivables in which the Bank is the lessor.

h) Derivatives held for trading

The Bank applies separation only for derivatives embedded in financial liabilities. The financial assets are classified based on the business model and SPPI assessments as outlined in Note 3g) above.

i) Derivatives held as economic hedge and hedge accounting

Derivatives held as economic hedges (i.e. asset-liability management) include transactions that are entered into in accordance with the Bank's hedging objectives but do not qualify for hedge accounting. Derivatives held for economic hedge purposes are measured at fair value in the statement of financial position. All gains and losses arising on derivatives held as economic hedge but not designated in a hedge accounting relationship are presented under net trading results.

The Bank designates certain derivatives held for risk management purposes as hedging instruments in qualifying hedge accounting relationships. On initial designation of the hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk-management objective and strategy in undertaking the hedge transaction, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank makes an assessment, both at the inception of the hedge accounting relationship as well as an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

The Bank applies fair value hedge accounting for portfolio hedges of interest rate risk (fair value macro hedges) in accordance with the EU 'carve out' version of IAS 39. Under the EU 'IAS 39 carve-out', hedge accounting may be applied, in respect of fair value macro hedges, deposits and hedge ineffectiveness is only recognized when the revised estimate of the amount of cash flows in scheduled time buckets falls below the original designated amount of that bucket. Since hedged item is a portfolio of specific time deposits, prepayment is not a risk.

These hedging relationships are discussed below.

Fair value hedge accounting

Applying fair value hedge accounting enables the Bank to reduce fair value fluctuations of fixed rate financial assets as if they were floating rate instruments linked to the attributable benchmark rates. From a hedge accounting point of view, the Bank designates the hedged risk as the exposure to changes in the fair value of a recognized financial asset or liability or an unrecognized firm commitment, or an identified portion of such financial assets, liabilities or firm commitments that is attributable to a particular risk and could affect profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in the statement of income under net trading results together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expired, sold, terminated, exercised, or if the hedge no longer meets the criteria for fair value hedge accounting or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to the statement of income as part of the recalculated effective interest rate of the item over its remaining life.

The Bank hedge accounting changes due to interest and currency rates such as benchmark rates and functional currency, which are typically the most significant component of the overall fair value change. The Bank assesses hedge effectiveness by comparing fair value movements of the hedging instruments and the hedged items attributable to changes in these rates using the hypothetical derivative and regression method as set out above. Within its risk management and hedging strategies, the Bank differentiates between micro and macro fair value hedging strategies, as set out under the relevant subheadings below.

In accordance with its hedging strategy, the Bank matches the principal of the hedging instruments to the principal of the hedged items, including prepayment expectations. The Bank uses pay fixed/receive floating interest rate swaps or cross currency swaps to hedge its fixed rate debt instruments / foreign dominated loans and pay floating/receive fixed interest rate swaps /cross currency swaps to hedge its fixed rate liabilities.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- Differences in currencies (basis spread)

Additionally, for portfolio (macro) fair value hedge accounting of the Bank's fixed rate deposits portfolio, although it is very low probability due to the nature of deposits, the ineffectiveness can also arises from possible prepayments.

-Micro fair value hedges

A fair value hedge accounting relationship is a 'Micro fair value hedge' when the hedged item (or group of items) is a distinctively identifiable asset or liability hedged by one or a few hedging instruments. The financial instruments hedged for interest rate risk in a micro fair value hedge relationship include fixed rate corporate loans, fixed rate debt instruments at FVOCI and fixed rate issued subordinated loans. These hedge accounting relationships are assessed for prospective and retrospective hedge effectiveness on a monthly basis.

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, or the Bank decides to voluntarily discontinue the hedging relationship, the hedge accounting relationship is discontinued prospectively. If the relationship does not meet the hedge effectiveness criteria, the Bank discontinues hedge accounting from the last date on which compliance with hedge effectiveness was demonstrated. If the hedge accounting relationship is terminated for an item recorded at amortised cost, the accumulated fair value hedge adjustment to the carrying amount of the hedged item is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

-Portfolio (macro) fair value hedges

The Bank applies macro fair value hedging to its fixed rate customer deposits. The Bank determines hedged items by identifying portfolios of homogenous deposits based on their contractual interest rates, maturity and other risk characteristics. Deposits within the identified portfolios are allocated to contractual maturity date time buckets. The hedging instruments (pay fix/receive floating rate interest rate swaps) are designated appropriately to those repricing time buckets. Hedge effectiveness is measured on a monthly basis, by comparing fair value movements of the designated proportion of the bucketed deposits due to the hedged risk, against the fair value movements of the derivatives, to ensure that they are within an 80% to 125% range.

Net investment hedges

When a derivative is designated as the hedging instrument in a hedge accounting of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognized directly in equity, in the net investment hedge reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in income statement under net trading results. The amount recognized in equity is removed and included in income statement on disposal of the foreign operations.

j) Repurchase transactions and reverse repo transactions

Transactions where financial instruments, such as loans and securities, are sold under a commitment to repurchase (repos) at a predetermined price or are purchased under a commitment to resell (reverse repo) are treated as collateralized borrowing and lending transactions. The legal title of the financial instrument subject to resale or repurchase commitments is transferred to the lender. Financial instruments transferred under a repurchase commitment are henceforth included in the relevant items of the Bank's statement of financial position, such as 'loans and receivables - customers' and financial investments, while the borrowing is recorded in 'due to banks'. Financial instruments received under a resale commitment are recorded in the off-balance sheet accounts, unless sold.

Income and expenses arising from repurchase and resale commitments, being the difference between the selling and the purchase price, are accrued over the period of the transaction using the effective interest rate and recorded in the income statement as 'interest income and expense from financial instruments measured at amortized cost".

k) Leasing

i. Bank as a lessee

Reference is made to "Adoption of IFRS 16-Leases" section of this annual report for details.

ii. Bank as a lessor

Finance leases, where the Bank substantially transfers all the risks and benefits incidental to ownership of the leased item to the lessee, are included on the statement of financial position as 'loans and receivables - customers'. A receivable is recognized over the leasing period at an amount equal to the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. All income resulting from the receivable is included under 'interest and similar income' in the income statement.

The Bank acts as lessor in the context of operating leases where the shipping subsidiaries enter into bareboat or time charter agreements. The respective leasing object is still recorded and depreciated in the consolidated financial statements. Lease income from operating leases is recognized in other operating income using the straight-line method over the term of the respective contracts.

l) Property and equipment

The Bank has adopted the "revaluation method" for its land and buildings as of 31 December 2019. A valuation surplus is recorded in OCI and credited to the tangible revaluation reserve in equity. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. A revaluation deficit is recognised in the statement of profit and loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The Bank has elected to transfer the revaluation surplus to retained earnings in full, upon disposal of the asset. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

Other property and equipment is measured at cost less accumulated depreciation and any accumulated impairment.

Borrowing costs, if any, are included in the cost of property and equipment in case they are directly attributable to the acquisition, construction or production of the asset. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated on property and equipment using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings	40-60 years
Furniture and fixtures	3-20 years
IT equipment	2-6 years
Vehicles	4-9 years
Vessels	15-25 years
Leasehold improvements	Over the term of respective leases or 3-5 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'other operating income' in the income statement.

m) Investment Property

Investment property is initially measured at cost and subsequently at fair value, with any change therein recognised in profit or loss within either "other operating income" or "other operating expenses" as 'change in fair value of investment property'.

n) Intangible assets

i. Software

Intangible assets mainly include the value of computer software. Software acquired by the Bank is measured on initial recognition at cost. Following initial recognition, software is carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets are amortized over the useful economic life and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method are reviewed at least at each financial year-end. The amortization expense on intangible assets is recognized in the income statement in 'depreciation and amortization'.

Expenditure on internally developed software is recognized as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete development. The capitalized costs of internally developed software include all costs directly attributable to developing the software, and are amortized over its useful life. Internally developed software is stated at capitalized cost, less accumulated amortization and any accumulated impairment losses.

Amortization is calculated using the straight-line method over their estimated useful life of software, from the date it is available to use. The estimated useful life of software is three to ten years.

ii. Goodwill

Goodwill arises on the acquisition of subsidiaries. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

o) Assets held for sale and discontinued operations

Collaterals repossessed are classified as held for sale if the Bank determines that their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

Assets classified as held for sale are measured at lower of their carrying amount and fair value less costs to sell. Changes in the fair value of the assets are recognized under 'other impairment losses' in income statement.

These assets are disclosed separately in the statement of financial position. Property, plant and equipment and intangible assets once reclassified as held for sale are not depreciated or amortized.

Discontinued operations comprise a component that has been disposed (or classified as held for sale) during the reporting period and represent a separate major line of business or geographical area that can be clearly distinguished for operational and financial reporting purposes.

The results of discontinued operations are presented separately from continuing operations in the consolidated statement of income. Intra-group transactions remain fully eliminated in consolidated financial statements. Consolidated cash flow statement includes cash flows of both continuing and discontinuing operations. Amounts related to discontinued operations are disclosed in the notes.

The comparative statement of income and cash flow information are re-presented based on classification of operations as discontinued or continuing operations at the reporting date.

p) Inventories

Inventories include repossessed assets which are measured at the lower of cost and net realizable value.

q) Impairment of non-financial assets

At each reporting date, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, the Bank assesses whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The 'recoverable amount' of an asset is the greater of its value in use and its fair value, less cost to sell. In assessing 'value in use', the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses for goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

r) Deposits, issued debt securities and subordinated liabilities

Deposits, which include due to banks and due to customers, issued debt securities and subordinated liabilities are the Bank's sources of debt funding.

Deposits, issued debt securities and subordinated liabilities are initially measured at fair value, less directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that is an integral part of the effective interest rate.

s) Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and, an ECL provision under IFRS 9 – as set out in Note 19.

The premium received is recognised in the income statement in Net fees and commission income on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position except for the following cases:

-if the Bank designates the loan commitments as financial liabilities at fair value through profit or loss,

- if the Bank has a practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments,

- if the loan commitments can be settled net in cash or by delivering or issuing another financial instrument,

- if the commitments are to provide a loan at a below-market interest rate

t) Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate (including risks and uncertainties) of the expenditure required to settle the present obligation, and reflects the present value of expenditures required to settle the obligation where the time value of money is material.

u) Employee benefits

Defined contribution plan

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognized as 'personnel expenses' in the statement of income.

v) Income taxes

i. Current tax

Current tax assets and liabilities for current and prior years are measured at the amount expected to be recovered from, or paid to, the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the balance sheet date.

ii. Deferred income tax

Deferred corporate income tax is recorded, using the liability method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for differences not deductible for tax purposes and initial recognition of assets and liabilities that affect neither accounting nor taxable profit.

Deferred tax liabilities and assets are recognized when it is probable that the future economic benefits resulting from the reversal of taxable temporary differences will flow to or from the Bank. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities, and the deferred taxes relate to the same taxable entity and the same taxation authority.

w) Recognition of income and expenses

The Bank recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those goods or services. Revenue is recognised when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

The Bank measures disaggregated revenue categories in note 23 ‘Net fee and commission income’ and revenues from shipbuilding activities in note 27 ‘Other operating income’ according to IFRS 15 “Revenue from Contracts with Customers”. Relevant items in note 22 “Net interest income” and note 24 ‘Net trading results” are measured in accordance with IFRS 9 “Financial Instruments”.

i. Interest income and expenses

Interest income and expenses are recognized in the statement of income using the effective interest method. The ‘effective interest rate’ is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest results on instruments classified at amortised cost and assets measured at FVOCI is presented in ‘Interest income/expense from financial instruments measured at amortized cost and FVOCI’. Interest result on instruments designated at fair value are presented in ‘Interest income/expense from financial instruments measured at FVTPL’.

Interest paid on assets with a negative interest yield is classified as interest expense. Interest received from liabilities with a negative interest yield is classified as interest income.

ii. Fees and commissions income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees and commissions for the provision of services over a period of time are generally recognized on an accrual basis. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs), and are recognized as an adjustment to the effective interest rate of the loan.

Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Management and service fees are recognized based on the applicable service contracts. Fees for bank transfers and other banking transaction services are recorded as income when collected.

iii. Net trading results

‘Net trading results’ comprises gains and losses arising from changes in the fair value and disposal of financial assets and liabilities held for trading, changes in the fair value of loans to customers that are reclassified as financial assets mandatorily at fair value through profit and loss, and dividends received from trading instruments. Realized and unrealized gains and losses on derivative financial instruments not designated in a hedge accounting relationship are recognized under net trading results as well as any ineffectiveness recorded on hedge accounting.

iv. Net results from investment securities

Net results from investment securities include gains and losses on the sale of financial instruments classified as measured at fair value through other comprehensive income. Dividend income from financial investments is recognized when entitlement is established.

v. Revenue from contracts with customers

Revenue from construction contracts, sale of goods and chartering activities earned by non-banking subsidiaries of the Bank are presented as part of ‘other operating income’ in the statement of profit and loss.

Revenue from shipbuilding construction contracts is recognised over time and the output method currently used to measure the progress towards complete satisfaction of performance obligations is continued to be appropriate under IFRS 15.

Management assesses shipbuilding construction contracts and considers IFRS 15's guidance for the assessment of whether there is a significant financing component in the contracts, particularly taking into account the reason for the difference in timing between the transfer of goods and services to the customer and the timing of the related payments.

Revenue from the shipbuilding construction costs is recognized over time based on the criteria that the Bank's performance does not create an asset with an alternative use to the Bank and the Bank has enforceable right to payment for performance obligation completed to date. The Bank entitled to invoice customers for construction contracts based on achieving a series of performance related milestones. When a particular milestone is reached the customer is sent a relevant statement of work and invoice for the related milestone payment. The Bank will recognize a "contract asset" for any work performed.

Revenue from the sale of goods is recognized when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Charter income is recognized on a straight-line basis during the period of the contract.

x) Fiduciary activities

Assets held in fiduciary capacity, if any, are not reported in the financial statements, as they are not the assets of the Bank.

y) Dividends on ordinary shares

Dividends on ordinary shares of the Bank are recognized as a liability and they are deducted from equity when they are declared by the Bank’s shareholders. Interim dividends are deducted from equity when they are declared.

Dividends for the year that are approved after the balance sheet date are dealt with in the ‘subsequent events’ note.

z) Equity components

Foreign currency translation reserve

The currency translation account comprises all currency differences arising from translating the financial statements of foreign operations, net of the translation impact on foreign currency liabilities. These currency differences are included in the income statement on disposal or partial disposal of the operation.

Net investment hedge reserve

The Bank uses mixture of forward foreign-exchange contracts to hedge the foreign currency translation risk on its net investments in foreign subsidiaries.

When a financial instrument is designated as the hedging instrument to hedge a carrying value of net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognized directly in equity, in the `net investment hedge reserve'. The hedge reserve includes interest elements of the forward contract, which for hedge effectiveness is excluded from the hedge effectiveness test. Any ineffective portion of changes in the fair value of the derivative as determined by hedge effectiveness testing is recognized immediately in income statement. The amount recognized in equity is removed and included in the income statement on disposal of the foreign operation.

Fair value reserve

In this component, gains and losses arising from a change in the fair value of financial assets measured at fair value through other comprehensive income are recognized, net of taxes. Expected credit loss allowances for debt securities are also recorded to fair value reserves. When the relevant assets are sold, impaired or disposed of the related cumulative gain or loss recognized in equity is transferred to the income statement except for the equity instruments. Cumulative gain or loss recognized for equity instruments are not recycled to income statement upon derecognition.

Tangible revaluation reserve

The tangible revaluation reserve includes the cumulative net revaluation surpluses arising from the revaluation of land and buildings. Please refer to Note 14-a ‘Property and equipment’ for details.

aa) Segment reporting

Segment information is presented in respect of the Bank’s operating segments, where the Bank assesses performance and accordingly makes resource allocations.

Changes in IFRS effective in 2019

a) Adoption of IFRS 16 “Leases”

IFRS 16 supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases-Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.
Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 and applied IFRS 16 retrospectively. The Bank assessed the cumulative effect of initially applying the standard and due to immateriality, opening balance of retained earnings was not adjusted at the date of initial application.

The Bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

The effect of adoption IFRS 16 as at 1 January 2019 (increase/ (decrease)) is as follows:

	December 31, 2018	IFRS 16 adoption impact	January 1, 2019
Assets			
Property, plant and equipment	144,155	10,128	154,283
Other assets	50,909	(46)	50,863
Total Assets	**195,064**	**10,082**	**205,146**
Liabilities			
Other liabilities	47,879	10,082	57,961
Total Liabilities	**47,879**	**10,082**	**57,961**

i) Nature of the effect of adoption of IFRS 16

The Bank has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as an operating lease. Any rentals payable are accounted for on a straight-line basis over the lease term and included in ‘general and administrative expenses’. Any prepaid rent and accrued rent were recognised under ‘Other Assets’ and ‘Other Liabilities’, respectively. Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Bank.

Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Based on the foregoing, as at 1 January 2019:

- Right-of-use assets of EUR 10,128 were recognised and presented in property plant and equipments line in the statement of financial position. There is no lease assets recognised previously under finance leases.
- Additional lease liabilities of EUR 10,082 (included in other liabilities) were recognised.
- Rent prepayments of EUR 46 related to previous operating leases were derecognised.
- Since the net effect of these adjustments was immaterial, opening balance of retained earnings was not adjusted.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	**11,343**
Weighted average incremental borrowing rate as at 1 January 2019	2.13
Discounted operating lease commitments as at 1 January 2019	**10,968**
Less:	**886**
Commitments relating to short term leases	628
Commitments relating to leases of low value assets	257
Add:	**-**
Commitments relating to leases previously classified as finance leases	-
Payments in optional extension periods not recognised as at 31 December 2018	-
Lease liabilities as at 1 January 2019	**10,082**

ii) Summary of new accounting policies

Right of use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment as it is applied to other property, plant and equipment.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has the option, under some of its leases to lease the assets for additional terms of one to five years. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Further details are provided in Note 14: Property and equipment.

b) Amendments and interpretations to standard are effective for annual periods beginning after 1 January 2019

The following amendments and interpretation to standard are effective for annual periods beginning after 1 January 2019; however, have no impact on consolidated financial statements of the Bank.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Bank.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

Since the Bank does not have defined contribution scheme, these amendments had no impact on the consolidated financial statements.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

These amendments had no impact on the consolidated financial statements as the Bank does not have long-term interests in its associate and joint venture.

IFRIC 23: Uncertainty over income tax treatments

Upon adoption of the Interpretation, the Bank assessed its accounting relating to the uncertain tax positions, particularly those relating to deductibility of interest component of net investment hedge contracts. According to Dutch Corporate Income Tax Act, the results of a hedging activity that has been performed with the intention of hedging currency exchange risk on an investment are exempt under the ‘participation exemption rule’ provided that procedural arrangements are met. For the years 2016-2019, the Bank concluded that it’s probable that the tax authorities will accept tax treatment per the external and internal specialists’ assessments. The Bank applied deductibility principle in its tax filings and, as result, the Bank recognized deferred tax asset at an amount of EUR 20.5 million as of December 2019. The Bank currently awaits approval of such tax treatment by the Dutch tax authorities.

Although similar deductibility principle is applicable for the periods 2013-2015, retrospective modification of tax filings requires formal application by the Bank and explicit consent by tax authorities. As of 31 December 2019, as no such application has been yet made by the Bank, it is not probable that the tax positions related to years 2013-2015 will be accepted by tax authority. Therefore, no deferred tax asset (maximum expected to be around EUR 20 million) was recognized by the Bank.

Given that for years 2016-2019 the Bank have already recognized deferred tax as of December 2019 and for the years 2013-2015 no deferred tax asset was recognized as of 31 December 2019, the interpretation did not have an impact on the consolidated financial statements of the Bank.

New standards and interpretations not yet adopted

The following standard and amendments have been issued by the IASB, but have not yet been adopted by the European Union and are therefore not open for early adoption. Amendments to IFRS that are relevant for the Bank are discussed below.

IFRS 17: Insurance Contracts

The new standard on insurance contracts was issued by the IASB in May 2017 to replace IFRS 4 and to establish a comprehensive standard for inceptors of insurance policies. The effective date is 1 January 2021, subject to IASB's approval of a deferral until 1 January 2022. The Bank is assessing the effect of adopting these standards on its consolidated financial statements.

Amendments to IFRS 3: Business combinations

The amendments to IFRS 3 resolve difficulties in determining whether an entity has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after 1 January 2020. The Bank will use the revised IFRS 3 if acquisitions are done with an acquisition date after 1 January 2020.

Amendments to IAS 1 and IAS 8: Definition of material

The amendments to IAS 1 and IAS 8, which will become effective for reporting periods starting on or after 1 January 2020, revise the definition of material and align the definition across other IFRS publications such as IFRS Standards and IFRIC Interpretations. The Bank is currently assessing the impact of the amendments.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform

The Bank identified the stock of instruments which are exposed to the discontinuation of interest rate benchmarks. Based on this analysis, the Bank has identified LIBOR and EURIBOR as the two main benchmarks it has exposure to. In order to calculate the impact of the reform, preliminary analysis of LIBOR and EURIBOR exposure is prepared. The analysis contains the list of derivative instruments, corporate and trading loans referencing LIBOR and EURIBOR as benchmark. In order to manage the process of transitioning to RFRs there is an ongoing cross-departmental effort and an IT Project.

From hedge accounting perspective, the Bank has three interest rate swaps referencing USD LIBOR being recognized as fair value hedge. Total notional of the hedging items is USD 180 million.

The interest rates swaps fixed receivers versus Libor6M+Spread whereas hedged item is fixed payer. Thus, interest rate risk is the only risk that the Bank hedged in these relationships. The Bank assumes that occurrence of the future cash flows will still be highly probable. During the period of uncertainty, the Bank will not discontinue fair value hedge accounting if hedge fails the 80-125% range as indicated on the paragraph AG105 (b) on the IAS39 retrospective assessment.

Notes to Consolidated Financial Statements

4. Segment information

Segment information is presented in respect of the Bank's operating segments, for which the Bank assesses performance and accordingly makes resource allocations.

The Bank has five (2018: five) reportable segments (described below), which are the Bank's strategic areas of operation. The strategic areas offer banking and banking related products, and are managed separately to take account of local economic environments, which require different risk management and pricing strategies. For each of the strategic areas, the CFO reviews internal management reports on at least a monthly basis. The following summary describes the operation of each of the Bank's reportable segments:

- Western Europe retail: includes retail loans and funds entrusted by retail customers in Western Europe, including Germany, the Netherlands and Belgium.
- Western Europe wholesale: includes loans to non-retail customers and funds entrusted by non-retail customers in the Netherlands, Germany, Belgium, Malta and Switzerland.
- Romania retail: includes retail loans and funds entrusted from retail customers in Romania.
- Romania wholesale: includes loans to non-retail customers and funds entrusted from non-retail customers in Romania.
- Other: includes Bank's operations in Dubai, Ukraine and Turkey.

Measurement of segment assets and liabilities, and segment income and results is based on the Bank's accounting policies. Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

4. Segment information *(continued)*

						December 31, 2019
	West Europe Retail	West Europe Wholesale	Romania Retail	Romania Wholesale	Other	Total
Interest income – external	3,264	150,197	20,829	16,040	12,271	202,601
Interest income – other segments	-	6,053	-	397	1,380	7,830
Interest revenue	**3,264**	**156,250**	**20,829**	**16,437**	**13,651**	**210,431**
Interest expenses – external	-	(71,666)	(5,291)	(2,725)	(4,078)	(83,760)
Interest expense – other segments	-	(3,818)	-	(1,586)	(2,426)	(7,830)
Interest expense	-	**(75,484)**	**(5,291)**	**(4,311)**	**(6,504)**	**(91,590)**
Net interest income	**3,264**	**80,766**	**15,538**	**12,126**	**7,147**	**118,841**
Net commission income – external	317	22,581	6,520	(89)	1,712	31,041
Net commission income – other segments	-	(3,719)	4,537	433	(1,251)	-
Trading and other income	916	11,012	1,810	3,910	17,189	34,837
Trading and other income– other segments	-	(1,199)	-	-	1,199	-
Net impairment loss on financial assets	(1,393)	(3,714)	3,127	475	(406)	(1,911)
Depreciation and amortization expense	(173)	(5,194)	(3,364)	(1,775)	(2,568)	(13,074)
Other operating expenses	(1,484)	(90,827)	(18,136)	(12,948)	(30,965)	(154,360)
Share of profit of associate	-	-	-	-	(1,216)	(1,216)
Operating profit before taxes	**1,447**	**9,706**	**10,032**	**2,132**	**(9,159)**	**14,158**
Income tax expense	(424)	6,967	(510)	(341)	(280)	5,412
Profit for the year	**1,023**	**16,673**	**9,522**	**1,791**	**(9,439)**	**19,570**
Other information at 31 December 2019 - Financial position						
Total assets	146,388	3,571,766	350,603	606,068	245,270	4,920,095
Total liabilities	2,446,430	1,075,732	317,076	324,415	135,571	4,299,224
Investment in associates and joint ventures	-	-	-	-	8,849	8,849
Assets held for sale	-	36,050	-	-	1,198	37,248
Other information at 31 December 2019 - Income statement						
Reversal of impairment allowances no longer required	2,507	4,756	4,546	3,043	1,137	15,989

4. Segment information *(continued)*

December 31, 2018

	West Europe Retail	West Europe Wholesale	Romania Retail	Romania Wholesale	Other	Total
Interest income – external	4,290	203,602	23,956	17,100	12,972	261,920
Interest income – other segments	-	5,807	-	324	277	6,408
Interest revenue	**4,290**	**209,409**	**23,956**	**17,424**	**13,249**	**268,328**
Interest expenses – external	-	(80,771)	(4,323)	(7,006)	(4,528)	(96,628)
Interest expense – other segments	-	(2,720)	-	(1,697)	(1,991)	(6,408)
Interest expense	**-**	**(83,491)**	**(4,323)**	**(8,703)**	**(6,519)**	**(103,036)**
Net interest income	**4,290**	**125,918**	**19,633**	**8,721**	**6,730**	**165,292**
Net commission income – external	426	19,891	6,409	654	1,624	29,004
Net commission income – other segments	-	(1,453)	2,701	11	(1,259)	-
Trading and other income	693	(19,328)	530	3,315	15,389	599
Trading and other income– other segments	-	(1,184)	-	33	1,151	-
Net impairment loss on financial assets	(52)	(33,126)	7,452	931	(4,109)	(28,904)
Depreciation and amortization expense	(220)	(5,668)	(1,867)	(1,157)	(2,112)	(11,024)
Other operating expenses	(2,311)	(74,536)	(19,781)	(14,335)	(18,326)	(129,289)
Share of profit of associate	-	-	-	-	1,022	1,022
Operating profit before taxes	**2,826**	**10,514**	**15,077**	**(1,827)**	**110**	**26,700**
Income tax expense	(628)	(2,140)	(2,650)	244	(144)	(5,318)
Profit for the year	**2,198**	**8,374**	**12,427**	**(1,583)**	**(34)**	**21,382**
Other information at 31 December 2018 - Financial position						
Total assets - continuing operations	68,266	3,703,210	368,000	701,243	242,434	5,083,153
Total liabilities - continuing operations	2,648,592	957,924	344,941	414,029	133,582	4,499,068
Investment in associates and joint ventures	-	-	-	-	7,129	7,129
Assets held for sale	-	-	-	-	1,415	1,415
Other information at 31 December 2018 - Income statement						
Reversal of impairment allowances no longer required	2,964	3,846	5,598	3,895	1,185	17,488

Information about major customers

As of December 31, 2019, there is no single customer revenues from which individually exceeded 10% of total revenue (December 31, 2018: none).

5. Cash and balances at central banks

This item includes cash on hand and deposits with central banks in countries in which the Bank has a presence.

	December 31, 2019	December 31, 2018
Balances with central banks	719,079	633,208
Cash on hand	18,170	18,565
Total	**737,249**	**651,773**

Deposits at central banks include reserve deposits amounting to EUR 66,913 (2018: EUR 78,650), which represents the mandatory deposit and is not available in the Bank's day-to-day operations.

Reconciliation of cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash and balances at central banks	737,249	651,773
Less: reserve deposits at central banks	(66,913)	(78,650)
Cash and cash equivalents in the statement of cash flows	**670,336**	**573,123**

6. Financial assets at fair value through profit or loss

	December 31, 2019	December 31, 2018
Financial assets held for trading		
Trading loans	192,779	56,557
Bank bonds	10,322	3,299
Government bonds	1,166	-
Total financial assets held for trading	**204,267**	**59,856**
Non- trading financial assets mandatorily at FVTPL		
Loans to customers	23,646	27,872
Total non-trading financial assets mandatorily at FVTPL	**23,646**	**27,872**
Total financial assets at fair value through profit or loss	**227,913**	**87,728**

As of December 31, 2019, EUR 11,488 (2018: EUR 3,299) are listed financial instruments and EUR 216,425 (2018: EUR 84,429) are non-listed financial instruments.

As of December 31, 2019, there is no any financial asset may have been sold or re-pledged under repurchase agreements (2018: EUR 116,640).

Gains and losses on changes in fair value of trading and non-trading instruments are recognized in 'net trading results'.

The movement in financial assets at fair value through profit loss may be summarized as follows:

December 31, 2019

	Financial assets held for trading	Non trading financial assets	Total
Balance at the beginning of the year	**59,856**	**27,872**	**87,728**
Additions	1,207,466	-	1,207,466
Disposals (sale,collection and redemption)	(1,068,343)	(2,942)	(1,071,285)
Net interest income and net changes in fair value	4,808	(798)	4,010
Exchange differences	480	(486)	(6)
Balance at the end of the year	**204,267**	**23,646**	**227,913**

December 31, 2018

	Financial assets held for trading	Non trading financial assets	Total
Balance at the beginning of the year	**53,184**	**37,167**	**90,351**
Additions	774,167	-	774,167
Disposals (sale,collection and redemption)	(769,130)	(12,173)	(781,303)
Net interest income and net changes in fair value	2,811	2,056	4,867
Exchange differences	98	822	920
Transfers into (from) other financial asset classes	(1,274)	-	(1,274)
Balance at the end of the year	**59,856**	**27,872**	**87,728**

7. Financial investments at FVOCI

	December 31, 2019	December 31, 2018
Financial investments at FVOCI	537,482	692,049
Total	**537,482**	**692,049**

As of December 31, 2019, EUR 48,564 financial assets may have been sold or re-pledged under repurchase agreements (2018: EUR 43,482). These transactions are conducted under terms that are normal and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchange markets where the Bank acts as an intermediary.

	December 31, 2019	December 31, 2018
Government bonds	284,392	292,506
Corporate bonds	160,221	169,938
Bank bonds	59,863	203,863
Equities	33,006	25,742
Total	**537,482**	**692,049**

As of December 31, 2019, EUR 512,202 (2018: EUR 672,936) of the total are listed financial instruments and EUR 25,280 (2018: EUR 19,114) are non-listed financial instruments.

The Bank elected to apply FVOCI option to the equities which are considered as strategic investments, source of stable dividend income and interest retained in former subsidiary. As of December 31, 2019, EUR 1,151 dividend income (2018: EUR 350) was recognised from these equity instruments.

The movement in investment securities may be summarized as follows:

	December 31, 2019	December 31, 2018
Balance at the beginning of the year	**692,049**	**750,799**
Effect of discontinued operations	-	(3,946)
Additions	1,147,368	2,305,273
Disposals (sale and redemption)	(1,310,971)	(2,361,741)
Net changes in fair value	13,621	(7,069)
Amortization	(3,736)	(2,339)
Transfers into other financial asset classes	-	1,276
Exchange differences	(849)	9,796
Balance at the end of the year	**537,482**	**692,049**

8. Loans and receivables - banks

	December 31, 2019	December 31, 2018
Placements with other banks	153,179	391,511
Loans and advances	36,054	41,825
Subtotal	**189,233**	**433,336**
Allowances for expected credit losses	(1,285)	(1,358)
Total	**187,948**	**431,978**

Placements with other banks that serve as collateral for derivative transactions and are not freely disposable amount to EUR 15,541 (2018: EUR 26,757).

Changes in loans, impairment charges and allowances are summarized as follows:

	Stage 1		Stage 2		Stage 3		Total	
	Gross loans	ECL	Gross loans	ECL	Gross loans	ECL	Gross loans	ECL
At January 1, 2019	**432,411**	**(433)**	**-**	**-**	**925**	**(925)**	**433,336**	**(1,358)**
Originated or purchased	165,212	(360)	-	-	-	-	165,212	(360)
Matured or sold	(360,415)	435	-	-	-	-	(360,415)	435
Re-measurement	(18,057)	-	-	-	-	-	(18,057)	-
Exchange differences	(30,843)	(2)	-	-	-	-	(30,843)	(2)
At December 31, 2019	**188,308**	**(360)**	**-**	**-**	**925**	**(925)**	**189,233**	**(1,285)**

	Stage 1		Stage 2		Stage 3		Total	
	Gross loans	ECL	Gross loans	ECL	Gross loans	ECL	Gross loans	ECL
At December 31, 2017 (IAS 39)	**378,021**	**-**	**-**	**-**	**925**	**(925)**	**378,946**	**(925)**
Impact of adopting IFRS 9	-	(788)	-	-	-	-	-	(788)
At January 1, 2018	**378,021**	**(788)**	**-**	**-**	**925**	**(925)**	**378,946**	**(1,713)**
Originated or purchased	399,917	(283)	-	-	-	-	399,917	(283)
Matured or sold	(346,828)	641	-	-	-	-	(346,828)	641
Re-measurement	(557)	-	-	-	-	-	(557)	-
Exchange differences	1,858	(3)	-	-	-	-	1,858	(3)
At December 31, 2018	**432,411**	**(433)**	**-**	**-**	**925**	**(925)**	**433,336**	**(1,358)**

9. Derivative financial instruments

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments depend on movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards, swaps, futures, credit default swaps, commodity swaps and options.

The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index, and is the basis on which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market nor the credit risk.

	December 31, 2019			December 31, 2018		
	Notional amount	**Carrying value assets**	**Carrying value liabilities**	**Notional amount**	**Carrying value assets**	**Carrying value liabilities**
Derivatives held for trading						
Interest rate swaps	95,500	30,966	30,999	125,500	31,298	32,218
Interest rate futures	-	-	-	3,100	-	8
Interest rate options (purchased)	60,509	16	-	62,030	1,097	-
Interest rate options (sold)	(60,509)	-	16	(62,030)	-	1,151
Foreign currency swaps	472,273	82,736	79,921	656,357	85,244	81,725
Foreign currency forwards	12,893	126	120	22,140	113	190
Foreign currency options (purchased)	56,858	4,541	-	168,323	19,142	-
Foreign currency options (sold)	(56,858)	-	5,309	(163,954)	-	20,861
Equity options (purchased)	1,785	117	-	2,428	684	-
Equity options (sold)	(1,785)	-	116	(2,428)	-	683
Total	**580,666**	**118,502**	**116,481**	**811,466**	**137,578**	**136,836**
Derivatives in economic hedge relationship						
Interest rate swaps	7,009	-	-	11,898	2,794	2,970
Foreign currency swaps	1,764,432	42,594	38,237	1,513,554	45,845	39,329
Forwards	170,851	1,315	1,154	107,305	484	523
Total	**1,942,292**	**43,909**	**39,391**	**1,632,757**	**49,123**	**42,822**
Derivatives in fair value hedge accounting relationships						
Interest rate swaps	402,558	3,071	4,344	351,760	807	1,265
Foreign currency swaps	94,804	3,008	-	70,779	1,776	24
Total	**497,362**	**6,079**	**4,344**	**422,539**	**2,583**	**1,289**
Derivatives in net investment hedge accounting relationship						
Foreign currency swaps	335,832	1,304	4,301	319,421	577	1,749
Total	**335,832**	**1,304**	**4,301**	**319,421**	**577**	**1,749**
Total Derivatives	**3,356,152**	**169,794**	**164,517**	**3,186,183**	**189,861**	**182,696**

Derivative financial instruments held or issued for trading purposes: Most of the Bank's derivative trading activities relate to asset and liability management of the Bank and deals with customers who are normally laid off with counterparties. The Bank may also take positions with the expectation of profiting from favourable movements in prices, rates on indices.

Derivatives in economic hedge relationships: Included in this classification are any derivatives entered into by the Bank in order to economically hedge its exposures for risk management purposes that are not designated in hedge relationships, as they do not meet the hedge accounting criteria.

Derivative financial instruments held or issued for hedge accounting: As part of its asset and liability management, the Bank uses derivatives for economic hedging purposes in order to reduce its exposure to market risks. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transactions, as well as hedging of aggregate financial position exposures. Where possible, the Bank applies hedge accounting.

-Fair value hedges in hedge accounting relationships

Market risk in the banking book is the risk that unfavourable market movements cause the Bank's value or income to fluctuate.

The Bank uses a combination of portfolio (macro) hedges (portion of fixed rate customer deposits) and specific asset or liability (micro) hedges (portion of fixed income portfolio, subordinated loans) to swap fixed interest rates for floating interest rate positions. The resulting interest rate positions, after application of interest rate hedges, are in line with the bank's strategy and risk appetite. In addition, for specific loans, the Bank hedges the changes in the fair value of the foreign currency denominated loans relating to changes in foreign currency exchange rates.

The following table sets out the accumulated fair value adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

December 31, 2019	**Carrying amount of hedged items**		**Accumulated amount of fair value adj. on the hedged items**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Micro fair value hedges				
Fixed rate corporate loans	108,243	-	-	1,542
Fixed rate FVOCI debt instruments	141,907	-	838	-
Fixed rate subordinated liabilities	-	161,076	-	4,192
Subtotal	**250,150**	**161,076**	**838**	**5,734**
Portfolio fair value hedges				
Fixed rate customer deposits	-	68,796	-	783
Subtotal	**-**	**68,796**	**-**	**783**
Total	**250,150**	**229,872**	**838**	**6,517**

December 31, 2018	**Carrying amount of hedged items**		**Accumulated amount of fair value adj. on the hedged items**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Micro fair value hedges				
Fixed rate corporate loans	94,573	-	-	1,527
Fixed rate FVOCI debt instruments	95,006	-	1,084	-
Fixed rate subordinated liabilities	-	158,118	1,453	-
Subtotal	**189,579**	**158,118**	**2,537**	**1,527**
Portfolio fair value hedges				
Fixed rate customer deposits	-	69,432	-	504
Subtotal	**-**	**69,432**	**-**	**504**
Total	**189,579**	**227,550**	**2,537**	**2,031**

The following table sets out the outcome of the Bank's hedging strategy set out in Note 3-i "Derivatives held as economic hedge and hedge accounting", in particular to changes in the fair value of the hedged items and hedging instruments used as the basis for recognising ineffectiveness:

December 31, 2019		**Gains /(losses) attributable to the hedged risk**		**Hedge ineffectiveness**
Hedged Items	**Hedging Instruments**	**Hedged Items**	**Hedging Instruments**	
Micro fair value hedge relationships ***hedging assets***				
Fixed rate corporate loans	Interest rate swaps	(7)	69	62
Fixed rate corporate loans	Foreign currency contracts	(8)	402	394
Fixed rate FVOCI debt instruments	Interest rate swaps	(246)	1,154	909
Subtotal		**(261)**	**1,625**	**1,365**
Micro fair value hedge relationships ***hedging liabilities***				
Fixed rate subordinated liabilities	Interest rate swaps	(4,192)	4,188	(4)
Subtotal		**(4,192)**	**4,188**	**(4)**
Total micro fair value relationships		**(4,453)**	**5,813**	**1,361**
Portfolio fair value hedge relationships				
Fixed rate customer deposits	Interest rate swaps	(279)	313	34
Subtotal		**(279)**	**313**	**34**
Total portfolio fair value hedge relationships		**(279)**	**313**	**34**
Total		**(4,732)**	**6,126**	**1,395**

December 31, 2018		**Gains /(losses) attributable to the hedged risk**		**Hedge ineffectiveness**
Hedged Items	**Hedging Instruments**	**Hedged Items**	**Hedging Instruments**	
Micro fair value hedge relationships ***hedging assets***				
Fixed rate corporate loans	Interest rate swaps	123	(198)	(75)
Fixed rate corporate loans	Foreign currency contracts	(1,650)	1,895	245
Fixed rate FVOCI debt instruments	Interest rate swaps	1,084	(1,265)	(181)
Subtotal		**(443)**	**432**	**(11)**
Micro fair value hedge relationships ***hedging liabilities***				
Fixed rate subordinated liabilities*	Interest rate swaps	1,453	298	1,750
Subtotal		**1,453**	**298**	**1,750**
Total micro fair value relationships		**1,010**	**730**	**1,739**
Portfolio fair value hedge relationships				
Fixed rate customer deposits	Interest rate swaps	(504)	564	60
Subtotal		**(504)**	**564**	**60**
Total portfolio fair value hedge relationships		**(504)**	**564**	**60**
Total		**506**	**1,294**	**1,799**

(*) As of December 31, 2018, the hedging gain from initial remeasurement of hedged item amounted to EUR 1,774.

The maturity profile of the Bank's hedging instruments used in micro fair value hedge relationships is as follows:

December 31, 2019	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Fixed rate corporate loans					
Interest rate swaps	-	-	18,000	-	18,000
Foreign currency contracts	1,521	62,741	30,542	-	94,804
Fixed rate FVOCI debt instruments					
Interest rate swaps	-	-	-	154,183	154,183
Fixed rate subordinated liabilities					
Interest rate swaps	-	-	160,170	-	160,170
Fixed rate customer deposits					
Interest rate swaps	-	-	70,205	-	70,205
Foreign currency contracts	-	-	-	-	-
Total	**1,521**	**62,741**	**278,917**	**154,183**	**497,362**

December 31, 2018	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Fixed rate corporate loans					
Interest rate swaps	-	-	27,000	-	27,000
Foreign currency contracts	3,267	57,101	10,411	-	70,779
Fixed rate FVOCI debt instruments					
Interest rate swaps	-	-	-	97,295	97,295
Fixed rate subordinated liabilities					
Interest rate swaps	-	-	157,260	-	157,260
Fixed rate customer deposits					
Interest rate swaps	-	-	70,205	-	70,205
Total	**3,267**	**57,101**	**264,876**	**97,295**	**422,539**

-Net investment hedges

The objective is to protect net asset values of foreign investments of the Bank subsidiaries against unfavourable movements in the fx rates. The change in the value of hedging instrument, with respect to foreign exchange risk, is determined by reference to the functional currency of the Bank (EUR). This hedging objective is consistent with Bank`s overall FX risk management strategy of reducing the variability of its shareholders equity.

Details of the Bank's activities in relation to hedges of its net investment in foreign operations against foreign exchange movements are as follows:

	December 31, 2019	
Investments in subsidiaries functional currency of which is:	**Change in fair value of hedged item for ineffectiveness assessment**	**Translation reserve**
USD	2,149	235
RON	1,708	(4,697)
CHF	3,706	4,283
UAH	-	1,876
TRY	(489)	(460)
Total	**7,074**	**1,237**

	December 31, 2018	
Investments in subsidiaries functional currency of which is:	**Change in fair value of hedged item for ineffectiveness assessment**	**Translation reserve**
USD	3,656	604
RON	4,646	(132)
CHF	2,986	4,140
UAH	2,249	770
TRY	(724)	(2,380)
Total	**12,813**	**3,002**

Information regarding the foreign currency derivatives used as hedging instruments and hedge effectiveness is as follows:

December 31, 2019	**Carrying amount of hedging instruments**			**Changes in fair value of hedging instruments used for hedging ineffectiveness**		
Net investment hedges	Notional amount	Assets	Liabilities	Effective portion recognized in OCI	Hedge ineffectiveness recognized in income statement	Total
USD swaps	32,591	478	59	(2,149)	-	(2,149)
RON swaps	180,992	373	1,206	(1,708)	-	(1,708)
CHF swaps	111,158	(72)	1,206	(3,706)	-	(3,706)
TRY swaps	11,091	524	1,831	2,364	(1,875)	489
Total	**335,832**	**1,303**	**4,302**	**(5,199)**	**(1,875)**	**(7,074)**

December 31, 2018	**Carrying amount of hedging instruments**			**Changes in fair value of hedging instruments used for hedging ineffectiveness**		
Net investment hedges	Notional amount	Assets	Liabilities	Effective portion recognized in OCI	Hedge ineffectiveness recognized in income statement	Total
USD swaps	44,616	396	101	(3,656)	-	(3,656)
RON swaps	155,724	323	988	(4,303)	(343)	(4,646)
CHF swaps	112,185	(141)	498	(2,986)	-	(2,986)
UAH swaps	-	-	-	(2,249)	-	(2,249)
TRY swaps	6,896	(2)	162	1,142	(418)	724
Total	**319,421**	**576**	**1,749**	**(12,052)**	**(761)**	**(12,813)**

The maturity profile of the Bank's hedging instruments used in net investment hedge relationships is as follows:

Hedging Instruments	**Less than 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
USD swaps	32,591	-	-	-	32,591
RON swaps	93,871	53,828	8,502	24,791	180,992
CHF swaps	111,158	-	-	-	111,158
TRY swaps	470	-	10,621	-	11,091
Total at December 31, 2019	**238,090**	**53,828**	**19,123**	**24,791**	**335,832**

Hedging Instruments	**Less than 1 month**	**1 to 3 months**	**3 to 12 months**	**Total**
USD swaps	19,874	24,742	-	44,616
RON swaps	62,019	83,269	10,436	155,724
CHF swaps	49,790	62,395	-	112,185
TRY swaps	10	6,886	-	6,896
Total at December 31, 2018	**131,693**	**177,292**	**10,436**	**319,421**

10. Loans and receivables - customers

	December 31, 2019	December 31, 2018
Commercial loans	2,389,693	2,322,574
Consumer loans	258,540	342,366
Public sector loans	53,766	74,982
Credit card loans	97,672	100,631
Finance lease receivables, net	7,908	8,807
Private banking loans	1,041	14,068
Subtotal	**2,808,620**	**2,863,428**
Individually assessed allowances for expected credit losses	(36,647)	(113,356)
Collectively assessed allowances for expected credit losses	(29,703)	(50,916)
Total	**2,742,270**	**2,699,156**

No individual loan or receivable has terms and conditions that materially affect the amount, timing or certainty of the consolidated cash flows of the Bank.

Details of finance lease receivables are summarized below:

	December 31, 2019	December 31, 2018
Not later than 1 year	1,359	1,374
Later than 1 year and not later than 5 years	4,494	4,497
Later than 5 years	2,995	4,124
Gross lease receivables	**8,848**	**9,995**
Not later than 1 year	(221)	(248)
Later than 1 year and not later than 5 years	(597)	(714)
Later than 5 years	(122)	(226)
Unearned interest income	**(940)**	**(1,188)**
Finance lease receivables, net	**7,908**	**8,807**

11. Loans, impairment charges and allowances

December 31, 2019

	Stage 1		Stage 2		Stage 3		Total	
	Gross loans	ECL	Gross loans	ECL	Gross loans	ECL	Gross loans	ECL
Balance at 1 January	**2,040,075**	**(16,454)**	**512,542**	**(34,462)**	**310,811**	**(113,356)**	**2,863,428**	**(164,272)**
Originated or purchased	1,320,709	(3,499)	26,638	(102)	2,382	(7)	**1,349,729**	**(3,608)**
Matured or sold	(984,507)	3,023	(115,147)	11,039	(39,436)	775	**(1,139,090)**	**14,837**
Transfers to Stage 1	31,245	(1,011)	(30,546)	643	(699)	368	-	-
Transfers to Stage 2	(103,361)	1,196	110,317	(2,407)	(6,956)	1,211	-	-
Transfers to Stage 3	(3,105)	21	(76,610)	4,194	79,715	(4,215)	-	-
Re-measurement	(109,708)	1,203	(67,574)	6,767	13,100	(22,231)	**(164,182)**	**(14,261)**
Amounts written off	-	-	-	-	(98,783)	98,783	**(98,783)**	**98,783**
Recoveries	-	-	-	-	-	2,226	-	**2,226**
Exchange differences	(592)	768	185	(622)	(2,075)	(201)	**(2,482)**	**(55)**
Balance at year end	**2,190,756**	**(14,753)**	**359,805**	**(14,950)**	**258,059**	**(36,647)**	**2,808,620**	**(66,350)**
Commercial loans	1,978,878	(12,943)	211,931	(10,112)	198,884	(31,215)	**2,389,693**	**(54,270)**
Consumer loans	93,814	(421)	108,244	(4,120)	56,482	(3,698)	**258,540**	**(8,239)**
Credit cards	63,257	(1,389)	31,843	(703)	2,572	(1,613)	**97,672**	**(3,705)**
Private banking	1,041	-	-	-	-	-	**1,041**	-
Finance lease receivables, net	-	-	7,787	(15)	121	(121)	**7,908**	**(136)**
Public Loans	53,766	-	-	-	-	-	**53,766**	-
Total	**2,190,756**	**(14,753)**	**359,805**	**(14,950)**	**258,059**	**(36,647)**	**2,808,620**	**(66,350)**

December 31, 2018

	Stage 1		Stage 2		Stage 3		Total	
	Gross loans	ECL	Gross loans	ECL	Gross loans	ECL	Gross loans	ECL
Balance at 1 January	**2,345,304**	**(20,569)**	**821,128**	**(42,497)**	**243,609**	**(115,246)**	**3,410,041**	**(178,312)**
Originated or purchased	916,120	(5,511)	3,900	(2,473)	3,662	(102)	**923,682**	**(8,086)**
Matured or sold	(782,377)	5,895	(135,808)	3,122	(6,672)	350	**(924,857)**	**9,367**
Transfers to Stage 1	21,533	(1,097)	(20,771)	657	(762)	440	-	-
Transfers to Stage 2	(338,259)	2,096	342,094	(3,841)	(3,835)	1,745	-	-
Transfers to Stage 3	(44,700)	750	(112,517)	10,826	157,217	(11,576)	-	-
Re-measurement	(89,738)	2,160	(389,113)	581	(39,957)	(35,005)	**(518,808)**	**(32,264)**
Amounts written off	-	-	-	-	(47,756)	47,756	**(47,756)**	**47,756**
Recoveries	-	-	-	-	-	137	-	**137**
Exchange differences	12,192	(178)	3,629	(837)	5,305	(1,855)	**21,126**	**(2,870)**
Balance at year end	**2,040,075**	**(16,454)**	**512,542**	**(34,462)**	**310,811**	**(113,356)**	**2,863,428**	**(164,272)**
Commercial loans	1,754,163	(13,456)	385,811	(29,529)	182,600	(42,837)	**2,322,574**	**(85,822)**
Consumer loans	112,551	(944)	108,821	(4,691)	120,962	(64,654)	**342,334**	**(70,289)**
Credit cards	84,311	(2,054)	9,228	(202)	7,124	(5,740)	**100,663**	**(7,996)**
Private banking	14,068	-	-	-	-	-	**14,068**	-
Finance lease receivables, net	-	-	8,682	(40)	125	(125)	**8,807**	**(165)**
Public Loans	74,982	-	-	-	-	-	**74,982**	-
Total	**2,040,075**	**(16,454)**	**512,542**	**(34,462)**	**310,811**	**(113,356)**	**2,863,428**	**(164,272)**

Expected credit loss charges on financial instruments included in the statement of income are as follows:

			December 31, 2019		December 31, 2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to customers at amortized cost	727	17,704	(19,237)	**(806)**	(29,400)
Loans to banks at amortized cost	75	-	-	**75**	367
Debt securities measured at FVOCI	217	-	-	**217**	199
Credit related commitments (non-cash loans)	(97)	34	(1,334)	**(1,397)**	(70)
Net impairment loss on financial instruments	**922**	**17,738**	**(20,571)**	**(1,911)**	**(28,904)**

The Mortgage Payment Law ("Dare in Plata" or "DIP"), which came into force in Romania in May 2016, entitled borrowers to request and to compel the lenders to accept a full discharge of mortgage-backed loans against the transfer of title of the mortgaged immoveable property to the lender. On the other hand, The Romanian Constitutional Court declared DIP law as a "hardship" law and reduced its scope to exceptional cases. The Constitutional Court's decision brought clarity to which extent DIP law is applicable for the Bank. The bank considers the impairment impact of DIP law for mortgage loans in Romania.

Loans and receivables written off during the year amounting to EUR 63,401 (2018: EUR 19,363) are still subject to enforcement activity.

12. Other assets and inventories

	December 31, 2019	December 31, 2018
Repossessed assets classified as inventories	47,154	68,941
Receivables from DSB	17,861	15,970
Contract assets	11,318	13,436
Insurance receivables	10,350	-
Prepayments to suppliers	4,726	4,629
POS, plastic cards and ATM related receivables	4,017	3,891
Amounts held as guarantee	2,619	2,272
Materials and supplies	2,540	3,108
Tax related receivables	1,499	1,947
Accounts receivable	1,461	1,564
Other assets	3,656	2,677
Total	**107,201**	**118,435**

13. Investment in associates and joint ventures

For 2019 and 2018, the movements of the Bank's interest in associates and joint ventures are as follows:

	Balance at January 1, 2019	Additions	Result for the year	Foreign currency translation reserve	Balance at December 31, 2019
Cirus Holding B.V.	4,832	2,800	(1,320)	136	6,448
Ikano Finance Holding B.V.	2,172	-	108	(4)	2,276
Stichting Credit Europe Custodian Service	125	-	-	-	125
	7,129	**2,800**	**(1,212)**	**132**	**8,849**

	Balance at January 1, 2018	Result for the year	Foreign currency translation reserve	Balance at December 31, 2018
Cirus Holding B.V.	3,980	1,026	(174)	4,832
Ikano Finance Holding B.V.	2,206	(4)	(30)	2,172
Stichting Credit Europe Custodian Service	125	-	-	125
	6,311	**1,022**	**(204)**	**7,129**

Cirus Holding B.V. is a joint venture entity, in which both the Bank and Ikano SA holds 50% of the shares. The company is established as parent company of a separate bank in Russia.

Ikano Finance Holding B.V. is a holding company which through its wholly owned Russian based subsidiary cooperates with Credit Europe Bank (Russia) Ltd in providing financial services and co-branded cards to the retail customers of IKEA and MEGA in Russia. The Bank holds 50% of the shares.

Stichting Credit Europe Custodian Services is an entity that holds securities with custodian companies on behalf of clients of the Bank.

14. Property, equipment and investment property

A. Property and equipment

The movement of property and equipment is summarized as follows:

	Land and Buildings	Furniture and Fixtures	Vehicles and Vessels*	Leasehold improvements	Plant and Machinery	Total
Balance at January 1, 2019	65,524	12,286	45,491	41	6,175	129,517
Effect of IFRS 16 adoption	8,863	17	962	-	286	10,128
Additions	1,980	1,879	563	220	-	4,642
Disposals	(1,203)	(324)	(92)	(15)	(163)	(1,797)
Revaluation**	7,957	-	-	-	-	7,957
Transfer to assets held for sale	-	-	(13,081)	-	-	(13,081)
Depreciation	(5,064)	(1,743)	(2,350)	(177)	(1,300)	(10,634)
Impairment	(4,171)	-	(21,405)	-	-	(25,576)
Currency translation differences	191	(6)	1,053	2	119	1,359
Balance at December 31, 2019	**74,077**	**12,109**	**11,141**	**71**	**5,117**	**102,515**
Cost	110,120	57,175	16,867	2,082	14,924	201,168
Cumulative depreciation and impairment	(36,043)	(45,066)	(5,726)	(2,011)	(9,807)	(98,653)
Balance at December 31, 2019	**74,077**	**12,109**	**11,141**	**71**	**5,117**	**102,515**

	Land and Buildings	Furniture and Fixtures	Vehicles and Vessels*	Leasehold improvements	Plant and Machinery	Total
Balance at January 1, 2018	65,680	19,339	81,169	1,769	7,055	175,012
Effect of discontinued operations	-	(6,332)	(24,229)	(933)	-	(31,494)
Additions	138	1,418	58	172	158	1,944
Disposals	-	(69)	6	(595)	-	(658)
Depreciation	(2,021)	(1,583)	(3,241)	(372)	(1,334)	(8,551)
Impairment	-	-	(10,888)	-	-	(10,888)
Currency translation differences	1,150	90	2,616	-	296	4,152
Balance at December 31, 2018	**64,947**	**12,863**	**45,491**	**41**	**6,175**	**129,517**
Cost	96,997	56,941	55,272	2,753	14,532	226,495
Cumulative depreciation and impairment	(32,050)	(44,078)	(9,781)	(2,712)	(8,357)	(96,978)
Balance at December 31, 2018	**64,947**	**12,863**	**45,491**	**41**	**6,175**	**129,517**

*Included in “vehicles and vessels” are assets subject to operating leases where the Bank acts a lessor. At December 31, 2019, the net carrying amount of those assets is EUR 10,155 (2018: EUR 46,189), on which the accumulated depreciation is EUR 2,012 (2018: EUR 7,509).

** The Bank changed the accounting policy with respect to measurement of land and buildings as at 31 December 2019 on a prospective basis. Management determined that the land and buildings constitute a separate class of property and equipment, based on the nature, characteristics and risks of the properties. Fair value of the properties was determined using the market comparison and income capitalization methods. The valuations have been performed by the valuer, and are based on proprietary databases of prices of transactions for properties of similar nature, location and condition.

As at the date of revaluation on 31 December 2019, land and buildings’ fair values are based on valuations performed by professional valuators, who has valuation experience for similar office properties. Management approved revaluations after assessing the valuations made by professional valuators. Gain from the revaluation of EUR 7,957 was recognised in OCI.

Compared to the cost model ,the impact of the revaluation on annual net results for the year 2020 will approximately be EUR 316 lower profit due to the additional depreciation expense.

Fair value measurement disclosures for the revalued properties are provided in Note 33. If the properties were continued to be measured using the cost model, the carrying amounts would have been EUR 66,120.

The Bank does not have any restrictions on title, and property, plant and equipment pledged as security for liabilities (2018: None). The Bank does not have any contractual commitments for the acquisition of property, plant and equipment.

As of December 31, 2019, the amount of collaterals repossessed in property and equipment is EUR 36,532 (2018: EUR 77,398).

Set out below, are the carrying amounts of the Bank's right-of-use assets and lease liabilities and the movements during the year:

	Right-of-use assets					December 31, 2019
	Land and Buildings	**Vehicles**	**Plant and Machinery**	**Other**	**Total**	**Lease Liabilities**
As at 1 January 2019	**8,863**	**962**	**286**	**17**	**10,128**	**10,082**
Additions	1,463	-	64	32	**1,559**	970
Disposals	(1,159)	(92)	(3)	(21)	**(1,275)**	(95)
Depreciation expense	(2,606)	(193)	(46)	(2)	**(2,847)**	-
Interest expense	-	-	-	-	-	184
Payments	-	-	-	-	-	(3,480)
Currency translation differences	(24)	1	-	3	**(20)**	(88)
As at 31 December 2019	**6,537**	**678**	**301**	**29**	**7,545**	**7,573**

As of December 31, 2019 the Bank recognised rent expense from short term leases and leases of low value assets at amount of EUR 400 and EUR 166, respectively.

B. Investment property

Reconciliation of carrying amount

	December 31, 2019	**December 31, 2018**
Balance at 1 January	**14,638**	**15,709**
Transfer to assets held for sale	(9,000)	-
Changes in unrealized fair value	(2,800)	(1,338)
Currency translation differences	38	267
Balance at 31 December	**2,876**	**14,638**

As of December 31, 2019, the amount of collaterals repossessed in investment properties is EUR 2,876 (2018: EUR 14,638). Investment properties are classified as Level 3 in terms of fair value hierarchy.

As of December 31, 2019, the amount of accumulated change in unrealized fair value is EUR 4,938 negative (2018: EUR 2,138 negative).

15. Intangible assets

The movement of intangibles is summarized as follows:

	Goodwill	Patents and licenses	Other Intangibles	Total
Balance at January 1, 2019	2,414	5,067	21	7,502
Additions	-	2,174	28	2,202
Impairment	(2,469)	-	-	(2,469)
Amortization	-	(2,428)	(12)	(2,440)
Currency translation differences	55	(51)	1	5
Balance at December 31, 2019	**-**	**4,762**	**38**	**4,800**
Cost	-	35,905	570	36,475
Cumulative amortization	-	(31,143)	(532)	(31,675)
Balance at December 31, 2019	**-**	**4,762**	**38**	**4,800**

	Goodwill	Patents and licenses	Other Intangibles	Total
Balance at January 1, 2018	2,306	4,805	5,229	12,340
Effect of discontinued operations	-	-	(5,228)	(5,228)
Additions	-	2,506	220	2,726
Disposal	-	-	(189)	(189)
Amortization	-	(2,462)	(11)	(2,473)
Currency translation differences	108	218	-	326
Balance at December 31, 2018	**2,414**	**5,067**	**21**	**7,502**
Cost	2,414	34,095	504	37,013
Cumulative amortization	-	(29,028)	(483)	(29,511)
Balance at December 31, 2018	**2,414**	**5,067**	**21**	**7,502**

The Bank does not have any intangible assets whose title is restricted (2018: None). There are no intangible assets pledged as security for liabilities (2018: None). During 2019 and 2018, there were no contractual commitments for the acquisition of intangible assets.

The Bank's only cash-generating unit (CGU) to which goodwill has been allocated comprises a shipyard in Turkey. Goodwill is reviewed annually for impairment by comparing the recoverable amount of CGU with its carrying value.

Recoverable amount is the higher of fair value and value in use. Value in use is the present value of expected future cash flows from the CGU or group of CGUs. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants.

Impairment testing involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of CGUs.

The recoverable amount of CGU was based on fair value, using independent valuation report. Blend of income (50% weight), market and cost approaches was applied. Income approach uses management's five-year forecasts. The terminal growth rate is USD based consumer inflation rates. The discount rate is based on those observed to be applied to businesses regarded as peers of the CGU.

The impairment testing resulted in full impairment of the EUR 2.4 million goodwill. It is allocated to "Other" Segment in Note 4.

The carrying value of goodwill and the amount by which it is exceeded by the recoverable amount are set out below by reportable segment, along with the key assumptions applied in calculating the recoverable amount and sensitivities to changes in those assumptions.

		Impairment allocation		Key assumptions		Impact of consequential 1% adverse movement in	
	Carrying amount exceeded recoverable value	Goodwill	Buildings*	Terminal growth rate	Discount rate	Terminal growth rate	Discount rate
Shipyard (Turkey)	6,188	2,414	3,774	1.7%	14.8%	238	1,166

(*) Land and buildings of Atlas Tersanecilik is measured at Level 3. Please refer to Note 33 ‘Fair value hierarchy’ for significant unobservable inputs.

16. Due to banks

	December 31, 2019	December 31, 2018
Time deposits	400,321	198,746
Targeted longer term refinancing operations (TLTRO)	48,967	64,465
Current accounts	33,516	153,286
Total	**482,804**	**416,497**

The amount of repo transactions in time deposits is EUR 48,564 (2018: EUR 43,488).

17. Due to customers

	December 31, 2019	December 31, 2018
Retail time deposits	1,550,926	1,632,181
Retail saving and demand deposits	1,239,297	1,418,210
Corporate demand deposits	365,743	292,243
Corporate time deposits	245,757	307,128
Total	**3,401,723**	**3,649,762**

As of December 31, 2019, the Bank maintained customer deposit balances of EUR 23,583 (2018: EUR 29,276), which were pledged to the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

As of December 31, 2019, EUR 1,611,772 (2018: EUR 1,680,179) of deposits from customers are expected to be settled more than 12 months after the balance sheet date.

18. Other liabilities

	December 31, 2019	December 31, 2018
Advances from customers	12,368	8,335
Lease liabilities	7,573	-
Accrued expenses	4,906	5,043
Payables to suppliers	3,234	5,739
Non-current tax related payable	2,561	2,379
Credit card payables	2,462	1,588
Items in the course of settlement	1,204	754
Deferred income	725	948
Staff related liabilities	329	165
Collaterals received	-	7,421
Other liabilities	3,029	3,742
Total	**38,391**	**36,114**

19. Provisions

	December 31, 2019	December 31, 2018
Litigation(*)	4,627	5,754
Staff related	4,568	4,906
Credit related commitments	1,889	669
Other	31	436
Total	**11,115**	**11,765**

(*) Provision set for litigations regarding abusive clauses in consumer contracts in which the Bank's subsidiary, Credit Europe Bank (Romania) SA, is involved as of December 31, 2019. Further details are provided in Note 35: Commitments and Contingencies.

The table below presents movement in total provisions:

				December 31, 2019
	Litigation	Staff related	Credit related commitments	Other
At January 1, 2019	**5,754**	**4,906**	**669**	**436**
Addition	415	1,431	1,491	177
Provisions used during the year	(472)	(1,391)	(76)	(433)
Reversal	(1,012)	(360)	(209)	-
Currency translation differences	(58)	(18)	14	(7)
Other	-	-	-	(142)
At December 31, 2019	**4,627**	**4,568**	**1,889**	**31**

				December 31, 2018
	Litigation	**Staff related**	**Credit related commitments**	**Other**
At December 31, 2017	**6,717**	**4,578**	**-**	**692**
Impact of adopting IFRS 9	-	-	671	-
At January 1, 2018	**6,717**	**4,578**	**671**	**692**
Effect of discontinued operations	-	-	-	(404)
Addition	946	992	432	337
Provisions used during the year	-	(107)	(77)	(162)
Reversal	(1,948)	(570)	(447)	(27)
Currency translation differences	39	13	90	-
At December 31, 2018	**5,754**	**4,906**	**669**	**436**

20. Subordinated liabilities

Issued liabilities qualify as subordinated debt if claims by the holders are subordinated to all other current and future liabilities of, respectively, the Bank and other Group companies.

		December 31, 2019	**December 31, 2018**
USD 150 million subordinated notes with a fixed interest rate of 7.25 % p.a.	2027	133,021	130,101
USD 50 million AT1 instrument with a fixed interest rate of 8.95 % p.a.	2022	44,638	43,826
Total		**177,659**	**173,927**

Changes in liabilities arising from financial activities

December 31, 2019

	Subordinated loans
Balance at the beginning of the year	173,927
Interest expense	13,761
Interest paid	(13,783)
Foreign exchange movement	3,754
Balance at December 31	**177,659**

December 31, 2018

	Debt securities in issue*	**Subordinated loans**	**Total liabilities from financing activities**
Balance at the beginning of the year	70,843	593,934	664,777
Changes in cash flow			
Proceeds	4,250	-	4,250
Repayments	(543)	(336,428)	(336,971)
	3,707	**(336,428)**	**(332,721)**
Other changes			
Interest expense	4,576	20,946	25,522
Interest paid	(4,678)	(31,439)	(36,117)
Effect of discontinued operations	(70,793)	(81,858)	(152,651)
Foreign exchange movement	(3,655)	8,772	5,117
Balance at December 31	**-**	**173,927**	**173,927**

(*) Cash flows incurred by CEB Russia have been disclosed in Note 38-B: ‘Discontinued Operations’.

21. Equity

	December 31, 2019	December 31, 2018
Share capital	563,000	563,000
Share premium	163,748	163,748
Retained earnings	39,424	19,547
Fair value reserve	7,152	(8,583)
Tangible revaluation reserve	5,441	-
Foreign currency translation reserve	(61,116)	(62,523)
Net investment hedge reserve	(99,989)	(94,282)
Equity attributable to owners of the Parent Company	**617,660**	**580,907**
Equity attributable to non-controlling interests	3,211	3,178
Total equity	**620,871**	**584,085**

As of December 31, 2019, the authorized share capital is EUR 1,000 million (2018: EUR 1,000 million) and consists of EUR 1,000 million (2018: EUR 1,000 million) ordinary shares with a face value of EUR 1. The called-up and paid-in capital consists of 563.0 million (2018: 563.0 million) ordinary shares with a face value of EUR 1.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Net Investment hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in hedges of net investment in foreign operations and in cash flow hedges.

Fair value reserves

The fair value reserve includes the cumulative net change in the fair value of debt and equity investments measured at fair value through other comprehensive income including expected credit losses for debt securities.

Tangible revaluation reserve

The tangible revaluation reserve includes the cumulative net revaluation surpluses arising from the revaluation of land and buildings.

22. Net interest income

	January 1- December 31, 2019	January 1- December 31, 2018
Interest income from financial instruments measured at amortized cost and FVOCI	**179,793**	**237,367**
Loans and receivables – customers	164,318	220,474
Financial investments	9,447	12,284
Loans and receivables – banks	5,511	4,003
Cash and balances at central banks	268	269
Interest on financial lease	249	337
Interest income from financial instruments measured at FVTPL	**22,808**	**24,553**
Derivative financial instruments	16,648	21,095
Financial assets held for trading	4,890	1,773
Non-trading financial assets mandatorily at FVTPL	1,270	1,685
Subtotal	**202,601**	**261,920**
Interest expense from financial instruments measured at amortized cost	**59,782**	**65,796**
Due to customers	34,063	42,066
Subordinated liabilities	13,724	14,666
Due to banks	9,457	6,690
Cash and balances at central banks	2,354	2,374
Lease liabilities	184	-
Interest expense from financial instruments measured at FVTPL	**23,978**	**30,832**
Derivative financial instruments	23,978	30,832
Subtotal	**83,760**	**96,628**
Total	**118,841**	**165,292**

23. Net fee and commission income

	January 1- December 31, 2019	January 1- December 31, 2018
Fee and commission income		
Cash loan fees	10,182	8,550
Letters of credit commissions	7,590	6,233
Credit card fees	7,050	6,871
Payment and transaction services fees	2,528	2,695
Commission on account maintenance	2,383	2,348
Portfolio and other management fees	1,433	2,845
Insurance related fees	1,085	1,201
Letters of guarantee commissions	722	704
Commissions on fund transfers	528	513
Foreign exchange transaction fees	446	218
Commissions on fiduciary transactions	390	500
Other fees and commissions	1,383	1,763
Subtotal	**35,720**	**34,441**
Fee and commission expense		
Credit card fees	2,285	1,967
Payment and transaction services expense	1,353	1,887
Account maintenance fees	493	578
Commission paid to intermediaries/retailers	179	230
Insurance related fees	44	21
Other fee and commission expenses	325	754
Subtotal	**4,679**	**5,437**
Total	**31,041**	**29,004**

24. Net trading results

	January 1- December 31, 2019	January 1- December 31, 2018
Trading loans	4,661	2,929
Debt securities	2,139	(540)
Derivative financial instruments - hedge accounting	1,978	1,968
Dividend on FVTPL investments	41	112
Loans measured mandatorily at FVTPL	(2,069)	370
Foreign exchange	(2,551)	10,757
Subtotal	**4,199**	**15,596**
Derivative financial instruments - not qualifying for hedge accounting	(30,212)	(60,057)
Total	**(26,013)**	**(44,461)**

25. Net results on derecognition of financial assets measured at amortized cost

As of December 31, 2019, EUR 363 gain was recognized mainly due to partial sale of the Turkish risk portfolio and loan modifications resulting in derecognition.

26. Net results from investment securities

	January 1- December 31, 2019	January 1- December 31, 2018
Net gain from disposal of debt instruments at FVOCI	12,436	12,587
Total	**12,436**	**12,587**

Net results from investment securities include amounts transferred from equity to the income statement on derecognition of debt instruments at FVOCI and gains and losses recognized from the difference between the carrying amount and the consideration received upon derecognition.

27. Other operating income

	January 1- December 31, 2019	January 1- December 31, 2018
Revenue from shipbuilding activities	13,563	10,426
Shipping charter and freight income	11,777	14,649
Income from insurance receivables	10,367	-
Income from DSB receivables	4,119	-
Sale of inventory property	2,964	3,566
Dividend income	1,151	350
Rent income	1,053	1,089
Other income	3,057	2,393
Total	**48,051**	**32,473**

28. Personnel expenses

	January 1- December 31, 2019	January 1- December 31, 2018
Wages and salaries	50,715	48,882
Social security payments	3,556	3,542
Retirement benefit costs	2,089	1,934
Other employee costs	4,241	4,733
Total	**60,601**	**59,091**
Average number of employees	**1,172**	**1,223**
Banking activities – Netherlands	220	227
Banking activities – foreign countries	952	996

The retirement benefit costs of EUR 1,522 (2018: EUR 1,351) relates to a defined contribution plan. The Bank has no defined benefit program. The assets of the schemes are held separately from those of the Bank in funds under the control of insurance companies.

29. General and administrative expenses

	January 1- December 31, 2019	January 1- December 31, 2018
Professional fees and consultancy	5,103	4,950
Rent and maintenance expenses	4,246	7,771
Information technology expenses	3,538	3,673
Communication and information expenses	3,514	3,421
Membership fees	2,502	2,495
Taxes other than income	2,062	1,378
Stationary, office supplies and printing expense	1,630	1,428
Legal services expenses	1,425	1,061
Security expenses	944	980
Travel and transport expenses	935	850
Advertising and marketing expenses	812	836
Cleaning expenses	626	625
Management fees	620	703
Insurance premiums	490	445
Representative expenses	378	367
Other expenses	1,842	1,990
Total	**30,667**	**32,973**

30. Other operating expenses

	January 1- December 31, 2019	January 1- December 31, 2018
Cost of sale from shipbuilding activities	15,905	8,631
Vessels running costs	7,725	10,234
Change in fair value of investment property	2,800	1,338
Cost of sales - inventory property	2,487	3,380
Fines and penalties	961	711
Claims service expenses	347	586
Provision (reversal) / addition	(434)	(366)
Other	4,189	1,844
Total	**33,980**	**26,358**

31. Other impairment losses

	January 1- December 31, 2019	January 1- December 31, 2018
Property and equipment*	25,576	10,562
Goodwill	2,469	-
Other	1,067	305
Total	**29,112**	**10,867**

(*) EUR 21,802 and EUR 3,774 impairment loss recognised in 2019 is presented under “West Europe Wholesale” and “Other” geographical segments respectively in Note 4: Segment information.

32. Taxation

The Netherlands

Corporate income tax is levied at the rate of 25% on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year 2019. A tax rate of 19% applies to the first EUR 200,000 of taxable income. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies. Under the Dutch taxation system, tax losses can be carried forward to be offset against future taxable income for six years. Tax losses can be carried back to offset profits for up to one year. Companies must file their tax returns within six months following the close of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings. Beginning from January 1, 2007, the Bank formed a ‘fiscal unity’ with its Parent company, Credit Europe Group N.V., which acts as the head of ‘fiscal unity’. Because of the fiscal unity, all profits and losses of the fiscal unity members are ‘consolidated’ for tax purposes. The main advantages of a fiscal unity are that tax losses of one company can be offset against profits of another company and assets can be transferred to another company without recognizing income at the moment of transfer. On the other hand, each member of the fiscal unity is in principle jointly and individually liable for the income tax liability of the entire fiscal unity.

In 2019 the Dutch Ministry of Finance announced a number of important changes and amendments to the Dutch tax legislation for 2019 and onwards. The most important changes from the Bank’s perspective are as follows:

- Starting 2021, the corporate income tax rate will be reduced to 21,7%;
- the minimum capital rule limits the fiscal interest deduction of banks and insurers insofar as the debt exceeds 92 per cent of the balance sheet total. Banks are thereby subject to the capital requirements regulation while insurers are subject to the Solvency II regulation.
- the deductibility of interest on Additional Tier1 capital instrument (for banks and insurers) will be abolished.

Romania

The applicable tax rate for current and deferred tax is 16% (2018: 16%). The Romanian Government has a number of agencies that are authorized to conduct audits (controls) of Romanian companies, as well as foreign companies doing business in Romania. These controls are similar in nature to tax audits performed by tax authorities in many countries, but may extend not only to tax matters, but also to other legal and regulatory matters in which the applicable agency may be interested. The statute of limitations period in Romania is of 5 years (extended to 10 years in case tax evasion is suspected by the tax authorities). When management is aware of specific circumstances where there is the probability of fine, appropriate reserves are established for such contingencies. It is likely that the Bank’s consolidated subsidiaries in Romania will continue to be subject to controls from time to time for violations and alleged violations of existing and new laws and regulations. Although, the Bank’s consolidated subsidiaries in Romania can contest the allegations of violations and resulting penalties when management believe there is cause to do so, the adoption or implementation of laws or regulations in Romania could have a material effect on the Bank’s consolidated subsidiaries in Romania. The effective tax rate as per 31 December 2019 amounts to 16%.

Switzerland

Corporate tax in Switzerland is a combination of Canton and Federal tax. Cantonal tax is levied at the effective rate of 23.36% on the net profit of the related period and at the effective rate of 0.401% on the shareholders' equity of the related period. Federal tax is levied at the rate of 8.50% on the net profit of the related period. Since the tax expenses are tax deductible, the effective net tax rate is around 24%.

As of 1 January 2020 due to the new tax regime in Switzerland, Cantonal and federal taxes will be levied at the combined effective rate of 14%. In the financials, the deferred tax amounts have been calculated with the prospective effective tax rate of 14%.

In addition to the cantonal and federal taxes, another 'professional' tax is levied at various effective rates on the average of the last two years' gross revenue figures, rent expenses and number of employees.

Under the Swiss taxation system, tax losses can be carried forward to be offset against future taxable income for seven years. Companies must file their tax returns within four months following the close of the tax year to which they relate, unless the company applies for an extension. Tax returns are open for five years from the date of final assessment of the tax return, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Ukraine

The applicable tax rate for corporate profit is 18% (2018: 18%). The tax amount defined by the Bank could be re-assessed by the tax authorities during the three subsequent calendar years after the date of submitting the respective tax return; however, under certain circumstances this period could be longer. Therefore, the Bank should keep its primary documents related to tax returns until the beginning of the tax audit, but for no less than three years.

Tax losses can be carried forward to be offset against future taxable income for the next taxable years after the year when this loss appeared.

	January 1- December 31, 2019	January 1- December 31, 2018
Effective tax rate	(38.23%)	19.92%
Income tax recognized in the income statement		
Current income tax	**(7,450)**	**(11,230)**
Current income tax charge	(7,175)	(11,230)
Deferred income tax	**12,862**	**5,912**
Relating to origination and reversal of temporary differences	4,304	5,912
The effect of change in tax rate	8,558	-
Income tax reported in income statement	**5,412**	**(5,318)**

	December 31, 2019	December 31, 2018
Income tax recognized in equity		
Net investment hedge	1,409	2,782
Fair value reserve	(1,158)	1,617
Tangible revaluation reserve	(2,516)	22
Income tax reported in equity	**(2,265)**	**4,421**

Reconciliation of income tax	January 1- December 31, 2019	January 1- December 31, 2018
Operating profit before tax	14,158	26,700
Statutory tax rate	25%	25%
At statutory income tax	**(3,540)**	**(6,675)**
The effect of change in tax rate	8,558	-
Income not subject to tax	590	555
Equity allocation to branches	236	361
Adjustment to prior years	31	(120)
Effect of different income tax rates in other countries	(243)	2,085
Expenditure not allowable for income tax purposes	(1,136)	(414)
Other	916	(1,110)
Income tax	**5,412**	**(5,318)**

Deferred tax assets and liabilities			December 31, 2019			December 31, 2018
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	Net
Tax losses carried forward	35,850	-	35,850	21,150	114	21,264
Loans and receivables	11,000	(3,937)	7,063	22,636	(602)	22,034
Debt securities	227	(1,163)	(936)	486	(50)	436
Property, plant and equipment	19	(3,466)	(3,447)	53	(974)	(921)
General risk provision	-	(13,287)	(13,287)	-	(21,879)	(21,879)
Other	2,286	(235)	2,051	3,212	(1,283)	1,929
Total	**49,382**	**(22,088)**	**27,294**	**47,537**	**(24,674)**	**22,863**

Deferred tax changes recorded in the income statement	December 31, 2019	December 31, 2018
Effect of changes in tax rates	8,558	-
Deferred tax of fiscal loss	8,547	(1,863)
Loan impairment provision	(2,073)	8,155
Other	(2,170)	(380)
Total	**12,862**	**5,912**

33. Fair value information

The estimates of fair value are intended to approximate the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities. Fair value of financial assets that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

The estimated fair values of trading financial assets (excluding loans) at fair value through profit or loss, financial investments and debt securities issued are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on expected future cash flows and discount rates for similar instruments.

Classification of financial assets and liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

						December 31, 2019
	Trading	**Measured at FVTPL**	**Measured at amortized cost**	**Measured at FVOCI**	**Other amortized costs**	**Total carrying amount**
Cash and balances at central banks	-	-	737,249	-	-	737,249
Financial assets at FVTPL	-	227,913	-	-	-	227,913
Financial investments	-	-	-	537,482	-	537,482
Loans and receivables - banks	-	-	187,948	-	-	187,948
Loans and receivables - customers	-	-	2,742,270	-	-	2,742,270
Derivative financial instruments	169,794	-	-	-	-	169,794
Total assets	**169,794**	**227,913**	**3,667,467**	**537,482**	**-**	**4,602,656**
Due to banks	-	-	-	-	482,804	482,804
Due to customers	-	-	-	-	3,401,723	3,401,723
Derivative financial instruments	164,517	-	-	-	-	164,517
Subordinated liabilities	-	-	-	-	177,659	177,659
Total liabilities	**164,517**	**-**	**-**	**-**	**4,062,186**	**4,226,703**

						December 31, 2018
	Trading	**Measured at FVTPL**	**Measured at amortized cost**	**Measured at FVOCI**	**Other amortized costs**	**Total carrying amount**
Cash and balances at central banks	-	-	651,773	-	-	651,773
Financial assets at FVTPL	-	87,728	-	-	-	87,728
Financial investments	-	-	-	692,049	-	692,049
Loans and receivables - banks	-	-	431,978	-	-	431,978
Loans and receivables - customers	-	-	2,699,156	-	-	2,699,156
Derivative financial instruments	189,861	-	-	-	-	189,861
Total assets	**189,861**	**87,728**	**3,782,907**	**692,049**	**-**	**4,752,545**
Due to banks	-	-	-	-	416,497	416,497
Due to customers	-	-	-	-	3,649,762	3,649,762
Derivative financial instruments	182,696	-	-	-	-	182,696
Subordinated liabilities	-	-	-	-	173,927	173,927
Total liabilities	**182,696**	**-**	**-**	**-**	**4,240,186**	**4,422,882**

Fair value hierarchy

The fair value hierarchy consists of three levels, depending upon whether fair values are determined based on quoted prices in an active market (Level 1), valuation techniques with observable inputs (Level 2) or valuation techniques that incorporate inputs which are unobservable and which have significant impact on the fair value of the instrument (Level 3):

Valuation Models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: This category includes inputs that are quoted market prices (unadjusted) in active markets for identical instruments. These are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets and where the instrument observed in the market is representative of that being priced in the Bank's portfolio. Transfers out of Level 1 into Level 2 or Level 3 occur when the Bank establishes that markets are no longer active and therefore unadjusted quoted process are no longer provide reliable pricing information.
- Level 2: This category includes inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: This category includes all instruments where the valuation technique uses inputs based on unobservable data, which could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant, unobservable adjustments or assumptions are required to reflect differences between instruments. Unobservable in this context means that there is little or no current market data available from which the price at which an arm's length transaction would be likely to occur can be derived.

Transfers into and transfers out of fair value hierarchy levels are made on a quarterly basis.

The Bank uses following assumptions to estimate the fair value of financial instruments:

Equity securities: Fair values of publicly traded equity securities are based on quoted market prices where available. In the case of where no quoted market is available, fair value is determined based on quoted prices for similar securities or other valuation techniques. Valuation techniques include discounted cash flow models and transaction multiple methods.

Debt securities: Fair values are based on quoted market prices, where available. Quoted market prices may be obtained from an exchange market, dealer, broker, pricing service or regulatory service. If quoted prices in an active market are not available, fair value is based on an analysis of available market inputs, which may include values obtained from one or more pricing services or by a valuation technique that discounts expected future cash flows using a market interest rate curves, referenced credit spreads and maturity of the investment.

Derivative assets and liabilities: Derivatives are valued using valuation techniques. The valuation techniques and inputs depend on the type of derivative and the nature of the underlying instruments. Observable prices or model inputs are usually available in the market for exchange-traded derivatives and simple over-the-counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. The principal techniques used to value these instruments are based on discounted cash flows, Black-Scholes option models and Monte Carlo simulation. These valuation models calculate the present value of expected future cash flows. Inputs to valuation models are determined from observable market data where possible. The inputs used include prices available from exchanges, dealers, brokers or providers of consensus pricing, yield curves, credit spreads, default rates, recovery rates, volatility of underlying interest rates, equity prices and foreign currency exchange rates. These inputs are determined with reference to quoted prices, recently executed trades, independent market quotes, where available.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes that a third party market participant consider them in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. For measuring derivatives, fair values take into account both credit valuation adjustments (CVA) and debit valuation adjustments (DVA). In assessing the counterparty risk the Bank accounts for the following aspects: the default probability of the counterparty, the default probability of the Bank itself, the nature of transactions and the impact of risk mitigants such as netting and collateralisation for each counterparty individually.

Trading loans measured at fair value through profit or loss: Fair values of loans are determined by reference to similar instruments trading in active markets and valuation models where inputs are unobservable. These models calculate the present value of expected future cash flows. The inputs used include prices available from dealers, brokers or providers of consensus pricing, yield rates and currency exchange rates.

In 2019, there has been no change in valuation techniques and models.

Valuation framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- analysis and investigation of significant daily valuation movements

When third party confirmation, such as broker quotes or pricing services, is used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to the measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using these quotes.

Significant valuation issues are reported to the Asset Liability Committee (ALCO).

The table below analyses financial instruments measured at fair value, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

December 31, 2019	Note	Level 1	Level 2	Level 3	Total
Financial assets					
Trading assets	6	11,488	-	192,779	204,267
Derivative financial assets	9	-	169,794	-	169,794
Equity instruments measured at FVOCI	7	7,726	-	25,280	33,006
Non-trading assets mandatorily at FVTPL	6	-	-	23,646	23,646
Other financial investments	7	504,476	-	-	504,476
Total		**523,690**	**169,794**	**241,705**	**935,189**
Financial liabilities					
Derivative financial liabilities	9	-	164,517	-	164,517
Total		**-**	**164,517**	**-**	**164,517**

December 31, 2018	Note	Level 1	Level 2	Level 3	Total
Financial assets					
Trading assets	6	3,299	-	56,557	59,856
Derivative financial assets	9	-	189,861	-	189,861
Equity instruments measured at FVOCI	7	6,747	-	18,995	25,742
Non-trading assets mandatorily at FVTPL	6	-	-	27,872	27,872
Other financial investments	7	666,188	-	119	666,307
Total		**676,234**	**189,861**	**103,543**	**969,638**
Financial liabilities					
Derivative financial liabilities	9	-	182,696	-	182,696
Total		**-**	**182,696**	**-**	**182,696**

No financial instruments were transferred from Level 1 to Level 2 in 2019. (2018: None)
No financial instruments were transferred from Level 1 and Level 2 to Level 3 in 2019. (2018: None)

Level 3 Financial assets and liabilities

Security fair value measurements using significant inputs that are unobservable in the market due to limited activity or an illiquid market are classified as Level 3 in the fair value hierarchy. Such measurements include securities valued using internal models or a combination of multiple valuation techniques, such as weighting of internal models and vendor or broker pricing, where the unobservable inputs are significant to the overall fair value measurement. As of December 31, 2019, EUR 25,280 (2018: EUR 19,114) securities were classified as Level 3.

During 2019, there were no financial instruments transferred out of Level 3 to Level 2 due to change in inputs used in measuring the fair value of the assets. (2018: None)

Loans and receivable classified under Level 3 consist of trading loans valued using discounted cash flow technique that incorporate brokers' quotes as indicative value with no attached commitment to transact at that price.

Changes in the unobservable inputs used in the valuation of Level 3 financial assets would not have a significant impact on equity and net income.

Non trading assets consist of loans mandatorily at fair value through profit or loss, that are measured at lower of carrying amount or fair value of the collateral determined using the valuation techniques described in the following table.

Fair value measurement of non-financial assets and liabilities

Non-financial assets for which fair value is taken into account as measurement basis comprise of investment properties, land and buildings. Assets held for sale is measured at lower of the carrying amount or fair value less cost to sell.

Independent appraisal reports are used for determination of fair values of those assets that are classified as Level 3 of the fair value hierarchy since the valuation techniques used are mostly based on unobservable inputs.

Unrealised gains and losses during the year that relate to Level 3 non-financial assets have been recognised in the statement of income as follows:

- Changes in fair value of investment properties are included in other impairment loss.
- Changes in fair value of assets held for sale are included in other impairment loss.

For the amounts recognized in the statement of income, reference is made to Note 31: Other impairment loss.

In 2019, there has been no change in valuation techniques.

As at 31 December 2019, the Bank has no non-financial liabilities measured at fair value (2018: none).

Significant unobservable inputs used in determination of Level 3 fair values

The following table presents the valuation techniques and the significant inputs used in determination of fair values in Level 3 measurements.

Category	Carrying amount/fair value(in Eur)	Valuation Technique	Input	Range
Financial assets				
Romania- residential and commercial properties Level-3	4,173	Market comparison approach	Price per square meter	730-980 Eur/sqm
		Income capitalization	Unit rental price p.m	9-9.5 Eur/sqm
			Vacancy rate	5%-15%
			Operating expenses p.m	3,000-14,000
			Capitalization rate	9%-10%
Romania- commercial properties Level-3	13,805	Market comparison approach	Price per square meter	600 Eur/sqm
		Income capitalization	Unit rental price p.m	7.5 Eur/sqm
			Vacancy rate	10%-20%
			Operating expenses p.m	5,000-34,000
			Capitalization rate	8%-12%
Vessels Level-3	2,010	Third party pricing	Broker price	n.a
Loans mandatorily at FVTPL	**23,646**			
Trading loans at FVTPL	**192,780**	Discounted cash flow	Projections of future cash flows	n.a
Equity instruments measured at FVOCI	**25,280**	Discounted cash flow	Projections of future cash flows Market parameters (country risk premium, currency risk premium, risk free rate, market risk premium)	 3.51% 3.13% 2.12% 5.67%
Total- Level 3 financial assets	**241,706**			
Non-financial assets				
Western Europe- land/buildings	43,783	Market comparison approach Income capitalization	Price per square meter IRR/Yield Multiplier	15-24 Eur/sqm/month 5%-6% 24-28
Romania- land/ buildings	8,784	Market comparison approach Income capitalization	Price per square meter	600-2,800 Eur/sqm/month
Turkey- shipyard*	20,880	Income approach Market comparison approach Cost approach	n.a	n.a
Sub-total land/buildings	**73,447**			
Turkey- commercial properties	2,876	Discounted cash flow	Unit rental price Rent increase rate	2.10 -9.50 Eur/sqm/month - 47 Eur/room 2.5%-4%
Sub-total investment properties	**2,876**			
Vessels	21,090	Sales price	n.a	n.a
Spain- villa/land	9,000	Sales price	n.a	n.a
Turkey- leasehold right	5,961	Sales price	n.a	n.a
Ukraine- commercial and residential properties	1,198	Market comparison approach	n.a	n.a
Sub-total assets held for sale	**37,248**			
Total Level 3 non-financial assets	**113,571**			

(*)Please refer to Note 15 for the valuation of Atlas Tersanecilik.

Reconciliation of Level 3 financial assets

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in the Level 3 of the fair value hierarchy.

				December 31, 2019				**December 31, 2018**
	Financial Assets-FVOCI	**Financial Assets at FVTPL-Non-Trading**	**Financial Assets at FVTPL-Trading**	**Total**	**Financial Assets-FVOCI**	**Financial Assets at FVTPL-Non-Trading**	**Financial Assets at FVTPL-Trading**	**Total**
Balance at January 1	**19,114**	**27,872**	**56,557**	**103,543**	**119**	**37,167**	**45,185**	**82,471**
Total gains and losses								
- in net trading results	-	(2,068)	4,661	2,593	-	371	2,927	3,298
- in net interest income	-	1,270	-	1,270	-	1,685	-	1,685
- in OCI	4,001	-	-	4,001	-	-	-	-
Purchases/additions	-	-	1,084,048	1,084,048	18,995	-	644,752	663,747
Settlements/Collections/Sales	(117)	(2,942)	(952,487)	(955,546)	-	(12,173)	(636,053)	(648,226)
Exchange differences	2,282	(486)	-	1,796	-	822	(254)	568
Balance at the year end	**25,280**	**23,646**	**192,779**	**241,705**	**19,114**	**27,872**	**56,557**	**103,543**

EUR 11 included in net trading results relates to unrealized gains and losses from financial assets that are held at the end of the reporting period (2018: EUR 4).

Financial instruments not measured at fair value
The following table compares the carrying amount of financial assets and liabilities not measured at fair value and analyses them by the level in the fair value hierarchy.

December 31, 2019	Note	Level 1	Level 2	Level 3	Total fair Values	Total carrying amount
Financial assets						
Cash and balances at central banks	5	-	737,249	-	737,249	737,249
Loans and receivables - banks	8	-	188,035	-	188,035	187,948
Loans and receivables - customers	10	-	-	2,773,198	2,773,198	2,742,270
Total		**-**	**925,284**	**2,773,198**	**3,698,482**	**3,667,467**
Financial liabilities						
Due to banks	16	-	482,993	-	482,993	482,804
Due to customers	17	-	3,424,930	-	3,424,930	3,401,723
Subordinated liabilities	20	-	165,277	-	165,277	177,659
Total		**-**	**4,073,200**	**-**	**4,073,200**	**4,062,186**

December 31, 2018	Note	Level 1	Level 2	Level 3	Total fair Values	Total carrying amount
Financial assets						
Cash and balances at central banks	5	-	651,773	-	651,773	651,773
Loans and receivables - banks	8	-	428,122	-	428,122	431,978
Loans and receivables - customers	10	-	-	2,703,018	2,703,018	2,699,156
Total		**-**	**1,079,895**	**2,703,018**	**3,782,913**	**3,782,907**
Financial liabilities						
Due to banks	16	-	415,364	-	415,364	416,497
Due to customers	17	-	3,686,024	-	3,686,024	3,649,762
Subordinated liabilities	20	-	143,799	-	143,799	173,927
Total		**-**	**4,245,187**	**-**	**4,245,187**	**4,240,186**

34. Offsetting financial assets and financial liabilities

The following table includes financial assets and liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position. The table shows the potential effect on the Bank's statement of financial position on financial instruments that have been shown in a gross position where right of set-off exists under certain circumstances that do not qualify for netting on the statement of financial position.

Similar agreements include derivative clearing agreements, master repurchase agreements and master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements and securities borrowing and lending agreements. Loans and deposits are not disclosed in the below table, unless they are offset in the statement of financial position.

The Bank uses the ISDA (International Swaps and Derivatives Association) master netting arrangements for derivatives to mitigate the credit risk. The ISDA and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties of the agreement a right of set-off recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties.

The Bank receives and gives collateral in the form of cash and marketable securities in respect of derivatives, reverse repo agreements, repo agreements and securities lending and borrowing transactions.

							December 31, 2019
				Related Amounts Not Offset in the Statement of Financial Position			
	Gross Amounts	**Offsetting Counterparty Position in the Statement of Financial Position**	**Net Amounts Presented in the Statement of Financial Position**	**Financial Instruments**	**Cash Collaterals Received/ Pledged**	**Financial Instrument Collaterals Recognized in the Off Balance Sheet**	**Net Amount**
Assets							
Derivative assets	169,794	-	169,794	(77,240)	(32,292)	-	60,262
Total	**169,794**	**-**	**169,794**	**(77,240)**	**(32,292)**	**-**	**60,262**
Liabilities							
Derivative liabilities	164,517	-	164,517	(77,240)	(8,065)	-	79,212
Repo agreements	48,564	-	48,564	(1,805)	-	-	46,759
Total	**213,081**	**-**	**213,081**	**(79,045)**	**(8,065)**	**-**	**125,971**

							December 31, 2018
				Related Amounts Not Offset in the Statement of Financial Position			
	Gross Amounts	**Offsetting Counterparty Position in the Statement of Financial Position**	**Net Amounts Presented in the Statement of Financial Position**	**Financial Instruments**	**Cash Collaterals Received/ Pledged**	**Financial Instrument Collaterals Recognized in the Off Balance Sheet**	**Net Amount**
Assets							
Derivative assets	189,861	-	189,861	(87,391)	(45,038)	-	57,432
Reverse repo agreements	111,292	-	111,292	-	-	(110,222)	1,070
Total	**301,153**	**-**	**301,153**	**(87,391)**	**(45,038)**	**(110,222)**	**58,502**
Liabilities							
Derivative liabilities	182,696	-	182,696	(87,391)	(20,769)	-	74,536
Repo agreements	43,488	-	43,488	43,491	-	-	86,979
Total	**226,184**	**-**	**226,184**	**(43,900)**	**(20,769)**	**-**	**161,515**

35. Commitments and contingencies

To meet the financial needs of customers, the Bank issues various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are, therefore, part of the overall risk of the Bank. In many instances, the amount recognized on the statement of financial position for incurred obligations does not represent the loss potential of the arrangement in full.

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers, contingent on the failure of the customer to perform under the terms of the contract. Guarantees carry the same credit risk as loans. Credit guarantees can be in the form of bills of exchange, irrevocable letters of credit, advance payment guarantees, or endorsement liabilities from bills rediscounted.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. With respect to credit risk on commitments to extend the credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

	December 31, 2019	**December 31, 2018**
Contingent liabilities with respect to irrevocable letters of credit - import	285,327	204,393
Contingent liabilities with respect to letters of guarantee granted - corporates	72,241	107,263
Contingent liabilities with respect to irrevocable letters of credit - export	113,706	111,765
Contingent liabilities with respect to letters of guarantee granted - banks	14,170	5,874
Contingent liabilities with respect other guarantees	2,173	694
Total non-cash loans	**487,617**	**429,989**
Credit-line commitments	18,601	90,352
Credit-card limits	178,833	169,873
Other commitments	-	220
Total	**685,051**	**690,434**

Litigation claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects the claims might have on its financial standing.

As at 31 December 2019, the Bank and the Bank's subsidiary, Credit Europe Bank (Romania) S.A., are involved in number of litigations regarding abusive clauses in consumer contracts, for which provision at amount of EUR 3,364 (2018: EUR 5,060) is already provided for in the consolidated statement of financial position. Additionally, Credit Europe Bank (Romania) S.A. performed a comprehensive assessment for the entire retail loan portfolio in order to determine potential additional contributions in respect of potential litigations to be initiated by customers. As result, as at 31 December 2019, the Bank estimated a contingent liability at amount of EUR 8,007 (2018: EUR 10,084).

As of December 31, 2019, there is a legal claim against the Bank in respect of a case where repayment of the insurance proceeds of USD 22 million is claimed from the Bank. The Bank's legal advisor's opinion is that it is possible, but not probable, that the court ruling may be in favour of the claimant. Accordingly, no provision for any claims has been made in these financial statements. The Bank has another legal claim related contingent liability of EUR 836 where repayment of loans is claimed from the Bank and there is a possible obligation.

36. Related parties

The Bank's Parent Company is Credit Europe Group N.V., The Netherlands, and the Ultimate Parent Company is FİBA Holding A.Ş., Turkey, both ultimately controlled by a single individual, Mr. Hüsnü Özyeğin.

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in financial and operating decisions. The Bank enters into transactions with its Parent company, ultimate parent company and other related parties controlled by Mr. Hüsnü Özyeğin in the ordinary course of business at commercial interest and commission rates. The Bank provides general banking services to related parties including current accounts, time deposits, fx transactions, fiduciary transactions, brokerage activities and custodian services. All loans and advances to related parties are performing advances.

All amounts included in the financial statements stated in the table below relate to Group companies controlled by Mr. Hüsnü Özyeğin:

				December 31, 2019				December 31, 2018
	Parent Company	**Ultimate Parent Company**	**Associates and joint ventures**	**Other Related Parties**	**Parent Company**	**Ultimate Parent Company**	**Associates and joint ventures**	**Other Related Parties**
Assets								
Loans and receivables – banks	-	-	-	2,155	-	-	-	1,833
Loans and receivables – customers	25,554	-	-	97,530	25,172	-	-	101,414
Derivative financial instruments	482	150	-	11,871	124	-	-	1,778
Liabilities								
Due to banks	-	-	-	319	-	-	-	29,002
Due to customers	484	6,741	4,738	133,905	1,939	7,958	57	93,853
Derivative financial instruments	22	82	-	6,940	21	912	-	411
Subordinated liabilities	44,638	-	-	-	43,826	-	-	-
Commitment and contingencies	-	-	-	89	-	-	-	115

All credit risk exposures related to derivate financial instruments are fully collateralized through pledge agreements. As of December 31, 2019, the Bank does not have any provisions regarding related party balances (2018: None).

The income and expenses in respect of related parties included in the financial statements are as follows:

				January 1-December 31, 2019				January 1-December 31, 2018
	Parent Company	**Ultimate Parent Company**	**Associates and joint ventures**	**Other Related Parties**	**Parent Company**	**Ultimate Parent Company**	**Associates and joint ventures**	**Other Related Parties**
Interest income	1,616	-	-	1,494	320	-	-	2,310
Interest expense	(3,991)	(122)	-	(528)	(3,855)	-	-	(82)
Commission income	15	44	-	487	68	33	-	982
Commission expense	-	-	-	(31)	(242)	-	-	(662)
Net trading results	-	355	-	1,656	-	161	-	2,221
Other operating income	-	-	-	957	-	-	-	109
Operating expenses	-	-	(1,188)	(315)	-	-	1,157	(1,074)

During 2019, EUR 40,289 loans have been sold to related parties and EUR 156 net gain has been recognized in the consolidated statement of income. Pricing of the loans have been determined in accordance with arm's length principle.

Key management is defined as those persons in the Bank's Supervisory and Managing Board. The number of key management personnel is 11, but the figures are including 11th number who left as per end-of April (2018: 11). Key management personnel and their immediate relatives have transactions in the ordinary course of business at commercial interest and commission rates with the Bank. Loans granted to key management are as follows:

	December 31, 2019	December 31, 2018
Loans and receivables - customers	21	91

As of December 31, 2019, the Bank does not have any provisions regarding the balances with key management personnel (2018: None). Key management costs, including remuneration and fees for the year ended December 31, 2019 amounted to EUR 3,517 (2018: EUR 4,220). Pension plan contribution amounted to EUR 189 (2018: EUR 84).

37. Risk management

Credit Europe Bank has set policy-level standards in accordance with the regulations of the Dutch Central Bank (De Nederlandsche Bank – DNB) and the guidelines published by the Basel Committee and the European Banking Authority (EBA).

The core elements of the bank's risk management and control framework are:

- Adhering to the risk appetite and strategy set
- Periodically assessing the risk governance structure
- Maintaining capital management in line with the capital strategy
- Managing financial and operational risk in line with the risk appetite and strategy

Risk Appetite and Risk Governance

The risk management philosophy requires direct reporting lines and a clear division of tasks and responsibilities. At the same time, it ensures that bank-wide criteria for acceptance, monitoring, control and management of risks are deeply rooted. We clearly separate risk ownership from business activities.

Main pillars of the risk appetite are illustrated below:

QUALITATIVE

Governance

- Standardized policies, guidelines and limits
- Risk tolerance is proposed and executed by the Managing Board upon the approval of the Supervisory Board
- Risk appetite in certain geographies and segments is determined in accordance with local presence and expertise
- Risk management is centralized and functions independently from the business lines

Reputation

- Ensure high financial reporting transparency and efficient external communications

QUANTITATIVE

Credit risk concentration

- Diversified exposure within different geographies through retail, SME and corporate clients.
- Low sovereign exposure

Liquidity

- No risk tolerance for liquidity risk, restrictions on short-term funding and credit-sensitive liabilities
- Insignificant liability concentration

Trading and ALM

- Minor sensitivity to trading risk and limited interest rate mismatches in the banking book
- No exposure to securitized/re-securitized assets or CDOs

CEB exercises full control over its subsidiaries' business performance and steers their risk appetite. In addition, we employ the following governance structure of risk management:

- Effective Audit & Risk Committees at subsidiary as well as consolidated level;
- Direct reporting of general managers of the banks' subsidiaries to the CEO of CEB;
- Presence of a global CRO function on the Managing Board;
- A uniform credit committee structure at both local and the consolidated level.

The Audit and Risk Committee (ARC) at the consolidated level plays a pivotal role in CEB's risk governance framework. ARC meets four times a year and receives regular reports and updates on the Bank's actual risk appetite with respect to the approved risk appetite statement. The Committee reviews and monitors the limits for individual types of risks and takes decisions whether principal risks have been properly identified and are being appropriately managed. ARC also makes assessments on the existing risk management capacity / know-how of the Bank and raises action items / investment plans –where necessary- to reach the desired level.

In line with the ARC recommendations, we continued to invest in the Bank's risk management systems in 2017, including but not limited to the streamlining of the credit process, particularly with regard to capital planning, and implementing integrated stress testing tools.

Capital Management

A capital level commensurate with the Bank's risk profile is the key to financial resilience. CEB operates with an optimum level and mix of capital resources. A centralized regulatory/internal capital management model plays a major role in this process. The internal capital model incorporates detailed scenario analyses of key risk factors and their potential effects on income statement and the Bank's capital base under different assumptions. This framework is designed to ensure CEB has sufficient capital resources to meet the capital requirements of DNB, as well as those of local regulators in our operating countries.

It further ensures that we have capital available to meet our own risk appetite and internal guidelines. We place great emphasis on the strength of our capital base as a way to maintain investor, creditor and market confidence, and to sustain future business development.

CEB allocates assets in accordance with the risk-return thresholds defined in our risk appetite statement. Business units are required to fully understand the inherent risk-reward profile of their business and to generate a specific level of return on regulatory/internal capital requirements. The CEB risk strategy has proved its value, not only by providing consistently strong financial results, but also by yielding consistently robust returns on equity.

The Bank's capital-management objectives are to:

- Maintain sufficient capital resources to meet the DNB's minimum regulatory capital requirements.
- Ensure that locally regulated subsidiaries can meet their minimum capital requirements.
- Achieve adequate capital levels to support the bank's risk appetite and internal capital requirements.
- Maintain a strong capital base to reassure investors, creditors and markets, and to sustain future business development.

To support its capital-management objectives, the Bank takes into account:

- Possible volatility in anticipated demand for capital caused by new business opportunities, including acquisitions, or by deterioration in the credit quality of the Bank's assets
- Possible volatility of reported profits and other capital resources compared with forecast.
- Capital ratio sensitivity to foreign-exchange-rate movements.

Regulatory Capital

Starting from January 1, 2015, CEB and all its subsidiaries are subject to CRD IV (Capital Requirement Derivative) rules:

- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC
- Regulation (EU) no 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

The Bank applies the standardized approach for credit risk, market risks and operational risk. Banks are expected to meet the capital-requirements constraints imposed by the Basel III accord.

The Bank's total own funds consist of Core Tier I capital (also named as common Equity Tier I, CET 1), Additional Tier I capital (AT 1) and Tier II capital. The various elements making up both components are presented in the table below:

	December 31, 2019	December 31, 2018
Total Equity	**620,871**	**584,085**
- Current year profit (1)	(19,494)	-
- Non-eligible minority interest (2)	(2,445)	(2,582)
Prudential filters		
- Cash flow hedge reserve	(20)	48
- Prudent valuation	(918)	(948)
- Intangible asset (2)	(4,800)	(7,502)
- Deferred tax assets that rely on future profitability and do not arise from temporary differences (2)	(15,020)	(25,003)
- transitional adjustments to IFRS 9 provisions (85%) (3)	30,962	34,676
Core Tier I	**609,136**	**582,774**
Perpetual Tier I capital	44,638	43,826
- transitional adjustments to AT1 Capital	-	-
Additional Tier I	**44,638**	**43,826**
Total Tier I capital	**653,774**	**626,600**
Tier II capital		
Subordinated capital	132,145	131,050
Total Tier II capital	**132,145**	**131,050**
Total own funds	**785,919**	**757,650**

(1) Current year profit is excluded from total own funds based on article 26, point 2 of CRR IV
(2) Under CRD IV frame, additional items listed below shall be deducted fully to enhance own funds quality:
- Non-eligible minority interest
- Other intangible asset (Non-solvency deductible under Basel II framework)
- Deferred tax assets that rely on future profitability and do not arise from temporary differences

(3) Transitional adjustment is permitted to apply the calculation by adding 85% IFRS 9 Provisions back to total own funds

The Bank and its individually supervised subsidiaries have complied with all externally imposed capital requirements throughout the reporting period and maintained their capital ratios above the regulatory minimum ratios.

Solvency ratio	**December 31, 2019**	**December 31, 2018**
Capital ratio	20.22%	19.35%
Tier I ratio	16.82%	16.01%
Core Tier I	15.67%	14.89%
RWA	**3,887,367**	**3,914,512**

Credit risk

Credit risk is defined as the current or prospective threat to the Bank's earnings and capital because of counterparty's failure to comply with financial or other contractual obligations.

Credit risk constitutes the most significant risk of the bank and arises mainly from its trade-finance, lending, treasury, mortgage and leasing businesses.

Concentration limits

The Bank has established maximum concentration limits –in terms of both nominal and capital consumption- over country, industry and single-name concentrations to manage concentration risk in its loan portfolio.

Credit risk is managed by following tools and principles:

Risk mitigation

CEB actively uses collateral management as the major risk mitigation mechanism. Collaterals are managed and followed-up in processes fully supported by the bank's banking system by means of collateral-transaction linkages, blocked accounts and system checking of collateralization.

In particular, specialized lending is run through on collaterals and documentation. Valuation reports, survey report updates, insurance policies management are followed up systematically. Outsourcing is also utilized by Collateral Management Agreements and Collateral Monitoring Agreements with expert collateral management agents who have the management and reporting capabilities on the site of the collateral.

CEB follows legal certainty and operational requirements as a pre-requisite for consideration risk mitigation effects of the collaterals. Legal department conducts in-depth legal review confirming the enforceability of the collateral arrangements under the law applicable to these arrangements in all relevant jurisdictions.

Collateral value should not have a material positive correlation with the credit quality of the provider. The market value of the collateral should be appraised at least annually or more often whenever there is a reason to believe that a significant decrease in its market value has occurred.

Internal Rating Models and Scorecards

The Bank borrower rating systems require fundamental credit analysis (corporate) and behavioural inputs (retail) and supplemented by statistical models.

The obligor-rating framework has several building blocks to ensure that qualitative and quantitative risk drivers of corporate default are inherent in the rating process. Since 2011, Internal Rating System model coverage has been extended with new specialized lending models, which ensure more robust estimation of initial risk parameters for transactional lending portfolios. In line with the Bank lending practices, seven sub-classes of specialized lending, namely structured trade finance, marine object finance, marine project (shipbuilding) finance, income producing real estate finance, real estate development finance, object finance and other project finance, are separately identified within the corporate asset class regarding the applied rating criteria. In 2017, the Bank implemented new object finance, real estate finance and balance sheet lending rating models and finalized the process of migration to the 21-grade master scale -which covers both corporate and retail lending.

The Bank has established a centre of excellence for retail risk management responsible for scoring, risk based pricing, algorithm development, stress testing, monitoring and reporting. The centre is composed of highly skilled statisticians, bankers, econometrists, database programmers and risk managers. The team has worked in projects in several countries including Russia, Romania, Germany, Turkey and Belgium. Now through their efforts, all banking entities are taking the right risk with the right interest margin.

Stress testing

The Bank puts stress-testing and capital planning at the centre of its internal capital assessment process. The factual starting point of the capital planning process is the three-year business plan which reflects the baseline assumptions on the global economy. Macroeconomic assumptions are mainly based on a survey of multiple sources to ensure objectivity and consistency. Then, the Bank identifies the potential threats to its business plan and capital adequacy based on a set of adverse scenarios.

Having a hypothetical stress testing framework, the bank’s stress-testing methodology discourages both under-and over-reliance on internal data. The magnitude of the shocks varied across different portfolios based on their expected default correlation with the systematic risks which materialize under the adverse scenario.

The Bank’s credit-risk stress tests shock both default- and recovery-related risk parameters. In particular, risk concentrations in the portfolio are penalized with harsher shocks. The Bank’s stress-testing methodology does not aim to make accurate forecasts of the downturns, but instead aims to capture the tail loss by simulating the unexpected and the undesirable.

37. a. Credit exposure

Maximum credit-risk exposure

The Bank identifies its maximum credit exposure as the sum of all transactions that may potentially expose the Bank to credit losses, should the counterparty not fulfil its contractual obligations. The maximum credit exposure presented in the table below comprises on- and off-balance sheet items. Credit exposure is measured without taking account of any collateral held or other credit enhancements.

Maximum credit-risk exposure, net of impairment allowances

On-balance sheet items are presented at their gross carrying amount, gross of impairment allowances. Derivative financial instruments are assessed at fair value of future cash flows.

The off-balance credit risk exposure comprises:

- Letters of guarantee granted and letters of credit issued or confirmed, shown at the maximum amount that the Bank would have to pay if the guarantees or letters of credit are called upon; and,
- Undrawn credit-card limits
- Revocable credit line commitments are excluded, as they do not create credit risk.

	December 31, 2019	December 31, 2018
Balance sheet items		
Balances with central banks	719,079	633,208
Financial assets measured at fair value through profit or loss	227,913	87,728
Financial investments	537,482	692,049
Loans and receivables - banks	189,233	433,336
Loans and receivables - customers	2,808,620	2,863,428
Derivative financial instruments	169,794	189,861
Subtotal	**4,652,121**	**4,899,610**
Off- balance sheet items		
Issued letters of guarantee	88,584	113,831
Issued irrevocable letters of credit	399,033	316,158
Undrawn credit-card limits	178,833	169,873
Other commitments and contingent liabilities	18,601	-
Total off-balance sheet	**685,051**	**599,862**
Maximum credit risk exposure	**5,337,172**	**5,499,472**

Concentration of credit exposure

Concentration risk normally arises when number of counterparties operates in the same geographical region or within the same economic sector, and thus is affected to the same extent as economic, political and other conditions.

37.b. Sector concentration

The Bank monitors its credit exposure within the following counterparty groups: banks and central governments, financial investments, derivatives, corporate customers, retail customers, residential mortgage loans and SME customers. Exposure to corporate customers is presented, broken down by industry, according to the internal sector definitions.

				December 31, 2019		December 31, 2018
	On-balance sheet	Off-balance sheet	Total exposure	% of total exposure	Total exposure	% of total exposure
Balances with central banks	719,079	-	719,079	13.47%	633,208	11.51%
Financial assets measured at fair value through profit or loss	227,913	-	227,913	4.27%	87,728	1.60%
Financial investments	537,482	-	537,482	10.07%	692,049	12.58%
Loans and receivables - banks	189,233	127,529	316,762	5.94%	550,648	10.01%
Loans and receivables - customers	2,808,620	557,522	3,366,142	63.07%	3,345,978	60.84%
Loans and receivables - corporate	*2,432,518*	*374,296*	*2,806,814*	*52.59%*	*2,711,773*	*49.31%*
Oil & Derivatives	*423,122*	*267,032*	*690,154*	*12.93%*	*413,954*	*7.53%*
Real Estate	*313,516*	*7,057*	*320,573*	*6.01%*	*228,836*	*4.16%*
Leisure & Tourism	*298,748*	*173*	*298,921*	*5.60%*	*318,160*	*5.79%*
Financial service and investment	*240,243*	*60*	*240,303*	*4.50%*	*177,211*	*3.22%*
Energy & Coal	*207,355*	*3,936*	*211,291*	*3.96%*	*144,926*	*2.64%*
Shipping & Shipyard	*175,975*	*6,966*	*182,941*	*3.43%*	*223,618*	*4.07%*
Iron-Steel-Metals & Alloys	*117,296*	*38,989*	*156,285*	*2.93%*	*189,946*	*3.45%*
Construction & Installation	*137,588*	*11,091*	*148,679*	*2.79%*	*278,672*	*5.07%*
Soft Commodities & Agricultural Products	*85,558*	*2,793*	*88,351*	*1.66%*	*46,857*	*0.85%*
Petrochemical, Plasticizers & Derivatives	*80,754*	*2,621*	*83,375*	*1.56%*	*111,827*	*2.03%*
Fertilizers	*75,918*	*3,899*	*79,817*	*1.50%*	*79,072*	*1.44%*
Paper and Pulp & Forestry	*37,645*	*6*	*37,651*	*0.71%*	*21,635*	*0.39%*
Transportation, Logistics & Warehousing	*36,123*	*353*	*36,476*	*0.68%*	*143,807*	*2.61%*
Retail	*29,200*	*5,928*	*35,128*	*0.66%*	*33,706*	*0.61%*
Building materials	*13,091*	*15,927*	*29,018*	*0.54%*	*4,978*	*0.09%*
Holding	*25,554*	*-*	*25,554*	*0.48%*	*68,497*	*1.25%*
Automotives & derivatives	*22,909*	*620*	*23,529*	*0.44%*	*10,166*	*0.18%*
Food, Beverage & Tobacco	*18,776*	*491*	*19,267*	*0.36%*	*16,731*	*0.30%*
Public loans	*53,766*	*-*	*53,766*	*1.01%*	*74,982*	*1.36%*
Other	*39,381*	*6,354*	*45,735*	*0.86%*	*124,192*	*2.26%*
Loans and receivables - retail customers and SMEs	*376,102*	*183,226*	*559,328*	*10.48%*	*634,205*	*11.53%*
Exposure to retail customers	*114,515*	*178,833*	*293,348*	*5.50%*	*302,171*	*5.48%*
Exposure secured by residential real estate	*241,697*	*-*	*241,697*	*4.53%*	*310,699*	*5.64%*
Exposure to SME	*19,890*	*4,393*	*24,283*	*0.45%*	*21,335*	*0.41%*
Derivative financial instruments	*169,794*	*-*	*169,794*	*3.18%*	*189,861*	*3.45%*
Total credit risk exposure	**4,652,121**	**685,051**	**5,337,172**	**100.00%**	**5,499,472**	**100.00%**

The top five industries account for 62.75% (2018: 53.96%) of the total corporate portfolio, reflecting the traditional business areas of the Bank where it possesses strong expertise and profound industry practice.

37.c. Geographical concentration

The following table provides the distribution of the Bank's credit exposure by risk country as of December 31, 2019:

	Russia	Turkey	Romania	Ukraine	Other emerging markets	Developed markets(*)	December 31, 2019 Total exposure
Balance sheet items							
Demand deposits with central banks	-	-	144,916	11,081	-	563,082	719,079
Financial assets measured at FVTPL	-	1,207	17,978	-	145,393	63,335	227,913
Financial investments	31,074	-	133,349	20,909	1,029	351,121	537,482
Loans and receivables - banks	174	25,940	352	-	59,659	103,108	189,233
Loans and receivables - customers	112,541	584,045	620,650	78,092	359,020	1,054,272	2,808,620
Derivative financial instruments	-	49,294	2	-	-	120,498	169,794
Total balance sheet	**143,789**	**660,486**	**917,247**	**110,082**	**565,101**	**2,255,416**	**4,652,121**
Off-balance sheet items	89	52,885	201,056	232	152,318	278,471	685,051
Total credit-risk exposure	**143,878**	**713,371**	**1,118,303**	**110,314**	**717,419**	**2,533,887**	**5,337,172**

The following table provides the distribution of the Bank's credit exposure by risk country as of December 31, 2018:

	Russia	Turkey	Romania	Ukraine	Other emerging markets	Developed markets(*)	December 31, 2018 Total exposure
Balance sheet items							
Demand deposits with central banks	-	-	169,966	244	-	462,998	633,208
Financial assets measured at FVTPL	-	2,942	18,174	-	55,552	11,060	87,728
Financial investments	21,635	-	225,821	3,783	5,251	435,559	692,049
Loans and receivables - banks	326	34,788	3,612	-	125,113	269,497	433,336
Loans and receivables - customers	175,972	720,485	706,782	49,701	172,990	1,037,498	2,863,428
Derivative financial instruments	5,237	36,111	1	42	3	148,467	189,861
Total balance sheet	**203,170**	**794,326**	**1,124,356**	**53,770**	**358,909**	**2,365,079**	**4,899,610**
Off-balance sheet items	87	91,689	179,363	137	57,700	270,886	599,862
Total credit-risk exposure	**203,257**	**886,015**	**1,303,719**	**53,907**	**416,609**	**2,635,965**	**5,499,472**

* Developed countries represent advanced economies published by International Monetary Fund.

37.d. Collaterals and other credit enhancements obtained

The Bank's credit policy requires that the loan extension process be conducted with strong evidence of the customer's ability to repay the loan. Collaterals are also actively used for the purposes of credit risk mitigation.
In the tables below, collaterals are aggregated into two groups:

- Financial collaterals, which includes any kind of documentary collateral, such as bills of exchange or trade-related promissory notes. Cash collaterals, credit derivatives and other guarantees are also part of this group.
- Physical collaterals mainly comprised of commercial and residential mortgages.

Although the Bank accepts personal and corporate guarantees as collateral, they are not included in the tables below, due to their limited credit risk mitigation ability.

Breakdown of collateralized exposure by collateral type					December 31, 2019
	Total exposure, net	Fair value of financial collaterals	Fair value of physical collaterals	Total collaterals obtained	Collaterals to total net exposure
Balance sheet					
Demand deposits with central banks	719,079	-	-	-	-
Financial assets measured at fair value through profit or loss	227,913	10,926	12,720	23,646	10%
Financial investments	537,482	-	-	-	-
Loans and receivables - banks	189,233	4,467	-	4,467	2%
Loans and receivables - customers	2,808,620	302,432	1,051,692	1,354,124	48%
Derivative financial instruments	169,794	-	-	-	-
Total balance sheet	**4,652,121**	**317,825**	**1,064,412**	**1,382,237**	**30%**
Off-balance sheet	685,051	6,037	-	6,037	1%
Total credit risk exposure	**5,337,172**	**323,862**	**1,064,412**	**1,388,274**	**26%**

Breakdown of collateralized exposure by collateral type					December 31, 2018
	Total exposure, net	Fair value of financial collaterals	Fair value of physical collaterals	Total collaterals obtained	Collaterals to total net exposure
Balance sheet					
Demand deposits with central banks	633,208	-	-	-	-
Financial assets measured at fair value through profit or loss	87,728	11,632	15,021	26,653	30%
Financial investments	692,049	-	-	-	-
Loans and receivables - banks	433,336	117	-	117	0%
Loans and receivables - customers	2,863,428	396,770	870,464	1,267,234	44%
Derivative financial instruments	189,861	2	-	2	0%
Total balance sheet	**4,899,610**	**408,521**	**885,485**	**1,294,006**	**26%**
Off-balance sheet	599,862	11,587	1,009	12,596	2%
Total credit risk exposure	**5,499,472**	**420,108**	**886,494**	**1,306,602**	**24%**

Collaterals for derivative financial instruments consist mostly of the margins called by the Bank for its OTC derivative assets.

37.e. Credit quality of financial assets

The following table presents the credit quality of the Bank's financial assets, as of December 31, 2019 and 2018. In assessing the credit quality of its financial assets, the Bank obtains ratings from eligible credit assessment institutions, namely Fitch, Standard & Poor's (S&P) and Moody's. In order to compare assets, the ratings below were mapped to Fitch's rating scale.

							December 31, 2019
	External rating class AAA / AA-	**A+ / A-**	**BBB+ / BBB-**	**BB+ / B-**	**Below B-**	**No rating**	**Total**
Demand deposits with central banks	562,550	532	144,916	11,081	-	-	719,079
Financial assets measured at fair value through profit or loss	10,166	49,506	1,166	95,887	-	71,188	227,913
Financial investments	21,149	57,897	273,875	49,627	-	134,934	537,482
Loans and receivables - banks	24,066	45,059	13,526	74,969	-	31,613	189,233
Loans and receivables - customers	132,129	-	40,111	29,974	-	2,606,406	2,808,620
Derivative financial instruments	3,734	60,977	857	-	-	104,226	169,794
Off-balance sheet	13,181	49,843	25,775	45,395	311	550,546	685,051
Total	**766,975**	**263,814**	**500,226**	**306,933**	**311**	**3,498,913**	**5,337,172**

							December 31, 2018
	External rating class AAA / AA-	**A+ / A-**	**BBB+ / BBB-**	**BB+ / B-**	**Below B-**	**No rating**	**Total**
Demand deposits with central banks	462,708	290	169,966	-	244	-	633,208
Financial assets measured at fair value through profit or loss	2,147	21,802	21,780	11,700	2,006	28,293	87,728
Financial investments	48,677	174,227	244,342	28,110	3,783	192,910	692,049
Loans and receivables - banks	61,625	82,859	76,334	86,092	19,248	107,178	433,336
Loans and receivables - customers	74,982	-	21,995	25,172	-	2,741,279	2,863,428
Derivative financial instruments	13,000	104,491	35	5,346	-	66,989	189,861
Off-balance sheet	529	1,130	20,027	80,909	-	497,267	599,862
Total	**663,668**	**384,799**	**554,479**	**237,329**	**25,281**	**3,633,916**	**5,499,472**

Credit risk rating process

In principle, all risk ratings are based on a Risk Rating (PD) Model. The Bank's PD master scale consists of 21 grades (1=highest credit quality, 21=lowest credit quality) for performing loans, and 1 grade (D) for default.

The grades are composed of the following categories:

- Investment grade (1 to 10)
- Non-investment grade (11 to 16)
- Sub-standard (17 to 21)
- Non-performing (D)

The following tables present the credit quality of the Bank's loans to customers exposures (including off-balance sheet exposure) by credit risk rating grade, as of December 31, 2019 and 2018.

December 31, 2019	**Stage 1**		**Stage 2**		**Stage 3**		**TOTAL**	
Loans and receivables - customers	**Gross loans**	**ECL**	**Gross loans**	**ECL**	**Gross loans**	**ECL**	**Gross loans**	**ECL**
Investment grade	790,832	(531)	20,499	(160)	-	-	811,331	(691)
Non-investment grade	1,585,342	(9,809)	358,071	(10,533)	-	-	1,943,413	(20,342)
Sub-standard	152,249	(4,413)	44,486	(4,242)	-	-	196,735	(8,655)
Non-performing	-	-	-	-	267,114	(36,647)	267,114	(36,647)
Non rated	139,763	-	7,787	(15)	-	-	147,550	(15)
Total	**2,668,186**	**(14,753)**	**430,843**	**(14,950)**	**267,114**	**(36,647)**	**3,366,143**	**(66,350)**

December 31, 2018	**Stage 1**		**Stage 2**		**Stage 3**		**TOTAL**	
Loans and receivables - customers	**Gross loans**	**ECL**	**Gross loans**	**ECL**	**Gross loans**	**ECL**	**Gross loans**	**ECL**
Investment grade	660,677	(746)	11,559	(92)	-	-	672,236	(838)
Non-investment grade	1,660,161	(11,898)	367,702	(15,910)	-	-	2,027,863	(27,808)
Sub-standard	108,428	(3,810)	134,435	(18,420)	-	-	242,863	(22,230)
Non-performing	-	-	-	-	314,769	(113,356)	314,769	(113,356)
Non rated	79,574	-	8,673	(40)	-	-	88,247	(40)
Total	**2,508,840**	**(16,454)**	**522,369**	**(34,462)**	**314,769**	**(113,356)**	**3,345,978**	**(164,272)**

37.f. Credit quality of financial investments, loans and receivables - banks and loans and advances to customers

Loans and receivables - customers

The next section provides a detailed overview of the credit quality of the Bank's loans and advances portfolio.
In 2019, the bank produced Corporate Credit Exposure Treatment Policy according to the EBA's technical standards. Corporate Credit Exposure Treatment Policy defines the minimum standards for, and establishes a single view, on identification and treatment of non-performing corporate credit exposures in Credit Europe Bank N.V. and all of its subsidiaries. This policy also sets minimum standards and explains the processes to be followed for the identification and treatment of corporate obligors whose creditworthiness and repayment capacity of their performing exposures may potentially deteriorate or have already deteriorated, even though their credit exposures are still performing. Next to that, it describes the processes regarding restructuring, collateral valuation, disposal, provisioning and the write-off of non-performing corporate exposures. The new policy has replaced the existing Loan Assessment and Impairment Policy, the Credit Risk Monitoring Policy and the Write-off Policy.

CEB differentiates between the following categories of assets in the loan portfolio:

- Fully performing: Fully performing exposures are defined as credit exposures that are not past-due or exposures past-due up to 30 days, provided that there is no significant increase in credit risk since origination. An exposure is past-due when any amount of principal, interest or fee has not been paid at the date it was due. Fully performing exposures correspond to the IFRS 9 Stage 1 classification.
- Underperforming: Underperforming exposures belong to a sub-category of the performing asset class, where the Bank observes a significant increase in credit risk since origination. Underperformance might become evident if an exposure is past-due more than 30 days, subject to forbearance measures, or the assigned PD has increased significantly since the origination of the exposure (measured by CEB's internal PD Master Scale). Underperforming exposures correspond to the IFRS 9 Stage 2 classification.
- Non-performing: Non-performing loans (NPL) are defined as exposures that satisfy either or both of the following criteria:

1. exposures which are more than 90 days past-due;
2. the obligor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of past-due days.

An exposure is past-due only if there is a legal obligation to make a payment and this payment is compulsory. The counting of days past-due starts as soon as any amount of principal, interest or fee has not been paid to CEB at the date this obligation was due.
A non-performing exposure corresponds to the IFRS 9 Stage 3 classification.

Definitions of asset classifications, entry criteria, additional indicators and exit criteria are strengthened and brought in line with the latest regulatory requirements.

The following tables provide a breakdown of the Bank's loans and advances to customers per credit-quality group, defined above. It also shows the allocation of impairments and collaterals obtained per group.

	Gross loans	ECL	Net loans	Financial collateral	Physical collateral	Total collateral	December 31, 2019 Collateral to net loans
Corporate loans	**2,432,518**	**(54,270)**	**2,378,248**	**297,592**	**831,377**	**1,128,969**	**47%**
Stage 1	2,021,703	(12,943)	2,008,760	226,981	575,359	802,340	40%
Stage 2	211,931	(10,112)	201,819	38,927	132,278	171,205	85%
Stage 3	198,884	(31,215)	167,669	31,684	123,740	155,424	93%
Retail loans (incl. mortgages)	**356,212**	**(11,266)**	**344,946**	**4,529**	**201,146**	**205,675**	**60%**
Stage 1	159,028	(1,774)	157,254	4,183	70,891	75,074	48%
Stage 2	141,569	(4,814)	136,755	261	79,331	79,592	58%
Stage 3	55,615	(4,678)	50,937	85	50,924	51,009	100%
SME loans	**19,890**	**(814)**	**19,076**	**311**	**19,169**	**19,480**	**102%**
Stage 1	10,025	(36)	9,989	16	10,008	10,024	100%
Stage 2	6,305	(24)	6,281	295	5,999	6,294	100%
Stage 3	3,560	(754)	2,806	-	3,162	3,162	113%
Total exposure	**2,808,620**	**(66,350)**	**2,742,270**	**302,432**	**1,051,692**	**1,354,124**	**49%**
Total Stage 3 (NPLs)	258,059	(36,647)	221,412	31,769	177,826	209,595	-

	Gross loans	ECL	Net loans	Financial collateral	Physical collateral	Total collateral	December 31, 2018 Collateral to net loans
Corporate loans	**2,400,467**	**(85,262)**	**2,315,205**	**391,150**	**637,306**	**1,028,456**	**44%**
Stage 1	1,828,671	(13,419)	1,815,252	197,255	461,841	659,096	36%
Stage 2	393,181	(29,557)	363,624	118,501	100,841	219,342	60%
Stage 3	178,615	(42,286)	136,329	75,394	74,624	150,018	110%
Retail loans (incl. mortgages)	**442,997**	**(78,405)**	**364,592**	**5,545**	**213,655**	**219,200**	**60%**
Stage 1	196,782	(2,996)	193,786	4,535	72,997	77,532	40%
Stage 2	118,003	(4,892)	113,111	383	78,878	79,261	70%
Stage 3	128,212	(70,517)	57,695	627	61,780	62,407	108%
SME loans	**19,964**	**(605)**	**19,359**	**75**	**19,503**	**19,578**	**101%**
Stage 1	14,622	(39)	14,583	32	14,518	14,550	100%
Stage 2	1,358	(13)	1,345	18	1,327	1,345	100%
Stage 3	3,984	(553)	3,431	25	3,658	3,683	107%
Total exposure	**2,863,428**	**(164,272)**	**2,699,156**	**396,770**	**870,464**	**1,267,234**	**47%**
Total Stage 3 (NPLs)	310,811	(113,356)	197,455	76,046	140,062	216,108	109%

Further credit quality breakdown of retail loans are as below:

					December 31, 2019
	Gross loans	**ECL**	**Net loans**	**Total collateral**	**Collateral to net loans**
Credit cards	**97,702**	**(3,705)**	**93,997**	**-**	**-**
Stage 1	63,287	(1,389)	61,898	-	-
Stage 2	31,843	(703)	31,140	-	-
Stage 3	2,572	(1,613)	959	-	-
Mortgage	**241,666**	**(6,514)**	**235,152**	**201,197**	**86%**
Stage 1	82,694	(359)	82,335	70,891	86%
Stage 2	107,584	(4,017)	103,567	79,382	77%
Stage 3	51,388	(2,138)	49,250	50,924	103%
Other retail	**16,844**	**(1,047)**	**15,797**	**4,478**	**28%**
Stage 1	13,047	(26)	13,021	4,183	32%
Stage 2	2,141	(94)	2,047	210	10%
Stage 3	1,656	(927)	729	85	12%
Total retail exposure	**356,212**	**(11,266)**	**344,946**	**205,675**	**60%**
Total Stage 3 (NPLs)	55,616	(4,678)	50,938	51,009	100%

					December 31, 2018
	Gross loans	**ECL**	**Net loans**	**Total collateral**	**Collateral to net loans**
Credit cards	**100,663**	**(7,996)**	**92,667**	**-**	**-**
Stage 1	84,311	(2,054)	82,257	-	-
Stage 2	9,228	(202)	9,026	-	-
Stage 3	7,124	(5,740)	1,384	-	-
Mortgage	**310,699**	**(68,146)**	**242,553**	**214,161**	**88%**
Stage 1	87,779	(885)	86,894	72,997	84%
Stage 2	105,264	(4,631)	100,633	78,930	78%
Stage 3	117,656	(62,630)	55,026	62,234	113%
Other retail	**31,635**	**(2,263)**	**29,372**	**5,039**	**17%**
Stage 1	24,692	(57)	24,635	4,535	18%
Stage 2	3,511	(59)	3,452	331	10%
Stage 3	3,432	(2,147)	1,285	173	13%
Total retail exposure	**442,997**	**(78,405)**	**364,592**	**219,200**	**60%**
Total Stage 3 (NPLs)	128,212	(70,517)	57,695	62,407	108%

Strong collateralization forms a major component of CEB's risk appetite lending criteria and we believe this substantially mitigates the losses CEB might incur otherwise. The table above shows the collaterals held by the Bank against credit exposures. These valuations are renewed at least annually and conducted mostly by third party appraisers. In certain cases, particularly residential mortgage loans, CEB could employ internal appraisers but ensure that all internal valuations are benchmarked against market prices.

The following tables provide a summary of the Bank's forborne assets as of December 31, 2019 and December 31, 2018:

				December 31, 2019
	Stage 2		Stage 3	
Gross Exposure	**Modification to T&Cs(*)**	**Refinancing**	**Modification to T&Cs(*)**	**Refinancing**
Loans and receivables – banks	**-**	**-**	**-**	**-**
Loans and receivables – customers	**85,022**	**70,315**	**67,796**	**90,479**
Corporate loans	70,930	68,549	49,448	90,292
Retail loans (incl. mortgage)	13,976	1,766	16,188	126
SME	116	-	2,160	61
Total exposure	**85,022**	**70,315**	**67,796**	**90,479**

(*) Terms and conditions

				December 31, 2018
	Stage 2		Stage 3	
Gross Exposure	**Modification to T&Cs(*)**	**Refinancing**	**Modification to T&Cs(*)**	**Refinancing**
Loans and receivables – banks	**-**	**-**	**-**	**-**
Loans and receivables – customers	**206,358**	**61,667**	**52,598**	**18,997**
Corporate loans	191,125	59,717	22,826	18,496
Retail loans (incl. mortgage)	14,335	1,950	27,483	403
SME	898	-	2,289	98
Total exposure	**206,358**	**61,667**	**52,598**	**18,997**

(*) Terms and conditions

NPL ratio

Gross NPL ratio of the Bank defined according to the EBA guideline (EBA/GL/2018/06). For the NPL ratio, the gross carrying amount of NPLs and advances is divided by the gross carrying amount of total loans and advances subject to the NPL definition.

					December 31, 2019
	Demand deposits with central banks	**Non- trading financial assets mandatorily at FVTPL**	**Loans and receivables - banks**	**Loans and receivables - customers**	**TOTAL**
Gross exposure	719,079	32,256	189,233	2,808,620	**3,749,188**
NPLs (Gross)	-	32,256	925	258,059	**291,240**
Gross NPL ratio					**7.8%**
ECL	-	(8,610)	(925)	(66,350)	**(75,885)**
NPLs (Net)	-	23,646	-	191,709	**215,355**
Net NPL ratio					**5.7%**

					December 31, 2018
	Demand deposits with central banks	**Non- trading financial assets mandatorily at FVTPL**	**Loans and receivables - banks**	**Loans and receivables - customers**	**TOTAL**
Gross exposure	633,208	36,853	433,336	2,863,428	**3,966,825**
NPLs (Gross)	-	36,853	925	310,811	**348,589**
Gross NPL ratio					**8.8%**
ECL	-	(8,981)	(925)	(164,272)	**(174,178)**
NPLs (Net)	-	27,872	-	146,539	**174,411**
Net NPL ratio					**4.4%**

37.g. Aging of loans and advances to customers

The tables below present the Bank's portfolio of loans and advances to customers, broken down by delinquency bucket:

						December 31, 2019
Gross Exposure	**Loans that are not past due**	**Loans less than 30 days past due**	**Loans 30 or more but less than 60 days past due**	**Loans 60 or more but less than 90 days past due**	**Loans 90 days or more past due**	**Total loans to customers**
Corporate loans	2,242,414	14,857	139	17,734	157,374	2,432,518
Retail loans and residential mortgage loans	258,780	25,528	13,635	26,488	31,781	356,212
SME loans	15,792	63	295	3,740	-	19,890
Total loans and advances to customers	**2,516,986**	**40,448**	**14,069**	**47,962**	**189,155**	**2,808,620**

						December 31, 2018
Gross Exposure	**Loans that are not past due**	**Loans less than 30 days past due**	**Loans 30 or more but less than 60 days past due**	**Loans 60 or more but less than 90 days past due**	**Loans 90 days or more past due**	**Total loans to customers**
Corporate loans	2,198,571	34,996	697	4,304	161,899	2,400,467
Retail loans and residential mortgage loans	270,818	27,062	14,084	10,321	120,712	442,997
SME loans	15,764	140	221	111	3,728	19,964
Total loans and advances to customers	**2,485,153**	**62,198**	**15,002**	**14,736**	**286,339**	**2,863,428**

As of December 31, 2019, EUR 2,501,565 (2018: EUR 2,479,466) of total exposure is neither past due nor impaired, EUR 48,997 (2018: EUR 73,150) of total exposure is past due but not impaired.

37.h. Geographical concentration of loans advanced to customers, broken down by counterparty type

The following tables breaks down customers' loans and receivables by risk country:

							December 31, 2019
Gross exposure	**Russia**	**Romania**	**Turkey**	**Ukraine**	**Other emerging markets**	**Developed markets**	**Total exposure**
Corporate loans	**112,541**	**257,304**	**583,951**	**77,949**	**359,020**	**1,041,753**	**2,432,518**
Stage 1	88,345	225,937	358,387	59,519	314,186	975,329	**2,021,703**
Stage 2	5,009	14,958	126,421	1,383	37,441	26,719	**211,931**
Stage 3	19,187	16,409	99,143	17,047	7,393	39,705	**198,884**
Retail loans (incl. mortgages)	**-**	**343,456**	**94**	**143**	**-**	**12,519**	**356,212**
Stage 1	-	148,027	87	-	-	10,914	**159,028**
Stage 2	-	139,892	7	143	-	1,527	**141,569**
Stage 3	-	55,537	-	-	-	78	**55,615**
SME loans	**-**	**19,890**	**-**	**-**	**-**	**-**	**19,890**
Stage 1	-	10,025	-	-	-	-	**10,025**
Stage 2	-	6,305	-	-	-	-	**6,305**
Stage 3	-	3,560	-	-	-	-	**3,560**
Total exposure	**112,541**	**620,650**	**584,045**	**78,092**	**359,020**	**1,054,272**	**2,808,620**

							December 31, 2018
Gross exposure	**Russia**	**Romania**	**Turkey**	**Ukraine**	**Other emerging markets**	**Developed markets**	**Total exposure**
Corporate loans	**175,972**	**270,819**	**720,452**	**48,660**	**172,990**	**1,011,574**	**2,400,467**
Stage 1	133,898	226,134	346,233	25,634	164,734	932,038	**1,828,671**
Stage 2	34,653	27,501	302,736	7,150	-	21,141	**393,181**
Stage 3	7,421	17,184	71,483	15,876	8,256	58,395	**178,615**
Retail loans (incl. mortgages)	**-**	**415,999**	**33**	**1,041**	**-**	**25,924**	**442,997**
Stage 1	-	175,322	18	-	-	21,442	**196,782**
Stage 2	-	114,455	1	244	-	3,303	**118,003**
Stage 3	-	126,222	14	797	-	1,179	**128,212**
SME loans	**-**	**19,964**	**-**	**-**	**-**	**-**	**19,964**
Stage 1	-	14,622	-	-	-	-	**14,622**
Stage 2	-	1,358	-	-	-	-	**1,358**
Stage 3	-	3,984	-	-	-	-	**3,984**
Total exposure	**175,972**	**706,782**	**720,485**	**49,701**	**172,990**	**1,037,498**	**2,863,428**

37.i. Liquidity risk

The Bank defines liquidity risk as the current or prospective risk to earnings and capital arising from an institution's inability to meet its liabilities when they come due. CEB considers funding and liquidity as a major source of risk. CEB's minor and very limited tolerance towards liquidity risk is explicitly reflected its stress-testing and funding plan framework.

Stress-Test Scenarios

The Bank uses stress testing to verify that its liquidity buffer is adequate to withstand severe but plausible funding conditions. The outcome of the stress testing shows the Bank the level of required liquidity across different time horizons. In this respect, the design and frequency of the stress test scenarios reveal the Bank's risk appetite and preparedness to withstand a liquidity crisis. The main components of the required liquidity are as follows:

- The duration of the stress-tests.
- Run-off rates on retail and wholesale funding.
- Erosion in the value of liquid assets.
- The liquidity-related consequences of market risks.
- Additional margin calls / collaterals required.
- Restrictions in respect of the availability of assets.

The Bank maintains a buffer of 'readily available liquid assets' to prevent mismatches between the inflow and outflow of the Bank as a consequence of both foreseen and unforeseen circumstances. The definition of this liquidity cushion and the principles regarding its size and composition are directly linked to CEB's 'minor risk appetite':

- The list of eligible liquid assets.
- Liquidity value of liquid assets (i.e. haircuts) and the time-to-liquidity period.
- The treatment of non-marketable assets.
- The assumptions made in respect of the possibilities for rolling over the various funding lines such as wholesale and retail funding.
- The assumptions made in respect of the possibilities for rolling over the maturing assets.
- The use of secured / unsecured central bank facilities.

The Bank ensures that its available liquidity is larger than the required amount implied by its stress scenarios at all times.

Funding Plan & Strategy

The Bank's key funding principles also form an essential part of its liquidity risk appetite:

- Alignment with the asset profile and asset strategy
- Alignment with the liquidity risk appetite
- Minimizing any funding deficit risk by ensuring granular and stable funding
- Support the Bank's overall objective of achieving an investment grade rating
- Satisfy any minimum requirements from regulatory authorities
- Management of asset encumbrance

Liquidity risk indicators

	December 31, 2019	December 31, 2018
NFSR	150.0%	164.8%
LCR	509.1%	375.2%

Discounted amounts based on remaining contractual maturity	Up to 1 month *	1–3 months	3–12 months	1-5 Year	Over 5 years	Maturity not applicable	December 31, 2019 Total
Assets							
Cash and balances at central banks	737,249	-	-	-	-	-	**737,249**
Financial assets measured at FVTPL	3,126	-	43,979	158,295	22,513	-	**227,913**
Financial investments	266,952	30,661	22,757	10,852	173,254	33,006	**537,482**
Loans and receivables – banks	87,569	37,102	63,277	-	-	-	**187,948**
Loans and receivables – customers	916,699	106,097	201,303	666,234	630,525	221,412	**2,742,270**
Tangible and intangible assets	-	-	-	-	-	110,191	**110,191**
Other assets	44,308	21,959	108,480	181,073	842	20,380	**377,042**
Total assets	**2,055,903**	**195,819**	**439,796**	**1,016,454**	**827,134**	**384,989**	**4,920,095**
Liabilities							
Due to banks	200,446	166,309	82,888	33,161	-	-	**482,804**
Due to customers**	895,215	276,138	618,599	1,177,980	433,791	-	**3,401,723**
Other liabilities	28,873	9,279	48,724	116,075	942	33,145	**237,038**
Subordinated liabilities	-	-	1,536	44,638	131,485	-	**177,659**
Total liabilities	**1,124,534**	**451,726**	**751,747**	**1,371,854**	**566,218**	**33,145**	**4,299,224**
Cumulative liquidity gap	**931,369**	**675,462**	**363,511**	**8,111**	**269,027**	**620,871**	**620,871**

Discounted amounts based on remaining contractual maturity	Up to 1 month *	1–3 months	3–12 months	1-5 Year	Over 5 years	Maturity not applicable	December 31, 2018 Total
Assets							
Cash and balances at central banks	651,773	-	-	-	-	-	**651,773**
Financial assets measured at FVTPL	4,935	-	16,491	64,154	2,148	-	**87,728**
Financial investments	94,354	105,312	108,090	151,256	207,295	25,742	**692,049**
Loans and receivables – banks	247,328	154,303	30,347	-	-	-	**431,978**
Loans and receivables – customers	556,433	167,920	397,979	548,028	831,341	197,455	**2,699,156**
Tangible and intangible assets	-	-	-	-	-	151,657	**151,657**
Other assets	50,302	26,387	100,562	170,115	2,677	18,769	**368,812**
Total assets	**1,605,125**	**453,922**	**653,469**	**933,553**	**1,043,461**	**393,623**	**5,083,153**
Liabilities							
Due to banks	226,577	76,331	38,349	75,240	-	-	**416,497**
Due to customers**	906,743	280,986	781,854	1,152,198	527,981	-	**3,649,762**
Other liabilities	31,390	25,902	49,422	114,988	1,902	35,278	**258,882**
Subordinated liabilities	-	-	-	43,826	130,101	-	**173,927**
Total liabilities	**1,164,710**	**383,219**	**869,625**	**1,386,252**	**659,984**	**35,278**	**4,499,068**
Cumulative liquidity gap	**440,415**	**511,118**	**294,962**	**(157,737)**	**225,740**	**584,085**	**584,085**

(*) As at December 31, 2019, total on demand asset amount to EUR 976,487 (2018: EUR 1,009,330) and total on demand liability amount to EUR 287,316 (2018: EUR 331,876) are disclosed under “Up to 1 month” column.

(**) Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms because either management has the discretionary ability to manage the cash flows or because experience indicates that cash flows will differ from contractual terms.

Current accounts and demand deposits from customers are distributed in accordance with the average monthly withdrawal behaviour of customers over the last 7 years on the basis of management`s belief that despite of these funds from customers being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank, indicates that these deposits provide a stable source of funding.

As at December 31, 2019 and 2018, the contractual maturities of customer deposits are as follows:

	December 31, 2019	December 31, 2018
Up to 1 month	1,721,116	1,788,663
1-3 months	188,859	249,722
3-12 months	554,280	666,574
1-5 years	889,754	856,424
Over 5 year	47,714	88,379
Total	**3,401,723**	**3,649,762**

The tables below include all financial liabilities by maturity based on contractual, undiscounted cash flows:

Undiscounted amounts based on remaining contractual maturity								December 31, 2019
	Up to 1 month	1–3 months	3–12 months	1-5 Year	Over 5 years	Maturity not applicable	Adjustments*	Total
Due to banks	200,652	167,049	84,054	32,803	-	-	(1,754)	**482,804**
Due to customers	895,369	276,610	621,958	1,204,099	437,086	-	(33,399)	**3,401,723**
Other liabilities	28,851	9,279	48,724	116,327	942	33,145	(230)	**237,038**
Subordinated liabilities	-	-	11,213	83,346	160,516	-	(77,416)	**177,659**
Total liabilities	**1,124,872**	**452,938**	**765,949**	**1,436,575**	**598,544**	**33,145**	**(112,799)**	**4,299,224**

Undiscounted amounts based on remaining contractual maturity								December 31, 2018
	Up to 1 month	1–3 months	3–12 months	1-5 Year	Over 5 years	Maturity not applicable	Adjustments*	Total
Due to banks	226,648	76,707	39,307	75,367	-	-	(1,532)	**416,497**
Due to customers	906,876	281,571	787,830	1,181,828	544,367	-	(52,710)	**3,649,762**
Other liabilities	31,390	25,902	49,422	114,988	1,902	35,278	-	**258,882**
Subordinated liabilities	-	-	9,501	96,082	158,605	-	(90,261)	**173,927**
Total liabilities	**1,164,914**	**384,180**	**886,060**	**1,468,265**	**704,874**	**35,278**	**(144,503)**	**4,499,068**

(*) This column reconciles the contractual undiscounted cash flows on financial liabilities to the statement of financial position values.

37.j. Market risks

Market risk is defined as the current or prospective threat to the Bank's earnings and capital because of adverse market movements in market prices (security and derivative prices, as well as interest rates and foreign exchange rates) or in parameters such as volatility and correlations. The trading portfolio includes financial instruments, such as securities, derivatives and loans to financial institutions, which are exposed to short-term price/interest-rate fluctuations. Eligible positions should be in line with the guidelines and principles set out in the market-risk policy. No eligible positions and financial instruments approved by ALCO are monitored within the scope of the banking book. In line with its business plan, the Bank has a 'minor' risk appetite in market risk. The Bank aims to regularly measure and monitor its market risk associated with adverse market movements affecting the trading components of its Treasury and FI portfolio. It measures its market risk using different approaches - standard and internal models.

Bank risk tolerance in the form of limits is determined to manage market risk efficiently and keep it within these limits. Risk limits, such as the Value-at-Risk (VaR) limit, notional limits and sensitivity limits, are set by considering the primary risk factors. In case of a limit breach, ALCO is convened to determine strategy and take necessary actions to restore the outstanding exposure within limits in a certain period.

The Bank measures the market risk of its trading book and the foreign-exchange risk of its banking book by using an internal historical simulation method, based on VaR methodology. VaR defines the maximum loss not exceeded with a given probability over a given period of time under normal market conditions. However, this approach fails to capture exceptional losses under extreme market conditions; that is why market risk measurement is complemented by periodic stress-testing analysis.

The internal historical simulation method of VaR model is used for risk-monitoring purposes and whereas regulatory capital for market risk is calculated and reported quarterly according to the Standard Approach, as specified in the DNB's market-risk regulations.

The internal historical simulation method is used starting from January 2013. The last 250 historical daily returns of market risk factors are used to stress the current trading positions to estimate possible fluctuations caused by market movements while keeping the portfolio fixed.

The internal limit for the 10-day trading portfolio, with VaR at 99% - confidence interval, is EUR 8 million (2018: EUR 8 million). This implies that diversified VaR from foreign-exchange risk and interest-rate risk in the trading book should not exceed this level.

Other market risks, such as liquidity, re-pricing and interest-rate risk, on the banking book are measured and monitored through sensitivity and gap analyses, detailed in subsequent sections.

Value-at-risk figures - Trading Book (2019)	**Total**	**Diversification effect**	**Interest-rate risk**	**Foreign-exchange risk**
Average	320	92%	96	291
Maximum	410	100%	407	410
Minimum	269	50%	-	12
Year-end	410	50%	407	410

Value-at-risk figures - Trading Book (2018)	**Total**	**Diversification effect**	**Interest-rate risk**	**Foreign-exchange risk**
Average	111	96%	42	73
Maximum	459	100%	455	262
Minimum	14	61%	-	14
Year-end	262	100%	-	262

37.k. Interest-rate risk in the banking book

One of the Bank's major risks under Pillar II is the interest-rate risk on the banking book. The Bank defines interest-rate risk as the current or prospective risk to earnings and capital arising from adverse movements in interest rates. The trading book is also subject to interest-rate risk, but this type of risk is dealt with under the Market Risk: Value-at-Risk section. The Bank has a 'minor' risk tolerance towards interest-rate risk in its banking book.

The Bank's interest-rate risk is monitored for the banking book by means of static re-pricing gap and interest rate sensitivity analyses once a month at all levels and for each major currency in use. Interest-rate sensitivity in the banking book is calculated according to the economic-value approach. All future cash flows, arising solely from on- and off- balance sheet assets and liabilities are discounted back to their present values with zero-coupon yield curves to see the impact of interest-rate changes on the economic value of the Bank. The impact of the curve with the maximum net gain or loss compared to a benchmark curve is analysed.

Interest-rate sensitivity in the banking book is measured by means of PV01 method. The PV01 method is based on flat upward shifts of each currency's yield curve in magnitudes of one basis point. The economic value impact of these shifts on the banking book is then analysed. PV01 analysis is complemented with 200 basis-points (bps) scenarios, which consist of the parallel shifts of the yield curves by shifting short-term rates and long-term rates for each individual currency. The interest rate risk on the banking book, excluding the trading book has been calculated as EUR 17.6 million for 2019 with 200 basis point upward parallel rate shock (2018: EUR 11.2 million).

The impact of the curve with the maximal net gain or loss compared to a benchmark curve is then analysed.

Determination of economic internal capital to be set aside to cover potential interest-rate risk in the banking book is based on a Historical Simulation method. Historical economic values of the current banking book are calculated by discounting the re-pricing gaps in each of the major currencies with historical month-end zero-coupon swap curves in pre-defined maturity buckets. Once historical economic values are obtained, an economic value change distribution is created using a rolling window of one year.

The interest rate repricing gap table below is prepared to determine the Bank's exposure to interest rate risk because of maturity mismatches in its balance sheet. Repricing is based on remaining days to maturity for fixed rate instruments and next repricing date for floating rate instruments.

	Up to 1 month	1–3 months	3–12 months	1-5 Year	Over 5 years	Non-interest-bearing items(*)	December 31, 2019 Total
Assets							
Cash and balances at central banks	726,078	-	-	-	-	11,171	737,249
Financial assets measured at FVTPL	29,795	143,145	11,568	24,915	-	18,490	227,913
Financial investments	157,978	46,260	64,917	81,329	139,028	47,970	537,482
Loans and receivables - banks	75,242	36,967	63,230	-	-	12,509	187,948
Loans and receivables - customers	1,409,104	374,912	429,323	304,425	66,004	158,502	2,742,270
Tangible and intangible assets	-	-	-	-	-	110,191	110,191
Other assets	-	-	-	-	-	377,042	377,042
Total assets	**2,398,197**	**601,284**	**569,038**	**410,669**	**205,032**	**735,875**	**4,920,095**
Liabilities							
Due to banks	199,093	166,146	82,803	33,166	-	1,596	482,804
Due to customers	1,630,074	240,373	476,001	760,858	41,486	252,931	3,401,723
Other liabilities	-	-	-	-	-	237,038	237,038
Subordinated liabilities	-	-	-	177,659	-	-	177,659
Total liabilities	**1,829,167**	**406,519**	**558,804**	**971,683**	**41,486**	**491,565**	**4,299,224**
Off-balance interest-sensitivity gap	66,976	93,081	(220,818)	205,763	(136,663)	-	8,339
Net gap	**636,006**	**287,846**	**(210,584)**	**(355,251)**	**26,883**	**244,310**	**384,900**

	Up to 1 month	1–3 months	3–12 months	1-5 Year	Over 5 years	Non-interest-bearing items(*)	December 31, 2018 Total
Assets							
Cash and balances at central banks	651,419	-	-	-	-	354	651,773
Financial assets measured at FVTPL	1,151	46,172	16,770	9,214	-	14,421	87,728
Financial investments	114,507	157,943	103,009	106,367	184,370	25,853	692,049
Loans and receivables - banks	233,495	153,452	30,897	-	-	14,134	431,978
Loans and receivables - customers	1,044,213	547,791	545,118	358,885	97,303	105,846	2,699,156
Tangible and intangible assets	-	-	-	-	-	151,657	151,657
Other assets	-	-	-	-	-	368,812	368,812
Total assets	**2,044,785**	**905,358**	**695,794**	**474,466**	**281,673**	**681,077**	**5,083,153**
Liabilities							
Due to banks	225,537	76,331	38,350	75,775	-	504	416,497
Due to customers	1,757,629	242,569	628,257	704,171	82,713	234,423	3,649,762
Other liabilities	-	-	-	-	-	258,882	258,882
Subordinated liabilities	-	-	-	173,927	-	-	173,927
Total liabilities	**1,983,166**	**318,900**	**666,607**	**953,873**	**82,713**	**493,809**	**4,499,068**
Off-balance interest-sensitivity gap	28,788	44,031	(179,779)	203,246	(86,695)	-	9,591
Net gap	**90,407**	**630,489**	**(150,592)**	**(276,161)**	**112,265**	**187,268**	**406,408**

(*) Non-interest-bearing items are not taken into account in the net gap.

37.l. Currency risk

The Bank has limits and controls on its open currency positions determined by the Bank's internal risk appetite statement as well as any regulatory restrictions. The Bank uses derivative financial instruments to hedge its on-balance sheet currency positions. The credit risk arising from these instruments is managed together with the risks resulting from market fluctuations. The Bank monitors the risks of forward transactions, options and other similar agreements, reviews open positions with the ALCO and takes appropriate action where deemed necessary.

The Bank also differentiates between its trading and structural currency positions. The result of structural currency positions –which arises due to the Bank's net investments in foreign subsidiaries and branches, together with any related net investment hedges (see Note 9), is recognized in equity.

Trading-related currency positions are quantified with VaR methodology and reported daily on the Bank level and monthly on a consolidated level. The VaR limits and other market risks related issues are monitored by the Risk Management Department and discussed in ALCO meetings on a regular basis. The VaR limit (see Note 37.j.) is inclusive of the foreign-exchange risk.

Currency analysis for the year ended December 31, 2019:

	EUR(*)	USD	CHF	RON	RUB	UAH	TRY	Others	December 31, 2019 Total
Cash and balances with central banks	624,932	921	29,310	67,658	-	11,096	-	3,332	**737,249**
Financial assets measured at FVTPL	89,493	138,420	-	-	-	-	-	-	**227,913**
Financial investments	316,748	30,789	15,931	125,265	28,708	20,041	-	-	**537,482**
Loans and receivables – banks	39,864	138,921	7,551	162	46	-	190	1,214	**187,948**
Loans and receivables – customers	1,304,231	982,800	112,695	225,240	8,580	5,118	101,762	1,844	**2,742,270**
Derivative financial instruments	155,405	3,637	1,483	69	-	-	8,984	216	**169,794**
Equity-accounted investments	8,849	-	-	-	-	-	-	-	**8,849**
Property and equipment	46,843	39,882	1,057	17,447	-	162	-	-	**105,391**
Goodwill and other intangible assets	2,018	21	-	2,752	-	9	-	-	**4,800**
Other assets	86,367	55,319	2,999	50,559	486	1,265	908	496	**198,399**
Total assets	**2,674,750**	**1,390,710**	**171,026**	**489,152**	**37,820**	**37,691**	**111,844**	**7,102**	**4,920,095**
Due to banks	172,540	257,548	5,517	43,975	1	-	161	3,062	**482,804**
Due to customers	2,750,480	288,472	34,183	283,386	3,785	21,367	15,037	5,013	**3,401,723**
Derivative financial instruments	147,240	5,486	4	104	228	-	11,374	81	**164,517**
Other liabilities	24,089	17,712	16,076	12,649	-	353	204	1,438	**72,521**
Subordinated liabilities	(1,330)	178,989	-	-	-	-	-	-	**177,659**
Total liabilities	**3,093,019**	**748,207**	**55,780**	**340,114**	**4,014**	**21,720**	**26,776**	**9,594**	**4,299,224**
Net on-balance sheet position	**-**	**642,503**	**115,246**	**149,038**	**33,806**	**15,971**	**85,068**	**(2,492)**	**1,039,140**
Off-balance sheet net position	-	(647,218)	(98,580)	(130,548)	(8,431)	(1)	(84,518)	(1,437)	(970,733)
Net open position	**-**	**(4,715)**	**16,666**	**18,490**	**25,375**	**15,970**	**550**	**(3,929)**	**68,407**

Currency analysis for the year ended December 31, 2018:

	EUR(*)	USD	CHF	RON	RUB	UAH	TRY	Others	Total
Cash and balances with central banks	494,319	830	68,664	85,612	-	276	-	2,072	**651,773**
Financial assets measured at FVTPL	26,755	60,690	283	-	-	-	-	-	**87,728**
Financial investments	369,063	61,933	15,347	222,928	18,995	3,783	-	-	**692,049**
Loans and receivables – banks	216,077	208,505	4,875	443	141	-	360	1,577	**431,978**
Loans and receivables – customers	1,297,285	981,585	113,802	212,162	10,243	7,721	69,423	6,935	**2,699,156**
Derivative financial instruments	162,356	11,030	496	1	-	42	15,843	93	**189,861**
Equity-accounted investments	7,129	-	-	-	-	-	-	-	**7,129**
Property and equipment	50,707	79,499	759	13,170	-	20	-	-	**144,155**
Goodwill and other intangible assets	2,495	2,447	-	2,541	-	19	-	-	**7,502**
Other assets	71,729	18,915	2,511	54,700	425	1,897	20,826	819	**171,822**
Total assets	**2,697,915**	**1,425,434**	**206,737**	**591,557**	**29,804**	**13,758**	**106,452**	**11,496**	**5,083,153**
Due to banks	176,116	168,473	49	50,689	15	-	2	21,153	**416,497**
Due to customers	3,046,797	207,682	23,844	357,728	105	6,753	1,670	5,183	**3,649,762**
Derivative financial instruments	151,300	12,663	15	120	472	14	17,823	289	**182,696**
Other liabilities	16,035	10,170	26,186	7,726	-	1,400	14,591	78	**76,186**
Subordinated liabilities	(1,774)	175,701	-	-	-	-	-	-	**173,927**
Total liabilities	**3,388,474**	**574,689**	**50,094**	**416,263**	**592**	**8,167**	**34,086**	**26,703**	**4,499,068**
Net on-balance sheet position	**-**	**850,745**	**156,643**	**175,294**	**29,212**	**5,591**	**72,366**	**(15,207)**	**1,274,644**
Off-balance sheet net position	-	(893,377)	(149,963)	(158,170)	(29,146)	5,675	(56,875)	16,400	(1,265,456)
Net open position	**-**	**(42,632)**	**6,680**	**17,124**	**66**	**11,266**	**15,491**	**1,193**	**9,188**

(*) Euros are not included in the total net position, since it is the functional currency of the parent.

37.m Operational risk

The Bank has an Operational Risk Management (ORM) function, the goal of which is to enhance the operational risk culture of the Bank by promoting awareness of the Bank's operational risk management framework and providing oversight of its execution in line with the three lines of defence model.

ORM act as the second line of defence, providing the business line and other functions across the Bank, with support related to the implementation of the identification, assessment, measurement, mitigation, monitoring and reporting of operational risks, which together form a framework for managing the Bank's exposure to operational risk losses.

Operational risk events and significant control incidents are reported and analysed through the Operational Risk Incident Management framework. The effectiveness of the Bank's controls is assessed through the annual Internal Control Framework evaluations and the execution of Risk Control Self-Assessments in 2018. With aim to finalize at 2019, ORM launched a new approach for assessment of the effectiveness of Bank's controls named 'Risk and Control Matrixes. This study will be replaced to Internal Control Framework evaluations. New products, or changes to existing products, are subject to the Product Approval and Review. Key Risk Indicators are established and regularly monitored.

The Bank also has an established operational risk appetite, broken down by both business- and subsidiary-specific thresholds, which is monitored in the quarterly Non-Financial Risk Committee meetings.

Regular training and awareness sessions are provided to employees to ensure that operational risk management continues to be embedded in the Bank's day-to-day operations.

38. Assets held for sale and discontinued operations

A. Assets held for sale

Assets held for sale represents collaterals repossessed after clients were not able to meet their payment obligations.

As of December 31, 2019, following repossessed assets have been classified as "Assets held for sale":

- two chemical tankers (EUR 13,081) and two dry bulk carriers (EUR 8,010) , for which sale agreement have been already signed.
- villa and attached land (EUR 9,000), for which binding offer have been already received.
- leasehold right (EUR 5,961), for which marketing activities are ongoing.
- commercial & residential real estates (EUR 1,196), for which marketing activities are ongoing.

B. Discontinued operations

In June 2017, the Bank applied for regulatory approvals to sell 90% of its interest in CEB Russia for a consideration of EUR 166.9 million (RUB 13,545 million) to Fiba Holding A.S. and Fina Holding A.S., the Bank's shareholders.

Upon approval from De Nederlansche Bank on April 05, 2018, CEB Russia, being a major separate component of the Bank has been reclassified as held for distribution to owners.

As of January 1, 2018, given its intention to dispose CEB Russia, the Bank has reassessed its business model in relation to CEB Russia activities. As result, business model has been changed from "held to collect" to "held for sale". Therefore, as of January 1, 2018, financial assets of CEB Russia have been remeasured at fair value with any additional impact from remeasurement to fair value recognized as IFRS 9 impact within retained earnings.

The Bank has completed sale transaction in the form of a spin-off on September 12, 2018. As part of the spin-off process, following the payment of EUR 76.2 million as dividend and EUR 90.7 million as capital repayment by the Bank to the parent company, Credit Europe Group N.V. The Group paid out total amount of EUR 166.9 million to its shareholders: Fiba Holding A.S, Fina Holding A.S and Fiba Faktoring A.S. The Bank recognized 10% of remaining shares in CEB Russia as equity investment measured at fair value through other comprehensive income.

The following table summarizes the results of CEB Russia and other components constituting discontinued operations loss in the consolidated statement of income.

	2018
Income	204,054
Expenses	(194,259)
Operating income, before tax	**9,795**
Profit before tax from discontinued operation	**9,795**
Income tax expense	(2,917)
Loss on disposal	(74,174)
Recycling of accumulated reserves, gross	(266,168)
Tax impact of recycled accumulated reserve	(14,412)
Net results for the year from discontinued operations	**(347,877)**

Determination of loss on disposal is calculated as follows:

Net asset value of CEB Russia	259,508
Shares disposed	90%
Net asset value of shares disposed	233,557
Loss on retained interest	7,503
Consideration received	166,886
Loss on disposal	**(74,174)**

The net cash flows incurred by CEB Russia are as follows:

	2018
Net cash used in operating activities	(109,874)
Net cash used in investing activities	3,946
Net cash from financing activities	(5,718)
Net cash flows for the year	**(111,646)**

39. Subsequent events

The existence of novel coronavirus (COVID-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The potential economic implications for the countries and sectors where the Bank is active in are being monitored and assessed in order to identify possible mitigating actions. The Bank considers the outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential of this outbreak on the Bank.

40. List of participations

There are no significant restrictions on the ability of subsidiaries to transfer funds to the Parent Company in the form of cash dividends or to repay loans or advances.

Name	Place	Country	Interest December 31, 2019	Interest December 31, 2018
Credit Europe Bank (Dubai) Ltd	Dubai	United Arab Emirates	100.00%	100.00%
Credit Europe Bank (Suisse) SA	Geneva	Switzerland	100.00%	100.00%
Credit Europe Leasing (Ukraine) LLC	Kiev	Ukraine	100.00%	100.00%
Hunter Navigation Ltd.	Msida	Malta	100.00%	100.00%
Credit Europe Asset Management S.A.	Bucharest	Romania	100.00%	100.00%
Yenikoy Enterprises B.V.	Amsterdam	The Netherlands	100.00%	100.00%
Nomadmed XXI S.L.	Barcelona	Spain	100.00%	100.00%
Medipride Maritime Ltd	Msida	Malta	100.00%	100.00%
Medibeauty Maritime Ltd	Msida	Malta	100.00%	100.00%
Mysia Shipping Ltd	Msida	Malta	100.00%	100.00%
Hitit Shipping Ltd	Msida	Malta	100.00%	100.00%
Cappadocia Shipping Ltd	Msida	Malta	100.00%	100.00%
Ziyaret Gayrimenkul Yatirim A.S.	Istanbul	Turkey	100.00%	100.00%
Feniks Gayrimenkul Yatirim A.S.	Istanbul	Turkey	100.00%	100.00%
FMT Holding B.V.	Amsterdam	The Netherlands	100.00%	100.00%
JSC Credit Europe Bank (Ukraine)	Kiev	Ukraine	99.99%	99.99%
Credit Europe Bank (Romania) SA	Bucharest	Romania	99.34%	99.33%
Seyir Gayrimenkul Yatirim A.S.	Istanbul	Turkey	53.00%	53.00%
Stichting Credit Europe Custodian Services	Amsterdam	The Netherlands	100.00%	100.00%
Cirus Holding B.V.	Amsterdam	The Netherlands	50.00%	50.00%
Ikano Finance Holding B.V.	Amsterdam	The Netherlands	50.00%	50.00%
Mediqueen Maritime Ltd	Msida	Malta	-	100.00%
Lodestar Maritime Ltd	Msida	Malta	-	100.00%

Amsterdam, March 25, 2020

Parent Company
Financial Statements
As of and for the year ended
December 31, 2019

CREDIT EUROPE BANK N.V.

STATEMENT OF FINANCIAL POSITION
For the year ended December 31, 2019
In thousands of EURO unless otherwise indicated

	Notes	December 31, 2019	December 31, 2018
Assets			
Cash and balances with central banks	b	534,479	394,928
Amount due from banks	c	281,403	487,697
Loans and advances to customers	d	2,088,103	2,030,636
Debt securities	e	353,250	427,150
- Trading assets measured at FVTPL		10,166	2,147
- Debt and equity instruments measured at FVOCI		343,084	425,003
Derivative financial instruments	f	165,787	183,281
Investments in group companies	g	372,763	359,583
Investments in associates	g	8,849	7,129
Intangible assets	h	1,991	2,496
Property and equipment	i	46,843	38,907
Investment property	i	5,256	7,800
Inventories	j	10,820	6,247
Other assets	j	75,241	66,352
Total assets		**3,944,785**	**4,012,206**
Liabilities			
Amount due to banks	k	261,107	185,067
Amount due to customers	l	2,684,884	2,853,219
Derivative financial instruments	f	163,215	181,143
Other liabilities	m	13,817	21,717
Provisions	g,n	26,443	16,226
Subordinated loans	o	177,659	173,927
Total liabilities		**3,327,125**	**3,431,299**
Equity			
Share capital	p	563,000	563,000
Share premium		163,748	163,748
Legal reserves	q	148,850	136,037
-Fair value reserve		7,152	(8,583)
-Affiliated companies		297,362	301,425
-Currency translation differences		(61,116)	(62,523)
-Net investment hedge		(99,989)	(94,282)
-Change in tangible revaluation reserve		5,441	-
Other reserves		(281,495)	41,206
Unappropriated result		23,557	(323,084)
Total equity		**617,660**	**580,907**
Total equity and liabilities		**3,944,785**	**4,012,206**

CREDIT EUROPE BANK N.V.

STATEMENT OF INCOME
As of December 31, 2019
In thousands of EURO unless otherwise indicated

	Notes	January 1-December 31, 2019	January 1-December 31, 2018
Interest and similar income		143,959	194,842
Interest expense and similar charges		(68,435)	(80,087)
Net interest income	r	**75,524**	**114,755**
Results from investment securities and participating interests	s	7,527	(321,553)
Fees and commissions income		19,848	18,729
Fees and commissions expense		(2,853)	(3,572)
Net fee and commission income	t	**16,995**	**15,157**
Net trading results	u	(31,741)	(45,440)
Net results on derecognition of financial assets measured at amortized cost		209	-
Other operating income	v	6,095	1,252
Operating income		**(25,437)**	**(44,188)**
Net operating income		**74,609**	**(235,829)**
Personnel expenses	w	(29,996)	(29,101)
General and administrative expenses	x	(12,737)	(12,719)
Depreciation and amortization	h,i	(3,048)	(2,559)
Other operating expenses	y	(4,116)	(352)
Net impairment loss on financial assets	z	(2,782)	(29,200)
Other impairment losses		(868)	-
Total operating expenses		**(53,547)**	**(73,931)**
Operating profit before tax		**21,062**	**(309,760)**
Income tax expense		(1,568)	(16,526)
Profit for the year		**19,494**	**(326,286)**

CREDIT EUROPE BANK N.V.

STATEMENT OF CHANGES IN EQUITY
As of December 31, 2019
In thousands of EURO unless otherwise indicated

	Issued capital	Share premium	Legal Reserves: Fair value reserve	Legal Reserves: Affiliated companies	Legal Reserves: Currency translation differences	Legal Reserves: Net investment hedge	Legal Reserves: Tangible revaluation reserve	Other reserves	Unappropriated results	Total
At January 1, 2019	**563,000**	**163,748**	**(8,583)**	**301,425**	**(62,523)**	**(94,282)**	**-**	**41,206**	**(323,084)**	**580,907**
Change in fair value reserve	-	-	15,735	-	-	-	-	383	-	**16,118**
Change in foreign currency translation reserve	-	-	-	-	1,407	-	-	-	-	**1,407**
Change in tangible revaluation reserve	-	-	-	-	-	-	5,441	-	-	**5,441**
Change in net investment hedge reserve	-	-	-	-	-	(5,707)	-	-	-	**(5,707)**
Total income and expense for the year recognized directly in equity	**-**	**-**	**15,735**	**-**	**1,407**	**(5,707)**	**5,441**	**383**	**-**	**17,259**
Profit for the year	-	-	-	(4,063)	-	-	-	-	23,557	**19,494**
Transfer from retained earnings	-	-	-	-	-	-	-	(323,084)	323,084	**-**
At December 31, 2019	**563,000**	**163,748**	**7,152**	**297,362**	**(61,116)**	**(99,989)**	**5,441**	**(281,495)**	**23,557**	**617,660**

STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*
As of December 31, 2019
In thousands of EURO unless otherwise indicated

	Issued capital	Share premium	Legal Reserves: Fair value reserve	Affiliated companies	Currency translation differences	Net investment hedge	Cash flow hedge	Other reserves	Unappropriated results	Total
At December 31, 2017 (IAS 39)	**653,658**	**163,748**	**(2,462)**	**304,627**	**(312,117)**	**(91,066)**	**(112)**	**148,755**	**22,673**	**887,704**
Impact of adopting IFRS 9	-	-	-	-	-	-	-	(52,173)	-	**(52,173)**
At January 1, 2018 (IFRS 9)	**653,658**	**163,748**	**(2,462)**	**304,627**	**(312,117)**	**(91,066)**	**(112)**	**96,582**	**22,673**	**835,531**
Change in fair value reserve	-	-	(7,422)	-	-	-	-	167	-	**(7,255)**
Change in foreign currency translation reserve	-	-	-	-	(42,059)	-	-	-	-	**(42,059)**
Change in other reserve	-	-	-	-	-	-	-	112	-	**112**
Change in net investment hedge reserve	-	-	-	-	-	9,269	-	-	-	**9,269**
Total income and expense for the year recognized directly in equity	**-**	**-**	**(7,422)**	**-**	**(42,059)**	**9,269**	**-**	**279**	**-**	**(39,933)**
Decrease in share capital	(90,658)	-	-	-	-	-	-	-	-	**(90,658)**
Dividends declared and paid	-	-	-	-	-	-	-	(78,328)	-	**(78,328)**
Change in equity resulting from disposal of subsidiaries	-	-	1,301	-	291,653	(12,485)	112	-	-	**280,581**
Profit for the year	-	-	-	(3,202)	-	-	-	-	(323,084)	**(326,286)**
Transfer from retained earnings	-	-	-	-	-	-	-	22,673	(22,673)	**-**
At December 31, 2018	**563,000**	**163,748**	**(8,583)**	**301,425**	**(62,523)**	**(94,282)**	**-**	**41,206**	**(323,084)**	**580,907**

Basis of preparation

The Parent Company financial statements of Credit Europe Bank N.V. (CEB, the Bank) have been prepared in accordance with accounting principles in the Netherlands as embodied in Part 9 of Book 2 of the Netherlands Civil Code. Based on article 2:362.8 of the Netherlands Civil Code, the valuation principles applied in the Parent Company financial statements are based on International Financial Reporting Standards as adopted by the European Union (EU IFRS), as used for the preparation of the Consolidated Financial Statements of the Bank.

The accounting policies that are used in the preparation of these parent financial statements are consistent with the accounting policies used in preparation of the Consolidated Financial Statements of the Bank, as set out in those financial statements.

The additional accounting policies that are specific to the Parent Company Financial Statements of CEB are set out below.

Financial Instruments

Classification and measurement of loans and receivables from intra group companies is based on accounting policy consistent with the one used in preparation of consolidated financial statements. As result, as of 31 December 2019, EUR 82,344 (2018: EUR 86,776) of loans and receivables from intra group companies were classified as "non-trading assets mandatorily at FVTPL" because their cash flow characteristics do not satisfy SPPI criteria.

The Bank applied expected credit loss model under IFRS 9 in parent company financial statements.

The Bank applies paragraph 107a of the Dutch Accounting Standard 100. Under this paragraph, the Bank eliminates the expected credit losses on loans to subsidiaries in the same line item.

Investment in subsidiaries

The Group companies are stated at their net asset value, determined based on IFRS, as applied in the Consolidated Financial Statements of the Bank. For details on the accounting policies applied for the Group companies, refer to the notes to the Consolidated Financial Statements as shown earlier in this document.

Dividend income

Dividend income from investments in subsidiaries is recognized when the right to receive payment is established.

Going concern

Having made appropriate enquiries, the Board is satisfied that the Company as a whole have adequate resources to continue operational businesses for the foreseeable future and therefore continued to adopt the going concern basis in preparing the financial statements.

A. Corporate Information

Credit Europe Bank N.V., herein after 'the Bank', is domiciled in Amsterdam, the Netherlands. Credit Europe Bank N.V. comprises four branches in the Netherlands, Germany, Belgium and Malta.

The Bank was founded as a specialized trade-finance bank, which aimed to actively participate in the wholesale financing of international trade. In later years, the Bank started retail-banking activities, including savings accounts, mortgage loans and consumer loans.

The Bank's registered office is Karspeldreef 6A, 1101 CJ Amsterdam, Netherlands and Chamber of Commerce registration number is 33256675.

B. Cash and balances at central banks

This item includes cash on hand and deposits with central banks in countries in which CEB has a presence.

	December 31, 2019	**December 31, 2018**
Balances at central bank	534,443	394,889
Cash on hand	36	39
Total	**534,479**	**394,928**

Deposits at central banks include reserve deposits amounting to EUR 18,907 (2018: EUR 22,241), which represents the mandatory deposit and is not available the Bank's day-to-day operations.

C. Amounts due from banks

	December 31, 2019	**December 31, 2018**
Trading loans	120,663	55,762
Placement with other banks	102,584	256,099
Loans and advances	59,208	177,153
Subtotal	**282,455**	**489,014**
Allowances for credit losses	(1,052)	(1,317)
Total	**281,403**	**487,697**

Loans and receivables from intra group companies amount to EUR 92,048 (2018: EUR 114,715). The amount that will not mature within one year is EUR 11,574 (2018: EUR 55,850).

Placements with other banks that serve as collateral for derivative transactions and are not freely disposable amount to EUR 10,011 (2018: EUR 22,932).

Placement with other related parties amount to EUR 383 (2018: EUR 1,441)

There is not any amount related to receivables regarding securities that have been acquired in reverse repo transactions. (2018: EUR 111,292)

D. Loans and advances to customers

	December 31, 2019	December 31, 2018
Commercial loans	1,850,739	1,757,375
Public loans	132,957	193,922
Trading loans	72,116	2,943
Consumer loans	53,126	74,982
Non-trading assets mandatorily at FVTPL	23,646	124,713
Subtotal	**2,132,584**	**2,153,935**
Allowances for credit losses	(44,481)	(123,299)
Total (*)	**2,088,103**	**2,030,636**

(*) None of these loans is subordinated.

Loans and receivables from intra group companies amount to EUR 119,924 (2018: EUR 134,373). Loans and receivables from other related party companies amount to EUR 122,506 (2018: EUR 101,505).

No individual loan or receivable has terms and conditions that materially affect the amount, timing or certainty of the cash flows of CEB. Loans and advances to customers do not include any amount related to receivables regarding securities that have been acquired in reverse repo transactions. (2018: None)

As of December 31, 2019, EUR 1,022,003 (2018: EUR 1,025,690) of loans and advances to customers are not expected to mature within one year.

E. Debt securities

December 31, 2019	Trading assets measured at FVTPL (*)	Debt and equity instruments measured at FVOCI (**)	Total
Corporate bonds	-	154,807	154,807
Government bonds	-	107,405	107,405
Bank bonds	10,166	53,589	63,755
Equities***	-	27,283	27,283
Total	**10,166**	**343,084**	**353,250**

December 31, 2018	Trading assets measured at FVTPL (*)	Debt and equity instruments measured at FVOCI (**)	Total
Corporate bonds	2,147	198,443	200,590
Government bonds	-	165,038	165,038
Bank bonds	-	40,065	40,065
Equities***	-	21,457	21,457
Total	**2,147**	**425,003**	**427,150**

(*) As of December 31, 2019, EUR 10,166 are listed securities. Gains and losses on changes in the fair value of trading instruments are recognized in 'net trading results'.
(**) As of December 31, 2019, EUR 317,804 of the total are listed securities (2018: EUR 406,008). There is no any bond issued by intra group companies in 2019 (2018: None). The amount that will not mature within one year is EUR 165,934 (2018: EUR 178,340).
(***) The Bank elected to apply FVOCI option to the equities which are considered as strategic investments, source of stable dividend income and interest retained in former intra group company. As of December 31, 2019, EUR 903 dividend income (2018: EUR 112) was recognised from these equity instruments. As of December 31, 2019, the Bank invested to other related parties' equity instruments amount to EUR 25,280 (2018: EUR 18,995)

The movement of investment in former intra group company's equity instrument may be summarized as follows:

	December 31, 2019	December 31, 2018
Balance at January 1	**18,995**	**-**
Total gains and losses		
- in OCI	4,904	-
Purchases/additions	-	18,995
Dividend received	(903)	-
Exchange differences	2,284	-
Balance at the year end	**25,280**	**18,995**

F. Derivative financial instruments

In the ordinary course of business, CEB enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index, and is the basis on which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are indicative of neither the market risk nor the credit risk.

	December 31, 2019			December 31, 2018		
	Notional amount	**Carrying value assets**	**Carrying value liabilities**	**Notional amount**	**Carrying value assets**	**Carrying value liabilities**
Derivatives held for trading						
Interest rate swaps	95,500	30,704	30,999	125,500	31,298	32,218
Interest rate futures	-	-	-	3,100	-	8
Interest rate options (purchased)	60,509	16	-	62,030	1,097	-
Interest rate options (sold)	(60,509)	-	16	(62,030)	-	1,151
Foreign currency swaps	502,550	83,327	82,650	789,780	85,516	81,729
Foreign currency forwards	12,893	126	120	22,140	113	190
Foreign currency options (purchased)	39,405	4,498	-	85,774	17,660	-
Foreign currency options (sold)	(39,405)	-	5,266	(81,406)	-	19,379
Equity options (purchased)	-	-	-	2,428	650	-
Equity options (sold)	-	-	-	(2,428)	-	650
Total	**610,943**	**118,671**	**119,051**	**944,888**	**136,334**	**135,325**
Derivatives in economic hedge relationship						
Interest rate swaps	-	-	-	4,900	2,794	2,970
Foreign currency swaps	826,779	39,733	35,519	929,470	40,985	39,808
Forwards	-	-	-	4,368	8	2
Total	**826,779**	**39,733**	**35,519**	**938,738**	**43,787**	**42,780**
Derivatives in fair value hedge accounting relationships						
Interest rate swaps	402,558	3,071	4,344	351,760	807	1,265
Foreign currency swaps	94,804	3,008	-	70,779	1,776	24
Total	**497,362**	**6,079**	**4,344**	**422,539**	**2,583**	**1,289**
Derivatives in net investment hedge accounting relationship						
Foreign currency swaps	335,832	1,304	4,301	319,421	577	1,749
Foreign currency forwards	14,211	-	-	-	-	-
Total	**350,043**	**1,304**	**4,301**	**319,421**	**577**	**1,749**
Total Derivatives	**2,285,127**	**165,787**	**163,215**	**2,625,586**	**183,281**	**181,143**

Derivative financial instruments held or issued for trading purposes: Most of the Bank's derivative trading activities relate to asset and liability management of the Bank and deals with customers who are normally laid off with counterparties. The Bank may also take positions with the expectation of profiting from favourable movements in prices, rates on indices.

Derivatives in economic hedge relationships: Included in this classification are any derivatives entered into by the Bank in order to economically hedge its exposures for risk management purposes that are not designated in hedge relationships as they do not meet the IAS 39 hedge accounting criteria.

Derivative financial instruments held or issued for hedge accounting: As part of its asset and liability management, the Bank uses derivatives for economic hedging purposes in order to reduce its exposure to market risks. This is achieved by hedging specific financial instruments, portfolios of fixed rate financial instruments and forecast transactions, as well as hedging of aggregate financial position exposures. Where possible, the Bank applies hedge accounting.

The Bank uses a combination of portfolio (macro) hedges (portion of fixed rate customer deposits) and specific asset or liability (micro) hedges (portion of fixed income portfolio, subordinated loans) to swap fixed interest rates for floating interest rate positions. The resulting interest rate positions, after application of interest rate hedges, are in line with the bank's strategy and risk appetite. In addition, for specific loans, the Bank hedges the changes in the fair value of the foreign currency denominated loans relating to changes in foreign currency exchange rates.

The following table sets out the accumulated fair value adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

December 31, 2019	**Carrying amount of hedged items**		**Accumulated amount of fair value adj. on the hedged items**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Micro fair value hedges				
Fixed rate corporate loans	108,243	-	-	1,542
Fixed rate FVOCI debt instruments	141,907	-	838	-
Fixed rate subordinated liabilities	-	161,076	-	4,192
Subtotal	**250,150**	**161,076**	**838**	**5,734**
Portfolio fair value hedges				
Fixed rate customer deposits	-	68,796	-	783
Subtotal	**-**	**68,796**	**-**	**783**
Total	**250,150**	**229,872**	**838**	**6,517**

December 31, 2018	**Carrying amount of hedged items**		**Accumulated amount of fair value adj. on the hedged items**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Micro fair value hedges				
Fixed rate corporate loans	94,573	-	-	1,527
Fixed rate FVOCI debt instruments	95,006	-	1,084	-
Fixed rate subordinated liabilities	-	158,118	1,453	-
Subtotal	**189,579**	**158,118**	**2,537**	**1,527**
Portfolio fair value hedges				
Fixed rate customer deposits	-	69,432	-	504
Subtotal	**-**	**69,432**	**-**	**504**
Total	**189,579**	**227,550**	**2,537**	**2,031**

The following table sets out the outcome of the Bank's hedging strategy set out in Note 3-h "Derivatives held as economic hedge and hedge accounting", in particular to changes in the fair value of the hedged items and hedging instruments used as the basis for recognising ineffectiveness:

December 31, 2019		**Gains /(losses) attributable to the hedged risk**		**Hedge ineffectiveness**
Hedged Items	**Hedging Instruments**	**Hedged Items**	**Hedging Instruments**	
Micro fair value hedge relationships *hedging assets*				
Fixed rate corporate loans	Interest rate swaps	(7)	69	62
Fixed rate corporate loans	Foreign currency contracts	(8)	402	394
Fixed rate FVOCI debt instruments	Interest rate swaps	(246)	1,154	909
Subtotal		**(261)**	**1,625**	**1,365**
Micro fair value hedge relationships *hedging liabilities*				
Fixed rate subordinated liabilities	Interest rate swaps	(4,192)	4,188	(4)
Subtotal		**(4,192)**	**4,188**	**(4)**
Total micro fair value relationships		**(4,453)**	**5,813**	**1,361**
Portfolio fair value hedge relationships				
Fixed rate customer deposits	Interest rate swaps	(279)	313	34
Subtotal		**(279)**	**313**	**34**
Total portfolio fair value hedge relationships		**(279)**	**313**	**34**
Total		**(4,732)**	**6,126**	**1,395**

December 31, 2018		**Gains /(losses) attributable to the hedged risk**		**Hedge ineffectiveness**
Hedged Items	**Hedging Instruments**	**Hedged Items**	**Hedging Instruments**	
Micro fair value hedge relationships *hedging assets*				
Fixed rate corporate loans	Interest rate swaps	123	(198)	(75)
Fixed rate corporate loans	Foreign currency contracts	(1,650)	1,895	245
Fixed rate FVOCI debt instruments	Interest rate swaps	1,084	(1,265)	(181)
Subtotal		**(443)**	**432**	**(11)**
Micro fair value hedge relationships *hedging liabilities*				
Fixed rate subordinated liabilities*	Interest rate swaps	1,453	298	1,750
Subtotal		**1,453**	**298**	**1,750**
Total micro fair value relationships		**1,010**	**730**	**1,739**
Portfolio fair value hedge relationships				
Fixed rate customer deposits	Interest rate swaps	(504)	564	60
Subtotal		**(504)**	**564**	**60**
Total portfolio fair value hedge relationships		**(504)**	**564**	**60**
Total		**506**	**1,294**	**1,799**

(*) As of December 31, 2018, the hedging gain from initial remeasurement of hedged item amounted to EUR 1,774.

The maturity profile of the Bank's hedging instruments used in micro fair value hedge relationships is as follows:

December 31, 2019	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Fixed rate corporate loans					
Interest rate swaps	-	-	18,000	-	18,000
Foreign currency contracts	1,521	62,741	30,542	-	94,804
Fixed rate FVOCI debt instruments					
Interest rate swaps	-	-	-	154,183	154,183
Fixed rate subordinated liabilities					
Interest rate swaps	-	-	160,170	-	160,170
Fixed rate customer deposits					
Interest rate swaps	-	-	70,205	-	70,205
Total	**1,521**	**62,741**	**278,917**	**154,183**	**497,362**

December 31, 2018	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Fixed rate corporate loans					
Interest rate swaps	-	-	27,000	-	27,000
Foreign currency contracts	3,267	57,101	10,411	-	70,779
Fixed rate FVOCI debt instruments					
Interest rate swaps	-	-	-	97,295	97,295
Fixed rate subordinated liabilities					
Interest rate swaps	-	-	157,260	-	157,260
Fixed rate customer deposits					
Interest rate swaps	-	-	70,205	-	70,205
Total	**3,267**	**57,101**	**264,876**	**97,295**	**422,539**

-Net investment hedges

The objective is to protect net asset values of foreign investments of the Bank subsidiaries against unfavourable movements in the fx rates. The change in the value of hedging instrument, with respect to foreign exchange risk, is determined by reference to the functional currency of the Bank (EUR). This hedging objective is consistent with Bank`s overall FX risk management strategy of reducing the variability of its shareholders equity.

Details of the Bank's activities in relation to hedges of its net investment in foreign operations against foreign exchange movements are as follows:

		December 31, 2019
Investments in subsidiaries functional currency of which is:	**Change in fair value of hedged item for ineffectiveness assessment**	**Translation reserve**
USD	2,149	235
RON	1,708	(4,697)
CHF	3,706	4,283
UAH	-	1,876
TRY	(489)	(460)
Total	**7,074**	**1,237**

		December 31, 2018
Investments in subsidiaries functional currency of which is:	**Change in fair value of hedged item for ineffectiveness assessment**	**Translation reserve**
USD	3,656	604
RON	4,646	(132)
CHF	2,986	4,140
UAH	2,249	770
TRY	(724)	(2,380)
Total	**12,813**	**3,002**

Information regarding the foreign currency derivatives used as hedging instruments and hedge effectiveness is as follows:

December 31, 2019	**Carrying amount of hedging instruments**			**Changes in fair value of hedging instruments used for hedging ineffectiveness**		
Net investment hedges	Notional amount	Assets	Liabilities	Effective portion recognized in OCI	Hedge ineffectiveness recognized in income statement	Total
USD swaps	32,591	479	58	(2,149)	-	(2,149)
RON swaps	180,992	373	1,206	(1,708)	-	(1,708)
CHF swaps	111,158	(72)	1,206	(3,706)	-	(3,706)
TRY swaps	11,091	524	1,831	2,364	(1,875)	489
Total	**335,832**	**1,304**	**4,301**	**(5,199)**	**(1,875)**	**(7,074)**

December 31, 2018	Carrying amount of hedging instruments			Changes in fair value of hedging instruments used for hedging ineffectiveness		
Net investment hedges	Notional amount	Assets	Liabilities	Effective portion recognized in OCI	Hedge ineffectiveness recognized in income statement	Total
USD swaps	44,616	397	101	(3,656)	-	(3,656)
RON swaps	155,724	323	988	(4,303)	(343)	(4,646)
CHF swaps	112,185	(141)	498	(2,986)	-	(2,986)
UAH swaps	-	-	-	(2,249)	-	(2,249)
TRY swaps	6,896	(2)	162	1,142	(418)	724
Total	**319,421**	**577**	**1,749**	**(12,052)**	**(761)**	**(12,813)**

The maturity profile of the Bank's hedging instruments used in net investment hedge relationships is as follows:

Hedging Instruments	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
USD swaps	32,591	-	-	-	32,591
RON swaps	93,871	53,828	8,502	24,791	180,992
CHF swaps	111,158	-	-	-	111,158
TRY swaps	470	-	10,621	-	11,091
Total at December 31, 2019	**238,090**	**53,828**	**19,123**	**24,791**	**335,832**

Hedging Instruments	Less than 1 month	1 to 3 months	3 to 12 months	Total
USD swaps	19,874	24,742	-	44,616
RON swaps	62,019	83,269	10,436	155,724
CHF swaps	49,790	62,395	-	112,185
TRY swaps	10	6,886	-	6,896
Total at December 31, 2018	**131,693**	**177,292**	**10,436**	**319,421**

G. Investments in group companies and associates

For 2019, the movement of participating interests in Group companies and associates is as follows:

	Balance at 1 Jan-2019	Business Combination	Additions/ (Disposals)	Change in reserves	Result for the year	Dividend paid	Translation difference	Balance at 31-Dec-2019	Provision for year losses	Net carrying amount at 31-Dec-2019
Credit Europe Bank (Dubai) Ltd	36,307	-	-	70	3,190	-	659	40,226	-	40,226
Credit Europe (Suisse) Bank SA	114,147	-	-	955	9,927	(7,169)	4,450	122,310	-	122,310
Credit Europe Leasing (Ukraine) LLC	-	-	-	-	237	-	(390)	(153)	153	-
Hunter Navigation Ltd.	-	-	1,374	-	(1,368)	-	1	7	-	7
Credit Europe Asset Management S.A.*	-	-	-	-	(2,603)	-	28	(2,575)	2,575	-
Yenikoy Enterprises B.V.	7,003	-	3,797	-	(14,129)	-	141	(3,188)	3,188	-
Nomadmed XXI S.L.	-	-	300	-	(343)	-	-	(43)	43	-
Mediqueen Maritime Ltd	203	-	(203)	-	-	-	-	-	-	-
Medipride Maritime Ltd	-	-	-	-	(103)	-	(4)	(107)	107	-
Lodestar Maritime Ltd	442	-	(442)	-	-	-	-	-	-	-
Medibeauty Maritime Ltd	-	-	-	-	(60)	-	(4)	(64)	64	-
Mysia Shipping Ltd	-	-	4,871	-	(6,629)	-	(29)	(1,787)	1,787	-
Hitit Shipping Ltd	-	-	2,522	-	(2,516)	-	4	10	-	10
Cappadocia Shipping Ltd	-	-	2,075	-	(2,019)	-	3	59	-	59
Ziyaret Gayrimenkul Yatirim A.S.	7,092	-	(4,068)	-	933	(367)	(460)	3,130	-	3,130
Feniks Gayrimenkul Yatirim A.S.	2,176	-	-	-	(19)	-	30	2,187	-	2,187
JSC Credit Europe Bank (Ukraine)	11,578	-	-	93	1,281	-	2,262	15,214	-	15,214
Credit Europe Bank (Romania) SA	178,475	-	-	3,031	11,362	-	(5,414)	187,454	-	187,454
Seyir Gayrimenkul Yatirim A.S.	2,160	-	-	-	8	-	(2)	2,166	-	2,166
Stichting Credit Europe Custodian Services (Associate)	125	-	-	-	-	-	-	125	-	125
Cirus Holding B.V. (Associate)	4,832	-	2,800	-	(1,320)	-	136	6,448	-	6,448
Ikano Finance Holding B.V. (Associate)	2,172	-	-	-	108	-	(4)	2,276	-	2,276
Total	**366,712**	**-**	**13,026**	**4,149**	**(4,063)**	**(7,536)**	**1,407**	**373,695**	**7,917**	**381,612**

(*) As of 13 June 2019, the name of Credit Europe Leasing IFN S.A. (Romania) changed into Credit Europe Asset Management S.A.

G. Investments in group companies and associates (continued)

For 2018, the movement of participating interests in Group companies and associates is as follows:

	Balance at 1 Jan-2018	Additions/ (Disposals)	Change in reserves	Result for the year	Dividend paid	Translation difference	Balance at 31-Dec-2018	Provision for year losses	Net carrying amount at 31-Dec-2018
Credit Europe Bank (Russia) Ltd	310,791	(310,791)	-	-	-	-	-	-	-
Credit Europe Bank (Romania) SA	178,508	452	(9,428)	8,901	-	42	178,475	-	178,475
Credit Europe (Suisse) Bank SA	117,460	-	(1,555)	792	(6,690)	4,140	114,147	-	114,147
Credit Europe Bank (Dubai) Ltd	34,730	-	(1,964)	1,971	-	1,570	36,307	-	36,307
JSC Credit Europe Bank (Ukraine)	16,157	-	(1,059)	657	(5,064)	887	11,578	-	11,578
Yenikoy Enterprises B.V.	8,947	-	-	(2,504)	-	560	7,003	-	7,003
Credit Europe Leasing (Romania) SA	159	503	-	(894)	-	-	(232)	232	-
Cirus Holding B.V. (Associate)	3,980	-	-	1,026	-	(174)	4,832	-	4,832
Nomadmed XXI S.L.	-	-	-	(92)	-	-	(92)	92	-
Ikano Finance Holding B.V. (Associate)	2,206	-	-	(2)	-	(32)	2,172	-	2,172
Stichting Credit Europe Custodian Services (Associate)	125	-	-	-	-	-	125	-	125
Hunter Navigation Ltd.	753	-	-	(103)	-	(54)	596	(596)	-
Credit Europe Leasing (Ukraine) LLC	4,743	-	-	(86)	-	(117)	4,540	(4,540)	-
Maritime Enterprises B.V.	8,669	(7,336)	-	-	-	(1,333)	-	-	-
Mediqueen Maritime Ltd	49	3,057	-	151	-	94	3,351	(3,148)	203
Medipride Maritime Ltd	-	3,295	-	(302)	-	88	3,081	(3,081)	-
Lodestar Maritime Ltd	198	3,378	-	172	-	113	3,861	(3,419)	442
Medibeauty Maritime Ltd	-	3,973	-	(247)	-	107	3,833	(3,833)	-
Thrace Shipping Ltd.	283	(283)	-	-	-	-	-	-	-
Phrygia Shipping Ltd.	4	(4)	-	-	-	-	-	-	-
Lycia Shipping Ltd.	5	(5)	-	-	-	-	-	-	-
Cilicia Shipping Ltd.	348	(348)	-	-	-	-	-	-	-
Mysia Shipping Ltd	-	3,717	-	(4,611)	-	(261)	(1,155)	1,155	-
Hitit Shipping Ltd	-	3,055	-	(3,509)	-	(172)	(626)	626	-
Cappadocia Shipping Ltd	-	4,143	-	(3,987)	-	(207)	(51)	51	-
Feniks Gayrimenkul Yatirim A.S.	2,404	224	-	(545)	-	93	2,176	-	2,176
Seyir Gayrimenkul Yatirim A.S.	1,208	882	-	-	-	70	2,160	-	2,160
Ziyaret Gayrimenkul Yatirim A.S.	9,462	-	-	10	-	(2,380)	7,092	-	7,092
Total	**701,189**	**(292,088)**	**(14,006)**	**(3,202)**	**(11,754)**	**3,034**	**383,173**	**(16,461)**	**366,712**

Provisions for participations are summarized as follows:

	December 31, 2019	December 31, 2018
Mysia Shipping Ltd.	4,797	3,010
Yenikoy Enterprises B.V.	3,188	-
Credit Europe Leasing IFN SA.	2,807	232
Credit Europe Leasing (Ukraine) LLC	2,348	2,195
Hitit Shipping Ltd.	2,110	2,110
Cappadocia Shipping Ltd.	1,750	1,750
Hunter Navigation Ltd.	1,228	1,228
Nomadmed XXI S.L.	366	323
Majesty Maritime Ltd.	261	261
Medipride Shipping Ltd.	236	236
Total	**19,091**	**11,345**

H. Intangible assets

The book value of intangibles is as follows:

	Patents and licenses	Total
Balance at January 1, 2019	**2,496**	**2,496**
Addition	585	585
Amortization	(1,090)	(1,090)
Balance at December 31, 2019	**1,991**	**1,991**
Balance at January 1, 2018	**2,666**	**2,666**
Addition	811	811
Amortization	(981)	(981)
Balance at December 31, 2018	**2,496**	**2,496**

I. Property, equipment and investment property

A. Property and equipment

The book value of property and equipment is as follows:

	Land and Buildings	Furniture and fixtures	Investment Property	Total
Balance at January 1, 2019	**37,952**	**955**	**7,800**	**46,707**
Effect of IFRS 16 adoption	429	286	-	**1,674**
Additions	165	673	-	**838**
Revaluation*	7,888	-	-	**7,888**
Disposals	-	(3)	-	**(95)**
Impairment	(411)	-	-	**(411)**
Depreciation	(1,225)	(542)	-	**(1,958)**
Changes in unrealized fair value	-	-	(2,544)	**(2,544)**
Balance at December 31, 2019	**44,798**	**1,369**	**5,256**	**52,099**
Cost	50,157	10,805	4,600	**66,429**
Revaluation	7,888	-	-	**7,888**
Cumulative depreciation and impairment	(13,247)	(9,436)	-	**(22,874)**
Cumulative change in unrealized fair value	-	-	656	**656**
Balance at December 31, 2019	**44,798**	**1,369**	**5,256**	**52,099**

	Land and Buildings	Furniture and fixtures	Investment Property	Total
Balance at January 1, 2018	**39,115**	**838**	**8,300**	**48,253**
Additions	40	492	-	**532**
Depreciation	(1,203)	(375)	-	**(1,578)**
Changes in unrealized fair value	-	-	(500)	**(500)**
Balance at December 31, 2018	**37,952**	**955**	**7,800**	**46,707**
Cost	49,563	9,849	4,600	**64,012**
Cumulative depreciation and impairment	(11,611)	(8,894)	-	**(20,505)**
Cumulative change in unrealized fair value	-	-	3,200	**3,200**
Balance at December 31, 2018	**37,952**	**955**	**7,800**	**46,707**

* The Bank changed the accounting policy with respect to measurement of land and buildings as at 31 December 2019 on a prospective basis. Management determined that the land and buildings constitute a separate class of property and equipment, based on the nature, characteristics and risks of the properties. Fair value of the properties was determined using the market comparison and income capitalization methods. The valuations have been performed by the valuer, and are based on proprietary databases of prices of transactions for properties of similar nature, location and condition.

As at the date of revaluation on 31 December 2019, land and buildings' fair values are based on valuations performed by professional valuators, who has valuation experience for similar office properties. Management approved revaluations after assessing the valuations made by professional valuators. Gain from the revaluation of EUR 7,888 was recognised in OCI.

The Bank holds investment property as a consequence of acquisitions through enforcement of security over loans and advances. The fair values of investment properties were determined by external, independent property valuers, having appropriate experience in the location and category of property being valued. The independent valuers provide the fair values of the investment property portfolio on annual basis.

Set out below, are the carrying amounts of the Bank's right-of use assets and lease liabilities and the movements during the year:

	Right-of-use assets				December 31, 2019
	Land and Buildings	**Vehicles**	**Plant and Machinery**	**Total**	**Lease Liabilities**
As at 1 January 2019	**429**	**959**	**286**	**1,674**	**1,674**
Additions	-	-	64	**64**	64
Disposals	-	(92)	(3)	**(95)**	(95)
Depreciation expense	(45)	(191)	(46)	**(282)**	-
Interest expense	-	-	-	-	18
Payments	-	-	-	-	(288)
As at 31 December 2019	**384**	**676**	**301**	**1,361**	**1,373**

J. Other assets and inventories

	December 31, 2019	**December 31, 2018**
Deferred tax assets	42,818	43,273
Receivables from DSB	17,861	15,970
Repossessed assets classified as inventories	10,820	6,247
Current tax assets	2,616	2,879
Prepayments and advance payments to suppliers	1,532	1,319
Amounts held as guarantee	1,004	985
Other assets and receivables	9,410	1,926
Total	**86,061**	**72,599**

As of December 31, 2019, EUR 60,679 (2018: EUR 59,243) of other assets are not expected to mature within one year.

K. Amounts due to banks

This item comprises amounts due to banking institutions.

	December 31, 2019	**December 31, 2018**
Current accounts	148,914	109,137
Time deposits	63,226	11,465
Targeted longer term refinancing operations (TLTRO)	48,967	64,465
Total	**261,107**	**185,067**

Deposits and current accounts of intra group companies amount to EUR 25,817 (2018: EUR 27,242). Amount of due to banks which is on demand is EUR 105,459 (2018: EUR 103,119).

Repo transactions in time deposits amount to EUR 46,759 (2018: None).

L. Amounts due to customers

This item comprises amounts due to customers other than banking institutions.

	December 31, 2019	December 31, 2018
Retail time deposits	1,276,145	1,330,533
Retail saving and demand deposits	1,178,804	1,331,105
Corporate demand deposits	172,377	158,075
Corporate time deposits	57,558	33,506
Total	**2,684,884**	**2,853,219**

As of December 31, 2019, EUR 1,600,784 (2018: EUR 1,667,752) of deposits from customers are expected to be settled more than 12 months after the balance sheet date.

As of December 31, 2019, the Bank maintained customer deposit balances of EUR 13,532 (2018: EUR 23,077), which were pledged to the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

Deposits and current accounts of intra group companies amount to EUR 9,788 (2018: EUR 9,237).

M. Other liabilities

	December 31, 2019	December 31, 2018
Accrued expenses	3,525	4,001
Staff related liabilities	3,276	3,517
Taxes other than income	1,837	2,119
Lease liabilities	1,372	-
Unfinished settlements	1,204	705
Current tax liabilities	857	2,121
Collaterals received	-	7,421
Other payables	1,379	1,833
Total	**13,450**	**21,717**

N. Provisions

	December 31, 2019	December 31, 2018
Provisions for participations	18,800	11,345
Deferred tax liability	4,037	1,846
Litigation provision	1,862	2,668
Non-cash loan provisions	1,797	367
Total	**26,496**	**16,226**

O. Subordinated liabilities

Issued liabilities qualify as subordinated debt if claims by the holders are subordinated to all other current and future liabilities of CEB. This liability qualifies as capital, taking into account remaining maturities, for determining the consolidated capital adequacy ratio for the Dutch Central Bank (De Nederlandsche Bank - DNB).

	Year of maturity	December 31, 2019	December 31, 2018
USD 150 million subordinated notes with a fixed interest rate of 7.25 % p.a.	2027	133,021	130,101
USD 50 million AT 1 instrument with a fixed interest rate of 8.95 % p.a.	2022	44,638	43,826
Total		**177,659**	**173,927**

The Bank had not any defaults on principal, interest or other breaches with respect to its subordinated liabilities during the years ended 2019 and 2018.

P. Share capital

The authorized share capital is EUR 1,000 million (2018: EUR 1,000 million) and comprises 1,000 million (2018: 1,000 million) ordinary shares with a face value of EUR 1.

The called-up and paid-in capital consists of 563.0 million (2018: 563.0 million) ordinary shares with a face value of EUR 1.

Q. Legal reserves

Under Dutch GAAP, legal reserves are required in certain circumstance. The objective of these legal reserves is to protect the creditors (i.e. the Bank is only allowed to pay out profits to its shareholders that it has realized or can realize when the bank wants to). Legal reserves only relate to the Bank Financial Statements and are not applicable to the Consolidated Financial Statements. Reserves of participations cannot be paid out to the Bank due to local legal requirements.

For the Bank, the following legal reserves are important:

- Participations reserve
- Currency translation differences reserve
- Fair value reserve
- Net investment hedge reserve
- Tangible revaluation reserve

In determining legal reserves deferred taxes on debt and equity instruments at FVOCI are taken into account. Deferred taxes attributable to equity are calculated on the difference between IFRS and tax values of debt and equity instruments at FVOCI. Hedge accounting reserves are subject to the participation exemption regime according to Dutch tax laws. Accordingly, profits and losses from participations are not taxable in The Netherlands. Due to the participation exemption regime, in practice, the participation hedge results are carried into statement of income for tax purposes and then exempted from taxable profit.

R. Net interest income

	January 1- December 31, 2019	January 1- December 31, 2018
Interest income from financial instruments measured at amortized cost and FVOCI	**121,151**	**170,289**
Loans and receivables – customers	114,190	162,494
Financial investments	2,208	4,692
Loans and receivables – banks	4,753	3,103
Interest income from financial instruments measured at FVTPL	**22,808**	**24,553**
Derivative financial instruments	16,648	21,095
Other financial assets at fair value through profit or loss	4,890	1,773
Non-trading financial assets mandatorily at FVTPL	1,270	1,685
Subtotal	**143,959**	**194,842**
Interest expense from financial instruments measured at amortized cost	**44,457**	**49,255**
Due to customers	26,803	31,431
Due to banks	1,622	784
Subordinated liabilities	13,761	14,666
Cash and balances at central banks	2,253	2,374
Lease liabilities	18	-
Interest expense from financial instruments measured at FVTPL	**23,978**	**30,832**
Derivative financial instruments	23,978	30,832
Subtotal	**68,435**	**80,087**
Total	**75,524**	**114,755**

S. Results from investment securities and participating interests

	January 1- December 31, 2019	January 1- December 31, 2018
Net gain from disposal of debt instruments at FVOCI	11,590	12,735
(Loss) from discontinued operations, gross	-	(331,086)
Net result from participating interests	**(4,063)**	**(3,202)**
- Group companies	(2,851)	(4,226)
- Associates	(1,212)	1,024
Total	**7,527**	**(321,553)**

T. Net fee and commission income

	January 1- December 31, 2019	January 1- December 31, 2018
Fee and commission income		
Cash loan fees	8,807	7,539
Letters of credit commissions	5,311	5,500
Commission on account maintenance	1,809	1,624
Portfolio and other management fees	1,593	1,816
Letters of guarantee commissions	1,129	1,054
Commissions on fund transfers	501	498
Insurance related fees	263	229
Other fees and commissions	435	469
Subtotal	**19,848**	**18,729**
Fee and commission expense		
Portfolio and other management fee expense	2,165	2,820
Account maintenance fees	286	347
Commission paid to intermediaries/retailers	171	200
Other fee and commission expenses	231	205
Subtotal	**2,853**	**3,572**
Total	**16,995**	**15,157**

U. Net trading results

	January 1- December 31, 2019	January 1- December 31, 2018
Trading loans	4,661	2,929
Debt securities	102	(215)
Dividend on FVTPL investments	41	112
Foreign exchange	37	37
Loans measured mandatorily at FVTPL	(2,069)	370
Derivative financial instruments - hedge accounting	(4,431)	8,362
Subtotal	**(1,659)**	**11,595**
Derivative financial instruments - not qualifying for hedge accounting	(30,082)	(57,035)
Total	**(31,741)**	**(45,440)**

V. Other operating income

	January 1- December 31, 2019	January 1- December 31, 2018
Income from DSB receivables	4,119	-
Dividend income	944	112
Rent income	546	613
Other income	486	527
Total	**6,095**	**1,252**

W. Personnel expenses

	January 1- December 31, 2019	January 1- December 31, 2018
Wages and salaries	22,763	21,920
Social security payments	2,148	2,076
Retirement benefit costs	1,522	1,351
Other employee costs	3,563	3,754
Total	**29,996**	**29,101**
Average number of employees	**269**	**261**

X. General and administrative expenses

	January 1- December 31, 2019	January 1- December 31, 2018
Professional fees and consultancy	2,988	2,758
Membership fees	2,428	2,423
Communication and information expenses	1,457	1,328
Taxes other than income	1,273	753
Information technology expenses	1,266	1,329
Rent and maintenance expenses	808	952
Legal services expenses	688	760
Travel and transport expenses	434	392
Security expenses	332	323
Cleaning expenses	294	280
Insurance premiums	233	210
Representative expenses	218	214
Stationary, office supplies and printing expense	95	133
Advertising and marketing expenses	21	18
Other expenses	202	846
Total	**12,737**	**12,719**

Y. Other operating expenses

	January 1- December 31, 2019	January 1- December 31, 2018
Change in fair value of investment property	2,544	500
Fines and penalties	535	300
Claims service expenses	347	556
Provision (reversal) / addition	(878)	(1,553)
Other	1,568	549
Total	**4,116**	**352**

Z. Net impairment loss on financial assets

	January 1- December 31, 2019				January 1- December 31, 2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to customers at amortized cost	(153)	13,230	(14,740)	(1,663)	(29,674)
Credit related commitments (non-cash loans)	(96)	-	(1,334)	(1,430)	-
Debt securities measured at FVOCI	46	-	-	46	158
Loans to banks at amortized cost	265	-	-	265	316
Net impairment loss on financial assets	**62**	**13,230**	**(16,074)**	**(2,782)**	**(29,200)**

AA. Commitments and contingencies

To meet the financial needs of customers, the Bank issues various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the balance sheet, they do contain credit risk and are, therefore, part of the overall risk of the Bank. In many instances, the amount recognized on the balance sheet for incurred obligations does not represent the loss potential of the arrangement in full.

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers, contingent on the failure of the customer to perform under the terms of the contract. Guarantees carry the same credit risk as loans. Credit guarantees can be in the form of bills of exchange, irrevocable letters of credit, advance payment guarantees and endorsement liabilities from bills rediscounted.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term-to-maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

	December 31, 2019	**December 31, 2018**
Contingent liabilities with respect to irrevocable letters of credit - import	267,724	194,854
Contingent liabilities with respect to letters of guarantee granted - corporates	64,669	151,675
Contingent liabilities with respect to irrevocable letters of credit - export	44,032	130,107
Contingent liabilities with respect to letters of guarantee granted - banks	28,348	4,636
Total non-cash loans	**404,773**	**481,272**
Credit-line commitments	141,950	2,546
Other commitments	8,898	220
Total	**555,621**	**484,038**

As of December 31, 2019, EUR 89 (2018: EUR 87) letter of guarantees was granted to related parties.

AB. Litigation claims

Litigation is a common occurrence in the Banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects the claims may have on its financial standing.

AC. Remuneration

Key management costs including remuneration and fees;

	December 31, 2019	December 31, 2018
Total remuneration to supervisory board members	776	998
Total remuneration to managing board members	2,741	3,222
Total	**3,517**	**4,220**

Pension plan contribution amount is EUR 189 (2018: EUR 84).

	December 31, 2019	December 31, 2018
Loans and advances		
Outstanding at 1 January	91	146
Granted during the year	-	15
Repaid during the year	(81)	(70)
Outstanding at 31 December	**10**	**91**

These transactions were concluded at staff terms and market rates. The average interest rate on fixed-interest EUR loans provided to the Managing Board members is 4.79% in 2019 (2018: 6.06%). There is no guarantee provided to Managing and Supervisory Board members.

Amsterdam, March 25, 2020

Supervisory Board:	Managing Board:
Hector De Beaufort	Murat Başbay
Murat Özyeĝin	Şenol Aloĝlu
Frits Deiters	Umut Bayoĝlu
Mehmet Güleşci	Batuhan Yalnız
Korkmaz İlkorur	
Seha İşmen Özgür	

AE. Fees of the auditor

With reference to Section 2:382a (1) and (2) of the Netherlands Civil Code, the following fees have been charged by auditors to the Bank:

	December 31, 2019	**December 31, 2018**
Statutory audit of annual accounts	967	1,134
Other assurance services	167	244
Tax advisory services	125	196
Other non-audit services	273	728
Total	**1,532**	**2,302**

The audit fees relate to the financial year to which the financial statements pertain, regardless of whether the external auditor and the audit firm performed the work during the financial year.

“Other assurance services” and “Other non-audit services” fees comprise services for regulatory reporting purposes, assurance engagements on segregation of assets and procedures agreed for supervisory purposes.

AF. Subsequent events

The existence of novel coronavirus (COVID-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses and economic activity. The potential economic implications for the countries and sectors where the Bank is active in are being monitored and assessed in order to identify possible mitigating actions. The Bank considers the outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential of this outbreak on the Bank.

AG. Other information

Proposed profit appropriation

The profit is appropriated pursuant to Article 31 of the Articles of Association of CEB; the relevant stipulations are as follows:

- The profits shall be at the disposal of the General Meeting of Shareholders.
- Dividends may be paid only up to an amount that does not exceed the distributable part of net assets.
- Dividends shall be paid after adoption of the annual accounts from which it appears that payment of dividends is permissible.

It is proposed to appropriate net profit pursuant to the Articles of Association, as follows:

Proposed profit appropriation

Net profit	19,494
Addition to retained earnings pursuant to Article 31 of the Articles of Association	19,494

Independent auditor's report

To: the shareholders and supervisory board of Credit Europe Bank N.V.

Report on the audit of the 2019 financial statements included in the annual report

Our opinion

We have audited the 2019 financial statements of Credit Europe Bank N.V. (the Company), based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Credit Europe Bank N.V. as at 31 December 2019, and of its result and its cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- The accompanying company financial statements give a true and fair view of the financial position of Credit Europe Bank N.V. as at 31 December 2019, and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2019
- The following statements for 2019: the consolidated statement of income, the consolidated statements of comprehensive income, changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The company statement of financial position as at 31 December 2019
- The company statement of income for 2019
- The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Credit Europe Bank N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands.

Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Our understanding of the business

Credit Europe Bank N.V. is a licensed bank of which main businesses are lending to retail and corporate customers. Credit Europe Bank N.V. owns four banking subsidiaries in Switzerland, Romania, Ukraine and the United Arab Emirates, two leasing companies in Romania and Ukraine and other subsidiaries in Turkey and Malta. As the group is structured in components we tailored our group audit approach accordingly. We paid specific attention in our audit to a number of areas driven by the operations of the group and our risk assessment. We refer to the key audit matters below for the impairment losses for loans and receivables including the change in the estimates within the current year.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, non-compliance with laws and regulations or error in order to design audit procedures responsive to those risks, and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Materiality

Materiality	€8.4 million (2018: €8.4 million)
Benchmark applied	1.5% of equity (2018: 1.5% of equity)
Explanation	Based on our professional judgment we consider equity as the most appropriate basis to determine materiality for the Credit Europe Bank N.V. as it provides a consistent year on year basis for determining materiality and is one of the key performance measures for the users of the financial statements

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of €0.4 million which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

Non-compliance with laws and regulations may result in fines, litigation or other consequences for the company that may have a material effect on the financial statements.

Our audit response related to fraud risks

In order to identify and assess the risks of material misstatements of the financial statements due to fraud, we obtained an understanding of the entity and its environment, including the entity's internal control relevant to the audit and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the company's internal control.

We considered available information and made enquiries of relevant executives, directors (including internal audit, legal, compliance, risk management, financial control and human resources) and the supervisory board. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic and integrity specialists.

In our risk assessment we considered the potential impact of bonus schemes in place. Furthermore, as Credit Europe Bank N.V. is operating in multiple jurisdictions, we considered the risk of bribery and corruption.

We evaluated the design and the implementation of internal controls that mitigate fraud risks.

In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in Note 2.d "Use of estimates and judgements" to the financial statements. We have also used data analysis to identify and address high-risk journal entries. We refer to the key audit matters below for our procedures performed and observations over key accounting estimates regarding the impairment allowances for loans and receivables.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

Our audit response related to risks of non-compliance with laws and regulations

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the management board, reading minutes, inspection of internal audit, nonfinancial risk management and compliance reports and performing detailed audit procedures on classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally, we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Going concern

In order to identify and assess the risks of going concern and to conclude on the appropriateness of management's use of the going concern basis of accounting, we consider based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.
Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

Scope of the group audit

Credit Europe Bank N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Credit Europe Bank N.V.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

Our group audit mainly focused on significant banking operations in the Netherlands, Romania and Switzerland as well as the special purpose vehicles in the shipping industry. This resulted in an audit coverage of 95% of equity and 96% of total assets. For the activities of the remaining components (5% of equity and 4% of total assets), we performed analytical review procedures at the aggregated group level in order to corroborate our assessment that there are no significant risks of material misstatement within these remaining components.

The scope of the group reporting is laid down in our Group Audit Instructions which were sent to the group entities, all audited by EY member firms except for leasing activities in Romania, which is audited by BDO Audit Srl. These instructions covered the significant audit areas, including the relevant risks of material misstatement, and set out the information required to be reported to the group audit team.
Key considerations were the size and/or the risk profile of the group entities or operations. We visited the component location in Romania and Switzerland and we performed detailed file reviews on the component files at the execution phase of the Romanian auditors. Furthermore, we performed analytical procedures and held telephone conferences with the other auditors of group entities to discuss the findings and observations as reported by the group entities in order to corroborate our assessment that there are no significant risks of material misstatement within these components.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Teaming and use of specialists

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a listed client in the banking industry. We included specialists in the areas of IT audit, forensics, hedge accounting and income tax and have made use of our own experts in the areas of valuations of real estate, vessels, enterprise and derivatives.

General audit procedures

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

The key audit matter "Measurement of the loss from the discontinued operations" which was included in our last year's auditor's report, is not considered a key audit matter for this year as it was related to one specific transaction.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Estimation uncertainty with respect to impairment allowances for loans and receivables (Refer to Note 2 Basis of preparation, 3 Significant accounting policies, Note 10 Loans and receivables – customers, Note 11 Loan impairment charges and allowances and related credit risk disclosures within note 37 Risk management.)	
Risk	At 31 December 2019, Credit Europe Bank N.V. reported total gross loans and receivables - customers of €3.2 billion and €67 million of loan impairment allowance ("Expected Credit Loss" or "ECL"). These are calculated based on the risk of default over different time horizons, depending on whether the credit risk of the borrower has increased significantly since the exposure was first recognized. ECL of Stage 1 and Stage 2 corporate loan portfolios and ECL of Stage 1, Stage 2 and Stage 3 of consumer loans are calculated collectively. ECL of Stage 3 corporate loan portfolios are calculated individually. ECL calculations are probability-weighted estimates of the present value of cash shortfalls using models, applying scenarios, and which approximate the impact of historical losses on the one hand and forward-looking developments on the other hand. The inputs to these models are amongst others based on historical loss experience, macro-economic variables, credit conditions of the loan and cash flow projections with judgment applied to determine the assumptions used to calculate the ECL. Expert judgment and proxies are applied where data driven parameters or calculations are not considered representative for the risk or conditions of the portfolio. Furthermore, there are changes in the estimates used for impairment allowance for loans and receivables. The Company's assessment of significant increase in credit risk, stage classification and the determination of the ECL is part of the risk estimation process, requires significant management judgment. As the loans and receivables-customers and the associated ECL is material to the Company's statement of financial position and income statement and given the related estimation uncertainty on ECL, we consider this a key audit matter. The critical accounting estimates and judgments and ECL amounts are disclosed in the notes to the financial statements.
Our audit approach	For the year-end ECL, we evaluated the accounting policies for compliance with IFRS 9 and challenged the criteria for assessing significant increase in credit risk and default. We also obtained an understanding of the loan origination process, the credit risk management process and the estimation process of determining impairment allowances for loans and receivables – customers including the change in the estimates and tested the design and operating effectiveness of controls within these processes. Furthermore, we performed substantive and analytical audit procedures over data, models, impairment calculation and overlays. We performed an overall assessment of the ECL levels by stage to determine if they were reasonable considering the Company's portfolio, risk profile, credit risk management practices and the macroeconomic environment. We considered trends in the economy and industries to which the Company is exposed. On a risk basis, we selected individual loans and performed detailed credit file reviews and assessed whether the bank correctly applied its credit risk policy. We applied professional judgment in selecting those exposures for our detailed inspection, placing an emphasis on portfolios that were potentially more sensitive to developing economic trends.

Estimation uncertainty with respect to impairment allowances for loans and receivables (Refer to Note 2 Basis of preparation, 3 Significant accounting policies, Note 10 Loans and receivables – customers, Note 11 Loan impairment charges and allowances and related credit risk disclosures within note 37 Risk management.)	
	We challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9. We tested assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage. For collectively assessed ECL, using models, with the support of our internal specialists, we tested the assumptions, inputs, formulas used and changes in the estimates in a sample of ECL models. We also tested the appropriateness of the modelling methodology, including assessing the appropriateness of model design and formulas used, assessing the base case and alternative economic scenarios, challenging the probability weights and the macroeconomic variables used. We also challenged the correlation and impact of the macroeconomic factors to the ECL including how non-linearity was captured with the support of our internal specialists. We performed retrospective review procedures for comparing modelled predictions with actual results. To verify data quality, we tested the data used in the ECL calculation by reconciling to source systems. For individually assessed ECL, we selected individual loans and performed detailed loan file reviews and assessed whether the bank correctly applied its impairment allowance methodology. We challenged the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral, probability weights of the alternative scenarios and estimates of recovery on default. In certain cases, we have involved our specialists when assessing estimated future cash flows and collateral valuations. Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements of EU-IFRS.
Key observations	Based on our procedures performed we consider the impairment allowance for loans and receivables – customers to be reasonable. The disclosures on loans and receivables – customers and ECL are considered adequate and appropriate and meet the requirements of EU-IFRS.

Reliability and continuity of the information technology and systems (key audit matter)	
Risk	Credit Europe Bank N.V. is dependent on the IT infrastructure for the continuity and reliability of their business processes and financial reporting. Credit Europe Bank N.V. continuously made investments to further improve the IT environment and IT systems. The role of financial disclosures is important to stakeholders and increasing data granularity in financial reporting and regulatory reporting requirements urge for high quality data and an adequate IT environment. We therefore consider this as a key audit matter.
Our audit approach	We assessed the reliability and continuity of the IT environment with the assistance of our IT auditors, insofar as needed within the scope of our audit of the 2019 financial statements. Amongst others, we tested the IT general controls related to logical access and change management and application controls embedded in Credit Europe Bank N.V.'s key processes. Our work consisted of assessing the developments in the IT infrastructure and analyzing the impact on the IT organization. In addition, we assessed the reliability and continuity of the IT and the possible impact of changes during the year either from ongoing internal initiatives or from external factors such as reporting requirements.
Key observations	The combination of the tests of the controls and the substantive tests performed, provided sufficient evidence to enable us to rely on the continued operation of the IT systems for the purposes of our audit.

Emphasis of matter relating to uncertainty about Corona

The developments surrounding the Corona (Covid-19) virus have a profound impact on people's health and on our society as a whole, as well as on the operational and financial performance of organizations and the assessment of the ability to continue as a Going Concern. The financial statements and our auditor's report thereon are snapshots. The situation changes on a daily basis giving rise to inherent uncertainty.

Credit Europe Bank N.V. is confronted with this uncertainty as well, that is disclosed in the "CEO Letter", "Corporate Banking " and "Outlook 2020" sections of the annual report and in Note 39 Subsequent Events to the financial statements. We draw attention to these disclosures.

Our opinion is not modified in respect of this matter.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Strategy
- Five-year Key Figures
- Report of the Managing Board
- Corporate Governance
- Profile of the Supervisory Board
- Report of the Supervisory Board
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:
- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code, other information required by Part 9 of Book 2 of the Dutch Civil Code and the other information required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the supervisory board as auditor of Credit Europe Bank N.V. on 20 January 2017, as of the audit for the year 2017 and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities for the financial statements

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company’s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company’s ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company’s financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The Our audit approach section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Communication

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.
In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

From the matters communicated with the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 25 March 2020

Ernst & Young Accountants LLP

signed by R. Koekkoek