

**JSC Credit Europe Bank
IFRS Financial statements
and
Management report
with Independent auditor's report
for the year ended 31 December 2018**

Credit  EuropeBank

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IFRS Financial statements

Management report

Independent auditor's report

JSC Credit Europe Bank

Financial Statements
31 December 2018

These financial statements contain 64 pages

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	Note	31 December 2018	31 December 2017
<i>(in thousands of UAH)</i>			
Assets			
Cash and cash equivalents	6	573,165	943,734
Loans and advances	7	847,816	816,395
Investment in securities	8	119,984	-
Derivative financial instruments at fair value through profit or loss	23	936	397
Investment property	9	24,399	23,565
Property, equipment and intangible assets	10	6,551	6,518
Prepaid income tax		11,078	8,036
Deferred tax asset	22	-	11
Other assets	11	3,444	4,221
Total assets		1,587,372	1,802,877
Liabilities			
Due to banks	12	884,907	764,484
Due to customers	13	352,634	544,469
Current tax liability		9,488	20,504
Deferred tax liability	22	37	-
Derivative financial instruments at fair value through profit or loss	23	759	796
Other liabilities	14	3,305	2,529
Total liabilities		1,251,130	1,332,782
Equity			
Share capital	15	252,500	252,500
Retained earnings		54,631	196,642
Reserve and other funds		29,326	21,233
Revaluation reserves		(215)	(280)
Total equity		336,242	470,095
Total liabilities and equity		1,587,372	1,802,877

Commitments and contingent liabilities

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Onur Anliatamer
Chairman of the Board

Iryna Nemchen
Deputy Chairman of
the Board

Svitlana Dubova
Chief Accountant
of the Board

Prepared by Svitlana Dubova
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The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 7 to 64.

JSC Credit Europe Bank
Financial statements as at and for the year ended 31 December 2018
Statement of profit or loss and other comprehensive income for the year ended 31 December 2018

	<i>Note</i>	2018	2017
<i>(in thousands of UAH)</i>			
Interest income	<i>17</i>	110,532	81,763
Interest expense	<i>18</i>	(35,951)	(35,353)
Net interest income		74,581	46,410
Fee and commission income	<i>19</i>	9,057	15,849
Fee and commission expense	<i>19</i>	(24,180)	(17,217)
Net losses from sales of securities		-	(72)
Net gains from dealing with foreign currencies and foreign exchange differences		(4,596)	21,620
Net gains from derivatives		37,047	17,051
Net change in allowance for impairment of assets		22,861	97,766
Other operating income		2,061	3,380
Administrative and other expenses	<i>20</i>	(75,102)	(53,126)
Profit/(loss) before tax		41,728	131,661
Income tax expense	<i>22</i>	(8,443)	(12,468)
Net profit/(loss)		33,285	119,193
Other comprehensive income			
Change in fair value of financial assets at fair value through other comprehensive income	<i>8</i>	79	(328)
Tax effect relating to other comprehensive income		(14)	59
Total other comprehensive (loss)/income		65	(269)
Total comprehensive (loss)/income		33,350	118,924
Earnings per share, in UAH			
Basic and diluted earnings per share	<i>15</i>	0.07	0.24



Signed and approved for
issuance

10 April 2019

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Chairman of the Board

Iryna Nemchen
Deputy Chairman of
the Board

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The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 7 to 64.

JSC Credit Europe Bank
Financial statements as at and for the year ended 31 December 2018
Statement of cash flows for the year ended 31 December 2018

	<i>Note</i>	2018	2017
<i>(in thousands of UAH)</i>			
<i>Operating activities</i>			
Interest received		103,410	71,701
Interest paid		(34,625)	(29,063)
Fees and commissions received		9,057	15,849
Fees and commissions paid		(24,180)	(17,217)
Realised net gains from derivatives		36,471	16,373
Realised losses from dealing in foreign currencies		6,689	8,897
Other operating income received		1,509	968
Salaries and employee benefits paid		(25,253)	(27,938)
General administrative expenses paid		(49,883)	(24,796)
Income tax paid		(22,453)	(260)
Cash flow from operating activity before change in operating assets and liabilities		743	14,514
Change in restricted balances with NBU		-	-
Change in loans and advances		(28,889)	402,742
Change in derivative financial instruments at fair value through profit or loss		-	-
Change in other assets		777	(1,615)
Change in due to banks		125,369	(697,285)
Change in due to customers		(189,842)	253,744
Change in other liabilities		777	(3,354)
Cash flows (used in)/from operating activities		(91,065)	(31,254)

(continued)

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 7 to 64.

JSC Credit Europe Bank
 Financial statements as at and for the year ended 31 December 2018
 Statement of cash flows for the year ended 31 December 2018
 (continued)

	Note	2018	2017
Investing activities			
Purchases of securities at fair value through other comprehensive income		(119,999)	-
Proceeds from repayment of securities at fair value through other comprehensive income		-	18,572
Partial redemption of debt securities of non-financial enterprises at amortised cost		25,902	-
Outflow of funds associated with debt securities of non-financial enterprises at amortised cost		(14,569)	-
Purchases of investment property		-	-
Proceeds from disposal of investment property		1,533	-
Acquisition of property, equipment and intangible assets		-	(82)
Proceeds from disposal of property, equipment and intangible assets		552	-
Cash flows from investing activities		(106,580)	18,490
Financing activities			
Dividends paid		(161,600)	(166,650)
Cash flows used in financing activities		(161,600)	(166,650)
Effect of exchange rates fluctuations on cash and cash equivalents		(11,325)	28,583
Net (decrease)/increase in cash and cash equivalents		(370,571)	(150,831)
Cash and cash equivalents as at 1 January	6	943,734	1,094,565
Cash and cash equivalents as at 31 December	6	573,165	943,734



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 Issuance
 10 April 2019

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 Chairman of the Board

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 Deputy Chairman of
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 of the Board

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The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 7 to 64.

*JSC Credit Europe Bank
Financial statements as at and for the year ended 31 December 2018
Statement of changes in equity for the year ended 31 December 2018*

	<i>Note</i>	Share capital	Reserve and other funds	Revaluation reserves	Retained earnings	Total
<i>(in thousands of UAH)</i>						
Balances as at 1 January 2017		252,500	12,248	(11)	253,084	517,821
Total comprehensive income:						
Net profit		-	-	-	119,193	119,193
Other comprehensive income/(loss)		-	-	(269)	-	(269)
Total comprehensive income/(loss)		-	-	(269)	119,193	118,924
Distribution of profit to Reserve and other funds	15	-	8,985	-	(8,985)	-
Dividends paid	15	-	-	-	(166,650)	(166,650)
Balances as at 31 December 2017		252,500	21,233	(280)	196,642	470,095
Impact of the transition to IFRS 9		-	-	-	(5,603)	(5,603)
Balances as at 1 January 2018		252,500	21,233	(280)	191,039	464,492
Net profit		-	-	-	33,285	33,285
Other comprehensive income/(loss)		-	-	65	-	65
Distribution of profit to Reserve and other funds	15	-	8,093	-	(8,093)	-
Dividends paid	15	-	-	-	(161,600)	(161,600)
Balances as at 31 December 2018		252,500	29,326	(215)	54,631	336,242

Signed and approved for



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Onur Anliatamer
Chairman of the Board

Iryna Nemchen
Deputy Chairman of the Board

Svitlana Dubova
Chief Accountant

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 7 to 64.

1 Background

(a) Organisation and operations

JSC Credit Europe Bank (the Bank) was established as CJSC Finansbank in accordance with Ukrainian legislation and registered by the National Bank of Ukraine (the NBU) in August 2006.

In June 2007, the Bank changed its name to Closed Joint-Stock Company Credit Europe Bank. In October 2009, the Bank was reorganised from a closed joint-stock company to a public joint-stock company. In December 2018, the Bank was reorganised from a public joint-stock company to a joint-stock company.

The principal activities of the Bank are lending, deposit taking and customer accounts maintenance, issuing guarantees, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the NBU.

The Head Office is located at 2 Mechnikova str, in Kyiv, Ukraine.

The Bank has 1 branch as at 31 December 2018 (31 December 2017: 1).

(b) Ukrainian business environment

Ukraine's economy is a market one with some features of the transitional economy, it is characterized by the low liquidity and the existence of the limiting currency control which does not allow the national currency to be the liquid payment method outside Ukraine. Stabilization and further recovery of the economy depends on the situation in eastern part of the country, inflow of the international financing, external conjuncture, policy and decisions of the Parliament, Government, NBU and Administration of the President about conducting of necessary social-economic reforms. As a result the banking system of Ukraine has the high risks which are not typical for the developed markets.

Comparing with the previous years, the economy of Ukraine in 2018 developed in the absence of significant shocks. The main changes that more or less influenced economic development were the following:

- **Macroeconomics and finance.**

Among the achievements in this area is the fact that for the first time since the crisis, the banking sector has become and remains profitable. Tax revenues also increased. On the other hand, this growth was more due to inflationary processes in the country and an increase in salaries.

During 2018, slow economic growth and insufficient growth of domestic production were felt (according to the State Statistics Service of Ukraine, real GDP in 2018, compared to 2017, increased by 3.3%), inflationary pressures intensified noticeably. Accordingly, the discount rate was raised, which now amounts to 18% per annum and thus restrains economic development.

- **International economic relations.**

In 2018, asymmetries in foreign trade were kept and insufficient lobbying of national interests. In particular, this led to the fact that Ukraine used quotas for major commodity groups from the EU in the first months of 2018. It is important that the EU share in our exports has already reached 42% (in imports - 43%). For the year, exports to the EU from Ukraine increased by 16%. According to the State Statistics Service of Ukraine, the negative balance of Ukraine's foreign trade balance in 2018 amounted to USD 5,826.1 million, which is 2.3 times more than in 2017 (USD 2,501.1 million).

In addition, the following facts should also be noted:

- emigration remains one of the main problems of Ukraine of the last time;
- access to the foreign borrowing market in 2018 was not urgent; the strategy on external and

internal debt remains declarative;

- In December 2018, Ukraine received the first tranche of the IMF under the new stand-by Arrangement (SBA) program in the amount of USD 1.4 billion. Due to the receipt of the IMF tranche, Ukraine's international reserves have grown to USD 20.1 billion.

- **Improved transparency.**

In this aspect, in particular, the transparency of the banking system as a result of new requirements for the organization of the risk management system, the disclosure of data on components and the capital adequacy of banks was partially increased, the credit register was created.

The trend of population's over-spending on income received, the persistence of the threat of rising unemployment, low liquidity, and the efficiency of enterprises activity negatively affect the ability of borrowers to serve their debts to the Bank. Depending on the receipt of such information, the Bank carries out an operational review of the assessment of future cash flows and takes the necessary measures to maintain the stability of its activities, including thorough optimization and cost reduction.

Whilst management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, which have negatively affected the Bank's results and financial position, a continuation of the current unstable business environment could further negatively affect the Bank's results and financial position in a manner not currently determinable. These financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

These financial statements are prepared on the historical cost basis except for the following:

- derivative financial instruments measured at fair value
- available-for-sale financial assets measured at fair value
- investment property measured at fair value.

(c) Functional and presentation currency

The functional currency of the Bank is the Ukrainian hryvnia (UAH) as, being the national currency of Ukraine, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Bank.

Financial information presented in UAH is rounded to the nearest thousand.

(d) Accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expense and disclosure of contingent liabilities. The estimates and underlying 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 making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

In particular, information about significant areas of estimation uncertainty in applying accounting policies is as follows:

Impairment of loans and advances. Management estimates impairment by assessing the likelihood of repayment of loans and advances based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics.

Factors taken in consideration when estimating impairment on loans assessed collectively include historical loss experience, portfolio delinquency rates and overall economic conditions.

With respect to the impairment of financial instruments, the key assumptions and uncertainty of the assessment relate to assessing whether the credit risk of a financial asset has increased from initial recognition and inclusion of prospective information during the estimation of expected credit losses.

Note 7 contains a description of the sensitivity of the carrying amount of loans and advances to changes in estimates. Should actual repayments be less than management estimates, the Bank would be required to record additional impairment expense.

Securities available-for-sale and derivative financial instruments at fair value through profit or loss. 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 realisable in an immediate sale of the assets or transfer of the liabilities.

Fair values of financial assets and financial liabilities 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 value using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects 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.

Management estimates impairment of securities available-for-sale and derivative financial instruments by assessing the likelihood of settlement of these assets based on an individual analysis.

3 Basic principles of accounting policy

The following significant accounting policies are consistently applied to all periods presented in these financial statements.

(a) Foreign currency translation

Transactions in foreign currencies are translated to hryvnias at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to hryvnias 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 period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The UAH is not a convertible currency outside Ukraine and, accordingly, any conversion of UAH amounts to USD should not be construed as a representation that UAH amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or any other exchange rate.

In March 2015, the NBU announced a transition to a floating foreign exchange rate regime following a significant devaluation of the national currency to major international currencies. Subsequently, Ukraine has experienced significant deficit of foreign currency inflows.

The principal UAH exchange rates used in the preparation of these financial statements are as follows:

Currency	31 December 2018	31 December 2017
US dollar	27.69	28.07
EUR	31.71	33.50

(b) Financial instruments

(i) Classification

A financial asset is measured at amortized cost only if it meets both of the following conditions and is not classified as at fair value through profit or loss:

- it is held within the framework of a business model which purpose is to hold assets for the cash flows provided by the contract, and
- its contractual terms stipulate the occurrence of cash flows in due time, which represent the payment of exclusively principal and interest (SPPI) for the unpaid part of the principal amount.

A financial asset is measured at fair value with a revaluation result in other comprehensive income only if it meets both of the following conditions and is not classified at the discretion of the Bank as at fair value through profit or loss:

- it is held within the business model, the goal of which is achieved both by obtaining cash flows provided by the contract and through the sale of financial assets, and
- its contractual terms stipulate the occurrence of cash flows in due time, which represent the payment of exclusively the principal amount and interest for the unpaid part of the principal amount.

All financial assets that do not meet the criteria for their measurement at amortized cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss. In addition, when initially recognized, the Bank may irrevocably identify a financial asset that otherwise would meet the amortized cost requirements or FVOCI, as a FVTPL if it eliminates or significantly reduces accounting mismatches that might otherwise occur.

(ii) Assessment of the business model

The Bank evaluates the purpose of the asset holding business model at the level of the portfolio of financial instruments as it best reflects the way of business management and the way of information is provided to management personnel. The following information is considered:

- the policies and objectives set for this portfolio of financial assets, as well as the effect of these policies in practice, in particular, whether the management strategy is orientated towards obtaining interest income provided for by the agreement, maintaining a certain

structure of interest rates, ensuring compliance of the maturities of financial assets with maturities of financial obligations that are used to finance these assets or the realization of cash flows through the sale of assets;

- how is the portfolio's performance estimated and how this information is communicated to the Bank's management staff;
- the risks that affect the performance of the business model (and the financial assets held under this business model) and how these risks are managed;
- how managers who manage business are remunerated (for example, whether this remuneration depends on the fair value of the assets they manage or on the cash flows they receive from the assets under the contract);
- the frequency, volume and timing of sales in past periods, the reasons for such sales, as well as expectations about the future level of sales. However, information on sales levels is not isolated, but as part of a single holistic analysis of how the objective of managing financial assets is achieved and how cash flows are implemented by the Bank.

Financial assets held for trading and managed and measured at fair value will be measured at fair value with reflection of result of a revaluation through profit or loss, since they are not held for the purpose of obtaining cash flows provided for by the agreement nor with the aim of both obtaining cash flows under the agreement and selling financial assets.

Reclassification of financial assets recognized in the accounting is made exclusively in case of changing the business model for operations of the Bank.

(iii) An assessment of whether the cash flows provided for by the agreement are exclusively due to the payment of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of a financial asset at its initial recognition. "Interest" is defined as compensation for the value of money in time, for a credit risk for a principal outstanding for a certain period of time, and for other basic risks and costs associated with lending (for example, liquidity risk and administrative costs); as well as profit margins. In assessing whether the cash flows provided for by the agreement are exclusively due to repayment of the principal amount and interest on unpaid part of the principal amount ("SPPI" criterion), the Bank will analyze the contractual terms of the financial instrument. This will include an evaluation of whether the financial asset contains any contractual clause that may change the timing or amount of cash flows provided for by the agreement in such a way that the financial asset does not comply with the requirement. In conducting the assessment, the Bank analyzes:

- conditional events that may change the timing or amount of cash flows;
- conditions that have the effect of a lever (leverage);
- conditions for early repayment and prolongation of validity period;
- conditions limiting the Bank's cash flows from contingent assets - for example, non-recourse financial assets;
- conditions that cause changes in the reimbursement of the temporary value of money - for example, periodic revision of interest rates.

The prepayment condition meets the SPPI criterion if the amount paid at prepayment is essentially unpaid portion of the principal and interest on unpaid part and may include reasonable additional compensation for early termination of the contract.

In addition, the prepayment clause is considered to be in compliance with this criterion in case if financial asset is acquired or created with a premium or a discount for the nominal amount

specified in the contract, the amount payable at early repayment is, in essence, the nominal amount specified in the contract plus the accrued (but not paid) interest stipulated by the contract (and may also include reasonable additional compensation for early termination of the contract); and during initial recognition of a financial asset fair value of its terms of early repayment is insignificant.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that management:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables comprise loans and advances, balances due from banks, and cash and cash equivalents.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the positive intention and ability to hold to maturity, other than those that:

- management upon initial recognition designates as at fair value through profit or loss
- management designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Available-for-sale financial assets comprise government and corporate bonds.

(iv) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(v) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be on sale or other disposal, except for:

- loans and receivables that are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method, and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost less impairment losses.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for de-recognition, are measured at amortised cost.

(vi) Amortised cost

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 principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(vii) Fair value measurement principles

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.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(viii) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss
- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(ix) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset 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 in the statement of financial position. The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognizes the asset if control over the asset is lost.

In transfers where control over the asset is retained, 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 assets.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Bank writes off assets deemed to be uncollectible.

(x) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates and foreign exchanges.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Although the Bank trades in derivative instruments for risk hedging purposes, these instruments do not qualify for hedge accounting.

(xi) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(c) Impairment

IFRS 9 replaced the "incurred loss" model used in IAS 39 for the model of "expected loan loss" (ELC). The application of the new model of impairment requires the Bank to make significant judgments about how changes in economic factors affect expected credit losses, which are determined by weighing the probability of their occurrence. Provisions for expected loan losses are recognized by the Bank in an amount equal to either expected credit losses for 12 months or expected credit losses over the life of the instrument. Expected credit losses over the life of the instrument are expected credit losses that arise from all possible default events over the entire expected life of the financial instrument, while expected loan losses for the 12 months represent

an important part of the expected credit losses arising from the events of default, possible within 12 months after the reporting date. The Bank estimates the quality of financial assets as follows:

- if the credit risk of a financial instrument did not materially increase from the moment of initial accounting, the provisions for losses on this financial asset are equal to the ECL amount for 12 months (12-months ECL);
- in case of a significant increase in credit risk from the moment of initial accounting, the Bank recognizes provisions for losses on this financial asset equal to the amount of ECL over the life of the asset (lifetime ECL).

(i) Calculation of recoverable amount

Financial assets carried at amortised cost

Expected credit losses represent an estimated value, weighted by the probability of credit losses. They are valued by the Bank as follows:

for financial assets that are not impaired at the balance sheet date: the present value of all expected shortfalls in cash flows (that is, the difference between the cash flows owned by the Bank in accordance with the agreement and the cash flows that the Bank expects to receive);

- for financial assets that are impaired at the reporting date: as the difference between the gross carrying amount of assets and the present value of expected future cash flows;
- on unused portion of loan commitments: as the present value of the difference between the contractual cash flows owned by the Bank under the contract, if the holder of the loan commitment takes advantage of its right to receive the loan and the cash flows that the Bank expects to receive, if this loan is issued; and
- regarding financial guarantee contracts: as the present value of the expected payments to the holder of the contract to compensate for the credit loss incurred by him, less the amounts that the Bank expects to recover.

Significant increase in credit risk and default determination

In determining whether there is a significant increase in the credit risk (i.e., default risk) of a financial instrument since its initial recognition, the Bank considers valid and verifiable information that is relevant and accessible without excessive cost or effort, including both quantitative and qualitative information, as well as an analysis based on the Bank's historical experience, an expert assessment of the quality of credit and forecast information. An assessment of a significant increase in credit risk since the initial recognition of a financial instrument requires the determination of the date of initial recognition of the instrument. For some revolving lending mechanisms such as credit cards and overdrafts, the date of conclusion of contracts may be very old. Changing the contractual terms of a financial instrument may also affect this valuation. For the purposes of determining a significant increase in credit risk and occurrence of default, the Bank uses the rating system determined in accordance with the requirements of corporate credit policy of the Parent Bank CREDIT EUROPE BANK N.V. (The Netherlands). The write-off of financial assets due to the accumulated provisions occurs in the absence of reasonable expectations regarding the reimbursement of their value in accordance with the decision of the Bank's management.

Available-for-sale assets

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(d) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

(e) Property, equipment and intangible assets

Property, equipment and intangible assets are carried at cost less accumulated depreciation and amortisation and impairment losses. Depreciation and amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of the assets. Depreciation and amortisation

commences from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Buildings	50 years
Furniture and equipment	3-5 years
Motor vehicles	5 years
Intangible assets	3-5 years

Expenditures for leasehold improvements are recognised as assets and charged to profit or loss on a straight-line basis over the shorter of their economic life or the period of the applicable lease.

(f) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognised in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(g) Income and expense recognition

Interest and similar income and interest expense and similar charges are recognised in profit or loss using the effective interest method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commission and other income are recognised when the corresponding service is provided/received. Payments for operating leases, where the Bank does not assume substantially all the risks and rewards of ownership, are classified as expenses when incurred.

(h) Taxation

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption is that the carrying amount of investment property will be recovered through sale.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) Provision

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Ukrainian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(k) Employee benefits

Pensions are provided by the State. Mandatory contributions are made by the Bank and employees based on the earnings of the employees. The cost for these contributions is recognised in profit or loss when contributions are due and is included in salaries and employee benefits.

(l) Cash and cash equivalents

Cash and cash equivalents include cash, balances with the National Bank of Ukraine (including deposit certificates) and balances due from banks with original contractual maturity within three months. As at 31 December 2013, due to existence of certain restrictions on their use, the Bank did not recognise the mandatory reserves held on a special account with the NBU within cash and cash equivalents in the statement of financial position and statement of cash flows.

(m) Segment reporting

An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

4 New and revised accounting standards

Accounting policies applied are consistent with accounting policies as used in the previous financial year, except for new adopted standards, effective from January 1, 2018.

The Bank did not use earlier application of any other standards, clarifications or amendments, adopted but not effective yet.

The Bank applied IFRS 9 *Financial Instruments* for the first time, using simplified approach, when transfer is disclosed through recalculation of respective opening balances without adjustment of comparative information. Information of the nature and effect of the changes is disclosed below.

The Bank also used certain other amendments and interpretations in 2018, but they do not have significant impact on the financial standing and equity of the Bank.

THE FOLLOWING NEW STANDARDS AND AMENDMENTS TO STANDARDS ARE MANDATORY FOR THE BANK AFTER 1 JANUARY 2018

IFRS 9 Financial Instruments

In December 2017, the IASB issued the final version of IFRS 9 *Financial Instruments* that incorporates the results of all stages of the financial instrument project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9.

The completed standard comprises guidance on Classification and Measurement, Impairment Hedge Accounting and Derecognition:

- IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and its cash flow characteristics. A new business model was introduced which allows certain financial assets to be categorised as “fair value through other comprehensive income” in certain circumstances.
- The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.
- The new standard introduces a single “expected credit loss” impairment model for the measurement of financial assets.
- IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements.
- IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39.

Impact of IFRS 9 on classification and measurement of financial assets and liabilities as at the date of preparing of these financial statements is presented below:

The table below presents the impact of IFRS 9 implementation on assets, liabilities and deferred taxes as at 01.01.2018:

(in thousands of UAH)

	Gross carrying amount according to IAS 39 as of 31 December 2017	Allowance for impairment according to IAS 39 / IAS 37 as of 31 December 2017	Revaluation (expected loan losses)	Gross carrying amount according to IFRS 9 as of 01 January 2018	Allowance for impairment according to IFRS 9 as of 01 January 2018
FINANCIAL ASSETS					
Current accounts due from other banks	706,773	(20,502)	-	706,773	(20,502)
Corporate loans	934,314	(119,759)	(6,347)	934,314	(126,106)
Corporate overdraft loans	1,892	(47)	(38)	1,892	(85)
Retail loans	40,445	(40,446)	-	40,445	(40,446)
Other financial assets	6	(4)	-	6	(4)
Total financial assets	1,683,430	(180,758)	(6,385)	1,683,430	(187,143)
FINANCIAL LIABILITIES					
Corporate overdraft loan commitment	112	(3)	0.3	112	(3)
Guarantees granted to customers	30,950	(647)	(449)	30,950	(1,095)
Total financial liabilities	31,062	(650)	(448)	31,062	(1,098)
	Gross carrying amount as of 31 December 2017		Changes resulting from the application of IFRS 9	Gross carrying amount as of 01 January 2018	
Deferred tax asset	11		1,230	1,241	

The table below presents the impact of IFRS 9 implementation on retained earnings as at 01.01.2018:

(in thousands of UAH)

Retained earnings	
Output balance as of 31 December 2017 according to IAS 39	196,642
Recognition of expected credit losses under IFRS 9 on balances on current accounts due from other banks	-
Recognition of expected credit losses in accordance with IFRS 9 for loans to customers	(6,385)
Recognition of expected credit losses under IFRS 9 for other financial assets	-
Recognition of expected credit losses in compliance with IFRS 9 for loan commitments	0.3
Recognition of expected credit losses according to IFRS 9 for guarantees granted to customers	(449)
Deferred tax asset from transition from IAS 39 to IFRS 9	1,230
Total corrections resulting from the application of IFRS 9	(5,603)
Input balance as on 1 January 2018 taking into account corrections resulting from the application of IFRS 9	191,039

The data of the statement of financial position as of January 1, 2018 were recalculated, which resulted in the reduction of the amount of retained earnings by UAH 5,603 thousand.

Statement of cash flows and basic and diluted earnings per share did not change significantly as a result of implementation of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced IAS 11 *Construction Contracts*, IAS 18 *Revenue* together with respective clarifications; it is applicable to all income items, related to contracts with customers, excluding the contracts which are covered by a separate standard.

New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five-step methodology that is required to be applied to all contracts with customers.

The Bank applies IFRS 15, using modified retrospective application method, only to the contracts, which are not terminated as at the day of first application - as at January 1, 2018. Application of IFRS 15 did not significantly affect the Bank's financial statements.

Amendments to IAS 40 Investment Property

IAS 40 requires a property to be transferred to, or from, investment property only when there is a change in use. The amendment clarifies that a change in management's intentions for the use of a property does not in isolation provide evidence of a change in use. This is because management's intentions, alone, do not provide evidence of a change in use. An entity must, therefore, have taken observable actions to support such a change.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. In addition, the interpretation should not be applied to income taxes, insurance contracts or reinsurance contracts.

For the purpose of determining the exchange rate, the date of the transaction is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, the date of the transaction is established for each payment or receipt. In other words, the related income, expense or asset should not be remeasured for changes in exchange rates occurring between the date of initial recognition of the advance consideration and the date of recognition of the transaction to which that consideration relates.

NEW STANDARDS AND INTERPRETATIONS THAT WILL BE MANDATORY FOR THE BANK IN THE FUTURE ARE PRESENTED BELOW.

The following new standards and interpretations were issued that will be mandatory for the Bank in the reporting periods **starting on or after 1 January 2019**.

The Bank has not applied these standards and interpretations before their effective date.

Conceptual Framework for Financial Reporting

The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.

The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial statements and the reporting entity
- Chapter 4 – The elements of financial statements
- Chapter 5 – Recognition and derecognition
- Chapter 6 – Measurement
- Chapter 7 – Presentation and disclosure
- Chapter 8 – Concepts of capital and capital maintenance

The Conceptual Framework is accompanied by a Basis for Conclusions. The Board has also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the Conceptual Framework. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 Business Combinations and for those applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The revised Conceptual Framework is effective immediately for the IASB and the IFRS Interpretations Committee. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

The amendment will not have a significant impact on financial statement.

IAS 1 Presentation of financial statements and IAS 8 Accounting principles (policy), changes in estimates and correction of errors

The IASB has published a new definition of 'material'. Amendments to IAS 1 and IAS 8 clarify the definition and increase consistency across standards. It is effective for annual periods beginning on or after 1 January 2020.

These amendments will not have a significant impact on financial statement.

Amendment to IFRS 3 Financial Instruments Prepayment right with negative compensation

As a result of the amendments to IFRS 3, the definition of a "business" has been modified. The definition has been narrowed down and is likely to result in more acquisitions being classified as a purchase of assets. It is effective for annual periods beginning on or after 1 January 2020.

This amendment is expected to have no effect on the financial statement of the Bank.

Amendment to IFRS 9 Financial Instruments Prepayment right with negative compensation

The narrow-scope amendment allows Bank to measure particular prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met.

This amendment is expected to have no effect on the financial statement of the Bank.

IFRS 16 Leases

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15 *Revenue from Contracts with Customers*.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease

liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows.

IFRS 16 contains expanded disclosure requirements for lessees.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

IFRS 16 supersedes the following Standards and Interpretations:

- 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.

In contrast, the standard does not contain significant changes in accounting by lessors.

The Bank decided to apply a modified retrospective approach in accordance with IFRS 16, which makes it possible not to recalculate comparative information presented in the reporting for 2018. Therefore, the calculation of the impact of the new standard will only be reflected in the financial indicators of 2019.

IFRS 17 Insurance contracts

IFRS 17 creates one accounting model for all insurance contracts.

IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty relating to insurance contracts.

The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims.

Insurance contracts are required to be measured based only on the obligations created by the contracts.

An entity will be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums.

This standard replaces IFRS 4 - Insurance contracts.

The standard is effective for annual periods beginning on or after 1 January 2021, with early application permitted.

IAS 19, Plan Amendment, Curtailment or Settlement

Amendments to IAS 19 specifies how an entity determines pension expenses when changes to a defined benefit pension plan occur. IAS 19 'Employee Benefits' specifies how an entity accounts for a defined benefit plan. When a change to a plan – an amendment, curtailment or settlement- takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.

The amendments are effective for annual periods beginning on or after 1 January 2019 and expected to have no effect on the financial statements of the Bank.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 Financial Instruments 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 are effective for annual periods beginning on or after 1 January 2019

These amendments are expected to have no effect on the financial statements of the Bank.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture

The effective date of this amendment has been deferred indefinitely until further notice.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation specifies how an entity should reflect the effects of uncertainties in accounting for income taxes. IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019.

Annual Improvements 2015-2017 Cycle

These improvements include:

IFRS 3 Business Combinations

Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business.

IFRS 11 Joint Arrangements

Clarification that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 Income Taxes

Clarification that all income tax consequences of dividends should be recognised in profit or loss, regardless how the tax arises.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

These annual improvements are effective for periods beginning on or after 1 January 2019. These improvements are not expected to have any impact on the financial statements of the Bank.

5 Segment reporting

The Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy.

There are no customers from which revenues exceed 10% of total external revenue.

Substantially all revenues from external customers relate to residents of Ukraine. As at 31 December 2018, with the exception of cash and cash equivalents amounting to UAH 563,278 thousand placed with banks located in OECD member countries (31 December 2017: UAH 686,271 thousand), substantially all of assets are located in Ukraine.

6 Cash and cash equivalents and mandatory reserves with the National Bank of Ukraine

Cash and cash equivalents as at 31 December are as follows:

	2018	2017
<i>(in thousands of UAH)</i>		
Cash	2,147	3,516
Balances with the NBU	7,739	253,947
Current accounts due from other banks	578,276	706,773
Allowance for impairment (note 21)	(14,998)	(20,502)
Total	573,165	943,734

Certificates of Deposit issued by the NBU are included into the item Balances with the NBU in the amount of UAH 230,984 thousand as at 31 December 2017.

The following table represents an analysis of current accounts in other banks by rating agency designation based on Standard & Poor's ratings (S&P) or their equivalent as at 31 December:

	2018	2017
<i>(in thousands of UAH)</i>		
Current accounts:		
AA- to AA+	-	-
A-to A+	63,298	3,697
B- to B+	-	-
BB- to BB+	514,977	703,076
Non-rated	1	-
Total	578,276	706,773

As at 31 December 2018, the two largest balances on current accounts due from other banks amount to UAH 557,999 thousand or 99.1% of the gross exposure of current accounts due from other banks (31 December 2017: UAH 682,549 thousand or 99.5%).

Mandatory reserves with the National Bank of Ukraine

In accordance with Resolution No. 820 "On amending the procedure for establishment and maintenance of mandatory reserves" of the Management Board of the NBU dated 18 December 2014, the Bank puts aside and maintains mandatory reserves on its correspondent account with the NBU in compliance with statutory ratios in effect in respective periods. The amount of the mandatory reserve comprised UAH 7,739 thousand as at 31 December 2018 (31 December 2017: UAH 22,963 thousand) and should be established and maintained on its correspondent account with the NBU. As the Bank had the right to use mandatory reserve balances with the NBU in full they were classified as cash and cash equivalents as at 31 December 2018 and 2017.

Quality of current accounts due from other banks under IFRS 9 for the year ended 31 December 2018 is presented as follows:

	Stage 1	Stage 2	Stage 3	Total
Current accounts due from other banks	578,276	-	-	578,276
Total	578,276	-	-	578,276

7 Loans and advances

Loans and advances as at 31 December are as follows:

	2018	2017
<i>(in thousands of UAH)</i>		
Corporate	981,234	936,206
Retail		
Mortgage	30,382	32,378
Auto	695	1,289
Other loans	3,444	6,799
	34,520	40,446
Total loans before allowance for impairment	1,015,755	976,652
Allowance for impairment (note 21)	(167,938)	(160,257)
Total loans	847,816	816,395

Loans and advances include loan principal and accrued interest as at 31 December 2018 and 2017. Mortgage loans include loans obtained by individuals for acquisition of residential real estate and business real estate.

(a) Significant credit exposures

As at 31 December 2018, loans and advances to ten largest borrowers amount to UAH 989,349 thousand, and represent 97.40% of the total gross loans and advances (31 December 2017: UAH 941,652 thousand or 96.42%).

(b) Loan impairment

Loan impairment as at 31 December 2018 is as follows:

<i>(in thousands of UAH)</i>	Gross loans	Impairment	Net loans	Impairment to gross loans
Corporate loans				
Loans with specific impairment	570,561	121,590	448,972	21%
Loans without specifically identified impairment	410,673	11,828	398,844	3%
Total corporate loans	981,234	133,418	847,816	14%
Retail loans				
Loans assessed collectively for impairment				
Mortgage	30,382	30,382	-	100%
Auto	695	695	-	100%
Other loans	3,444	3,444	-	100%
Total retail loans	34,520	34,520	-	100%
Total	1,015,755	167,938	847,816	17%

Loan impairment as at 31 December 2017 is as follows:

<i>(in thousands of UAH)</i>	Gross loans	Impairment	Net loans	Impairment to gross loans
Corporate loans				
Loans with specific impairment	881,530	108,976	772,554	12%
Loans without specifically identified impairment	54,676	10,835	43,841	20%
Total corporate loans	936,206	119,811	816,395	13%
Retail loans				
Loans assessed collectively for impairment				
Mortgage	32,378	32,378	-	100%
Auto	1,289	1,289	-	100%
Other loans	6,799	6,799	-	100%
Total retail loans	40,446	40,446	-	100%
Total	976,652	160,257	816,395	16%

The impairment allowance for individually significant loans is determined as the difference between the gross loan exposure and expected recoverable amount of this exposure. The expected recoverable amount of the exposure is determined as sum of net present value of future cash flows from loan recovery and net present value of expected future cash flows from collateral realisation.

The collective impairment allowance is determined based on appropriate empirical information. The Bank utilises a statistical analysis of historical trends of default and amount of consequential loss, based on the delinquency of loans within a portfolio of homogeneous loans. Other historical data and current economic conditions are also evaluated when calculating the appropriate level of impairment allowance required for covering inherent losses. Default probability rates and loss rates are regularly benchmarked against actual outcomes to ensure they remain appropriate.

In determining the impairment allowance for loans and advances, management makes the following key assumptions:

- loss migration rates are constant and can be estimated on the historical loss migration pattern for the past years
- a discount of 30% to 70% to the originally appraised value of collateral
- gross value of collateral multiplied by collateral haircut is discounted at loan original effective interest rate until the expected date of collateral realisation
- a delay of 12 to 18 months in obtaining proceeds from foreclosure of collateral from non-performing borrowers.

(c) Credit quality of loans and advances

Quality of retail loans and advances as at 31 December 2018 is as follows:

<i>(in thousands of UAH)</i>	Gross loans	Impairment	Net loans	Impairment to gross loans
Retail loans and advances				
Not overdue	7,586	7,586	-	100%
Overdue less than 30 days	141	141	-	100%
Overdue 31-90 days	-	-	-	-
Overdue 91-180 days	-	-	-	-
Overdue 181-365 days	26,794	26,794	-	100%
Total retail loans and advances	34,520	34,520	-	100%

Quality of retail loans and advances as at 31 December 2017 is as follows:

<i>(in thousands of UAH)</i>	Gross loans	Impairment	Net loans	Impairment to gross loans
Retail loans and advances				
Not overdue	13,651	13,651	-	100.0%
Overdue less than 30 days	180	180	-	100.0%
Overdue 31-90 days	71	71	-	100.0%
Overdue 91-180 days	19	19	-	100.0%
Overdue 181-365 days	26,525	26,525	-	100.0%
Total retail loans and advances	40,446	40,446	-	100.0%

Quality of corporate loans and advances as at 31 December 2018 is as follows:

<i>(in thousands of UAH)</i>	Gross loans	Impairment	Net loans	Impairment to gross loans
Corporate loans and advances				
Not overdue	410,673	11,828	398,844	2.88%
Overdue	570,561	121,590	448,972	21.31%
Total corporate loans and advances	981,234	133,418	847,816	13.60%

Quality of corporate loans and advances as at 31 December 2017 is as follows:

<i>(in thousands of UAH)</i>	Gross loans	Impairment	Net loans	Impairment to gross loans
Corporate loans and advances				
Not overdue	460,986	115,585	345,402	25.07%
Overdue	475,220	4,226	470,993	0.89%
Total corporate loans and advances	936,206	119,811	816,395	12.80%

During 2018, the Bank didn't write off gross corporate loans (2017: the Bank wrote off UAH 88,163 thousand of gross corporate loans).

During 2018, the Bank wrote off UAH 1 thousand of accrued income on settlement and cash services.

During the year ended 31 December 2018 the Bank foreclosed land plot and residential real estate amounting to UAH 2,734 thousand (2017: residential real estate amounting to UAH 3,417 thousand). The foreclosed property is classified as investment property.

The Bank's lending activities are conducted in Ukraine. The ability of the borrowers to repay their debt is dependent on a number of factors including the overall financial health of the individual borrowers and the continued development of the Ukrainian economy.

(d) Description of collateral held as security

The following table provides information on collateral securing loans to corporate customers, net of impairment, by types of collateral as at 31 December:

<i>(in thousands of UAH)</i>	2018	2017
Real estate	745,976	801,417
Motor vehicle	18,635	14,978
Other collateral	83,206	-
No collateral	-	-
Total	847,816	816,395

The above table shows the net carrying amount of loans to corporate customers for which corresponding collateral is pledged and not the fair value of collateral itself.

The information in above table relates to the collateral provided by directly by borrowers. In addition, as at 31 December 2018, the Bank obtained other credit enhancements from Credit

Europe Bank N.V., the Parent Bank, in the form of guarantees collateralized by the amounts due to banks of UAH 509,464 thousand bearing 2% to 4% interest per annum against loans and advances (31 December 2017: amounts due to banks of UAH 617,479 thousand bearing 2% to 4% interest per annum against loans and advances) (also see note 25).

The Bank employs the following principal collateral types:

- In the retail sector - mortgages over residential properties, cars and other assets;
- In the corporate sector - business assets such as premises, inventories and equipment.

Although collateral can be an important mitigation of credit risk, it is the Bank's policy to lend on the basis of the customer's capacity to repay, rather than rely primarily on the value of collateral offered. Depending on the customer's standing and the type of product, loans may be provided unsecured.

Corporate loans

As at 31 December 2018, an estimated difference between the Bank's actual impairment losses for corporate loans with specific impairment and what they would have been without any collateral amounts to UAH -7,065 thousand (2017: UAH 151,360 thousand).

Loans to retail customers

Mortgage loans are secured by the underlying residential real estate and business real estate. Mortgage loans are assessed for impairment on collective and individual basis depending on whether any specific signs of impairment were identified with respect to those loans.

Auto loans are secured by the underlying cars.

(e) Distribution of corporate loans and advances by industry sector

Gross corporate loans and advances by economic sector as at 31 December are as follows:

	2018	2017
<i>(in thousands of UAH)</i>		
Services	439,349	475,220
Automotive	282,840	330,262
Steel and steel products	87,608	85,803
Real estate	-	5,189
Agriculture and fishing	1,406	189
Food, beverage and tobacco	-	-
Building materials	45,200	-
Textiles and ready-made clothes retail	-	-
Construction	-	-
Other	124,830	39,543
Total	981,234	936,206

(f) Quality of loans and advances according to IFRS 9

Quality of loans and advances under IFRS 9 for the year ended 31 December 2018 is presented as follows:

(in thousands of UAH)

	Stage 1	Stage 2	Stage 3	Total
Corporate	185,284	225,388	570,561	981,234
Retail				
Mortgage	-	-	30,382	30,382
Auto	-	-	695	695
Other loans	-	-	3,444	3,444
	-	-	34,520	34,520
Total loans before allowance for impairment	185,284	225,388	605,082	1,015,755
Allowance for impairment (note 21)	(3,621)	(8,207)	(156,110)	(167,938)
Total loans	181,663	217,181	448,972	847,816

8 Investment in securities

Investment in securities as at 31 December are as follows:

	2018	2017
(in thousands of UAH)		
Certificates of Deposit issued by National Bank of Ukraine	119,984	-
Other non-fixed income securities at fair value through profit or loss	5	-
Revaluation of shares and other non-fixed income securities at fair value through profit or loss	(5)	-
Debt securities of non-financial enterprises at amortised cost	23,436	-
Unamortised premium/discount on debt securities at amortised cost	(23,525)	-
Accrued income on debt securities at amortised cost	89	-
Total	119,984	-

On 22.08.2018, a contract was signed between the Bank and Mriya Farming PLC on assignment of claims under loan agreements (Financial Services Agreement # 72/12 dated 26.10.2012, concluded with LLC "MRIYA CENTER", Financial Services Agreement #91/13 dated 04.12.2013, concluded with LLC "MRIYA CENTER"; Financial Services Agreement # 41/10 dated 21.12.2010, concluded with LLC "ZBARAZKIY SUGAR PLANT"). This assignment was made in accordance with the Memorandum of Exchange Offer to Mriya Agro Holding Public Limited and approved by the Creditors Committee of Mriya Agro Holding Public Limited on 11.06.2018. As a consequence of the assignment, the Bank received the following instead of claims under loan agreements: 1). Bonds issued by Mriya Farming PLC - in the amount of 17,857 pieces with nominal value of USD 100; 2). share in the authorized capital of Mriya Farming PLC - shares in the quantity of 13,859 pieces with face value of GBP 0.01; 3). Recovery Certificates issued by Mriya Agro Holding Public Limited - in the amount of 15,395,751 pieces in denomination of EUR 1.

The following table represents an analysis of securities by rating agency designation based on S&P's ratings or their equivalent as at 31 December:

	2018	2017
<i>(in thousands of UAH)</i>		
B-	119,984	-
Total	119,984	-

Quality of securities under IFRS 9 for the year ended 31 December 2018 is presented as follows:

<i>(in thousands of UAH)</i>	Stage 1	Stage 2	Stage 3	POCI	Total
Certificates of Deposit issued by National Bank of Ukraine	119,984	-	-	-	119,984
Debt securities of non-financial enterprises at amortised cost	-	-	-	23,436	23,436
Unamortised premium/discount on debt securities at amortised cost	-	-	-	(23,525)	(23,525)
Accrued income on debt securities at amortised cost	-	-	-	89	89
Total	119,984	-	-	-	119,984

9 Investment property

A summary of activity in investment property for the year ended 31 December is as follows:

	2018	2017
<i>(in thousands of UAH)</i>		
As at 1 January	23,565	20,149
Additions and transfers	2,734	3,416
Disposal	(1,533)	-
Change in fair value (recognised in other operating income)	(366)	-
	24,399	23,565
As at 31 December	24,399	23,565

During the year ended 31 December 2018, the Bank obtained certain assets by taking possession of collateral for loans to customers. The Bank keeps this property for capital appreciation. As at 31 December 2018, property is recognised at fair value as assessed by external appraisers. The basis used for the appraisal was the market approach. The market approach is based upon an analysis of the results of comparable sales of similar premises close to reporting date. Key assumptions relate to the condition, quality and location of premises used as comparatives. As at 31 December 2018 and 2017, investment property is categorised as level 2 in the fair value hierarchy.

10 Property, equipment and intangible assets

A summary of activity in property, equipment and intangible assets for the year ended 31 December 2018 is as follows:

	Buildings	Leasehold improvements	Furniture and equipment	Motor vehicles	Intangible assets	Total
<i>(in thousands of UAH)</i>						
Cost						
1 January 2018	5,643	8,381	23,058	2,107	5,922	45,112
Additions	-	-	41	76	696	812
Disposals	-	-	(365)	(506)	-	(871)
31 December 2018	5,643	8,381	22,734	1,677	6,618	45,053
Accumulated depreciation and amortisation						
1 January 2018	658	8,204	22,530	1,361	5,840	38,594
Depreciation and amortisation	115	15	203	256	188	779
Disposals	-	-	(365)	(506)	-	(871)
31 December 2018	774	8,219	22,369	1,112	6,029	38,502
Net book value as at 31 December 2018	4,870	162	365	565	589	6,551

A summary of changes in property, equipment and intangible assets for the year ended 31 December 2017 is as follows:

	Buildings	Leasehold improvements	Furniture and equipment	Motor vehicles	Intangible assets	Total
<i>(in thousands of UAH)</i>						
<i>Cost</i>						
1 January 2017	5,643	8,381	23,509	1,600	5,922	45,055
Additions	-	-	82	508	-	590
Disposals	-	-	(533)	-	-	(533)
31 December 2017	5,643	8,381	23,058	2,108	5,922	45,112
<i>Accumulated depreciation and amortisation</i>						
1 January 2017	543	8,189	22,530	1,160	5,806	38,228
Depreciation and amortisation	115	15	532	202	35	899
Disposals	-	-	(533)	-	-	(533)
31 December 2017	658	8,204	22,529	1,362	5,841	38,594
Net book value as at 31 December 2017	4,985	177	529	746	81	6,518

11 Other assets

Other assets as at 31 December are as follows:

	2018	2017
<i>(in thousands of UAH)</i>		
Prepayments for goods and services	3,432	3,905
Other	12	316
Total	3,444	4,221

Quality of other financial assets under IFRS 9 for the year ended 31 December 2018 is presented as follows:

	Stage 1	Stage 2	Stage 3	Total
<i>(in thousands of UAH)</i>				
Accrued income on settlement and cash services	-	-	6	6
Allowance for financial receivables from bank operations (note 21)	-	-	(6)	(6)
Total	-	-	-	-

12 Due to banks

Balances due to banks as at 31 December are as follows:

	2018	2017
<i>(in thousands of UAH)</i>		
Deposits and balances due to banks:		
OECD countries	592,775	624,120
Non OECD countries	292,132	140,364
Total	884,907	764,484

As at 31 December 2018, balances due to Credit Europe Bank N.V. (the Parent Bank) amount to UAH 592,639 thousand or 67.0% of balances due to banks (31 December 2017: UAH 617,479 thousand or 80.8%).

As at 31 December 2018, balances due to the Parent Bank amounting to UAH 509,464 thousand serve as collateral for loans and advances (31 December 2017: UAH 617,479 thousand), refer to note 7 (d).

13 Due to customers

Due to customers as at 31 December are as follows:

	2018	2017
<i>(in thousands of UAH)</i>		
Current accounts:		
Commercial	236,616	405,562
Retail	2,821	3,830
Total current accounts	239,438	409,392
	2018	2017
Deposits:		
Commercial	94,398	106,267
Retail	18,798	28,810
Total deposits	113,196	135,077
Total	352,634	544,469

As at 31 December 2018, current accounts of ten largest customers total UAH 173,968 thousand, or 72.7% of the total current accounts (31 December 2017: UAH 369,252 thousand, or 90.3%).

As at 31 December 2018, deposits of ten largest customers total UAH 105,681 thousand or 93.4% of total deposits (31 December 2017: UAH 125,631 thousand or 93.0%).

14 Other liabilities

Other liabilities as at 31 December are as follows:

	2018	2017
<i>(in thousands of UAH)</i>		
Provision for unused vacations	950	66
Accounts payable	1,050	1,100
Other	1,305	1,363
Total	3,305	2,529

15 Share capital

The share capital as at 31 December is as follows:

	2018		2017	
	Number of shares	Amount	Number of shares	Amount
<i>(in thousands of UAH, except for number of shares)</i>				
Shares authorised, issued and fully paid in	505,000,000	252,500	505,000,000	252,500

The nominal value of ordinary shares is UAH 0.5 per share as at 31 December 2018 and 2017.

In accordance with Ukrainian legislation, the distributable reserves are limited to the balance of accumulated reserves determined in accordance with legislative and regulatory requirements. In 2018 Reserve and other funds in amount UAH 8,093 thousand were formed.

All ordinary shares have equal voting, dividend and capital repayment rights. During the year ended 31 December 2018 dividends in amount of UAH 161,600 thousand were paid (2017: dividends in amount of UAH 166,650 thousand were paid).

As at 31 December 2018 and 2017, weighted average number of shares amount to the number of shares presented above. There are no diluted shares.

According to the effective legislation the share capital of the Bank is to be increased up to UAH 300 million till 11 July 2020; up to UAH 400 million till 11 July 2022 and up to UAH 500 million till 11 July 2024.

16 Commitments and contingent liabilities

(a) Guarantees

As at 31 December guarantees issued by the Bank are as follows:

	2018	2017
<i>(in thousands of UAH)</i>		
Guarantees granted to customers	9,007	30,950
Letters of credit granted to customers	-	-
	9,007	30,950
	9,007	30,950

The amounts reflected in the table above assume that amounts are fully advanced and represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted, if not take into account the effects of collateral as described below.

(b) Operating lease commitments

The Bank leases operational space in its normal course of business. Future non-cancellable lease payments as at 31 December are as follows:

	2018	2017
<i>(in thousands of UAH)</i>		
Within one year	11,379	3,798
From 1 to 5 years	130	1,638
	11,509	5,436
	11,509	5,436

(c) Loan commitments

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and overdraft facilities. The total outstanding contractual commitments do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. As at 31 December 2018 and 2017, substantially all loan commitments are revocable.

(d) Insurance

The insurance industry in Ukraine is in a developing stage and many forms of insurance protection common in other countries are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of damage arising from accidents on Bank property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the operations and financial position.

(e) Tax contingencies

The Bank performs its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation

and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the Ministry of Finance and other state authorities are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

Transfer pricing legislation enacted in Ukraine starting from 1 September 2013 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances. These transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Ukrainian Tax Code. There is no practice of applying the new transfer pricing rules by the tax authorities and courts as transfer pricing tax audits under new rules started recently, however, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny potentially having effect on the financial information of the Bank.

Management believes it has complied with all existing tax legislation. However, there can be no assurance that the tax authorities will not have a different interpretation of the Bank's compliance with existing legislation and assess fines and penalties. No provision for potential tax assessments has been made in these financial statements.

(f) Litigation

The Bank is involved in various legal proceedings in the ordinary course of business. Management does not believe the result of any such actions will have a material effect on financial position or results of operations.

(g) Quality of Off-BS commitments according to IFRS 9

Quality of Off-BS commitments under IFRS 9 for the year ended 31 December 2018 is presented as follows:

(in thousands of UAH)

	Stage 1	Stage 2	Stage 3	Total
Loan commitments (overdraft facility)	2,000	-	-	2,000
Guarantees granted to customers	3,186	5,821	-	9,007
Total	5,186	5,821	-	11,007

17 Interest income

Interest income for the year ended 31 December is as follows:

	2018	2017
<i>(in thousands of UAH)</i>		
Loans and advances	108,912	78,961
Investment in securities	1,470	2,755
Due from banks	149	47
Total	110,532	81,763

18 Interest expense

Interest expense for the year ended 31 December is as follows:

<i>(in thousands of UAH)</i>	2018	2017
Due to banks	11,948	14,372
Due to customers	24,003	20,981
Total	35,951	35,353

19 Fee and commission income and expense

Fee and commission income and expense for the year ended 31 December is as follows:

<i>(in thousands of UAH)</i>	2018	2017
Fee and commission income:		
Credit fees	531	1,338
Operations in foreign exchange	7,009	5,735
Issued guarantees	203	6,131
Settlements and cash services	1,314	1,824
Fines and penalties	-	640
Other fee and commission income	-	181
Total fee and commission income	9,057	15,849
Fee and commission expense:		
Settlements and cash services	(2,041)	(1,173)
Other fees and commission expense	(22,139)	(16,044)
Total fee and commission expense	(24,180)	(17,217)

20 Administrative and other expenses

Administrative and other expenses for the year ended 31 December are as follows:

<i>(in thousands of UAH)</i>	2018	2017
Salaries and employee benefits	25,253	27,938
Rent and maintenance expenses	18,405	18,040
Communication and information expenses	1,855	1,480
Taxes, other than income tax, duties and charges	646	621
Depreciation and amortisation	698	899
Stationery and office supplies	227	232
Legal and consultancy fees	802	1,493
Security expenses	466	372
Travel expenses	651	950
Insurance expenses	423	277
Advertising and marketing	98	150
Fines, penalties, paid by the bank	844	-
Expenses from the modification of financial assets	22,412	-
Negative result from the disposal of intangible assets and fixed assets	66	-
Revaluation of investment property	1,350	-
Other	905	674
Total	75,102	53,126

21 Allowance for impairment of assets and Off-BS commitments

The following is a schedule of movements in allowance for impairment of assets and Off-BS commitments for the year ended 31 December:

(in thousands of UAH)	2018				2017	
	Cash and Cash equivalents	Loans and advances	Financial receivables from bank operations	Off-BS commitm ents	Cash and Cash equivalents	Loans and advances
Balance as at 1 January	20,502	160,257	-	-	2,820	365,537
Impact of the transition to IFRS 9	-	6,385	-	448	-	-
Allowance for impairment charged to profit and loss	(5,399)	(2,976)	3	(221)	17,682	(115,448)
Unrecognized interest income on corporate loans	-	7,070	-	-	-	-
Unrecognized interest income on Retail loans	-	394	-	-	-	-
Currency translation adjustment	(105)	(3,192)	4	638	-	1,862
Sale	-	-	-	-	-	(3,531)
Write-off (note 7)	-	-	(1)	-	-	(88,163)
Balance as at 31 December	14,998	167,938	6	866	20,502	160,257

Difference amounting to UAH 14,268 thousand between allowance for impairment charged to profit and loss and provision for impairment (Statement of profit or loss and other comprehensive income) is stipulated by following: 1). UAH 11,333 thousand - recognition of a gain on bonds of Mriya Farming PLC which was booked in correspondence with unamortised premium/discount on debt securities at amortised cost; 2). UAH 2,935 thousand - income received as return of previously written off bad debts due to loans granted to clients.

Quality of allowance for impairment of assets and Off-BS commitments under IFRS 9 for the year ended 31 December 2018 is presented as follows:

<i>(in thousands of UAH)</i>	Cash and Cash equivalents				Loans and advances			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January		20,502		20,502		160,257		160,257
Movement between stages	-	-	-	-	-	(1,178)	1,178	-
Balance as at 31 December	14,998	-	-	14,998	3,621	8,207	156,110	167,938
	Financial receivables from bank operations				Off-BS commitments			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January		-		-		-		-
Movement between stages	-	-	-	-	-	-	-	-
Balance as at 31 December	-	-	6	6	392	474	-	866

22 Income tax expense

According to the Ukrainian tax legislation, the statutory income tax rate in 2017 – 18% and in 2018 and thereafter – 18%.

The components of income tax expense for the year ended 31 December are as follows:

<i>(in thousands of UAH)</i>	2018	2017
Current tax expense	6,285	20,504
On the results of the tax inspection for previous period	895	-
Deferred tax benefit/(expense)	1,263	(8,036)
Total income tax expense	8,443	12,468

The difference between the total expected income tax expense computed by applying the statutory income tax rate to profit before tax and the reported income tax expense is as follows:

	Year ended 31 December			
	2018		2017	
<i>(in thousands of UAH)</i>				
Profit before tax	41,728	100%	131,661	100%
Computed expected income tax (benefit) expense at statutory rate	7,511	18.0%	23,699	18.0%
Non-deductible expenses	932	2.23%	(11,231)	8.5%
Effect of change in legislation	-	-	-	-
Effective income tax expense	8,443	20.23%	12,468	9.5%

Non-deductible expenses for 2018 year relate mainly to the impairment loss on loans not recognized for tax purposes.

(a) Movements in recognised temporary differences during the year

Deferred tax assets and liabilities as at 31 December 2018 and their movements detailed as follows:

	31 December 2017	Changes from the application of IFRS 9	1 January 2018	Recognised through profit or loss	Recognised in other comprehensive income	31 December 2018
<i>(in thousands of UAH)</i>						
Investment in securities	(26)	-	(26)	-	(14)	(40)
Changes in provisions (expected credit losses) due to the application of IFRS 9	-	1,230	1,230	(1,230)	-	-
Property, equipment and intangible assets	24	-	24	(46)	-	(22)
Investment property	13	-	13	13	-	26
Other assets	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Total	11	1,230	1,241	(1,263)	(14)	(36)

Deferred tax assets and liabilities as at 31 December 2017 and their movements detailed as follows:

	1 January 2017	Recognised through profit or loss	Recognised in other comprehensive income	31 December 2017
<i>(in thousands of UAH)</i>				
Securities available-for-sale	(458)	373	59	(26)
Loans and advances	(7,861)	7,861	-	-
Property, equipment and intangible assets	(183)	207	-	24
Investment property	51	(38)	-	13
Other assets	-	-	-	-
Other liabilities	367	(367)	-	-
Total	(8,084)	8,036	59	11

23 Derivative financial instruments at fair value through profit or loss

Derivative financial instruments relate mainly to foreign exchange swaps and forward exchange contracts.

The table below sets out gross amounts of receivable and payable upon settlement of amounts of foreign exchange swaps and forward foreign currency exchange contracts. Because these contracts are short-term, the net amount of receivable or payable upon settlement also approximates the positive (net receivable) or negative (net payable) fair value of the foreign exchange contracts:

	2018	2017
<i>(in thousands of UAH)</i>		
EUR receivable	28,543	26,796
UAH receivable	70,020	140,435
USD receivable	-	26,836
USD payable	(97,627)	(166,874)
EUR payable	-	(26,796)
Net fair value assets	936	397
UAH receivable	110,064	237,973
USD receivable	17,373	76,842
USD payable	(110,753)	(238,572)
EUR payable	(17,443)	(77,039)
Net fair value liabilities	(759)	(796)
Maximum exposure to credit risk (gross amount receivable)	226,000	508,882

In November and in December 2018, the Bank entered into foreign currency swap transaction with two Ukrainian banks under which the Bank agreed to purchase USD currency amounting USD 7,526 thousand (or UAH 208,380 thousand translated as at the rate as at 31 December 2018) for UAH 180,084 thousand and EUR currency amounting EUR 900 thousand (or UAH 28,543 thousand translated as at the rate as at 31 December 2018) in January 2019 (2017: UAH 378,407 thousand for USD 14,445 thousand (or UAH 405,444 thousand translated as at the rate as at 31 December 2017) and EUR 800 thousand (or UAH 26,796 thousand as at the rate as at 31 December 2017)).

24 Financial risk management

Management of risk is fundamental to the business of banking and is an essential element of operations. The major risks faced by the Bank are those related to credit exposures, market risk (which includes risk of movements in foreign exchange rates and in interest rates) and liquidity risk.

(a) Risk management framework

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls and to continuously monitor risk levels and adherence to limits.

The risks are managed in an integrated manner and are evaluated in terms of the policy of the Bank, which is reviewed and approved by the Board on an annual basis. Risk limits are established for credit, market and liquidity risks and the level of exposure is then maintained within these limits.

(b) Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations, and arises principally from loans and advances and investment securities. The maximum credit risk exposure is generally net carrying amounts of instruments at the reporting date.

Management monitors concentration of credit risk. For the analysis of concentration of credit risk in respect of loans and advances refer to note 7.

The Bank has to comply with varying NBU regulations that limit exposure to companies, Banks of companies and related parties. To manage credit risk, the Bank deals with counterparties of good credit standing and when appropriate obtains collateral.

Corporate lending

In making its lending decisions, the Bank evaluates potential borrowers on the basis of their financial condition as reflected in their financial statements, their credit history with the Bank and other financial institutions and the amount of risk involved in lending to a particular borrower, using a rating scale. A lack of credit history with the Bank or lack of credit history in general is not an absolute bar to granting a loan, provided the Bank receives sufficient information to assess the borrower's business and financial condition. However, when the Bank lends to a borrower with no credit history, it sets conditions such as a requirement to transfer a certain part of the customer's banking operations to the Bank for a certain period and charging a higher interest rate, or requiring additional collateral or guarantees from such borrower.

In evaluating the risks associated with a particular borrower, the Bank takes into account the borrower's business and factors such as the quality of its management, its main business activities, its geographic location, suppliers, customers, other indebtedness, financial stability, turnover, likely return on the loan, the liquidity of the proposed collateral and whether it is

sufficient in view of the credit risk. The Bank also considers the weighted average credit risk associated with the industry in which the borrower operates.

Retail lending

The Bank ceased its retail lending activities. The Bank plans to grant retail loans only in exceptional cases and will concentrate on collection of existing retail loans.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on an analysis of overdue payments and other information obtained by the Bank. In light of this information the borrower's internal credit rating may be revised.

Off-balance sheet exposures

The maximum off-balance sheet exposure to credit risk at 31 December is as follows:

<i>(in thousands of UAH)</i>	2018	2017
Guarantees granted (note 16(a))	9,007	30,950
Letters of credit granted (note 16 (a))	-	-
Gross amount receivable on derivatives (note 23)	226,000	508,882
Total off-balance sheet exposure	235,007	539,832

(c) Market risk

Market risk is the risk that changes in the market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(d) Foreign currency risk

Currency risk is the risk that movements in foreign exchange rates will affect income or the value of its portfolios of financial instruments.

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. Management establishes limits and constantly monitors foreign currency positions in accordance with the regulations of the NBU and internally developed methodology. The policy with regard to open foreign currency position is restricted to certain thresholds under regulatory provisions of the NBU, however, the calculation of open currency position under regulatory provisions differs from the below table.

Foreign currency positions as at 31 December 2018 are as follows:

<i>(in thousands of UAH)</i>	USD	EUR
Assets		
Cash and cash equivalents	559,108	5,283
Loans and advances	599,803	7,673
Investment in securities	-	-
Other assets	-	-
	<hr/>	<hr/>
Total assets	1,158,911	12,956
	<hr/>	<hr/>
Liabilities		
Due to banks	(884,827)	(79)
Due to customers	(84,254)	(23,665)
Other liabilities	(480)	-
	<hr/>	<hr/>
Total liabilities	(969,561)	(23,744)
	<hr/>	<hr/>
Net on balance sheet position	189,350	(10,789)
Derivatives: foreign exchange swaps (note 23)	(191,007)	11,100
	<hr/>	<hr/>
Net (short) long position	(1,657)	311
	<hr/>	<hr/>

Foreign currency positions as at 31 December 2017 are as follows:

<i>(in thousands of UAH)</i>	USD	EUR
Assets		
Cash and cash equivalents	605,469	83,676
Loans and advances	537,285	-
Securities available-for-sale	-	-
Other assets	284	-
	<hr/>	<hr/>
Total assets	1,143,038	83,676
	<hr/>	<hr/>
Liabilities		
Due to banks	(763,898)	(586)
Due to customers	(65,343)	(8,549)
Other liabilities	(269)	-
	<hr/>	<hr/>
Total liabilities	(829,510)	(9,135)
	<hr/>	<hr/>
Net on balance sheet position	313,528	74,541
Derivatives: foreign exchange swaps and forwards (note 23)	(301,768)	(77,039)
	<hr/>	<hr/>
Net short position	11,760	(2,498)
	<hr/>	<hr/>

As at 31 December, a 50 percent weakening of the Ukrainian hryvnia against the following currencies would have (increased net loss) /decreased net profit for the year ended 31 December and decreased total equity as at 31 December by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2018	2017
<i>(in thousands of UAH)</i>		
USD	(679)	4,822
EUR	128	1,024

Concentration of currency risk of the Bank as at reporting date is as follows:

<i>(in thousands of UAH)</i>	31 December 2018			31 December 2017		
	Monetary assets	Monetary liabilities	Net position	Monetary assets	Monetary liabilities	Net position
USD	1,158,911	969,561	189,350	1,142,754	829,510	313,244
EUR	12,956	23,744	(10,789)	83,676	9,135	74,541
GBP	18	-	18	29	-	29
RUB	-	-	-	-	-	-
Others	-	-	-	-	-	-
Total	1,171,885	993,305	178,580	1,226,459	838,645	387,814

Analysis of changes of financial result and equity as a result of changes of currency exchange rates provided other factors remain fixed is represented below (taxes are taken into account):

	31. December 2018		31 December 2017	
	Impact on Financial Result	Impact on Equity	Impact on Financial Result	Impact on Equity
Strengthening of USD by 30%	56,805	56,805	93,973	93,973
Weakening of USD by 30%	(56,805)	(56,805)	(93,973)	(93,973)
Strengthening of EUR by 30%	(3,237)	(3,237)	22,362	22,362
Weakening of EUR by 30%	3,237	3,237	(22,362)	(22,362)
Strengthening of RUB by 30%	-	-	-	-
Weakening of RUB by 30%	(-)	(-)	(-)	(-)
Strengthening of GBP by 30%	5	5	9	9
Weakening of GBP by 30%	(5)	(5)	(9)	(9)

The analysis represented above includes only monetary assets and liabilities. Management considers that investments into equity instruments and non-monetary assets will not lead to considerable currency risk.

The risk was calculated for monetary items in currencies which are different from the functional currency of the Bank.

(e) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect income or the value of financial instruments.

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. To manage interest rate risk, management continually assesses market interest rates for different types of interest bearing assets and liabilities.

Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates. In practice, management resets interest rates on both assets and liabilities based on current market conditions and mutual agreement, which is documented in an addendum to the original agreement, which sets forth the new interest rate.

The average effective interest rates of major interest bearing assets and liabilities as at 31 December are as follows:

	2018			2017		
	UAH	USD	EUR	UAH	USD	EUR
Investment in securities	16.0%	0.5%	-	-	-	-
Loans and advances	15.5%	10.9%	8.0%	14.2%	10.2%	0%
Due to banks	-	5.3%	-	-	0.3%	-
Due to customers	7.7%	3.6%	0.8%	5.0%	1.4%	1.3%

(f) Liquidity Risk

Liquidity risk arises in the general funding of activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Management's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

To maintain its short-term liquidity, the Bank takes short-term deposits, enters into repurchase transactions and buys and sells foreign currency, securities and precious metals. To maintain its long-term liquidity, the Bank takes medium and long-term deposits, sells assets such as securities, regulates its interest rate policy and strives to reduce expenses.

The contractual remaining maturities of assets and liabilities, excluding interest payments, as at 31 December 2018 are as follows:

Description	Maturity periods						Total
	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	No maturity	
<i>(in thousands of UAH)</i>							
Cash and cash equivalents	573,165	-	-	-	-	-	573,165
Loans and advances	-	83,206	479,662	284,949	-	-	847,816
Investment in securities	119,984	-	-	-	-	-	119,984
Derivative financial instruments at fair value through profit or loss	936	-	-	-	-	-	936
Investment property	-	-	-	-	-	24,399	24,399
Property, equipment and intangible assets	-	-	-	-	-	6,551	6,551
Prepaid income tax	-	-	11,078	-	-	-	11,078
Deferred tax asset	-	-	-	-	-	-	-
Other assets	3,444	-	-	-	-	-	3,444
Total assets	697,528	83,206	490,740	284,949	-	30,950	1,587,372
Liabilities							
Due to banks	97,549	194,718	365,485	227,154	-	-	884,907
Due to customers	329,301	17,180	5,966	149	37	-	352,634
Current tax liability	-	9,488	-	-	-	-	9,488
Deferred tax liability	-	-	-	37	-	-	37
Derivative financial instruments at fair value through profit or loss	759	-	-	-	-	-	759
Other liabilities	3,227	72	6	-	-	-	3,305
Total liabilities	430,836	221,459	371,457	227,340	37	-	1,251,130
Liquidity surplus (shortage) for the period	266,691	(138,253)	119,283	57,609	(37)	30,950	336,242
Cumulative liquidity surplus (shortfall)	266,691	128,438	247,721	305,329	305,292	336,242	

The contractual remaining maturities of assets and liabilities, excluding interest payments, as at 31 December 2017 are as follows:

Description	Maturity periods						Total
	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	No maturity	
<i>(in thousands of UAH)</i>							
Cash and cash equivalents	943,734	-	-	-	-	-	943,734
Loans and advances	102,802	35,646	395,236	282,711	-	-	816,395
Securities available-for-sale	-	-	-	-	-	-	-
Derivative financial instruments at fair value through profit or loss	397	-	-	-	-	-	397
Investment property	-	-	-	-	-	23,565	23,565
Property, equipment and intangible assets	-	-	-	-	-	6,518	6,518
Prepaid income tax	-	-	8,036	-	-	-	8,036
Deferred tax asset	-	-	-	11	-	-	11
Other assets	4,221	-	-	-	-	-	4,221
Total assets	1,051,154	35,646	403,272	282,722	-	30,083	1,802,877
Liabilities							
Due to banks	147,005	-	-	617,479	-	-	764,484
Due to customers	517,973	22,516	3,980	-	-	-	544,469
Current tax liability	-	20,504	-	-	-	-	20,504
Deferred tax liability	-	-	-	-	-	-	-
Derivative financial instruments at fair value through profit or loss	796	-	-	-	-	-	796
Other liabilities	2,469	53	7	-	-	-	2,529
Total liabilities	668,243	43,073	3,987	617,479	-	-	1,332,782
Liquidity surplus (gap) for the period	382,911	(7,427)	399,285	(334,757)	-	30,083	470,095
Cumulative liquidity surplus (gap)	382,911	375,484	774,769	440,012	440,012	470,095	

Starting from 2015, following the amendments to Ukrainian laws, individuals could not prematurely withdraw deposits unless deposit agreement grants such right. In the above table the deposits were presented according to their contractual maturity dates in both years.

Due to short-term nature of certain loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. On the contrary, historical experience demonstrates that certain loans are settled before their contractual maturity dates. Accordingly, the effective maturity of the loan portfolio may be significantly different than the term based on contractual terms.

The contractual maturity analysis of undiscounted cash flows (including interest payments) for financial liabilities as at 31 December 2018 is as follows:

	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	Total
<i>(in thousands of UAH)</i>						
Due to banks	97,842	195,957	365,485	248,094	-	907,378
Due to customers	329,652	17,292	6,131	186	38	353,299
Guarantees granted to customers	4,826	87	4,094	-	-	9,007
Letters of credit granted to customers	-	-	-	-	-	-
	<u>432,321</u>	<u>213,336</u>	<u>375,711</u>	<u>248,280</u>	<u>38</u>	<u>1,269,685</u>

The contractual maturity analysis of undiscounted cash flows (including interest payments) for financial liabilities as at 31 December 2017 is as follows:

	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	Total
<i>(in thousands of UAH)</i>						
Due to banks	147,005	-	-	617,479	-	764,484
Due to customers	518,284	22,795	4,100	-	-	545,178
Guarantees granted to customers	17,404	8,248	5,298	-	-	30,950
Letters of credit granted to customers	-	-	-	-	-	-
	<u>682,693</u>	<u>31,042</u>	<u>9,398</u>	<u>617,479</u>	<u>-</u>	<u>1,340,612</u>

(g) Geography Risk

Geography risk of assets and liabilities of the Bank as at 31 December 2018 is as follows:

	Ukraine	OECD countries	Other countries	Total
Assets				
Cash and cash equivalents	9,887	563,278	-	573,165
Loans and advances	847,816	-	-	847,816
Investment in securities	119,984	-	-	119,984
Derivative financial instruments at fair value through profit or loss	936	-	-	936
Total financial assets	978,622	563,278	-	1,541,900
Non-financial assets	45,472	-	-	45,472
Total assets	1,024,094	563,278	-	1,587,372
Liabilities				
Due to banks	-	592,775	292,132	884,907
Due to customers	318,953	33,537	144	352,634
Derivative financial instruments at fair value through profit or loss	689	70	-	759
Other financial liabilities	9,488	-	-	9,488
Total financial liabilities	329,130	626,381	292,276	1,247,787
Non-financial liabilities	3,343	-	-	3,343
Total liabilities	332,473	626,381	292,276	1,251,130
Net position	691,621	(63,103)	(292,276)	336,242
Loan commitments	2,321,531	120,000	-	2,441,531

Assets, liabilities and loan commitments are classified based on the country of residence of the counterparty. Balances with Ukrainian counterparties are included in the column "Ukraine". Cash, property and equipment are classified according to the country of actual location.

Geography risk of assets and liabilities of the Bank as at 31 December 2017 is as follows:

	Ukraine	OECD countries	Other countries	Total
Assets				
Cash and cash equivalents	257,463	686,271	-	943,734
Loans and advances	816,395			816,395
Securities available-for-sale	-			-
Derivative financial instruments at fair value through profit or loss	358	39		397
Total financial assets	1,074,216	686,310	-	1,760,526
Non-financial assets	42,351			42,351
Total assets	1,116,567	686,310	-	1,802,877
Liabilities				
Due to banks	140,364	624,120	-	764,484
Due to customers	526,461	17,993	15	544,469
Derivative financial instruments at fair value through profit or loss	598	198		796
Other financial liabilities	20,504	-		20,504
Total financial liabilities	687,927	642,311	15	1,330,253
Non-financial liabilities	2,529			2,529
Total liabilities	690,456	642,311	15	1,332,782
Net position	426,111	43,999	(15)	470,095
Loan commitments	3,074,908	-		3,074,908

(h) Capital management

The NBU sets and monitors capital requirements for the Bank as a whole.

Under the current capital requirements set by the NBU, banks have to maintain a ratio of capital to risk weighted assets (regulatory capital ratio) above the prescribed minimum level. If it does not maintain or sufficiently increase its capital base in line with the increase in its risk weighted assets, it may be non-compliant with the NBU capital adequacy regulations.

As at 31 December 2018, the minimum level required by the NBU is 10.0% (31 December 2017: 10.0%).

The regulatory capital adequacy ratio of the Bank as at 31 December 2018 is 45.2% (31 December 2017: 49.9%). The Bank has been in compliance with capital adequacy requirements set by the NBU as at 31 December 2018 and 2017.

The table below presents regulatory capital based on the Bank's reports prepared under NBU requirements, which comprises the following components as at 31 December:

	2018	2017
<i>(in thousands of UAH)</i>		
Core capital	281,237	273,650
Additional capital	43,134	127,239
Total regulatory capital	324,371	400,889

25 Balances with related parties

The Bank grants loans and advances, attracts deposits and performs other transactions with related parties in the ordinary course of business. Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party when making financial and operational decisions. Terms of transactions with related parties are established at the time of the transaction. Related parties comprise entities under common control, members of the supervisory board, key management personal and their immediate family members, companies that are controlled or significantly influenced by shareholders, by key management personal or by their close family members.

As at 31 December 2018 and 2017, the Bank's Parent Bank is Credit Europe Bank N.V. The Parent Bank prepares publicly available financial statements as at and for the year ended 31 December 2018.

The ultimate controlling party of the Bank is Mr. Hüsnü Özyeğin.

Balances and transactions with the related parties as at 31 December and for the year then ended are as follows:

	2018	2017
<i>(in thousands of UAH)</i>		
Balances and transactions with the Parent Bank		
<i>Statement of financial position:</i>		
Cash and cash equivalents	514,820	682,577
Due to banks	592,639	617,479
<i>Statement of profit or loss and other comprehensive income:</i>		
Interest expense	1,572	-
Commission expense	22,103	-
Balances and transactions with other entities under common control		
<i>Statement of financial position:</i>		
Cash and cash equivalents	1	1
Due to banks	292,268	6,641
Due to customers	4,699	5,371
<i>Statement of profit or loss and other comprehensive income:</i>		
Interest income	-	-
Commission income	11	-
Interest expense	8,518	14,049
Balances and transactions with key management personnel		
<i>Statement of financial position:</i>		
Due to customers	1,147	826
<i>Statement of profit or loss and other comprehensive income:</i>		
Interest expense	23	4
Other expenses	2	-
Salaries and employee benefits	16,386	19,795

31 December 2018

	Parent Bank	Entities under common control	Subsidiaries	Key management personnel
Loan commitments	-	276,883	-	-
Currency and metals to receive under forward agreements	17,373	-	-	-
Currency and metals to pay under forward agreements	17,443	-	-	-
Guarantees received from banks	509,464	-	-	-
Contingent liability	287,820	-	-	-

31 December 2017

	Parent Bank	Entities under common control	Subsidiaries	Key management personnel
Loan commitments	-	550,118	-	-
Currency and metals to receive under forward agreements	103,677	-	-	-
Currency and metals to pay under forward agreements	103,836	-	-	-
Guarantees received from banks	617,479	-	-	-

The foreign currency positions and interest rates of balances with related parties as at 31 December 2018 are as follows:

	UAH	Interest rate	USD	Interest rate	EUR	Interest rate	Other	Interest rate
<i>(in thousands of UAH)</i>								
Balances with the Parent Bank								
Cash and cash equivalents	-	-	509,542	-	5,260	-	18	-
Due to banks	-	-	592,639	5.5%	-	-	-	-
Balances with other entities under common control								
Cash and cash equivalents	-	-	-	-	-	-	-	-
Due to banks	-	-	292,188	5.3%	79	-	-	-
Due to customers	2,912	13%	748	-	1,039	-	-	-
Balances with key management personnel								
Due to customers	484	12.9%	615	4.9%	49	4.5%	-	-

The foreign currency positions and interest rates of balances with related parties as at 31 December 2017 are as follows:

	UAH	Interest rate	USD	Interest rate	EUR	Interest rate	Other	Interest rate
<i>(in thousands of UAH)</i>								
Balances with the Parent Bank								
Cash and cash equivalents	-	-	600,021	-	82,527	-	29	-
Due to banks	-	-	617,479	-	-	-	-	-
Balances with other entities under common control								
Cash and cash equivalents	-	-	-	-	1	-	-	-
Due to banks	-	-	6,055	0%	586	0%	-	-
Due to customers	5,371	11.5%	-	-	-	-	-	-
Balances with key management personnel								
Due to customers	22	0%	668	4%	136	4%	-	-

The contractual remaining maturities of balances with related parties as at 31 December 2018 are as follows:

	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	Total
<i>(in thousands of UAH)</i>						
Balances with the Parent Bank						
Cash and cash equivalents	514,820	-	-	-	-	514,820
Due to banks	-	-	365,485	227,154	-	592,639
Balances with other entities under common control						
Cash and cash equivalents	1	-	-	-	-	1
Due to banks	97,549	194,718	-	-	-	292,268
Due to customers	4,699	-	-	-	-	4,699
Balances with key management personnel						
Due to customers	732	246	169	-	-	1,147

The contractual remaining maturities of balances with related parties as at 31 December 2017 are as follows:

	Within one month	From one to three months	From three months to one year	From one to five years	More than five years	Total
<i>(in thousands of UAH)</i>						
Balances with the Parent Bank						
Cash and cash equivalents	682,577	-	-	-	-	682,577
Due to banks	-	-	-	617,479	-	617,479
Balances with other entities under common control						
Cash and cash equivalents	1	-	-	-	-	1
Due to banks	6,641	-	-	-	-	6,641
Due to customers	5,371	-	-	-	-	5,371
Balances with key management personnel						
Due to customers	366	157	303	-	-	826

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly, and includes members of the Board of Management.

26 Estimation of fair value

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2018:

<i>(in thousands of UAH)</i>	FVTPL	Loans and receivables	Investment in securities	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	573,165	-	-	573,165	573,165
Loans and advances	-	847,816	-	-	847,816	847,816
Derivative financial instruments at fair value through profit or loss	936	-	-	-	936	936
Investment in securities	-	-	119,984	-	119,984	119,984
Total financial assets	936	1,420,981	119,984	-	1,541,901	1,541,901
Due to banks	-	-	-	884,907	884,907	884,907
Due to customers	-	-	-	352,634	352,634	352,634
Derivative financial instruments at fair value through profit or loss	759	-	-	-	759	759
Total financial liabilities	759	-	-	1,237,541	1,238,300	1,238,300

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

<i>(in thousands of UAH)</i>	FVTPL	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	943,734	-	-	943,734	943,734
Loans and advances	-	816,395	-	-	816,395	816,395
Derivative financial instruments at fair value through profit or loss	397	-	-	-	397	397
Securities available-for-sale	-	-	-	-	-	-
Total financial assets	397	1,760,129	-	-	1,760,526	1,760,526
Due to banks	-	-	-	764,484	764,484	764,484
Due to customers	-	-	-	544,469	544,469	544,469
Derivative financial instruments at fair value through profit or loss	796	-	-	-	796	796
Total financial liabilities	796	-	-	1,308,953	1,309,749	1,309,749

As at 31 December 2018 and 2017, the fair values of certain financial assets and liabilities are estimated to approximate their carrying values due to their short-term nature and/or market interest rates at period end.

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 judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities 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 objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

(b) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

These two types of inputs have created the following fair value hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchange traded derivatives, such as futures.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The table below analyses financial instruments measured at fair value at 31 December 2018 and 2017, 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:

<i>(in thousands of UAH)</i>	31 December 2018				31 December 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investment in securities	-	119,984	-	119,984	-	-	-	-
Derivative financial instruments at fair value through profit or loss	-	936	-	936	-	397	-	397
Derivative financial instruments at fair value through profit or loss	-	759	-	759	-	796	-	796

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy for disclosure purposes as at 31 December 2018:

<i>(in thousands of UAH)</i>	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	573,165	-	573,165	573,165
Loans and advances	-	-	847,816	847,816	847,816
Total	-	573,165	847,816	1,420,981	1,420,981
Financial liabilities					
Due to banks	-	884,907	-	884,907	884,907
Due to customers	-	352,634	-	352,634	352,634
Total	-	1,237,541	-	1,237,541	1,237,541

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy for disclosure purposes as at 31 December 2017:

<i>(in thousands of UAH)</i>	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Financial assets					
Cash and cash equivalents	-	943,734	-	943,734	943,734
Loans and advances	-	-	816,395	816,395	816,395
Total	-	943,734	816,395	1,760,129	1,760,129
Financial liabilities					
Due to banks	-	764,484	-	764,484	764,484
Due to customers	-	544,469	-	544,469	544,469
Total	-	1,308,953	-	1,308,953	1,308,953

(c) Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

The table below sets out information about significant unobservable inputs used at year end in the measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2018:

Type of instrument	Fair values	Valuation technique	Significant unobservable input	Range of estimates (weighted average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Loans to customers	847,816	Discounted cash flow	Risk adjusted discount rate	Interest rates 9% - 33%	Significant increase in the spread above risk free rate would result in a lower fair value.

The table below sets out information about significant unobservable inputs used at year end in the measuring financial instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2017:

Type of instrument	Fair values	Valuation technique	Significant unobservable input	Range of estimates (weighted average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Loans to customers	816,395	Discounted cash flow	Risk adjusted discount rate	Interest rates 9% - 33%	Significant increase in the spread above risk free rate would result in a lower fair value.

During the year ended 31 December 2018 and 2017, no fair value gains or fair value losses were recognised in profit or loss or other comprehensive income on loans to customers.

During the year ended 31 December 2018 and 2017, there were no transfers into and out of Level 3 of the fair value hierarchy.





 Onur Anliatamer
 Chairman of the Board



 Iryna Nemchen
 Deputy Chairman of the Board



 Svitlana Dubova
 Chief Accountant

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**Management Report
of
JSC “CREDIT EUROPE BANK”**

About JSC “CREDIT EUROPE BANK”

Joint-Stock Company “CREDIT EUROPE BANK” (hereinafter referred to as “the Bank”) was registered by the National Bank of Ukraine (hereinafter referred to as “the NBU”) on February 28, 2006, No. 310, operates on the basis of the license of the National Bank of Ukraine of October 14, 2011, No. 232, and is the legal successor of ZAT “Finansbank”, ZAT “CREDIT EUROPE BANK” and PJSC “CREDIT EUROPE BANK”. The Bank belongs to Credit Europe Group N.V. (the Netherlands), which is a holding company providing financial services such as corporate, private and retail banking services and leasing in Western and Eastern Europe and Asia (hereinafter referred to as “CEB N.V. Group”) through its subsidiaries.

The Bank’s shareholders include Credit Europe Bank N.V., the Netherlands (99.99% - direct participation, hereinafter referred to as the parent bank) and Credit Europe Group N.V., the Netherlands (0.01% - direct participation, 100% - general participation). The parent bank has 118 branches and 4409 employees in ten countries around the world. The beneficiary of the Bank is Ozegin Gusnu Mustafa (indirect participation - 100%), owner of Fiba Group, which includes Turkish Fibabanka and Dutch Credit Europe Bank N.V.

According to the criteria for determining banking groups under the current legislation, the Bank does not belong to any banking group.

The Bank takes 43th place in the banking system by the size of assets as of January 1, 2019 and is classified as “other small banks operating within the country” according to SREP (Supervisory Review and Evaluation process). The Bank has one branch. The number of the Bank’s employees as of January 01, 2019 is 28 persons.

Our Core Values

Dynamism

Thanks to our passion and energy, we are able to respond to challenges and changes. Our “can” attitude allows us to focus on provision of solutions and meeting the expectations of our shareholders.

Diversity

We promote diversity as one of the key aspects of our corporate culture. Our diverse experience and presence in different parts of the world allow us to see things from different points of view.

Expertness

We are experts in individual markets and individual products. Thanks to our experience, we offer unique individual solutions to meet the needs of our customers.

Our Basic 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

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 behavior and by complying with laws, regulations and guidelines.

Transparency

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

Corporate Governance of the Bank

The corporate governance of JSC “CREDIT EUROPE BANK” in Ukraine is based on the continuation of the general business strategy of Credit Europe Bank N.V., the Netherlands (hereinafter referred to as the “Parent Bank”), which provides the “tone of the top” regarding corporate culture and corporate governance in the Bank, the specifics of building and organization of the risk management system. The actual organization of the Bank’s management structure is four-level, including CEB N.V. Group, the General Meeting of Shareholders, the Bank’s Board and Management. The Bank, as part of the international banking group CEB N.V., is permanently controlled by the Parent Bank and is subject to all Group’s global policies and procedures, including corporate governance, which are posted on the Parent Bank website: <https://www.crediteuropebank.com/the-bank/corporate-governance.html>. As of December 31, 2018, the Corporate Governance Code of the Bank was under development and is scheduled for implementation by the end of 2019. The Bank fulfils all requirements of regulations of on corporate governance by the National Bank of Ukraine.

The Code of Corporate Ethics of CREDIT EUROPE BANK was updated in 2018 and posted on the Bank’s website <http://www.crediteurope.com.ua/>.

The main objectives of the Code are as follows:

- consolidation of mission and corporate values of PUBLIC JOINT-STOCK COMPANY “CREDIT EUROPE BANK”;
- ensuring awareness of Employees’ personal responsibility to clients, partners, shareholders and colleagues for the performance of their official duties, their role in the implementation of the Bank’s mission;
- provision of the basis for the Bank’s relationship with clients, partners, supervisory bodies, competitors and the Bank’s Employees;
- observance of clear and transparent rules of conduct set forth in the Code, protects the impeccable business reputation of the Bank and its Employees, ensures favorable working conditions, affects the relations between the Employees.

The Code of Corporate Ethics of the Bank is developed on the basis of generally recognized principles and norms of Ukrainian legislation, international law and internal local legal acts and documents of the Bank and is to guide all Bank's employees, regardless of positions occupied and duties performed. All documents of the Bank, including those regulating the establishment of business relations with clients, business partners, controllers and regulators, competitors and the Bank's Employees are developed and approved taking into account this Code.

In 2018, there were no violations of the Code of Corporate Ethics.

JSC "CREDIT EUROPE BANK" ensures observance of the rights of consumers in the fulfillment of established norms and rules of prudential, financial or operational character by providing the appropriate level of services, as well as by guaranteeing the inviolability of the rights of consumers of the Financial Services.

The Bank introduced an anonymous system of complaints and communications (notification of risk incidents, violations, etc.) as described in the Internal Alert System Policy and in the Regulations for Customer Claim Management. These policies and regulations provide for: anonymous notification to the Bank's special e-mail address on potential complaints, the availability of boxes for complaints in the branch and the head office of the Bank; protection from direct/indirect negative consequences in the event of reporting of improper practices. All complaints and messages are treated confidentially and not subject to disclosure. The Bank's authorized representative for complaint handling - **Anna Volodymyrivna Marusova**, Deputy Head of the Compliance and Financial Monitoring Department.

In 2018, the Bank did not receive any complaints from clients, as well as there were not any lawsuits against the provision of financial services by the Bank and the results of their consideration.

External Impact Factors

In 2018, the banking sector of Ukraine (hereinafter referred to as the sector) operated without significant internal or external shocks. The sector receives profit for the first time since the crisis.

The introduction of martial law in the ten regions of Ukraine, as a result of expansion of Russian aggression at sea, did not have a significant impact on the banking sector: deposits of the population and business have not decreased, banks remain liquid and uninterruptedly carry out all payments. This indicates a renewal of customer confidence in the banking system. The margin of safety formed after the last crisis, guarantees banks a high degree of stability, even in adverse circumstances.

Geopolitical and geo-economic risks are quite high. The threat of a disorderly exit of the UK from the EU remains, as well as the risk of escalating trade wars between the US and China and other countries. As a result of negotiations between the leaders of the United States and China, raising tariff rates has been temporarily postponed, but not canceled. Tensions in international economic policy are increasing due to the adoption of a populist budget in Italy and protests against increasing excise taxes on fuel in Paris. A positive trend is the promotion of the claim of Ukrainian companies against Russia for the assets grabbed from them in the Crimea. Appeals to arbitration were rejected in Lausanne.

Economic growth in the world is slowing down. The International Monetary Fund (IMF) and the World Bank are forecasting a slowdown in the global economy in 2019. Economic growth rates are decreasing in Ukraine's major trading partners, such as China, Poland, and Turkey. Slowing down of Polish economy threatens not only bilateral trade but also the volumes of transfers from labor migrants. Growth in global trade is also slowing down, but in line with the IMF's baseline scenario, it will remain relatively dynamic.

Financial conditions for emerging economies are gradually deteriorating. In 2018, capital inflows to emerging economies, with the exception of China, declined by 30%. The reason is the rigid monetary and soft fiscal policy in the United States. A smaller capital inflow has led to a fall of stocks of the respective countries and an increase in their bond yields. Countries with high financial and economic imbalances suffered the most: Argentina, Turkey, Pakistan. In response to external challenges, governments in many emerging countries have been pursuing adequate policies, in particular raising their discount rates. Therefore, in recent weeks, the tensions in the respective markets have slightly decreased. It can take several months, but the trend for rising interest rates in the world remains - with all possible implications for emerging countries. Ukraine is no exception: in October 2018, the government placed USD 2 bln of sovereign Eurobonds with significantly higher yields than a year ago.

Increasingly higher interest rates in the USA are beginning to negatively affect the real sector of the economy. During 2018, a tightening monetary policy negatively affected only financial markets: US stocks fell into large-scale sales several times, while yields of US Treasuries markedly increased. But now there are more signs that higher rates are beginning to affect the real sector of the economy.

Global commodity prices will not increase. In October and November, oil prices dropped by about 30%. This is due to the expansion of the proposal, the expectation of a slowdown in the global economy and the fears of possible over-saturation of the market. Grain prices will remain close to current relatively low levels. All this has an unsatisfactory effect on Ukraine's balance of payments.

The Bank's activities are influenced by the external factors as follows:

- political: stability of the Government and political system of Ukraine; expectation of presidential and parliamentary elections; fiscal policy for credit and financial institutions; state regulation of competition in the banking sector of Ukraine; state influence on the banking sector, taking into account the share of government ownership;
- economic: economic situation in Ukraine; exchange rate of the national currency; the discount rate of the National Bank of Ukraine; inflation rate; unemployment rate; changes in prices for resources that affect the Bank's expenses (energy, heating, gasoline, etc.), changes in household incomes and income patterns;

- social: demographic changes in Ukraine; social mobility of the population; consumer activity and consumer demand; reorientation in the culture of satisfying the needs of the population;
- technological: development of information and communication technologies; technological potential (technological and labor); wide distribution of Internet tools.

The analysis of these external factors allows the Bank to function effectively and to plan its development. Today, the most important external factors are technological factors, and in particular, innovations that improve the Bank's services and its activities in general.

Banking Sector

During 2018, there were no bankruptcies in the banking sector. However, in late November, the NBU was forced to recognize VTB Bank as insolvent: due to the lack of support for the parent structure, he was unable to make payments in a timely manner.

From the beginning of December, the NBU has introduced a new regulatory ratio - LCR (Liquidity Coverage Ratio). The Bank has a sufficient volume of high-quality liquid assets and adheres to the statutory ratio of this indicator in accordance with the requirements of the NBU.

Bank Management (General Meeting of Shareholders)

The Bank's governing bodies are as follows: **General Meeting of Shareholders of the Bank; Supervisory Board of the Bank and the Management Board of the Bank.** The Revision Commission and the Internal Audit Department are the Bank's control bodies. **The General Meeting of Shareholders** is the supreme governing body of the Bank.

The exclusive competence of the **General Meeting of Shareholders** is to decide on:

- definition of the main business lines of the Bank and approval of reports on their implementation;
- making amendments to the Bank's Charter;
- making a decision on changes in the size (increase/decrease) of the authorized capital of the Bank;
- election and revocation/termination of powers (except in cases established by law) of the members of the Supervisory Board of the Bank,
- approval of the terms of civil or employment contracts concluded with them,
- setting the amount of their remuneration, including incentive and compensatory payments,
- election of a person authorized to sign civil agreements (contracts) with the members of the Supervisory Board of the Bank;
- decision-making on early termination of powers of members of the Supervisory Board and the simultaneous election of new members;
- approval of annual performance (annual report) of the Bank, including its subsidiaries,
- review of the report of the Supervisory Board and approval of the measures following the results of its consideration,

- review of the report of the Management Board of the Bank and approval of the measures following the results of its consideration (except for the case of appointment and dismissal of the Chairman and Members of the Management Board,
- approval of reports of the Revision Commission of the Bank, review of the conclusions of external audit and approval of the measures following the results of its consideration;
- distribution of profits and losses of the Bank; approval of the amount of annual dividends taking into account the requirements stipulated by the legislation; approval of the principles (code) of corporate governance of the Bank;
- approval of the Regulations on the General Meeting of Shareholders of the Bank, the Supervisory Board of the Bank, the Management Board of the Bank and the Revision Commission of the Bank, as well as amendments thereto;
- change of the legal form of the Bank; approval of the Bank's annual report;
- making a decision to change the type of the Bank;
- making a decision on placement of shares, their splitting or consolidation;
- making a decision on the redemption by the Bank of the Shares placed by it, except for cases of mandatory redemption by the Bank of shares at the request of shareholders in accordance with the law;
- making a decision not to use the preemptive right of shareholders to purchase additional shares in the process of their placement; making a decision to cancel the redeemed shares of the Bank;
- termination of the Bank (except for joining with transfer by it (by them) in accordance with the transfer deed of all its property, rights and obligations to another joint-stock company, a successor);
- liquidation of the Bank on the initiative of owners, election of the liquidation committee (liquidator) of the Bank/committee on termination of the Bank,
- approval of the procedure and terms of liquidation,
- approval of liquidation balance; liquidation of the Bank on the initiative of the owners is carried out in the manner prescribed by the legislation on the liquidation of legal entities, if the National Bank of Ukraine, after receiving the owner's decision to liquidate the Bank, do not identify the features by which the bank could be classified as a problem or insolvent

one. Owners of the Bank have the right to initiate the procedure for liquidation of the Bank by the decision of the General Meeting only after the consent of the National Bank of Ukraine and with the withdrawal of the banking license. If the Bank, which is liquidated on the initiative of the owners, is classified by the National Bank of Ukraine as problem or insolvent, the National Bank of Ukraine and the Deposit Guarantee Fund apply to it the measures provided for in the Law of Ukraine "On Joint Stock Companies" and the Law of Ukraine "On Households Deposit Guarantee System»".

- making a decision on the distribution of property among shareholders after the satisfaction of claims of creditors and approval of the liquidation balance;
- election of the Chairman and Members of the Revision Commission, making a decision on early termination of their powers, approval of the report of the Board, report and conclusions of the Revision Commission;
- making a decision on the form of the existence of shares;
- making decisions on the procedure of holding the General Meeting;
- election of members of a ballot committee (permanent), making a decision on termination of their powers; making decisions on property liability of officials of the Supervisory Board;
- making a decision to consent to a significant transaction or prior consent for such a transaction if the market value of property, works or services that are the subject of such a transaction exceeds 25 percent of the value of assets according to the latest financial statements of the Bank but less than 50 percent of the value of assets according to the latest annual financial statements of the Bank. The decision to give consent to such a transaction shall be taken by the General Meeting upon submission of the Supervisory Board. Such a decision is taken by a simple majority of the votes of the shareholders who have registered to participate in the General Meeting and hold the voting shares in this matter; making a decision to consent to a significant transaction if the market value of property, works or services that are the subject of such a transaction amounts to 50% or more of the value of assets according to the latest annual financial statements of the Bank. The decision is taken by more than 50 percent of the votes of the Bank's shareholders from their total number; if, as of the date of the General Meeting of Shareholders, it is impossible to determine which significant transactions will be undertaken by the Bank in

the course of the current economic activity, the General Meeting may decide on the prior consent of the Bank to make significant transactions that may be committed by the Bank within a maximum of one year from the date of such decision, indicating the nature of the transactions and their marginal aggregate value. In this case, depending on the marginal aggregate value of such transactions, the relevant requirements of the Charter and the law should apply;

- making a decision to change the type of the Bank;
- making a decision on placement of shares, their splitting or consolidation; making a decision on the redemption by the Bank of the Shares placed by the Bank, except for cases of mandatory redemption by the Bank of shares at the request of shareholders in accordance with the legislation; making a decision not to use the preemptive right of shareholders to purchase shares of additional issue in the process of their placement; making a decision to cancel the redeemed shares of the Bank; allocation and termination of the Bank (except for joining with them (in accordance with the transfer deed of all their property, rights and obligations to another successor company), liquidation of the Bank on the initiative of owners, election of the liquidation Committee (liquidator) of the Bank/committee for termination of the Bank, approval of the procedure and terms of liquidation, approval of the liquidation balance, the decision on the procedure for distributing property among the shareholders remaining after satisfaction of the claims of creditors and approval of the liquidation balance;
- resolution of other issues that fall under the exclusive competence of the General Meeting of Shareholders in accordance with the Regulations on the General Meeting of Shareholders of the Bank and the current legislation of Ukraine.

The ultimate beneficiary of the Bank is Ozegin Gusnu Mustafa, who indirectly owns 100% stake in the authorized capital of the Bank. During 2018, there were no restrictions on the rights of participation and voting of shareholders at the General Meeting of Shareholders.

During 2018, three General Meeting of Shareholders were held. On April 4, 2018, the following issues were considered at the Annual General Meeting of Shareholders:

- On the election of members of the ballot committee of the General Meeting of Shareholders of the Bank.
- On the election of the Chairman and the Secretary of the General Meeting of Shareholders of the Bank.
- On approval of the annual financial report of the Bank for 2017.
- On approval of the Report of the External Auditor on the Audit Results of the financial statements of the Bank for 2017.
- On distribution of profit and loss of the Bank for 2017.
- On payment of dividends for 2017.
- On distribution of profit and loss of the Bank for 2016.
- On payment of dividends for 2016.
- On distribution of profit and loss of the Bank for 2014.
- On payment of dividends for 2014.
- On making a decision on the consequences of reviewing the report of the Supervisory Board, the report of the Board, the report of the Revision Commission for 2017.
- On termination of powers of the Chairman and members of the Supervisory Board of the Bank.
- On election of members of the Supervisory Board of the Bank.
- On approval of the terms of agreements that will be concluded with members of the Supervisory Board, determination of the amount of their remuneration, election of a person authorized to sign agreements (contracts) with members of the Supervisory Board of the Bank.
- On amendments to the Charter of the Bank.
- On the authorization of a representative of the Bank to sign a new version of the Charter.
- On amendments to the Regulation on the General Meeting of Shareholders of the Bank.
- On amendments to the Regulation on the Supervisory Board of the Bank.
- On amendments to the Regulation on the Management Board of the Bank.

At this Meeting, a decision was made on the revision of the Bank's Charter, which resulted in the obtaining a new name of the Supervisory Board and a new Supervisory Board was elected.

Thus, the Bank's Charter (including the proper name of the management body of the Bank) was brought into compliance with the current requirements of the Law of Ukraine "On Banks and Banking Operations"

On August 31, 2018, at the Extraordinary Meeting of Shareholders, the following issues were considered:

- On the election of members of the ballot committee of the General Meeting of Shareholders of the Bank.
- On the election of the Chairman and the Secretary of the General Meeting of Shareholders of the Bank.
- On change of type of the joint-stock company.
- On amendments to the Charter of the Bank.
- On the authorization of a representative of the Bank to sign a new version of the Charter.
- On termination of powers of the Chairman and members of the Supervisory Board of the Bank.
- On election of members of the Supervisory Board of the Bank.
- On approval of the terms of contracts, which will be concluded with the members of the Supervisory Board,
- determination of the size of their remuneration, election of a person authorized to sign agreements (contracts) with the members of the Supervisory Board of the Bank.
- On amendments to the Regulation on the General Meeting of Shareholders of the Bank.
- On amendments to the Regulation on the Supervisory Board of the Bank.
- On amendments to the Regulation on the Management Board of the Bank.
- On amendments to the Regulation on the Revision Commission of the Bank.
- On the appointment of auditors to provide services for the statutory audit of the Bank's financial statements for 2018.

On November 15, 2018, at the Extraordinary Meeting of Shareholders, the following issues were considered:

- On the election of members of the ballot committee of the General Meeting of Shareholders of the Bank.
- On the election of the Chairman and the Secretary of the General Meeting of Shareholders of the Bank.
- On change of type of the joint-stock company.
- On changing the name of the Bank.
- On amendments to the Charter of the Bank.
- On the authorization of a representative of the Bank to sign a new version of the Charter.

All relevant minutes are posted on the corporate website of the Bank at <http://www.crediteurope.com.ua>.

Bank Management (Supervisory Board)

During the period between the General Meeting of Shareholders, the **Supervisory Board of the Bank** protects shareholders' rights, as well as controls and regulates the Board operations within its competence. The Supervisory Board consists of at least 5 (five) members. The quantitative composition of the Supervisory Board is established by the General Meeting of Shareholders. The Supervisory Board of the Bank shall be composed of at least one third of the independent members, and at least three persons must be present. Independent members must comply with the requirements established by the law on the independence of the members of the joint stock company. The National Bank of Ukraine has the right to determine additional requirements for independent members of the Bank. The Bank ensures control over the compliance of independent members with the requirements for their independence, and in case of discrepancy, it ensures the replacement of such independent members. The members of the Supervisory Board are elected for a term of 3 (three) years and may be re-elected. The exclusive competence of the **Supervisory Board** is as follows:

- approval of the Bank's development strategy in accordance with the main business lines determined by the General Meeting;
- approval of the budget of the Bank, including the budget of the internal audit department, and the business development plan of the Bank;
- determination and approval of strategy and risk management policies, procedures for managing them, as well as a list of risks, their limits;
- ensuring the functioning of the Bank's internal control system and monitoring its effectiveness;
- control over the effectiveness of the operation of the risk management system;
- approval of the plan for restoration of the Bank's operations;
- definition of sources of capitalization and other financing of the Bank;
- determination of the Bank's credit policy; determination of the organizational structure of the Bank, including the internal audit department;

- approval of the internal regulations of the Bank, except for those that are assigned by the law to the exclusive competence of the General Meeting, and those that were forwarded by the Supervisory Board to the Board of Directors;
- approval of internal regulations regulating the operations of the Bank's structural divisions;
- appointment (election) and dismissal (termination of powers) of the **Chairman and Members of the Management Board of the Bank**, the head of the internal audit department;
- making a decision to suspend the **Chairman of the Management Board** from duties and election of a person who will temporarily perform the duties of the Chairman of the Management Board;
- control over the activities of the **Board of the Bank**, making suggestions for its improvement;
- determination of the order of work and plans of the internal audit department and control over its activities;
- determination (election) of an auditor (audit firm) of the Bank for external audit, determination and approval of the terms of the agreement, which is concluded with such an auditor (audit firm), establishment of the amount of payment for their services;
- approval of recommendations to the General Meeting on the results of consideration of the conclusion of the external independent auditor (audit firm) of the Bank for making a decision regarding it;
- consideration of the conclusion of the external audit of the Bank and preparation of recommendations to the General Meeting to make a decision on it;
- control over elimination of shortcomings detected by the National Bank of Ukraine and other state authorities and administrations that, within the scope of their competence, supervise the Bank's operations, the internal audit department and the audit firm, on the results of external audit;
- making decisions on the establishment and participation of subsidiaries, their reorganization and liquidation, the creation of separate divisions of the Bank, approval of their charters and regulations;

- approval of the terms of civil and labor contracts concluded with the members of the Management Board of the Bank and employees of the internal audit department, determining the amount of their remuneration, including incentive and compensatory payments; approval of the remuneration of members of the Management Board, the requirements of which are established by the National Committee for Securities and Stock Market, except for the requirements for the provisions on remuneration for members of the executive body of a joint stock company - the bank, which are established by the National Bank of Ukraine; ensuring timely provision (publication) by the Bank of reliable information regarding its operations in accordance with the legislation;
- convocation of the General Meeting, preparation of the agenda of the General Meeting, making a decision on the date of their holding;
- notification of the General Meeting in accordance with the legislation; making a decision on placement by the Bank of securities other than shares;
- making a decision on the redemption of securities placed by the Bank, except for shares; making a decision on the sale of shares previously redeemed by the Bank;
- resolution of issues about the Bank's participation in the groups;
- making decisions on committing significant transactions in accordance with the law;
- making a decision on the selection (replacement) of the depository and/or clearing institution and approval of the terms of the contract with it, setting the amount of payment for services;
- in cases stipulated by law, sending positions of shareholders to purchase their shares;
- approval of the procedure for conducting transactions with persons connected with the Bank;
- confirmation of the market value of property in cases stipulated by the legislation of Ukraine; exercise of other powers in accordance with the Bank's Charter;
- election of a registration committee which registers shareholders at the General Meeting, except for cases of convening of the General Meeting by the shareholders of the Bank;
- determination of the date for making a list of persons entitled to receive dividends, the procedure and terms of payment of dividends;

- determination of the date for making a list of shareholders to be notified of the General Meeting and entitled to participate in the General Meeting in accordance with the legislation of Ukraine;
- resolution of issues about the participation of the company in industrial and financial groups and other associations, the establishment of other legal entities;
- resolution of issues that fall within the competence of the Supervisory Board, section XVI of the Law of Ukraine "On Joint Stock Companies", in case of merger, accession, division, separation or transformation of the company; resolution of issues about the creation and/or participation in any legal entities, their reorganization and liquidation;
- making a decision to make significant transactions if the price of the transaction amounts to 10 to 25 percent of the value of the Bank's assets according to the latest annual financial statements of the Bank or the prior consent of such a transaction in accordance with the law and to give consent to engage in interested party transaction in cases provided for Law of Ukraine "On Joint Stock Companies";
- making a decision on the election of a property appraiser of the Bank and approval of the terms of a contract that will be concluded with it, setting the amount of payment for its services;
- determination of the likelihood of the Bank's recognition of an insolvency due to its acceptance of obligations or their fulfillment, including as a result of payment of dividends or redemption of shares;
- making a decision on the selection (replacement) of the depositary institution, which provides the Bank with additional services, approval of the terms of the contract that will be concluded with it, setting the amount of payment for its services;
- sending proposals to shareholders on the acquisition by a person (joint persons) of a significant shareholding of 10% or more of the Bank's ordinary registered shares or a controlling interest of 50% and more of the Bank's ordinary registered shares, as well as sending of an offer to the shareholders in accordance with the law;
- approval of the procedure for conducting transactions with persons connected with the Bank;

- resolution of other issues that are assigned to the Supervisory Board by the General Meeting;
- preparation of the agenda of the General Meeting, making a decision on the date of their conduct and the inclusion of proposals in the agenda, in addition to convening the extraordinary General Meeting by shareholders; formation of a temporary ballot committee in case of convening of the General Meeting by the Supervisory Board;
- approval of the form and the text of the ballot paper;
- making a decision to hold regular or extraordinary general meetings in accordance with the company's charter and in cases established by this Law;
- election and termination of the powers of the Chairman and Members of other bodies of the company;
- appointment and dismissal of the head of the internal audit department (internal auditor);
- approval of the terms of employment contracts concluded with employees of the internal audit department (with the internal auditor), determination of the size of their remuneration, including incentive and compensatory payments;
- control over the timely provision (publication) by the Bank of reliable information about its activities in accordance with the legislation, publication by the Bank of information on the principles (code) of corporate governance by the Bank;
- reviewing the report of the executive body and approval of the measures on the results of its consideration in case of assigning by the Company's Charter the appointment and dismissal of the Chairman and members of the executive body to the exclusive competence of the Supervisory Board;
- resolution of other issues that fall under the exclusive competence of the Supervisory Board in accordance with the Bank's Charter;
- taking measures to prevent conflicts of interest in the Bank and facilitate their settlement.

The Supervisory Board is obliged: to report to the National Bank of Ukraine on conflicts of interest arising in the Bank; to ensure the maintenance of effective relations with the National Bank of Ukraine.

The National Bank of Ukraine has the right to demand: termination of powers of the Supervisory Board member if he/she does not properly perform his/her functions; extraordinary meeting of the Supervisory Board.

Matters belonging to the exclusive competence of the Supervisory Board of the Bank cannot be resolved by other bodies of the Bank, other than the General Meeting of Shareholders of the Bank, except in cases established by the Law "On Joint Stock Companies".

The decisions of the Supervisory Board, adopted in accordance with the current legislation and the Bank's Charter, are binding on the Board of the Bank and the Chairman of the Management Board. In the event of discrepancies between the decisions of the Supervisory Board, the Board of the Bank or the Chairman of the Management Board, the latter shall comply with the decisions of the Supervisory Board to review this issue by the General Meeting.

Personnel of the Bank's Supervisory Board as of January 1, 2018:

Chairman of the Supervisory Board **Fayk Onur Umut**

Member of the Supervisory Board **Mekhmet Gyuleshchi**

Member of the Supervisory Board **Korkmaz Ilkorur**

Member of the Supervisory Board **Murat Enver Bashbay**

Member of the Supervisory Board **Levent Karadzha**

Member of the Supervisory Board **Deiters Frederick Bernard**

In connection with the election of the third independent member of the Supervisory Board at the ordinary General Meeting of Shareholders held on August 31, 2018, the Supervisory Board of JSC "CREDIT EUROPE BANK" was elected as follows:

Chairman of the Supervisory Board **Fayk Onur Umut**

Member of the Supervisory Board **Mekhmet Gyuleshchi**

Member of the Supervisory Board **Korkmaz Ilkorur**

Member of the Supervisory Board **Murat Enver Bashbay**

Member of the Supervisory Board **Deiters Frederick Bernard**

Member of the Supervisory Board **Levent Karadzha**

Member of the Supervisory Board **Olena Vasylivna Legostyeva**

The decision of the General Meeting of Shareholders of the Bank of August 31, 2018 (minutes No. 02/18) also amended to the Charter of the Bank, by revising it in a new version, the Regulations on the General Meeting of Shareholders, the Regulation on the Supervisory Board of the Bank by revising it in a new version, the Regulation on the Revision Commission of the Bank by revising it in a new version and the Regulation on the Board of Directors by revising it in a new version.

In 2018, there were no violations by the members of the Supervisory Board that caused damage to JSC "CREDIT EUROPE BANK" or provision of the financial services to consumers.

In 2018, members of the Bank's Supervisory Board were not paid the remuneration; instead, the compensation was paid for the performance of the functions of an independent member in the amount of UAH 11.8 ths.

Bank Management (Management Board)

Management Board is the executive body of the Bank, which manages the Bank's current activities, forms funds necessary for the statutory activities of the Bank, and is responsible for the effectiveness of its work in accordance with the principles and procedure established by the Bank's Charter, decisions of the **General Meeting of Shareholders** and the **Supervisory Board of the Bank**. The Management Board of the Bank is accountable to the General Meeting of Shareholders and the Supervisory Board of the Bank and arranges execution of their decisions. Members of the Management Board are appointed by the decision of the Supervisory Board of the Bank on the submission of the Chairman of the Management Board of the Bank in the number of at least three persons. The quantitative composition of the Management Board of the Bank may be changed by the Supervisory Board of the Bank from time to time, depending on the current necessity.

Members of the Management Board as of December 31, 2018: **Onur Anliatamer** - Chairman of the Board; **Iryna Volodymyrivna Nemchen** - Deputy Chairman of the Management Board; **Mustafa Dzheilan** - Member of the Board.

Management Board of the Bank decides on:

- provision of preparation for approval by the Bank's Supervisory Board of the Bank's budget projects, strategy and business plan for the Bank's development;
- implementation of the Bank's strategy and business plan;
- determination of the form and establishment of the procedure for monitoring operations of the Bank;
- Implementation of the strategy and risk management policy approved by the Bank's Supervisory Board, ensuring implementation of procedures for the detection, assessment, control and monitoring of risks;
- formation of the Bank's organizational structure determined by the Bank's Supervisory Board;

- drafting of regulations, local legal acts and documents regulating the activity of structural and separate departments of the Bank in accordance with the Bank's development strategy;
- security of information systems of the Bank and systems used to store customer assets;
- informing the Bank's Supervisory Board on the performance indicators of the Bank,
- detection of violation of legislation, internal regulations, local legal acts and documents of the Bank and any deterioration in the Bank's financial condition or threat of such deterioration, the level of risks arising in the course of the Bank's activities;
- determination of the conditions of remuneration of officials and officers of the Bank, its subsidiaries, branches, branches and representative offices; determines the organizational structure of the Bank, its quantitative composition, the system of remuneration and material incentives for Bank employees, its subsidiaries, affiliates, branches and representative offices;
- related to the management of the Bank's current activities, except for issues that fall under the exclusive competence of the General Meeting of Shareholders of the Bank and the Supervisory Board of the Bank;
- making a decision on opening and liquidation of subsidiaries, branches, representative offices of the Bank and approval of their provisions;
- establishment of permanent committees for risk management, in particular, approval of the provisions of the Bank's standing committees (credit, tariff, management of assets and liabilities, etc.) and determination of their composition;
- with the approval of the regulation on the procedure for conducting individual banking operations, rules and other internal local legal acts and documents of the Bank (except those that are approved or changed within the competence of the General Meeting of Shareholders or the Supervisory Board of the Bank);
- performance of other powers stipulated by the current legislation of Ukraine, decisions of the General Meeting of Shareholders and the Supervisory Board of the Bank.

Facts of violation by **Members of the Management Board** of JSC "CREDIT EUROPE BANK" and **Members of the Supervisory Board** of JSC "CREDIT EUROPE BANK" of internal rules, which led to damage to JSC "CREDIT EUROPE BANK" or to the financial services consumers were not revealed in 2018.

In 2018, members of Management Board of the Bank were remunerated in the amount of UAH 1,913.0 ths.

Control over the Bank

Control over financial and economic activities of the Bank is carried out by the **Revision Commission of the Bank**, which is elected from among the shareholders or their representatives. The quantitative composition and term of the Revision Commission is determined by the General Meeting of Shareholders of the Bank in deciding on the election or re-election of its members. The Revision Commission: controls the compliance by the Bank of Ukrainian legislation and regulatory acts of the National Bank of Ukraine; reviews reports of internal and external auditors and prepares relevant proposals for the General Meeting of Shareholders; makes a proposal to the General Shareholders Meeting or the Supervisory Board of the Bank regarding any issues that fall within the competence of the Revision Commission regarding the financial security and stability of the Bank and the protection of the interests of clients. Members of the Revision Commission of the Bank as of December 31, 2018: Chairman of the Revision Commission - **Umut Bayoglu**; Member of the Revision Commission - **Scott Cheng**.

In order to ensure continuous evaluation and improvement of the internal control system, the quality of performance of the assigned duties by the Bank's employees, the **Internal Audit Department of the Bank** was created, which is an independent structural department of the Bank. The Internal Audit Department is subordinated to and reports to the Supervisory Board of the Bank. As of December 31, 2018, **Iryna Petrivna Podlisetska** is head of the Bank's Internal Audit Department.

The Internal Audit Department has the following functions:

- oversees the Bank's current activities; controls compliance with laws, regulatory acts of the National Bank of Ukraine and decisions of the Bank's governing bodies;
- verifies the results of the current financial activity of the Bank; analyzes information and information about the Bank's activities, professional activities of its employees, cases of exceeding powers by the Bank's officials;

- provides conclusions and suggestions to the Supervisory Board of the Bank based on the results of inspections; other functions related to supervision and control over the Bank's activities.

The Internal Audit Department has the right to familiarize itself with all documentation of the Bank and supervise the activities of any branch of the Bank. The Internal Audit Department is authorized to request written explanations from individual Bank officials regarding identified deficiencies in the work.

Officials of the Bank's bodies are liable to the Bank for losses incurred by the Bank by its actions (inactions), in accordance with the current legislation of Ukraine.

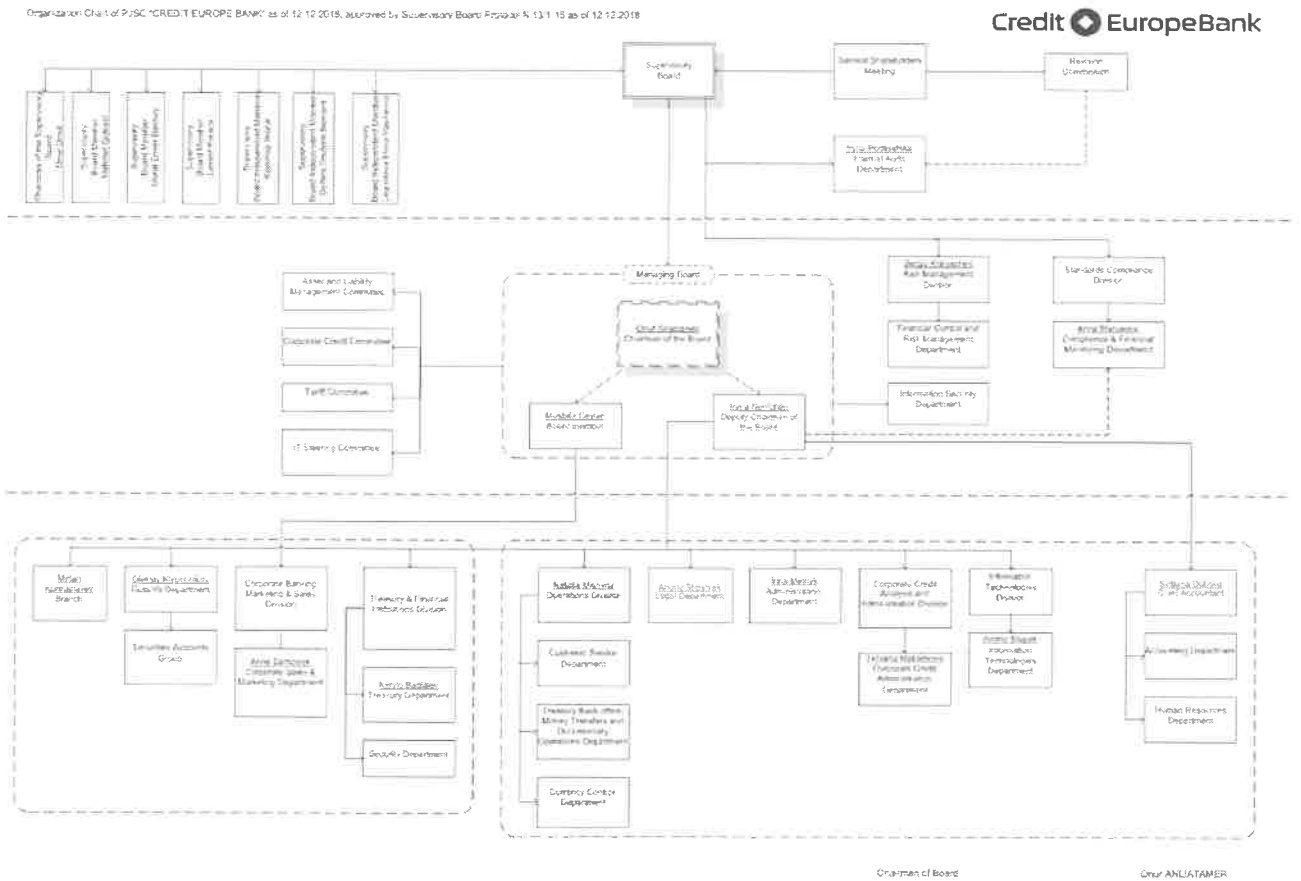
In 2018, the National Bank of Ukraine took remedial actions towards JSC "CREDIT EUROPE BANK" in the form of a Written Claim of July 11, 2018 concerning the excess of the balance of the total volume of purchase of foreign currencies and banking metals in hryvnia over the sales volume by the end of the working day by more than 1 per cent of the regulatory capital of the Bank for all transactions in the purchase and sale of foreign currency and banking metals.

At the end of 2017, the State Fiscal Service of Ukraine audited JSC "CREDIT EUROPE BANK" for the last five years of operation from 2012 to 2017, which resulted in the Bank paying penalties in the amount of UAH 842.9 thousand in 2018.

In 2018, JSC "CREDIT EUROPE BANK" paid a fine of UAH 75.8 thousand to the Deposit Guarantee Fund (hereinafter referred to as the DGF) for violation in the field of guaranteeing deposits of individuals, namely, failure to notify the National Bank of Ukraine of changing the e-mail address. Due to the fact that according to the National Bank's regulations, changing the e-mail address did not take place, JSC "CREDIT EUROPE BANK" filed a lawsuit against penalty imposed by the DGF. The Deputy Chairman of the Board I. V. Nemchen was brought to administrative responsibility for this violation, and an administrative penalty in the amount of UAH 8.5 ths are imposed on her.

Organizational structure of the Bank

Organizational Chart of P/SIC "CREDIT EUROPE BANK" as of 12.12.2018, approved by Supervisory Board. Proposal N 13/1.18 as of 12.12.2018



In 2018, the Bank created a separate subdivision: risk management and compliance management; there are no other significant changes in the organizational structure of the Bank for 2018.

Strategy of the Bank

The Bank carries out its operations duly and taking into account the general strategy of CEB N.V. Group. The budget of the Bank is part of the budget of CEB N.V. and it is formed in accordance with the format established by the Group standards. In 2018, in pursuit of the tasks within the framework of the Bank's integrated appraisal under SREP methodology, the Bank formalized the **Development Strategy for 2018-2020** and developed a business plan in accordance with the format determined by the NBU using the main directional triggers determined by CEB N.V. Group and the subsequent vision of its development by shareholders.

According to the Strategy, the Bank's main strategic aim is to ensure a balanced development of the institution with effective risk mitigation in its operations and to maintain profitability at a level sufficient for all regulatory requirements. The main strategic areas of business include: reduction of significant credit concentrations for two debtors, short-term crediting to new corporate clients with proven positive credit history, observance of a weighted balance of credits in national and foreign currencies, a gradual decrease until full repayment of credit indebtedness of natural persons, conducting profitable activities, increasing the authorized capital up to UAH 300 000.0 ths. in 2020 due to retained earnings of past years.

The Bank plans to use the **following products** in the future:

- overnight credits (deposits) provided to other banks;
- short-term and long-term credits (deposits) provided to other banks;
- short-term and long-term credits for the current operations of business entities and credit lines;
- overdrafts for business entities;
- guarantees/counter-guarantees, sureties, covered and uncovered letters of credit, provided to other banks;
- guarantees provided to business entities;
- other credit products that meet the requirements of the current legislation, and which allow to identify and prevent credit risk and its consequences;
- transactions with government securities;

- operations with debt securities of state bodies of the G-7 countries with ratings of leading world agencies not lower than AA-A/Aa3;
- derivative financial instruments in the interbank foreign exchange/resource market of Ukraine and international markets;
- depositary and dealer activity on the securities market.

The basic criteria to be met by a potential corporate borrower of the Bank is the term of operation of the business not less than 1 year; profitability of the company (it is possible to have current losses related to the seasonal nature of business, provided that they are covered by accumulated profits); positive credit history (or its absence); absence of arrears to the budget and extra-budgetary funds; readiness of the company's management to provide financial and economic information about the company's operations (transparency and information openness of the company).

The main principles of pricing are the dependence of the interest rate on the borrower's credit rating (its financial condition), on the cost of the bank's resources, on the level of interest rates and commissions on credits in the financial market of Ukraine, on the level of risk of a credit transaction, and on transaction costs associated with the crediting process.

The Bank does not provide credits on preferential terms; enterprises with character of business unknown for the Bank (enterprises of those sectors of the economy, for which the Bank does not have a positive experience of crediting, and study and assessment of the business plan requires the involvement of experts or specialists in such a sector); for borrowers whose financial position is assessed as unsatisfactory and if in the assessment of credit operations the probability of non-payment is between 75% and 100%.

JSC "CREDIT EUROPE BANK" taking into account its long term strengths (the Bank with 100% foreign capital has a positive reputation since its registration in 2006, reliable, has the ability to quickly and promptly make decisions, availability of experienced staff, lack of crediting to individuals, small share of non-financial assets), its weaknesses (high level of dollarization of the credit portfolio and its concentration, small staff, a significant number of competitors), opportunities (expanding the scope of corporate activities and clients, expansion of the securities

market), and taking into account the approaching of the new financial crisis in 2019-2020 according to the World Bank's estimates, geopolitical risks and internal instability, both political and economic, **chooses a well-balanced strategy for the provision of stable profitability of the Bank on the financial market of Ukraine.**

The main objectives of the Bank's management are to improve the quality of assets, ensure the efficiency of the institution and its profitability, and comply with regulatory requirements.

Mission of the Bank is to be a reliable financial partner for clients and an attractive employer for employees. Due to the specialization and concentration of resources, the Bank strives to achieve and maintain long-term business stability, thereby ensuring the return on investment of its shareholders.

Risk Management

The risk management system in the Bank is developed taking into account international norms and standards, is based on the experience of developed financial markets and has undergone adaptation in the Ukrainian market. It covers all key functions for detection, measurement, monitoring, reporting, control and mitigation of risks.

The main principles of the risk management system in the Bank are its effectiveness, timeliness, structuring, division of responsibilities (separating the control function from the Bank's operations), comprehensiveness and integrity, proportionality, independence, confidentiality and transparency.

The risk management system is based on the division of responsibilities between the Bank's units using the model of three lines of protection.

The risk management strategy and policies are defined and approved by the Bank's Supervisory Board.

The main strategic objectives of the Bank's risk management are:

- Provision/maintenance of an acceptable level of risk within the limits of appetite risk and/or other limits and restrictions;
- Ensuring capital adequacy to cover existing risks;
- Ensuring financial stability of the Bank, minimizing possible financial losses from the impact of the risks that the Bank faces in its activities in accordance with the development strategy;
- Compliance with the requirements of state bodies of Ukraine that regulate/control the Bank's operations;
- Compliance with International Standards and Best Practices in Banking Regulation.

The Risk Management Department performs functions that meet the above-stated objectives of the risk management strategy, is independent and is subject to the Supervisory Board of the Bank.

In its operations, the Bank considers the following types of risks to be significant:

- credit risk;
- liquidity risk;
- interest rate risk;
- currency risk;
- operational risk;
- compliance risk;
- reputational risk.

Credit risk is present or potential risk to revenues and capital arising from the failure of the obliged party to comply with any financial agreement with the Bank or otherwise to fulfill its obligations.

An important element of credit risk control in the Bank is the establishment of debt limits in the context of specific counterparties (issuers, debtors), determination of the rating of creditworthiness of counterparties, observance of prudential norms of credit risk, established by the National Bank of Ukraine (H7, H8 and H9).

Monitoring of credit risks of counterparties is carried out periodically. Quarterly - when updating ratings of creditworthiness of counterparties on the basis of their financial statements. Monthly - when determining the amount of credit risk in accordance with national legislation and the amount of provisions for expected credit losses of active operations of the Bank in accordance with the International Financial Reporting Standards. The relevant reports contain information on credit risks by customers, their types of economic activity, credit ratings and other factors that are significant in terms of determining credit risks.

The Department of Analysis and Administration of Corporate Credits is responsible for maintaining the limits set by the credit committee. The Risk Management Department monitors compliance with the established limits.

Despite the fact that the Bank effectively distributes credit risks with the parent bank Credit Europe Bank N. V. (the Netherlands), today the Bank is working on reducing the components of

credit risk, such as concentration risk and the proportion of non-performing credits in order to make its credit portfolio even more efficient.

Liquidity risk is an existing or potential risk to the Bank's revenues and capital that arises because of the Bank's inability to meet its obligations in due time.

Liquidity risk management is regulated by the Board of Directors on Assets and Liabilities Management of the Bank and is implemented by the Treasury in co-operation with the Risk Management Department.

The main objective of liquidity risk management is to guarantee the Bank's steady liquidity and solvency in compliance with all regulatory requirements in relation to them, while at the same time achieving the set goals for the profitability of the Bank.

The liquidity risk monitoring measure at the Bank is a liquidity gap analysis on a regular basis, which contains information about planned and potential cash flows, which are grouped by different periods, instruments and currencies.

To limit this risk, the Bank's management has provided sufficiently diversified and reliable sources of financing in addition to the main deposit base, manages liquidity-based assets and monitors future cash flows and liquidity on a daily basis. The Bank's management fully understands all aspects of the liquidity risk and is able to provide an operational response in the presence of the slightest signs of a negative tendency to change the direction of liquidity risk, the trend of liquidity risk is predicted to be stable. In order to ensure fulfillment of its obligations and obligations of clients, the Bank has introduced a policy aimed at keeping liquid assets at an equal, sufficient level to cover any unplanned outflow of client deposits as a preventive peace in order to prevent deterioration in the economic situation, in particular by forming the so-called liquidity cushion. The number of highly liquid assets is 33% of total assets and covers 279% of current liabilities of the Bank. To assess liquidity risks, the Bank uses the GAP analysis and forecast of expected cash flows for up to 1 year. In addition, the cash flow outlook is subject to stress testing for various crisis scenarios developed on the basis of statistical data on the work of Ukrainian banks in the context of the crisis. In addition, the Bank assesses and manages liquidity on the basis of the prudential liquidity standards established by the National Bank of Ukraine.

The liquidity risk control means compliance with the prudential liquidity ratios established by the National Bank of Ukraine (H4, H5, H6 and LCR), restrictions on assets with low liquidity, and work with non-performing (problem) assets.

As of December 31, 2018, the Bank's liquidity ratios were significantly higher than standard ones: - ratio of instant liquidity (H4) - 329% at the minimum level of 20%; - ratio of current liquidity (H5) - 194% at the minimum level of 40%; - Short-term liquidity ratio (H6) - 324% at the minimum level of 60%. The Bank also complies with the implementation of the new prudential standard LCR IB 82% and LCR BB 121%, with a minimum level of 80% as of December 31, 2018.

The Treasury Department is responsible for complying with the limits set by the Asset and Liability Committee. The Risk Management Department monitors and controls compliance with the established limits.

Interest rate risk is the present or potential risk for revenues or capital that arises as a result of adverse changes in interest rates. This risk affects both profitability of the Bank (in the short run) and its economic value (in the long run).

The Treasury Department is responsible for complying with the limits set by the Asset and Liability Committee. The Risk Management Department monitors and controls compliance with the established limits.

Currency risk is an existing or potential risk for the Bank's revenues and capital that arises due to adverse fluctuations in foreign exchange rates.

A means of controlling currency risk is compliance with the prudential limits of the open currency position (L13, L13-1 and L13-2) established by the National Bank of Ukraine.

The currency risk monitoring measure is a continuous analysis by the Treasury Department of the macroeconomic situation in the country and the monitoring of factors affecting the exchange rate.

The Bank assesses the currency risk using the Value-at-Risk (VaR) methodology, taking into account the recommendations of the International Convergence of Capital Measurement and Capital Standards, June 2006, and the Revision to Basel II market risk framework, December 2010.

VaR allows to assess the maximum possible loss amount with the established level of confidence for the appropriate period of time. The Bank performs VaR calculation using the method of historical modeling in order to assess currency risk in normal and stressful conditions of financial market development. The Bank maintains and actively manages the capital to cover the risks inherent in banking operations. The adequacy of the Bank's capital is controlled using, among other things, the norms established by the 1988 Basel Accord and the norms established by the National Bank of Ukraine.

A means of controlling currency risk is compliance with the prudential limits of the open currency position (L13, L13-1 and L13-2) established by the National Bank of Ukraine.

In 2018, the Bank fulfilled all the necessary regulatory requirements of banking control and oversight bodies; measures of influence to the Bank were not applied.

The Treasury Department is responsible for complying with the limits set by the Asset and Liability Committee. The Risk Management Department monitors and controls compliance with the established limits.

Because of the specific nature of operational risk, the functions of its management are fixed to all structural units of the Bank. Based on the statistics of previous years, the Bank does not incur significant expenses due to operational risks.

Operational risk is the probability of occurrence of losses or additional losses or lack of planned revenue due to defects or errors in the organization of internal processes, intentional or unintentional actions of bank employees or other persons, failures in the work of information systems of the Bank or as a result of the influence of external factors.

Compliance risk is the probability of occurrence of losses/sanctions, additional losses or lack of planned revenue or loss of reputation due to failure of the Bank to comply with the requirements of legislation, regulations, market standards, rules of fair competition, rules of corporate ethics, the emergence of a conflict of interest, as well as the Bank's internal bank documents.

Compliance risk management function is assigned to the Compliance and Financial Monitoring Department as part of compliance management.

Reputational risk is the present or potential risk of unfavorable perception of the Bank's image by clients, counterparties, shareholders or supervisors, and affects the Bank's ability to establish new relationships with counterparties, provide new services or maintain existing relationships.

Internal Control of the Bank

In accordance with the current legislation of Ukraine, JSC "CREDIT EUROPE BANK" introduced a system of internal control in order to achieve the following objectives:

- effectiveness of the Bank's operations, protection against potential errors, violations, damages, losses in the Bank's operations;
- risk management efficiency;
- adequacy, comprehensiveness, completeness, reliability, availability, timeliness of providing information to users for
- making relevant decisions, including submission of financial, statistical, managerial, tax and other reporting;
- completeness, timeliness and authenticity of the Bank's operations in the accounting of the Bank's operations;
- compliance;
- efficiency of personnel management;
- preventing the Bank's services from being used for unlawful purposes, detecting and preventing financial transactions related to the legalization (laundering) of proceeds from crime or financing of terrorism.

The components of the structure of the internal control system are five interconnected components:

- Internal (control) environment;
- risk assessment;
- information and communication;
- measures of control;
- monitoring.
- Internal (control) environment:
- demonstration of duties according to ethical values (Code of Corporate Ethics of JSC "CREDIT EUROPE BANK");

- responsibility for control functions (consolidation of control functions in job descriptions, internal normative documents and instructions of the Bank);
- clearly defined organizational structure, powers and responsibilities;
- division of duties according to competences;
- responsibility for the results is fixed at the level of the entire Bank.
 - Risk assessment:
 - identification and monitoring of risks;
 - identification, registration and risk assessment;
 - assessment of fraud risks in business processes;
 - identification and assessment of significant changes.
 - information and communication:
 - preparation of necessary reporting on the quality of control;
 - formalized information transfer within the Bank;
 - reporting outside the Bank takes place only after approval (signing) of the Bank.
 - Measures of control:
 - clearly defined and selected processes for implementation of control;
 - clearly defined general control over technologies (within the framework of ISMS);
 - control activities are formalized in the Bank's procedures.
 - Monitoring:
 - conducting current and periodic controls and assessments (I and II level of control within the framework of the internal control system);
 - assessment and further review of reports on deficiencies (III level of control).

The Bank ensures the functioning of the internal control system by:

- control of the Bank's management for compliance with the legislation of Ukraine and internal procedures of the Bank;
- division of responsibilities during the Bank's activities;
- control over the operation of the risk management system, including compliance risk;
- control over information security and information exchange;
- introduction of internal control procedures;

- monitoring of the internal control system;
- introduction of internal audit procedures.

The Bank, while organizing the internal control system, takes into account:

- the size of the Bank (the volume of total assets, funds of legal entities and individuals, etc.);
- types and volume of operations of the Bank;
- risks arising from the Bank's activities;
- the level of centralization of management and operations of the Bank;
- the level of implementation of information technology and the scope of their use.

The subjects of the internal control system are the Bank's management bodies and structural subdivisions of the Bank, namely:

- Supervisory Board of the Bank;
- Board of the Bank;
- Internal Audit Department;
- Chief Accountant;
- Risk Management Departments (Risk Management, Financial Control and Risk Management Department);
- Compliance Management Department (Compliance and Financial Monitoring Department);
- Information Security Department;
- Structural departments of the Bank, which have control functions;
- Business departments of the Bank, which carry out banking operations.

The organization of the internal control system must comply with the following principles:

- efficacy and efficiency is an organization of a constant process of internal control integrated into the Bank's current activities and understandable at all levels of the Bank's staff;
- division of duties are the measures to avoid a situation where one person exercises full control over the function or type of the Bank's operations (separating the control function from the Bank's operations);

- comprehensiveness is coverage of all operations of the Bank and all its divisions;
- timeliness is creation of a system of internal control, which provides an opportunity to receive information about the threat of losses of the Bank before such losses will be incurred;
- independence is separation of the function of assessment of the effectiveness of the internal control system from the functions of its organization and implementation;
- confidentiality is preventing disclosure of information to persons who do not have the authority to receive it.

The functioning of the internal control system should ensure:

- a clear division of duties, powers and responsibilities between the Bank's management bodies, between its structural divisions, between the Bank's employees in order to avoid duplication;
- double control, which is to comply with the "two hands" rule when conducting operations of the Bank and according to which the realization and accounting of operations cannot belong to the powers of one person. In the presence of appropriate software with appropriate levels of control, individual operations of the Bank can be executed from their initiation to reflection in accounting and/or reporting by one person, subject to further control of these operations;
- conducting a thorough and comprehensive analysis of the Bank's operations prior to commencement as well as after their implementation in order to prevent unauthorized transactions or those carried out in violation of the requirements of the relevant technological process;
- organization of operations of the Bank and accounting of operations in accordance with regulatory legal acts of the National Bank of Ukraine;
- compliance with the requirements for the organization of information protection in software and hardware complexes in accordance with regulatory acts of the National Bank of Ukraine;

- introduction and functioning of the information security management system in accordance with the standards of the National Bank of Ukraine on information security issues;
- protection from deliberate and unintentional actions of personnel;
- raising the qualification level of the personnel.

The Bank introduced the Monitoring of the Effectiveness of the Internal Control System in the Bank which is carried out in order to assess the adequacy and effectiveness of the internal control system in the manner determined by the internal procedure for monitoring the effectiveness of the internal control system in JSC "CREDIT EUROPE BANK".

The monitoring of the internal control system in the Bank includes:

- verification and assessment of adequacy and effectiveness of the internal control system;
- verification of application and effectiveness of risk management procedures and risk assessment methodology;
- verification of the management system and financial information, including the electronic information system and electronic banking services;
- verification of reliability and accuracy of accounting records and financial statements;
- verification of assets preservation;
- assessment of efficacy and efficiency of operations;
- testing, both transactions and the functioning, of specific internal control procedures;
- verification of the systems based on compliance with legal and regulatory requirements, codes of conduct and implementation of techniques and procedures;
- testing of the reliability and timeliness of statistical reporting;
- carrying out special investigations, if necessary.

A detailed procedure for monitoring the effectiveness of the internal control system, the formulation of its results and its presentation to the Management Board and the Supervisory Board of the Bank, defined by the Internal Procedure for monitoring the effectiveness of the internal control system. The Management Board of the Bank ensures constant monitoring of the

effectiveness of the internal control system. The Supervisory Board of the Bank provides regular control (at least once a quarter) on the effectiveness of the internal control system.

The responsible department for monitoring the effectiveness of the internal control system and reporting to the Management Board and the Supervisory Board is the Compliance Authority, namely the Compliance and Financial Monitoring Department of the Bank.

Operational Performance of the Bank

The risk management system of the Bank has been developed

As of January 1, 2019, the Bank's total assets amounted to UAH 1,770,324.6 ths. The main components of the total assets are:

- loans granted to customers - UAH 994 898.5 ths. (56.2%)
- placements in other banks - UAH 578 275.9 ths. (32.66%)
- Investments in securities - 119 736.8 ths. (6.76%)
- investment property and fixed assets - UAH 30 950.2 ths. (1.75%)
- accrued income - UAH 21 109 ths. (1.19%)
- other assets - UAH 14 521,5 ths. (0.82%)
- funds in the National Bank of Ukraine - UAH 7 739.2 ths. (0.44%)
- cash and bank metals - UAH 2 147.3 ths. (0.125%);
- derivative financial assets (swap transactions) - UAH 935,7 ths. (0.05%)

The Bank's total assets do not include such elements as allowances for impairment for loans in the total amount of UAH 167 938.3 ths.

Credit operations are the largest component of the Bank's total assets (57,38%) and amount to UAH 1,015,754.6 ths. (including accrued income - UAH 20 856 ths) and include loans granted to:

- **legal entities** (total 10 debtors, 2 of which are fully covered by loan loss allowances) - 96.60% or UAH 981 234.3 ths. (including accrued income - UAH 19,280 ths), credit portfolio of legal entities by types of economic activity of debtors, mainly includes: other types of economic activity (44.75% of credit operations), wholesale and retail trade, including motor vehicles (34.47%) and processing industry (17.01%). According to the Bank's credit policy, the Bank prefers cooperation with companies in Ukraine established by Turkish companies (citizens) and/or those companies already in the Bank's credit portfolio and having a positive credit history;

- **individuals** - (60 debtors) - 3.40% or UAH 34 520.3 ths. (including accrued income - UAH 1 579,1 ths.), the credit portfolio of individuals is fully covered by the loan loss allowances. According to the credit policy, the Bank does not lend to individuals and does not plan to carry it out in the future.

The credit risk is the Bank's main risk. The size of the credit risk as of January 01, 2019 is UAH 192 965.2 ths. The Bank's amount of the loss allowances for active financial operations under the IFRS is UAH 183 981.8 ths. The amount of the uncovered credit risk is UAH 8,983.4 ths.

The overall level of collateral security is sufficient and liquid: 88.97% - real estate property and land plots, 10.19% - cash cover/property rights to cash.

The parent bank participates in reducing the Bank's credit risk by partially securing debtors' credit operations by own money coverage/property rights for cash. Such a scheme of cooperation with the parent bank allows not only to reduce the amount of credit risk, but also to comply with the H7's ratio (the ratio of the maximum size of credit risk).

During the reporting period, the Bank complied with credit risk's economic ratios.

The Bank carries out effective claim-related work, as evidenced by the amount of redemption and the existence of positive decisions for the Bank courts of various instances.

The balances on correspondent accounts of the Bank are the second most important component of total assets (32.66% or UAH 578 275.9 ths). Correspondent accounts have a specific concentration - 89.05% of their volume is placed in accounts with the parent bank. At the same time, 98.93% of their balance is the funds received by the Bank from the parent bank as a cash cover for credit operations. The level of risk inherent in transactions executed on correspondent accounts such as "nostro" is low. During the reporting period, the Bank did not place term funds in other banks.

Investments in securities as of January 1, 2019 amounted to UAH 119 983.6 ths. (including accrued income - UAH 246,8 ths) and include:

- deposit certificates of the National Bank of Ukraine in the amount of UAH 119 983,6 ths. (with a nominal value of UAH 120 000,0 ths for the redemption period by January 3, 2019);
- bonds of MRIYA AGRO HOLDING PUBLIC LIMITED (Cyprus) that are fully impaired (with a nominal value of USD 1,785.7 thousand, or an equivalent of UAH 49,442.9 ths).
- During the reporting period, the Bank carried out investments exclusively in the deposit certificates of the National Bank of Ukraine and domestic government bonds (hereinafter referred to as the DGBs).

Securities transactions are not an important source of income; as of January 01, 2019, interest income from securities transactions was 1.33% (UAH 1,470.2 ths) of interest income of the Bank.

For conducting securities transactions, the Bank has licenses issued by the National Commission for Securities and Stock Market: for the securities dealer (License of the NCSSM, series AE No. 185304 of November 22, 2012) and for the depository activity of the depository institution (License of the NCSSM, series AE No. 263478 of October 1, 2013). Employees of the Bank have appropriate certificates for carrying out transactions in the stock market.

Diversions of the Bank's assets in **non-current assets** are insignificant. As of January 01, 2019, non-current assets comprise 1.75% of total assets or UAH 30 962.1 ths., including: investment property - 78.80% (UAH 24 399.5 ths.); fixed assets - 18.73% (UAH 5,799.5 ths); intangible assets - 1,90% (UAH 589,1 ths).

Investment property of the Bank does not generate income and is held for capital gains from revaluation in the long run. It is accounted at fair value and revalued annually.

Fixed assets and intangible assets are used to ensure the technological implementation of banking functions. Expenses for the maintenance of own fixed assets and intangible assets amounted to UAH 3 319.4 ths in 2018. (2.86% of total expenses) and do not have significant burden on the financial performance of the Bank. The running cost of fixed assets received in the lease is insignificant (UAH 24.1 ths, 0.02% in total expenses). The size of the average monthly rent for all concluded lease agreements is UAH 1,028,300. (0.88% of total costs).

During the reporting period, the Bank actively pursued operations with derivative financial instruments in order to generate profits, mainly placing excess liquidity in hryvnia and obtaining funding in US dollars. The Bank was a participant in the interbank market of buying and selling foreign currencies under spot conditions, and under the terms of redemption - swap. The Bank's risk for swap transactions is insignificant, as the Bank operates under basis of full prepayment from side of other resident banks.

Assets of the Bank are capable of generating sufficient income for operating activities (net operating profit as of January 1, 2019 is UAH 56,815.5 ths). The performance indicators of the Bank at the reporting date exceed the corresponding indicators for banks of foreign banking groups (ROA 2.82%, ROE 10.87%, spread 7.94%, margin 5.16%, yield of interest-bearing assets 11.40%).

Active transactions with related parties make up 29.09% of total assets and have moderate impact on the Bank's operations, of which 99.99% are balances on correspondent accounts with the parent bank. In addition, as of January 01, 2019, off-balance commitments on swap transactions of the parent bank amount to UAH 17,373.1 ths. Transactions with related parties are carried out under conditions that are not significantly different from market conditions. The nature of the relationship with related parties does not have a significant difference from normal relationship with other entities. Internal limits on transactions with related parties to the Bank are not established; control over transactions with related parties takes place within the limits of economic ratios established by the National Bank of Ukraine.

As of January 01, 2019, total liabilities make up 78.42% or UAH 1,244 808.1 ths. in the **structure of Total liabilities and equity** (including accrued expenses), the equity in total liabilities and equity is 21.58% (UAH 342 584.4 ths), where UAH 252 500.0 ths is the share capital of the Bank. The main share (70.97%) of attracted funds is represented by the funds of the parent bank and banks of Credit Europe Group N.V., the second largest source of funds of business entities (24,03%).

The borrowed funds as of January 01, 2019 have the following structure:

- funds of other banks - 70.61% (UAH 883,391.4 ths.);
- funds of business entities - 23.91% (UAH 299 136.4 ths);

- payables - 3.17% (UAH 39,601.4 ths.);
- funds of individuals - 1,70% (UAH 21 311,4 ths);
- funds of non-bank financial institutions - 0.23% (UAH 2,878.9 ths);
- other liabilities - 0.07% (UAH 871.6 ths);
- deferred tax liabilities - UAH 37.0 ths.
- derivative financial liabilities - 0.06% (UAH 759.1 ths).

Accrued expenses on borrowed funds make UAH 3 142,8 ths, or 0.25% of the Bank's total liabilities.

Bank's Resource Base is considered to be stable: the amount of term funds is 39,08%, also according to the economic substance, term funds can include balances on the balance account 1602 (cash coverage received from the parent bank), which are placed as a cover for credit risk. Taking into account this, the amount of funds, which by their economic nature are term-based, amounts to 80.01%.

Funds attracted from participating banks of Credit Europe Group N.V. is a stable source of financing for the Bank (the Bank has an open limit for each Group's bank in the amount of EUR 20-25 mln).

The Bank has access both to external markets (it is possible to attract resources on the world interbank market) and to domestic markets of capital.

The main component of the Bank's liabilities is the funds of other banks in the amount of UAH 883 391.4 thousand, namely:

- balance on account 1602 in the amount of UAH 509 464,1 thousand and term deposits in the amount of UAH 83,064.8 ths, attracted from Credit Europe Bank N.V. (funds are a cash cover for credit risk). The maturity of these funds corresponds to the term of the relevant loan agreement;
- short-term credits totaling UAH 290,726,800 attracted from Credit Europe Bank of Dubai;
- balances on the correspondent account UAH 135.7 ths.

- Funds of legal entities are the second most important source of financing of attracted funds, their share as of January 01, 2019 was 24,03% (UAH 299 136.4 ths). Funds of legal entities are funds on demand (68.54%).
- Funds of individuals are not a significant source of attraction of funds, their share is 1.71% of liabilities (UAH 21 311.4 ths), including term funds - UAH 18 566.7 ths, funds on demand - UAH 2 744,7 ths.

The Bank is a member of the Guarantee Deposit Fund.

Payables account for a small part of the Bank's liabilities (3.2%) and consist mainly of settlements on foreign currency purchase and sale transactions for clients (82.83%).

Other components of the liabilities are insignificant: non-bank financial institutions - 0.23%, other liabilities - 0.07%, derivative financial liabilities - 0.06%.

The total amount of borrowed funds of related parties as of January 01, 2019 is UAH 888,084.0 ths. (71.34% of the total). At these costs, the Bank accrued interest for December 2018 in the amount of UAH 110.0 ths. (interest rate 5.5%).

The nature of relations with related parties does not differ from the usual relations with other entities. The vast majority of related party funds (66.72%) are a term-based and stable source of funds of the Bank. The liquidity risk due to the sudden outflow of funds raised from related parties is controlled.

For the entire period of its operations in Ukraine, the Bank, on the basis of the annual financial statements, was profitable. In 2018, the Bank earned a profit of UAH 34,560.0 ths.

The facts of the Bank's disposal of assets in the amount exceeding the statutory limitations of JSC "CREDIT EUROPE BANK" in 2018 are not available. In 2018, JSC "CREDIT EUROPE BANK" did not have operations of purchase and sale of assets, in the amount exceeding the amount established in the Charter of JSC "CREDIT EUROPE BANK".

JSC "CREDIT EUROPE BANK" taking into account its strengths (the Bank with 100% foreign capital has a positive reputation since its registration in 2006, reliable, has the ability to quickly and

promptly make decisions, availability of experienced staff, lack of crediting to individuals, small share of non-financial assets), its weaknesses (high level of dollarization of the credit portfolio and its concentration, small staff, a significant number of competitors), opportunities (expanding the scope of corporate activities and clients, expansion of the securities market), and taking into account the approaching of the new financial crisis in 2019-2020 according to the World Bank's estimates, geopolitical risks and internal instability, both political and economic, chooses a well-balanced strategy for the provision of stable profitability of the Bank on the financial market of Ukraine.

Auditor of the Bank

The Supervisory Board of the Bank made a decision to perform an audit of the Bank's annual financial statements by PKF UKRAINE LLC (formerly, "AF "PKF Audit-Finance" LLC); the relevant agreement was signed on behalf of the external auditor by Director Iryna Oleksandrivna Kashtanova.

PKF UKRAINE LLC, a member of PKF International Limited, is one of the leading domestic companies in the field of independent assessment of financial information on the activities of business entities.

PKF International Limited includes audit and consulting companies from 150 countries worldwide. According to the International Accounting Bulletin (World Accounting Intelligence), PKF International Limited holds 15th place among the world's leading network companies. Introducing this global network in Kyiv, we fully meet its high status.

The total experience of audit activity of PKF UKRAINE LLC is 15 years.

PKF UKRAINE LLC provides services to JSC "CREDIT EUROPE BANK" for the third year in a row. Prior to this, the Bank used services of KPMG during 7 years.

There are no cases of conflicts of interest and/or combinations of the functions of the internal auditor at PKF UKRAINE LLC.

There are no penalties applied to PKF UKRAINE LLC by the Audit Chamber of Ukraine during the year, as well as the facts of submission of false accounts of the financial institution, as confirmed by an audit opinion, revealed by the authorities that carry out the state regulation of financial services markets

PKF UKRAINE LLC (formerly, "AF "PKF Audit-Finance" LLC) operates on the basis of the inclusion in the Register of Auditors under No. 3886 published on the website of the Audit Chamber of Ukraine <https://www.apu.com.ua>, in the following sections:

- "Audit entities",
- "Audit entities, that have the right to conduct a statutory audit of financial statements"
- "Audit entities, that have the right to conduct a statutory audit of financial statements of public interest entities"

According to the decision of the Chamber of Auditors of Ukraine dated February 22, 2018 No. 355/4, following the results of the inspection, "AF "PKF Audit-Finance" LLC was recognized as having successfully passed external quality control of professional services.

Place of state registration: Kyiv, 52 letter "B" Bogdana Khmelnytskogo Street, 4th floor. (formerly, "AF "PKF Audit-Finance" LLC (Business Code 34619277).

There are no any factors that may affect the independence of the auditor (auditor's staff) from the Bank.



Onur Anjlatamer
Chairman of the Board



Iryna Nemchen
Deputy Chairman of the Board



Svitlana Dubova
Chief Accountant

INDEPENDENT AUDITOR'S REPORT

To the:

Shareholders and Supervisory Board of PJSC "CREDIT EUROPE BANK"

National Bank of Ukraine

National Securities and Stock Market Commission

OPINION

We have audited the accompanying financial statements of PJSC "CREDIT EUROPE BANK" (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

We have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers	
The recognition and measurement of expected credit losses ('ECL') is complex and involves the use of significant judgment and estimation, including in the formulation and incorporation of multiple forward-looking economic conditions into the ECL estimates to meet the	The controls management established to support their ECL calculations were tested during our audit procedures. We also assessed whether the impairment methodology used by the Bank is in line with IFRS 9 requirements. Particularly we assessed

Key audit matter

How our audit addressed the key audit matter

measurement objectives of IFRS 9.

In determining ECL, management is required to exercise judgment in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. The accuracy of the assumptions used in the models, including the macroeconomic scenarios, impacts the level of impairment provisions.

Management exercises judgment in making estimations that require the use of assumptions which are subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions.

We identified the issue of impairment of loans and advances to customers as key audit matter due to the materiality of the loan balances, the complexity and subjective nature of the ECL calculation.

We refer to the financial statements Note 3 for information on principal accounting policies, notes 7 and 21 for disclosures and detailed information on the methods and models used and the level of the impairment allowances for loans and advances to customers.

the approach of the Bank regarding application of Significant increase in credit risk ('SICR') criteria, definition of default, The Probability of Default ('PD'), Loss Given Default ('LGD') and Exposure at Default ('EAD') and incorporation of forward-looking information in the calculation of ECL.

Due to first time adoption of IFRS 9 in the audited period, we have focused on assessing the Bank's assumptions and the expert adjustments applied in the model taking into account the empirical data and the existing credit and monitoring processes.

For significant loans and advances assessed for impairment on an individual basis we applied our professional judgement for selection the sample taking into account different risk criteria:

for selected loans and advances we checked the stage classification with assessing factors that affect the credit risk;

for selected impaired loans and advances (Stage 3 and purchased or originated credit-impaired financial assets (POCI)) we tested the assumptions used in the ECL calculation, particularly expected scenarios and probabilities assigned to them and the timing and amount of expected cash flows, including cash flows from repayments and realisation of collaterals.

For individually insignificant loans and advances which are assessed for impairment on a portfolio basis we performed such procedures as testing the reliability of key data inputs and related management controls, examination of key management's judgements and assumptions, including the macro-economic scenarios and the associated probability weights, analyzing of impairment coverage of credit portfolio and its changes.

Information that is not the financial statements and the Auditor's report on it

Management is responsible for the information other than financial statements and auditor's report thereon. The information other than financial statements and auditor's report thereon comprises the Bank's Issuer report that should be prepared according to the provisions on information disclosure by securities issuers (approved by the NSSMC from the 03.12.2013, no. 2826) and consists information other than the financial statements and our auditor's report thereon. It is expected, that Bank's Issuer report will be available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other

information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Bank's Issuer report, that should be prepared according to the provisions on information disclosure by securities issuers (approved by the NSSMC from the 03.12.2013, no. 2826), if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 deficiencies in internal control that we identify during our audit.

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. 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, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGISLATION AND REGULATORY REQUIREMENTS

Report on the requirements of the National Bank of Ukraine regarding the audit report on the audit of financial statements

According to requirements of article 69 of Ukraine Law "About banks and banks activities", paragraph 3.3 "Regulations about the order of providing by banks to National bank of Ukraine audit reports for results of annual audit of financial statements", (approved by NBU Board Resolution No.90 of 02 August 2018) we are providing additional information (estimation), concerned annual financial statements of the Bank for the year ended 31 December 2018 about:

- correspondence (reliable disclosure) of the amount of assets and liabilities of the bank by maturity buckets in the form of statistical reporting about structure of assets and liabilities by buckets, that is prepared by the Bank for applying to National Bank of Ukraine as of January 1st of the year following the reporting;
- compliance of the Bank with requirements determined by regulations of the National Bank on:
 - internal control;
 - internal audit;
 - measurement of credit risk on active banking operations;
 - identification of bank's related parties and conducting operations with them;
 - adequacy of banks' capital based on asset's quality;
 - accounting.

Issues, described in this report, were considered only within conducting the audit of annual financial statements of the Bank for 2018 on the base of sample testing and in the amounts, required for planning and for providing of audit procedures according to the requirements of International Standards on Auditing.

This report is intended for shareholders, management of the Bank and for National Bank of Ukraine. When examining this report, as it was stated above, limited scope of procedures, related to operations of the Bank and organisation of accounting system and internal control, should be taken into account.

Besides it should be taken into consideration, that the criteria of estimation of issues, related to the operations of the Bank and organisation of accounting system and internal control, used by us, can differ from the criteria, used by National Bank of Ukraine.

Below we present information and appropriate estimations that were mentioned above.

Performing the requirements of paragraph 3.3 "Regulations about the order of providing by banks to National bank of Ukraine audit reports for results of annual audit of financial statements", concerned the analysis of statistic form 631 "Report about structure of assets and liabilities by periods", (approved by NBU Board Resolution No.129 of 01 March 2016) (with changes and amendments) the following conclusions can be reached.

During the audit inconsistencies in the presentation of assets and liabilities by maturity buckets were not identified.

With regard to compliance of the Bank with requirements determined by regulations of the National bank of Ukraine on:

- internal control

In our opinion, internal control governs the risks according to the scope of the Bank's operations and risks, that the Bank is exposed to and complies to regulatory requirements.

- internal audit

In our opinion, Banks' internal audit complies with regulatory requirements and is relevant to the scope of the Bank's operations.

- measurement of credit risk on active banking operations

We estimate that volume of credit risk on active banking operations, calculated in accordance with Regulation for measuring credit risk generated by banks' active operations (approved by the Resolution of the Board of the National Bank of Ukraine dated June 30, 2016, No. 351, as amended), with exception for calculation of credit risk for some inter-bank operations, that caused understatement of credit risk for UAH 869 thousand, has been adequately measured by the Bank in accordance with requirements of the regulations issued by National bank of Ukraine.

- identification of Bank's related parties and conducting operations with them

We estimate risk of operation with related parties as low. During our audit we have not found infringements of legal requirements that are prescribed for related party transactions and identification process.

- adequacy of Banks' capital based on asset's quality

At the December 31, 2018, regulatory capital of the Bank, is calculated in accordance with requirements of Instruction about the order of regulation of banks activity in Ukraine, (approved by NBU Board Resolution No 368 of 28 August 2001 No.368) is UAH 324 371 thousand.

The amount of capital as at the end of the reporting period is sufficient to perform operations that are specified in the banking license; the absolute amount of the capital corresponds to legal requirements for its size.

- accounting

Nothing has come to our attention that causes us to believe that the accounting of the Bank does not satisfy legal requirements of National bank of Ukraine.

Report on Management report

We conducted examination of information in the Management report, prepared in accordance with requirements of p. 7 of art. 11 of Law of Ukraine *On Accounting and Financial Reporting in Ukraine* and *Rules of Preparation and Publishing of Financial Statements of Ukrainian Banks*, approved by Decree of National Bank of Ukraine № 373 of 24.10.2011.

Management of the Bank is responsible for the Management report and its preparation in accordance with requirements of p. 7 of art. 11 of Law of Ukraine *On Accounting and Financial Reporting in Ukraine* and *Rules of Preparation and Publishing of Financial Statements of Ukrainian Banks*, approved by Decree of National Bank of Ukraine № 373 of 24.10.2011.

Our examination of the Management report was based on the review whether the information in the report is consistent with the financial statements, whether the Management report has been prepared in accordance with the requirements of current legislation, and whether the Management report contains material misstatements and their nature, if any. Our examination of the Management report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing. We believe that the examination has provided us with sufficient basis for our opinion.

In accordance with requirements of section IV *Structure and Content of Management Report of Rules of Preparation and Publishing of Financial Statements of Ukrainian Banks*, approved by Decree of National Bank of Ukraine № 373 of 24.10.2011, the additional information is presented:

The Management report has been prepared and presented management information is disclosed in accordance with requirements of section IV *Structure and Content of Management Report of Rules of Preparation and Publishing of Financial Statements of Ukrainian Banks*, approved by Decree of National Bank of Ukraine № 373 of 24.10.2011. Bank information disclosed in Management report is consistent with the financial statements of the Bank and does not contain material misstatements.

Report on Corporate governance report

We audited information in Corporate governance report of the Bank, which is an integral part of the Management Report (hereinafter - Corporate governance report).

Management of the Bank is responsible for Corporate governance report and its preparation in accordance with p. 3 of art. 40¹ of Law of Ukraine *On Securities and Stock Market* and art. 12² of Law of Ukraine *On Financial Services and State Regulation of Financial Services' Markets*.

Our examination of the Corporate governance report was based on the review whether the information in the report is consistent with the financial statements, whether the Corporate governance report has been prepared in accordance with the requirements of current legislation. Our examination of the Management report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing. We believe that the examination has provided us with sufficient basis for our opinion.

Opinion

Corporate governance report has been prepared and presented information is disclosed in accordance with requirements of p. 3 of art. 40¹ of Law of Ukraine *On Securities and Stock Market* and art. 12² of Law of Ukraine *On Financial Services and State Regulation of Financial Services' Markets*.

Description of the main features of the Bank's internal control and risk management systems in relation to the financial reporting process; list of holders, who directly or indirectly holding significant portion of shares of the Bank; information on any limitations of shareholders' rights and voting rights of shareholders at the general shareholder meeting of the Bank; rules governing the appointment and replacement of the Bank's officials, as well as authorities of the Bank's officials, disclosed in Corporate governance report, do not contradict to information, that has been obtained during our audit of financial statements and comply with the Law of Ukraine *On Securities and Stock Market*.

Report on other legal and regulatory requirements of National Commission on Securities and Stock Market

(This section of the auditor's report is included in accordance with Requirements for audit report to be filed to National commission on securities and stock market for issuance of the license on professional activities in the stock market, approved by Decision of National Commission on securities and stock market N 160 of 12.02.2013 (hereinafter – the Commission) and in accordance with the requirements Terms of licensing of professional activities on stock market (securities market) – trading in securities, approved by Decision of National commission on securities and stock market N 819 of 14.05.2013)

Below is the list of matters and conclusions, reached by the auditor, regarding:

- compliance of equity, as disclosed in the financial statements of the Bank, with the requirements, set by rules and regulations of the Commission:

equity, as disclosed in the financial statements of the Bank, complies with the requirements, set by rules and regulations of the Commission;

- compliance of share capital with the constituent documents (description of measurement, including type of documents):

Registered stated capital in accordance with Statement of financial position of the Bank as at December 31, 2018, is UAH 252 200 thousand (252 500 000,00 UAH), thus complying with constituent documents. Stated capital was inputted by monetary funds. The Bank does not have any

redeemed shares as at the balance sheet date.

- Forming and payment of share capital (paid in full or in part, documents (including name, date and ref. number), on which auditor's conclusion is reached):

Share capital is paid in full, respective documents are stated below:

#	Name	Date	Ref. no.	Amount
1	Decision of the meeting of the founders of CJSC FINANCEBANK (Clause 2 of the Minutes No. 1/01 on the formation of the share capital)	21.06.2005	Minute №1/01	43 088 311,00 UAH / 7 000 000,00 (EUR) (exchange rate 6,155473)
1a	Reference of the NBU dated August 08, 2006, No. 30-11-033 / 1855 (m.o. of 10.05.2006)	10.05.2006	№1	44 847 592,55 UAH / 6 999 299,65 (EUR) (exchange rate 6,407440)
1b	Reference of the NBU dated August 08, 2006, No. 30-11-033 / 1855 (m.o. of 10.05.2006)	10.05.2006	№2	4 487,45 UAH/ 700,35 (EUR) (exchange rate 6,407440)
2	Decision of the General meeting of shareholders of "FINANCEBANK" CJSC, p.1 Minute No. 01/07 on the increase of the share capital by UAH 286 000 000	04.01.2007	№01/07	
2a	Payment order / Transaction Reference Number	07.03.2007	F60307482568000	161,60 UAH /32,0 USD (exchange rate 5,05)
2b	Payment order / Transaction Reference Number	06.03.2007	F60306325972000	285 971 400,00 UAH/56 628 000,00 USD (exchange rate 5,05)
2c	Payment order / Transaction Reference Number	06.03.2007	F60306296282000	28 441,6 UAH. /5 632,00 USD (exchange rate 5,05)
3	Decision of the General Meeting of Shareholders of CJSC "CREDIT EUROPE BANK", p. 7 of the minute No. 01/08 on increase of the share capital by UAH 175 911 689	21.04.2008	№01/08	
3a	Payment order / Transaction Reference Number	25.06.2008	№1	175 894 100 UAH.
3b	Payment order / Transaction Reference Number	25.06.2008	№257884	17 589 UAH
4	Decision of the General Meeting of Shareholders of PJSC "CREDIT EUROPE BANK" (p. 7 of the minute №01 / 13 "On reduction of the share capital by reducing the nominal value of ordinary registered shares of PJSC" CREDIT EUROPE BANK "from UAH 1.00 to UAH 0.50")	11.04.2013	№01/13	-252 500 000 UAH
	Total share capital as at December 31, 2018			252 500 000,00 UAH.

- Absence of overdue liabilities regarding payment of taxes (existence/absence of tax debt) and dues, unpaid penalties for violation of legislation on financial services, including services on securities market.

We did not identify any overdue liabilities regarding payment of taxes and dues, unpaid penalties for violation of legislation on financial services, including services on securities market.

- Information on directions of funds' utilisation, that have been paid-in to form share capital of the Bank, which, in accordance with its Charter, intends to be engaged in professional activities on securities market as of the date of establishment or as of the date of introduction of changes into Charter regarding major types of businesses:

Funds, paid-in to form share capital of the Bank, are has been used for banking activities.

- Information on related parties of the Bank, identified by the auditor while performing audit procedures for the financial statements:

Information on related parties of the Bank, identified by the auditor while performing audit procedures for the financial statements, is disclosed by the Bank in Note 25 to the financial statements.

- Information on existence and scope of contingent assets and/or liabilities, which probability of recognising in the balance sheet is reasonably high:

Contingent assets and/or liabilities, probability to recognise which in the balance sheet is reasonably high, are disclosed by the Bank in Note 16 to the financial statements.

- Information on the events after the balance sheet date, which are not disclosed in the financial statements, but may have material effect on the financial position of the Bank:

We did not identify any information on the events after the balance sheet date, which are not disclosed in the financial statements, but may have material effect on the financial position of the Bank.

- Information on existence of other facts and circumstances, which may have significant effect on future activities of the Bank, and assessment of their influence

We did not identify existence of other facts and circumstances, which may have significant effect on future activities of the Bank, except for those disclosed in the financial statements and auditor's report.

Other elements

Basic information on the audit firm:

a) full name of legal entity in accordance with constituent documents:

- PKF UKRAINE LIMITED LIABILITY COMPANY (ID code of legal entity 34619277)

b) number and date of issuance of Certificate on inclusion in the Register of audit firms and auditors, issued by Chamber of Auditors of Ukraine (hereinafter CAU):

- The audit firm is registered in *Subjects of Audit Activities, Having the Right to Perform Statutory Audits of Financial Statements of Public-Interest Entities* section of Register of auditors and subjects of audit activities. Registration number 3886.

c) number, series, date of issuance of Certificate of registration on the Register of audit firms, having the right to perform audits of professional participants of securities market, issued by National commission on securities and stock market: Keeping of Register was annulled by Decision of National commission on securities and stock market № 845 of 04.12.2018.

d) full name of the auditors, participating in the engagement; number, series, date of issuance of the auditor's certificate by CAU:

- Sviatoslav Biloblovskiy; banks' auditor certificate № 0072 of 29.10.2009.

e) address of the legal entity and factual place of business:

- 4th floor, 52 letter B, B. Khmel'nitskogo str., Kyiv, Ukraine

Basic information on terms of the audit agreement:

a) date and number of the audit agreement:

- Agreement № 40 from 31.08.2018

b) beginning and closing date of the audit:

- Date of beginning: 29.10.2018
- Date of closing: 10.04.2019

Additional information in accordance with the Law of Ukraine On Audit of Financial Statements

We have been appointed for audit of the annual financial statements of the Bank for the financial year ended 31 December 2018 by resolution of the Supervisory Board dated 19 July 2018. We have been auditing the Bank's financial statements without interruption since the financial year ended 31 December 2016., i.e. for three consecutive years.

During our audit of the financial statements, resulting in issuance of this Independent auditor's report, we performed audit procedures regarding assessment of risk of material misstatement of information in the financial statements, being audited, in particular, due to fraud, including:

1) *Judgements and assumptions regarding Loans and advances to customers*

We identified the issue as key audit matter and disclosed respective information in *Key Audit Matter* section of our report

2) *Fraud risk*

We did not identify any factors, subject to significant risk of fraud.

Based on the result of our audit, we did not identify material misstatements, which may materially influence the financial statements).

Our report is agreed to additional report for Supervisory Board of the Bank.

We did not provide any services to the Bank, prohibited by the law.

PKF UKRAINE LLC audit firm and the engagement partner on the audit (key audit partner) of the financial statements of the Bank as at December 31, 2018, Sviatoslav Biloblovskiy are independent from the Bank.

We and other members of PKF International network, as well as other undertakings controlled by our firm, did not provide any other, then statutory audit, services, information on which is not disclosed in management report and/or financial statements.

Purpose of our audit is to increase degree of confidence of intended users to the financial statements of the Bank. It is achieved by expressing our opinion whether the financial statements are prepared in all material aspects in accordance with International Financial Reporting Standards (IFRSs). We conducted our audit in accordance with ISAs and respective ethic requirements; it gives us the possibility to formulate our opinion. Inherent limitations of an audit result in most audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive, so, audit is not an absolute guarantee that the financial statements are free of misstatements, and our audit does not guarantee future sustainability of the Bank, efficiency or effectiveness of Bank management.

The engagement partner on the audit (key audit partner) resulting in this independent auditor's report is Sviatoslav Biloblovskiy.

I.O. Kashtanova

Director of PKF UKRAINE LLC

S.V. Biloblovskiy

Engagement partner on the audit

(Audit certificate No. 0072)

10 April 2019
Kyiv, Ukraine

