

**PUBLIC JOINT-STOCK COMPANY WEST  
FINANCE AND CREDIT BANK**

**Financial Statements**

*For the year ended 31 December 2017*

*With the independent auditors' report*

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## Independent Auditors' Report

### To Management Board of Public Joint-Stock Company WEST FINANCE AND CREDIT BANK

#### **Opinion**

We have audited the accompanying financial statements of the Public Joint-Stock Company WEST FINANCE AND CREDIT BANK (hereinafter "the Bank"), which comprise the statement of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material aspects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) adopted as Ukraine's National Standards on Auditing pursuant to Resolution of the Audit Chamber of Ukraine No. 344 dated 4 May 2017. Our responsibilities under those standards are further described in the *Auditors' 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.

JSC KPMG Audit, a company incorporated under the Laws of Ukraine (EDRPOU Code No. 31032100), a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Number and issue date of Certificate of entry to Register of Auditors and Audit Firms issued by the Audit Chamber of Ukraine.: Certificate No. 2397 of 26 January 2001



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Independent auditors' report

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**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, 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 as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Impairment of loans and advances to customers</b>	
See Note 9 (Loans and advances to customers) to the financial statements.	
<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>Loan impairment allowances reflect management assessments of the losses incurred on loans and advances to customers. In making such assessments, management applies judgement and uses assumptions that significantly impact the amount of the loan impairment allowances.</p> <p>Due to the significance of loans (67% of the total assets) and advances to customers and the related estimation uncertainty, their impairment assessment is deemed a key audit matter.</p>	<p>Our audit procedures included evaluating the methodologies and assumptions used by the Bank in calculating the impairment.</p> <p>For a sample of exposures that were subject to an individual impairment assessment, and focusing on those with the most significant potential impact on the financial statements, we specifically challenged the assumptions on the expected future cash flows, including the value of realisable collateral based on our own understanding and taking into account the available market information.</p> <p>Our impairment testing of the collectively assessed loans and advances to customers included a review the calculations in accordance with the impairment model, as well as adequacy analysis of the inputs so that to evaluate the accuracy of the impairment assessment model used for collectively assessed loans. We critically assessed the assumptions used in the model and compared them to our estimates based on the Bank's actual historical information.</p> <p>We also assessed the disclosures in the financial statements related to impairment allowance on loans and advances to customers.</p>

**Other Matter**

The financial statements of the Bank as at and for the year ended 31 December 2016 were audited by another auditor that expressed an unmodified opinion on those statements on 4 April 2017.

**Other Information**

Management is responsible for the other information. The other information comprises the information disclosed and reported to the National Commission on Securities and Stock Market (hereinafter "the Commission"), but does not include the financial statements and our auditor's report thereon. We expect other information to become available subsequent to the date of this independent auditors' report.

Our opinion on the financial statements does not cover the other information and we do 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.

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

#### **Auditors' 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 auditors' 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 the 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 judgement and maintain professional scepticism 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 system of 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 auditors' 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 auditors' 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.

**Public Joint-Stock Company WEST FINANCE AND CREDIT BANK**

*Independent auditors' report*

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We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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 auditors' 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.

The engagement partner on the audit resulting in this independent auditors' report is:



Anna Parkhomenko

Certified Auditor

Certificate # 0085 dated 29 October 2009

Deputy Director, JSC KPMG Audit

13 April 2018

**PJSC "CREDITWEST BANK"**

**Statement of financial position as at 31 December 2017**

(in thousands of Ukrainian hryvnias)

	Notes	2017	2016
<b>Assets</b>			
Cash and cash equivalents	6	215,969	235,022
NBU certificates of deposit	7	290,625	60,039
Due from banks	8	3,172	3,073
Loans and advances to customers	9	1,080,066	842,875
Investment property	10	1,347	1,402
Property, equipment and intangible assets	11	14,264	17,556
Deferred tax asset	25	225	-
Other assets	12	2,792	10,647
<b>Total assets</b>		<b>1,608,460</b>	<b>1,170,614</b>
<b>Liabilities</b>			
Due to banks	13	141,614	293,139
Customer accounts	14	900,874	524,879
Due to international financial institutions	16	167,722	-
Income tax payable		2,359	941
Deferred tax liabilities	25	-	85
Other liabilities	15	2,887	3,122
Subordinated debt	17	38,268	92,858
<b>Total liabilities</b>		<b>1,253,724</b>	<b>915,024</b>
<b>Equity</b>			
Share capital	18	204,933	136,470
Unregistered share capital		69,086	42,004
Share premium		2,902	2,902
Additional paid-in capital		(6,400)	3,474
Retained earnings		84,215	70,740
<b>Total equity</b>		<b>354,736</b>	<b>255,590</b>
<b>Total liabilities and equity</b>		<b>1,608,460</b>	<b>1,170,614</b>

**Signed and authorized for issuance**

Mr. Igor Tykhonov

Chairman of the Board

Mr. Igor Kuzmenko

Chief Accountant

29 March 2018



*(Handwritten signatures in blue and black ink)*



**PJSC "CREDITWEST BANK"**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 31 December 2017**

(in thousands of Ukrainian hryvnias)

	Notes	2017	2016
Interest income	20	153,227	113,329
Interest expense	20	<u>(60,862)</u>	<u>(57,639)</u>
<b>Net interest income</b>	20	<b><u>92,365</u></b>	<b><u>55,690</u></b>
Fee and commission income	21	28,905	25,424
Fee and commission expense	21	(4,088)	(2,924)
Gains less losses arising from dealing in foreign currencies		6,910	18,650
Gains less losses arising from foreign currency translation		567	847
Allocated to provision for impairment of loans and due from banks	24	(3,633)	626
Allocated to provision for impairment of other assets	24	(77)	109
Other operating income	22	844	6,802
Administrative and other operating expenses	23	<u>(73,212)</u>	<u>(67,558)</u>
<b>Profit before tax</b>		<b>48,581</b>	<b>37,666</b>
Income tax expense	25	<u>(8,761)</u>	<u>(6,758)</u>
<b>Net profit and total comprehensive income</b>		<b><u>39,820</u></b>	<b><u>30,908</u></b>

Signed and authorized for issuance

Mr. Igor Tykhonov

Chairman of the Board

Mr. Igor Kuzmenko

Chief Accountant

29 March 2018

**PJSC "CREDITWEST BANK"**

**Statement of cash flows for the year ended 31 December 2017**

(in thousands of Ukrainian hryvnias)

	Notes	2017	2016
<b>Operating activities</b>			
Interest received		146,656	111,829
Interest paid		(50,800)	(53,100)
Fees and commissions received		28,905	25,316
Fees and commissions paid		(4,088)	(2,924)
Net receipts from dealing in foreign currencies		4,711	37,119
Other operating income received		844	6,912
Administrative and other operating expenses		(69,339)	(69,992)
Income tax paid		(7,653)	(10,650)
<b>Cash flows from operating activities before change in operating assets and liabilities</b>		<b>49,236</b>	<b>44,510</b>
<b>Changes in operating assets and liabilities</b>			
Change in due from banks		(786)	2,932
Change in loans and advances		(248,651)	(284,367)
Change in other assets		1,205	3,501
Change in due to banks		(149,836)	49,098
Change in due to customers		379,490	(33,705)
Change in other liabilities		(295)	256
<b>Cash flows from / (used in) operating activities</b>		<b>30,363</b>	<b>(217,775)</b>
<b>Investing activities</b>			
Acquisition of property, equipment and intangible assets		(466)	(3,808)
Proceeds from sale of investment properties		6,575	-
Purchase/repayment of NBU deposit certificates		(230,000)	90,000
<b>Cash flows from (used in)/from investing activities</b>		<b>(223,891)</b>	<b>86,192</b>
<b>Financing activities</b>			
Proceeds from international financial institutions		166,769	130,967
Proceeds from international financial institutions		-	(130,967)
Proceeds from increase of share capital		67,082	42,004
Repayment of subordinated debt		(66,854)	(41,815)
<b>Cash flows from financing activities</b>		<b>166,997</b>	<b>189</b>
Effect of exchange rate fluctuations on cash and cash equivalents		7,478	1,368
Net increase / (decrease) in cash and cash equivalents		<b>(26,531)</b>	<b>(130,026)</b>
<b>Cash and cash equivalents as at 1 January</b>		<b>235,022</b>	<b>365,048</b>
<b>Cash and cash equivalents as at 31 December</b>	6	<b>215,969</b>	<b>235,022</b>

Signed and authorized for issuance

Mr. Igor Tykhonov

Chairman of the Board

Mr. Igor Kuzmenko

Chief Accountant

29 March 2018

The notes set out on pages 5 – 48 form an integral part of these financial statements.

**PJSC "CREDITWEST BANK"**

**Statement of changes in equity for the year ended 31 December 2017**

(in thousands of Ukrainian hryvnias)

	Share capital	Unregistered share capital	Share premium	Additional paid-in capital	Retained earnings	Total
<b>Balance as at 1 January 2016</b>	<b>103,013</b>		<b>2,902</b>		<b>72,337</b>	<b>182,678</b>
		-		<b>4,426</b>		
Share capital increase	33,457	-	-	-	(33,457)	-
Additional paid-in capital	-	42,004	-	(952)	952	<b>42,004</b>
Total comprehensive income for the year	-	-	-	-	30,908	<b>30,908</b>
<b>Balance as at 31 December 2016</b>	<b>136,470</b>	<b>42,004</b>	<b>2,902</b>	<b>3,474</b>	<b>70,740</b>	<b>255,590</b>
Share capital registration	68,463	(68,463)				-
Share capital increase (Note 18)	-	28,463	-	-	(28,463)	-
Additional paid-in capital (Note 18)	-	67,082	-	(9,874)	2,118	<b>59,326</b>
Total comprehensive income for the year	-	-	-	-	39,820	<b>39,820</b>
<b>Balance as at 31 December 2017</b>	<b>204,933</b>	<b>69,086</b>	<b>2,902</b>	<b>(6,400)</b>	<b>84,215</b>	<b>354,736</b>

Signed and authorized for issuance

Mr. Igor Tykhonov

Chairman of the Board

Mr. Igor Kuzmenko

Chief Accountant

29 March 2018



The notes set out on pages 5 – 48 form an integral part of these financial statements.

## **1 Background**

### **Organisation and operations**

Public Joint Stock Company "WEST FINANCE AND CREDIT BANK" (the Bank) was established as the closed joint stock company according to Ukrainian legislation and registered by the National Bank of Ukraine (the NBU) on 4 October 2006. In January 2009, the Bank was reorganised into open joint-stock company. In January 2011, the Bank was re-registered in the form of a public joint stock company.

The principal activities of the Bank are lending, deposits taking, cash and settlement operations, operations with securities and foreign exchange, as well as other services. The Bank's activities are regulated by the National Bank of Ukraine.

The head office is located at A A1, 4, Leontovicha Str., Kyiv, Ukraine.

As at 31 December 2017, the Bank had 1 branch and 82 employees (31 December 2016: 82 employees).

The ultimate controlling party of the Bank is ALTINBAS HOLDING ANONIM SIRKETI that owns 100% of the Bank's shares as at 31 December 2017 (31 December 2016: 100%) and is ultimately controlled by the Altinbas family.

As at 31 December 2017, the Bank's share capital is fully paid in solely via cash contributions in the equivalent of UAH 204,933 thousand.

Share capital contributions in the amount of UAH 204,933 thousand were made in the course of the share issues during 2016-2017.

Subject to Resolution #18 of the Shareholder of Public Joint-Stock Company WEST FINANCE AND CREDIT BANK dated 24 April 2017, it was decided to increase the Bank's share capital by increasing the total nominal value of the Bank's shares to UAH 204,932,973.60 (two hundred and four million nine hundred and thirty-two thousand nine hundred and seventy-three hryvnias 60 kopecks) and to UAH 1.80 per share by contributing a part of the Bank's profit in the amount of UAH 28,462,913.00 (twenty-eight million four hundred and sixty-two thousand nine hundred and thirteen hryvnias 00 kopecks) to the Bank's statutory capital. The new Charter was adopted by Resolution of the Shareholder (Minutes #18 dated 24 April 2017) and approved by the National Bank of Ukraine on 19 May 2017. Under NSSMC Share issue registration certificate No.№62/1/2017 of 16 June 2017, the issue of the Bank's registered ordinary shares in the amount of UAH 204,932,973.60 (two hundred and four million nine hundred and thirty-two thousand nine hundred and seventy-three hryvnias 60 kopecks), with nominal value of UAH 1.80 (one hryvnia 80 kopecks) per share was registered by the NSSMC.

Subject to the Shareholder's resolution (Minutes #20 dated 28 August 2017), it was decided to increase the share capital via additional contributions and private placement of the Bank's shares i the total amount of UAH 65,000,001.60 On 1 November 2017, the Bank obtained temporary share issue registration certificate No.118/1/2017-T from the National Commission on Securities and Stock Market on the registration of the issue of the Bank's shares in the total amount of UAH 65,000,001.60.

Subject to the terms and conditions of the private placement, the actual placement comprised 36,111,112 ordinary registered shares of the Bank with the total nominal value of UAH 65,000,001.60 that were subsequently fully paid in by the Shareholder, which is entirely supported by relevant payment documents (payment order No.1 dated 22 December 2017) and share purchase agreements (securities sale and purchase agreement No. 3 dated 06 November 2017 for 36,111,112 shares; (payment order No. 1 dated 22 December 2017).

The entry into contracts with the original owners in the private placement process, as well as the private placement results and the report thereon were approved by Minutes of the Bank's Management Board dated 29 December 2017.

Subject to the Shareholder's resolution (Minutes #22 dated 12 January 2018), the Bank's Charter was amended due to the additional issue of the Bank's shares. The new edition of the Charter was approved by the National Bank of Ukraine on 13 February 2018. In accordance with the new edition, the amount of the Bank's share capital is UAH 269,932,975.20.

The contributions to the share capital of the Bank were used for the activities envisaged by the Bank's Charter.

There were no other financial statements prepared in accordance with the Laws of Ukraine and regulations of the Commission except for annual financial statements and interim financial statements prepared in accordance with International Financial Reporting Standards.

## **2 Economic environment of the Bank**

The Bank's operations are primarily located in Ukraine. The political and economic situation in Ukraine has been subject to significant turbulence in recent years and demonstrates characteristics of an emerging market. Consequently, operations in the country involve risks that do not typically exist in other markets.

An armed conflict in certain parts of Lugansk and Donetsk regions, which started in spring 2014, has not been resolved and part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory. Various events in March 2014 led to the accession of the Republic of Crimea to the Ukraine, which was not recognised by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship between Ukraine and the Ukraine.

Ukraine's economic situation deteriorated significantly since 2014 as a result of the fall in trade with the Ukraine and military tensions in Eastern Ukraine. Although instability continued throughout 2016 and 2017, Ukrainian economy showed first signs of recovery with inflation rate slowing down, lower depreciation of hryvnia against major foreign currencies, growing international reserves of the National Bank of Ukraine and general revival in business activity.

In 2016 and 2017, the NBU made certain steps to provide a relief to the currency control restrictions introduced in 2014–2015. In particular, the required share of foreign currency proceeds subject to mandatory sale on the interbank market was gradually decreased, while the settlement period for export-import transactions in foreign currency was increased. Also, the NBU allowed Ukrainian companies to pay dividends abroad with a certain monthly limitation.

The banking system remains fragile due to low level of capital and weak asset quality and the Ukrainian companies and banks continue to suffer from the lack of funding from domestic and international financial markets.

The International Monetary Fund continued to support the Ukrainian government under the four-year Extended Fund Facility Programme approved in March 2015. Other international financial institutions have also provided significant technical support in recent years to help Ukraine restructure its external debt and launch various reforms (including anticorruption, corporate law, and gradual liberalization of the energy sector).

In August 2017 Moody's upgraded Ukraine's credit rating to Caa2, with a positive outlook, reflecting recent government reforms and improved foreign affairs. Further stabilization of economic and political environment depends on the continued implementation of structural reforms and other factors.

Whilst management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, a continuation of the current unstable business environment could 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.

### **3 Basis of preparation**

#### **Background**

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") on the historical cost basis except for derivative financial instruments presented in other assets presented within other assets, and investment property, which are stated at fair value.

#### **Functional and presentation currency**

The functional and presentation currency for the purposes of these financial statements is the Ukrainian hryvnia (UAH).

### **4 Critical accounting estimates and judgments in applying accounting policies**

The Bank uses estimates and assumptions that affect the amounts recognised in the financial statements, as well as current values of assets and liabilities in the next financial year. Estimates and judgments are regularly reviewed based on management experience and other factors, including future events that management expects to be reasonable under existing circumstances. Management also uses professional assumptions when applying the accounting policies. Critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements and may result in a material adjustment within the next financial year include the following:

#### *Impairment of loans and advances*

Management estimates impairment by assessing the likelihood of repayment of loans and advances based on an analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics. Factors taken into consideration when assessing individual loans include collection history, current financial condition of the borrower, timeliness of repayments and collateral, if any. To determine the amount of impairment, management estimates the amounts and timing of future payments of principal and interest and proceeds from the disposal of collateral, if any. These cash flows are then discounted using the loan's effective interest rate. Actual principal and interest payments depend on the borrowers' ability to generate cash flows from operations or obtain alternative financing, and could differ from management's estimates.

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

Note 9 contain 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.

## 5 Significant accounting policies

The amendments to IFRS that became effective for annual reporting periods starting on 1 January 2017 did not have significant impact on the Bank's financial results.

### (a) Foreign currency translation

The Bank's functional currency is Ukrainian hryvnia, as the currency of the Bank's core business environment. Transactions denominated in other currencies are considered foreign currency transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the NBU exchange rate ruling at that date. Foreign currency differences arising on the translation are recognised in profit or loss as gain/loss from foreign currency translation. 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 exchange rates used in the preparation of these financial statements are as follows:

<b>Currency</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
USD	28.0672	27.1909
EUR	33.4954	28.4226

### (b) Financial instruments

#### (i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- upon initial recognition, designated as at fair value through profit or loss.

Management may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and advances to customers may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through

profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Financial instruments at fair value through profit or loss comprise derivatives, which mainly refer to forward currency contracts.

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- 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 advances to customers comprise loans and advances, due from banks, mandatory reserve with the National Bank of Ukraine, cash and cash equivalents.

*NBU deposit certificates* are financial assets carried at amortised cost.

*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 advances to customers.

(ii) *Recognition*

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

(iii) *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 incurred on sale or other disposal, except for:

- loans and receivables which 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;
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Such financial instruments are measured at cost less any 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.

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.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar instruments. The difference between the fair value and the nominal value at origination is credited or charged to profit or loss or to equity (if financial assets or financial liabilities resulted from transactions with shareholders acting as shareholders) as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in profit or loss using the effective interest method.

*(iv) 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 the effect of 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 pricing transaction.

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.

*(v) 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 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. Interests on financial assets available for sale are recognized in the period in which they have been earned, and assessed 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.

*(vi) Derecognition*

The Bank derecognises 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 recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

### **(c) Impairment**

#### **Financial assets carried at amortised cost**

Financial assets carried at amortised cost consist principally of loans, advances and other receivables (loans and advances to customers). Management reviews its loans and receivables to assess impairment on a regular basis. A loan (or group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has had an impact on the estimated future cash flows of the loan (group of loans) that can be reliably estimated.

Management first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant. If management determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, management uses its experience and judgement to estimate the amount of any impairment loss.

The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

#### **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 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.

#### **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.

Provisions for other credit related commitment are included in other liabilities.

#### **(d) 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 computed by the straight-line method over the estimated useful lives of the assets. Depreciation commences from the date when property and equipment are ready to use. The estimated useful lives are as follows:

Plant and equipment	5 years;
Motor vehicles	5 years;
Intangible assets	3 years

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

#### **(e) Investment property**

Investment property is property held either to earn rental income or for capital appreciation, or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. The fair value of the Bank's investment property is determined based on reports of the internal appraiser with relevant professional qualification and experience in valuation of property of similar location and category.

**(f) Leases**

Payments for operating leases, where the Bank does not assume substantially all the risks and rewards of ownership are classified as expenses when incurred.

**(g) Recognition of income and expenses**

Interest and similar income and income expense and similar charges are recognised in profit or loss on an accrual basis, taking into account the effective yield/rate of the asset/liability or an applicable floating rate. Interest and similar income and income expense and similar expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Commission income and expense is recognised on an accrual basis. Other fees, commission and other income are recognised when the corresponding services are provided/received.

Loan origination 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.

**(h) Taxation**

Income tax 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 at the statement of financial position date plus and any adjustments 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.

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) Employee benefits**

Pensions are provided by the State. Mandatory contributions are made by the Bank and employees based on each individual employee's earnings. The cost for these contributions is recognised in profit or loss when contributions are due and is included in salaries and employee benefits as part of administrative and other operating expenses.

**(j) Cash and cash equivalents**

Cash and cash equivalents include cash, balances with the National Bank of Ukraine and balances due from banks with contractual maturity within three months.

**(k) 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 realize the asset and settle the liability simultaneously.

**(l) 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.

For management reporting purposes, 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.

**(m) New accounting pronouncements**

The following new standards, amendments to standards, and interpretations are not yet effective as at 31 December 2017, and are not applied in preparing these financial statements. The Bank intends to adopt these standards, if necessary, when they become effective.

The following standards are expected to have a material impact on the Bank's financial statements in the period of initial application.

**IFRS 9 Financial instruments**

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. This standard replaces the rules of IAS 39 *Financial Instruments: Classification and measurement*.

In October 2017, the IASB issued *Prepayment Features with Negative Compensation* (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

IFRS 9 will require the Bank to revise its accounting processes and internal controls and these changes are not yet complete.

The Bank has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework.

The Bank is refining and finalising its models for ECL calculations, and the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Bank finalises its first financial statements that include the date of initial application.

**i. Classification – Financial assets**

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated by the Bank as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

A financial asset is classified into one of these categories on initial recognition. See (viii) for the transition requirements relating to classification of financial assets.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the whole hybrid instrument is assessed for classification.

#### **Business model assessment**

The Bank will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that will be considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

#### **Assessment whether contractual cash flows are solely payments of principal and interest**

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;

- terms that limit the Bank’s claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

All of the Bank’s retail loans and certain fixed-rate corporate loans contain prepayment features.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

### **Impact assessment**

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

NBU deposit certificates measured at amortised cost under IAS 39 will in general continue to be measured at amortised cost under IFRS 9.

Loans and advances to banks and to customers that are classified as loans and advances to customers and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

### **ii. Impairment – Financial assets, loan commitments and financial guarantee contracts**

IFRS 9 replaces the “incurred loss” model in IAS 39 with a forward-looking “expected credit loss” (ECL) model. This will require the Bank’s considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

Under IFRS 9, no impairment loss is recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Bank will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- debt investment securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment-grade’; and
- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for lease receivables will always be measured at an amount equal to lifetime ECLs.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

### **Measurement of ECLs**

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- *financial assets* that are not credit-impaired at the reporting date: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- *financial assets* that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- *financial guarantee contracts*: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Financial assets that are credit-impaired are defined by IFRS 9 in a similar way to financial assets that are impaired under IAS 39 (see Note 9(b)).

### **Definition of default**

Under IFRS 9, the Bank will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered past due the next day when the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.
- In assessing whether a borrower is in default, the Bank will consider indicators that are:
- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

### **Significant increase in credit risk**

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

The Bank will primarily identify whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime probability of default (PD) as at the reporting date with the remaining lifetime PD for this point in time that was estimated on initial recognition of the exposure.



Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain revolving facilities (e.g. credit cards and overdrafts), the date when the facility was first entered into could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment, which is discussed below.

### **Credit risk grades**

The Bank will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. The Bank will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

### **Generating the term structure of PD**

Credit risk grades will be a primary input into the determination of the term structure of PD for exposures. The Bank will collect performance and default information about its credit risk exposures analysed by jurisdiction, by type of product and borrower and by credit risk grading. The Bank will employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicator will be GDP growth.

The Bank's approach to incorporating forward-looking information into this assessment is discussed below.

### **Determining whether credit risk has increased significantly**

The Bank is in the process of developing a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Bank's internal credit risk management process. The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

In certain instances, using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Bank will presumptively consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. The Bank will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Bank will monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL and lifetime ECL measurements.

#### **Inputs into measurement of ECLs**

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models. They will be adjusted to reflect forward-looking information as described below.

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics that include, inter alia:

- instrument type;
- collateral type;
- contract currency;
- industry; and
- geographic location of the borrower.

The groupings will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

#### **Forward-looking information**

Under IFRS 9, the Bank will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs.

The Bank is planning to identify key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, estimate relationships between macro-economic variable and credit risk and credit losses.

#### **Impact assessment**

The most significant impact on the Bank's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

##### ***iii. Classification – Financial liabilities***

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

**iv. Derecognition and contract modification**

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at FVTPL does not result in derecognition. Under IFRS 9, the Bank is to recalculate the gross carrying amount of the financial asset (or the amortised cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognise any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Bank does not recognise any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.

**v. Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

For a financial liability designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 published in May 2014 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises 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. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank does not intend to adopt this standard early. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

### **IFRS 16 Leases**

IFRS 16 replaces existing leases guidance of 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*. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted. The Bank does not intend to adopt this standard early. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

#### *Other standards*

The following amended standards and interpretations are not expected to have a significant impact on the Bank’s financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 *Share-Based Payment*)
- Transfers of Investment Property (Amendments to IAS 40).
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28).
- Interpretation IFRIC 22 *Foreign Currency Transactions and Advance Consideration*.
- Interpretation IFRIC 23 *Uncertainty over Income Tax Treatments*.

## **6 Cash and cash equivalents**

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

	<b>2017</b>	<b>2016</b>
Cash on hand	13,928	9,476
Balances with the NBU	51,271	15,673
Current accounts placed with other banks	150,770	209,873
<b>Total</b>	<b>215,969</b>	<b>235,022</b>

In accordance with Resolution No. 893 of the Management Board of the National Bank of Ukraine dated 17 December 2015 “On amendments to Resolution No. 820 of the Management Board of the National Bank of Ukraine dated 18 December 2014”, Banks transfer and keep the mandatory reserves on the correspondent account with the National Bank of Ukraine. As at 31 December 2016, the statutory amount of the mandatory reserve was UAH 10,140 thousand.

Effective 25 December 2017, the NBU amended the requirements regarding the mandatory reserve on the correspondent account with the NBU. In accordance with Resolution No. 752-pw of the Management Board of the National Bank of Ukraine dated 23 December 2017 “On creation and maintenance of mandatory reserves”, the control over the balance of the mandatory reserve on the correspondent account with the National Bank of Ukraine on a daily basis was cancelled. As at 31 December 2017, the statutory amount of the mandatory reserve was UAH 35,304 thousand.

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The following table represents an analysis of current amounts due from banks by rating agency designation based on Standard and Poor’s ratings (S&P) or their equivalents as at 31 December 2017:

	<b>2017</b>	<b>2016</b>
Current accounts placed with other banks:		
BBB- to A+	139,373	175,964
BB- to BB+	5,886	5,083
CC- to CC+	5,511	28,826
	<b>150,770</b>	<b>209,873</b>

As at 31 December 2017, the two largest balances on current accounts placed with other banks amount to UAH 139,371 thousand or 92.4% of the gross exposure of current accounts placed with other banks (2016: UAH 203,466 thousand or 96.9%).

## **7 NBU certificates of deposit**

NBU certificates of deposit as at 31 December 2017 bear the interest rates within the range of 13-15% and mature in January 2018 (2016: interest rate of 12% and maturity in January 2017). Certificates of deposit of the National Bank of Ukraine were neither impaired nor past due as at 31 December 2017 and 31 December 2016.

## **8 Due from banks**

As at 31 December 2017, due from banks are represented by guarantee secured deposit with maturity exceeding three months placed in one bank having rating “B- to B+” assigned by Standard and Poor’s (S&P) or equivalent ratings (2016: one bank, “CCC- to CCC+”). As at 31 December 2017 and 2016 balances due from banks are neither impaired nor past due.

## **9 Loans and advances to customers**

Loans and advances to customers as at 31 December are as follows:

	<b>2017</b>	<b>2016</b>
Corporate	1,085,417	843,303
Individuals	319	1,609
<b>Total loans, gross</b>	<b>1,085,736</b>	<b>844,912</b>
Provision for impairment of loans and advances to customers (Note 24)	(5,670)	(2,037)
<b>Total</b>	<b>1,080,066</b>	<b>842,875</b>

### **(a) Significant credit risk concentration**

As at 31 December 2017, loans and advances to the ten largest borrowers total UAH 565,386 thousand or 52.3% of the total net loans and advances (2016: UAH 572,331 thousand or 67.9%).

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**(b) Loan impairment**

At 31 December 2017, loans impairment was as follows:

	<b>Gross loans</b>	<b>Impairment</b>	<b>Net loans</b>	<b>Impairment to gross loans</b>
<b>Loans to corporate customers</b>				
Loans with specific impairment	104,073	(4,853)	99,220	4.66%
Loans without specifically identified impairment	981,344	(770)	980,574	0.08%
<b>Total corporate loans</b>	<b>1,085,417</b>	<b>(5,623)</b>	<b>1,079,794</b>	<b>0.52%</b>
<b>Loans to retail customers</b>				
Loans with specific impairment	48	(48)	-	100.00%
Loans without specifically identified impairment	271	-	271	0.00%
<b>Total retail loans</b>	<b>319</b>	<b>(48)</b>	<b>271</b>	<b>15.05%</b>
<b>Total corporate and retail loans</b>	<b>1,085,736</b>	<b>(5,671)</b>	<b>1,080,065</b>	<b>0.52%</b>

At 31 December 2016, loans impairment was as follows:

	<b>Gross loans</b>	<b>Impairment</b>	<b>Net loans</b>	<b>Impairment to gross loans</b>
<b>Loans to corporate customers</b>				
Loans with specific impairment	77,587	(1,395)	76,192	1.80%
Loans without specifically identified impairment	765,716	(118)	765,598	0.02%
<b>Total corporate loans</b>	<b>843,303</b>	<b>(1,513)</b>	<b>841,790</b>	<b>0.18%</b>
<b>Loans to retail customers</b>				
Loans with specific impairment	524	(524)	-	100.0%
Loans without specifically identified impairment	1,085	-	1,085	0.0%
<b>Total retail loans</b>	<b>1,609</b>	<b>(524)</b>	<b>1,085</b>	<b>32.57%</b>
<b>Total corporate and retail loans</b>	<b>844,912</b>	<b>(2,037)</b>	<b>842,875</b>	<b>0.24%</b>

**(c) Collateral**

The following table provides information on collateral as at 31 December, by type of collateral. The table shows the amounts of secured loans rather than the fair value of collateral.

	<b>2017</b>	<b>2016</b>
Real estate	792,705	591,416
Motor vehicles	133,190	130,534
Equipment	86,594	49,622
Deposits	48,896	68,800
Unsecured	24,351	4,540
<b>Total</b>	<b>1,085,736</b>	<b>844,912</b>

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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.

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 without collateral.

**(d) Quality of loans**

As at 31 December 2017, estimated difference between the Bank's actual impairment losses on commercial loans and what they would have been without any collateral is UAH 73,387 thousand (2016: UAH 78,313 thousand).

At 31 December 2017, loans impairment was as follows:

	<b>Gross loans</b>	<b>Impairment</b>	<b>Net loans</b>	<b>Impairment to gross loans</b>
<b>Loans and advances to customers - corporate</b>				
Not past due	1,028,412	(769)	1,027,643	0.07%
Past due	57,005	(4,853)	52,152	8.51%
<b>Total loans and advances to customers - corporate</b>	<b>1,085,417</b>	<b>(5,622)</b>	<b>1,079,795</b>	<b>0.52%</b>
<b>Loans and advances to customers - individuals</b>				
Not overdue	271	-	271	0.00%
Past due	48	(48)	-	100.00%
<b>Total loans and advances to customers - individuals</b>	<b>319</b>	<b>(48)</b>	<b>271</b>	<b>15.05%</b>

Quality of loans and advances to customers as at 31 December 2016 is presented as follows:

	<b>Gross loans</b>	<b>Impairment</b>	<b>Net loans</b>	<b>Impairment to gross loans</b>
<b>Loans and advances to customers - corporate</b>				
Not past due	841,771	(117)	841,654	0.01%
overdue	1,532	(1,396)	136	91.12%
<b>Total loans and advances to customers - corporate</b>	<b>843,303</b>	<b>(1,513)</b>	<b>841,790</b>	<b>0.18%</b>
<b>Loans and advances to customers - individuals</b>				
Not overdue	1,085	-	1,085	0.00%
overdue	524	(524)	-	100.00%
<b>Total loans and advances to customers - individuals</b>	<b>1,609</b>	<b>(524)</b>	<b>1,085</b>	<b>32.57%</b>

**(e) Corporate loans by industry**

Corporate loans by industry as at 31 December are as follows:

	<b>2017</b>	<b>2016</b>
Trade	269,917	344,608
Agriculture	332,315	235,785
Manufacturing	301,852	152,852
Financial intermediaries	112,062	91,978
Real estate	5,963	5,096
Construction	4,478	1,396
Car rent	23,619	339
Other	35,210	11,249
<b>Total</b>	<b>1,085,416</b>	<b>843,303</b>

**10 Investment property**

Movement in investment property during the year ended 31 December is as follows:

	<b>2017</b>	<b>2016</b>
<b>Fair value as at 1 January</b>	1,402	1,341
Sales	-	-
Revaluation	(55)	61
<b>Fair value as at 31 December</b>	<b>1,347</b>	<b>1,402</b>

Losses from revaluation of investment properties comprised UAH 55 thousand in 2017 and were recognized within administrative and other operating expenses (Note 23). Gains from revaluation of investment properties comprised UAH 61 thousand in 2016 and were recognized within other operating income (Note 22).



## 11 Property, equipment and intangible assets

Movement of property, equipment and intangible assets for the year ended 31 December 2017 is as follows:

	Repaired leased premises	Furniture and equipment	Motor vehicles	Intangible assets	Capex in intangible assets	Total
<b>Cost</b>						
<b>1 January 2017</b>	5,650	11,479	1,946	7,957	-	27,032
Additions	-	350	-	116	-	466
Disposals	-	(2)	-	-	-	(2)
Transfers	-	-	-	-	-	-
<b>31 December 2017</b>	<b>5,650</b>	<b>11,827</b>	<b>1,946</b>	<b>8,073</b>	<b>-</b>	<b>27,496</b>
<b>Accumulated depreciation and amortization</b>						
<b>1 January 2017</b>	1,210	5,361	1,358	1,547	-	9,476
Depreciation and amortization (Note 23)	795	1,762	286	915	-	3,758
Disposals	-	(2)	-	-	-	(2)
<b>31 December 2017</b>	<b>2,005</b>	<b>7,121</b>	<b>1,644</b>	<b>2,462</b>	<b>-</b>	<b>13,232</b>
<b>Net book value as at 31 December 2017</b>	<b>3,645</b>	<b>4,706</b>	<b>302</b>	<b>5,611</b>	<b>-</b>	<b>14,264</b>

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Movement of property, equipment and intangible assets for the year ended 31 December 2016 is as follows:

	Repaired leased premises	Furniture and equipment	Motor vehicles	Intangible assets	Capex in intangible assets	Total
<b>Cost</b>						
<b>1 January 2016</b>	<b>5,650</b>	<b>9,977</b>	<b>1,946</b>	<b>2,711</b>	2,940	<b>23,224</b>
Additions	-	1,502	-	898	1,408	<b>3,808</b>
Transfers	-	-	-	4,348	(4,348)	-
<b>31.12.2016</b>	<b>5,650</b>	<b>11,479</b>	<b>1,946</b>	<b>7,957</b>	-	<b>27,032</b>
<b>Accumulated depreciation and amortization</b>						
<b>1 January 2016</b>	<b>415</b>	<b>3,696</b>	<b>969</b>	<b>937</b>	-	<b>6,017</b>
Depreciation and amortization (Note 23)	795	1,665	389	610	-	3,459
<b>31 December 2016</b>	<b>1,210</b>	<b>5,361</b>	<b>1,358</b>	<b>1,547</b>	-	<b>9,476</b>
<b>Net book value as at 31 December 2016</b>	<b>4,440</b>	<b>6,118</b>	<b>588</b>	<b>6,410</b>	-	<b>17,556</b>

## 12 Other assets

Other assets as at 31 December are as follows:

	2017	2016
Fabric foreclosed by the Bank	-	6,224
Property foreclosed by the Bank	1,200	6,028
Prepayments	1,426	1,719
Supplies and consumables	9	7
Other	298	249
Provision for impairment (Note 24)	(141)	(3,580)
<b>Total</b>	<b>2,792</b>	<b>10,647</b>

During the year ended 31 December 2017, the Bank sold the fabric foreclosed by the Bank as pledgee, for UAH 2,259 thousand and an apartment for UAH 4,299 thousand, and the losses from the sale of the above property were recognized within other administrative and operating expenses (Note 23).

## 13 Due to banks

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

	2017	2016
Deposits and balances due to banks:		
OECD countries	141,614	188,185
Domestic	-	104,954
<b>Total</b>	<b>141,614</b>	<b>293,139</b>

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As at 31 December 2017, balances due to six banks comprised UAH 141,614 thousand or 100% of total due to banks (31 December 2016: balances due to six banks comprised UAH 293,139 thousand or 100% of total due to banks)

As at 31 December 2017, the loan agreement contained a number of covenants binding on the Bank, which must submit relevant reports on a quarterly basis.

As at 31 December 2017, the Bank was in compliance with all of the above covenants.

#### 14 Due to customers

Due to customers as at 31 December 2017 are as follows:

	<u>2017</u>	<u>2016</u>
<b>Current accounts:</b>		
Corporate	227,230	252,998
Individuals	23,718	22,646
<b>Total current accounts</b>	<u>250,948</u>	<u>275,644</u>
<b>Deposits:</b>		
Corporate	453,198	159,423
Individuals	196,728	89,812
<b>Total deposits</b>	<u>649,926</u>	<u>249,235</u>
<b>Total</b>	<u>900,874</u>	<u>524,879</u>

As at 31 December 2017, total current accounts of the five largest customers amounts to UAH 79,821 thousand or 32% of total current accounts (31 December 2016: UAH 118,474 thousand or 43%). As at 31 December 2017, deposits from the five largest customers total UAH 280,925 thousand or 43% of total deposits (31 December 2016: UAH 99,588 thousand or 40%).

#### 15 Other liabilities

Other liabilities as at 31 December are as follows:

	<u>2017</u>	<u>2016</u>
Accruals for unused vacations	1,437	1,377
Accounts payable	93	1,325
Taxes payable, other than corporate income tax	782	412
Accrued expenses	183	-
Other	392	8
<b>Total</b>	<u>2,887</u>	<u>3,122</u>

## 16 Due to international financial institutions

Amounts due to international financial institutions were represented by the EUR-denominated loans from two entities as at 31 December 2017:

	Amount	Type of interest rate	Effective interest rate as at 31.12.2017	Maturity
Central Eastern and South-Eastern Europe Fund	100,217	Floating rate	5.50%	15 November 2020
German-Ukrainian Fund	67,506	Fixed rate	4.25%	20 April 2020
<b>Total</b>	<b>167,723</b>			

As at 31 December 2017, the loan agreement made with German-Ukrainian Fund contained a number of covenants binding on the Bank, which must submit relevant reports on a quarterly basis.

The agreement on the loan from Central Eastern and South-Eastern Europe Fund also contains several covenants binding on the Bank during the whole credit term, which must submit relevant reports on a quarterly basis.

The above loan bears the interest rate is defined as EURIBOR 6M + 5.5%, and where EURIBOR 6M is negative, the rate is fixed in the amount of 5.5%.

As at 31 December 2017, the Bank was in compliance with all covenants of the loan agreements made with international financial organizations.

## 17 Subordinated debt

In 2008, the Bank received from the shareholder, JSC “ALTINBAŞ HOLDİNG ANONİM ŞİRKETİ”, a subordinated loan denominated in US dollars amounting to USD 5,000 thousand with a nominal interest rate of 5.5%. The principal amount of this loan was initially repayable in August 2013. In 2011, the maturity of the loan was extended until July 2017. In 2014, the maturity of the loan was extended until July 2020. In 2016, the maturity of the loan was extended until July 2022. In December 2016, a part of the subordinated debt was transferred to the investment account of the Bank’s shareholders. In accordance with shareholders’ resolution, the currency was sold to increase the capital of the Bank as prescribed by resolution taken by the National Bank of Ukraine. In December 2017, a part of the subordinated debt (USD 2,400) was transferred to the investment account of the Bank’s shareholders. In accordance with shareholders’ resolution, the currency was sold to increase the capital of the Bank as prescribed by resolution taken by the National Bank of Ukraine.

The loans were initially recognized at fair value determined by as the present value of future payments under the loans discounted using a market rate of interest for similar instruments. The difference between the fair value and the carrying amount of the subordinated debt is accounted for as unamortized discount on the loan. As the result of partial prepayment that occurred in December 2017, the unamortized discount was adjusted with recognition of the resulting difference in equity under transactions with shareholders caption (Note 18).

## 18 Share capital

As at 31 December 2017, the share capital of the Bank comprised 113,851,652 ordinary shares with nominal value of UAH 1.80 per share (31 December 2016: 88,045,200 ordinary shares with nominal value of UAH 1.55 per share). All shares have equal voting rights. As at 31 December 2017, all shares were fully paid and registered.

No dividends were declared and paid in 2017 and 2016.

In accordance with Ukrainian legislation, the distributable reserves are limited to the balance of retained earnings determined in accordance with legislative and regulatory requirements.

In compliance with a resolution of the Bank's shareholders dated 24 April 2017, in May 2017, the Bank's share capital was increased by UAH 28,463 thousand at the expense of transfer of a portion of the profit for 2016, by way of increase of the Bank's shares nominal value from UAH 1.55 per share to UAH 1.80 per share.

In compliance with a resolution of the Bank's shareholders taken in December 2017, a portion of the subordinated debt was prepaid by the Bank and used by the shareholders to increase the share capital of the Bank (Note 17). The above act resulted in the adjustment of the unamortized discount recognized per the subordinated debt, and its respective reduction by UAH 7,755 thousand was recognized in equity under transactions with shareholders caption, and as at 31 December 2017 a negative additional paid capital arose equal to UAH 6,400 thousand.

## **19 Contingencies and Commitments**

### **(a) Operating lease commitments**

The Bank leases operational premises in the normal course of business. Non-cancellable operating lease payments as at 31 December are payable as follows:

	<u>2017</u>	<u>2016</u>
Less than 1 year	1,397	2,061

### **(b) Commitments to extend credit and guarantees**

The Bank has outstanding commitments to extend credit and issued guarantees. Guarantees are represented by the Bank's irrevocable payment commitments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans.

The total outstanding commitments to extend credit and guarantees do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

As at 31 December 2017, irrevocable commitments to extend credit and guarantees comprised UAH 1,024 thousand and UAH 11,001 thousand, respectively (2016: UAH 1,529 thousand and UAH 7,028 thousand).

### **(c) 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.

### **(d) Taxation contingencies**

The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation. Tax regulations are often unclear, open to wide interpretation, and in some instances are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enabled by law to impose significant penalties and interest charges. These facts create tax risks substantially more significant than typically found in countries with more developed systems.

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

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with existing legislation and assess fines and penalties. No provision for potential tax liabilities was recognized in these financial statements.

**(e) Litigations**

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.

**20 Interest income and expense**

Interest income and expense for the year ended 31 December 2017 are as follows:

	<b>2017</b>	<b>2016</b>
Loans and advances to customers	145,606	103,716
NBU certificates of deposit	6,244	8,686
Due from banks	1,377	927
<b>Total interest income</b>	<b>153,227</b>	<b>113,329</b>
Deposits	(28,950)	(19,698)
Current accounts	(11,785)	(16,988)
Subordinated debt	(7,811)	(10,446)
Due to international financial institutions	(2,295)	-
Due to banks	(10,021)	(10,507)
<b>Total interest expense</b>	<b>(60,862)</b>	<b>(57,639)</b>
<b>Net interest income</b>	<b>92,365</b>	<b>55,690</b>

Interest income on the loans with identified specific impairment for the year ended 31 December 2017 comprised UAH 11,808 thousand (2016: UAH 5,716 thousand).

**21 Interest income and expense**

Fee and commission income and expense for the year ended 31 December 2017 is as follows:

	<b>2017</b>	<b>2016</b>
<b>Commission income:</b>		
Gains less losses from dealing in foreign currencies on behalf of customers	9,550	10,227
Cash and settlement transactions	11,621	10,129
Other	7,734	5,068
<b>Total fee and commission income</b>	<b>28,905</b>	<b>25,424</b>
<b>Fee and commission expense</b>		
Cash and settlement transactions	(3,827)	(2,713)
Other	(261)	(211)
<b>Total fee and commission expense</b>	<b>(4,088)</b>	<b>(2,924)</b>

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**22 Other operating income**

	<b>2017</b>	<b>2016</b>
Proceeds from previously written-off loans	191	6,189
Gain on sale of other assets	-	351
Penalties and fines	568	195
Gains less losses from revaluation of investment properties (Note 10).	-	61
Other	85	6
<b>Total other operating income</b>	<b>844</b>	<b>6,802</b>

**23 Administrative and other operating expenses**

Administrative and other operating expenses for the year ended 31 December 2017 are as follows:

	<b>2017</b>	<b>2016</b>
Salary and employee benefits	39,449	36,440
Rent and maintenance of premises	11,325	10,976
Depreciation and amortization	3,758	3,459
Communication and information	3,310	3,521
Legal and consulting services	2,082	3,400
Repairs and maintenance of property and equipment	2,080	1,940
Taxes other than on income and other charges	2,022	1,130
Loss from the sale of the property foreclosed by the Bank	1,285	-
Audit	1,579	1,159
Travel expenses	1,154	1,417
Stationary and office consumables	781	1,050
Security	318	270
Advertising and marketing	209	90
Transportation	-	8
Losses from revaluation of investment properties (Note 10).	55	-
Other operating expenses	3,805	2,698
<b>Total</b>	<b>73,212</b>	<b>67,558</b>

## 24 Provision for impairment losses

The following is a schedule of movements in provision for impairment for the year ended 31 December 2017:

	<b>Loans and advances to customers</b>	<b>Other assets</b>
<b>Balance as at 1 January 2016</b>	<b>(2,663)</b>	<b>(3,689)</b>
Release of provision for impairment	626	109
<b>Balance as at 1 January 2016</b>	<b>(2,037)</b>	<b>(3,580)</b>
Release of provision for impairment	(3,633)	(77)
Sale of the fabric foreclosed by the Bank (Note 12)	-	3,516
<b>Balance as at 31 December 2017</b>	<b>(5,670)</b>	<b>(141)</b>

## 25 Income tax expense

The components of income tax expense are as follows:

	<b>2017</b>	<b>2016</b>
Current income tax expense	9,071	7,068
Deferred tax benefit	(310)	(310)
<b>Total income tax expense</b>	<b>8,761</b>	<b>6,758</b>

The statutory income tax rate in 2017 was 18% (2016: 18%). Below presented is a reconciliation of the theoretical income tax expense with actual tax expense:

	<b>2017</b>	<b>2016</b>
Profit before tax	<b>48,580</b>	<b>37,666</b>
Expected income tax expense assessed applying Effective tax rate (18%)	8,744	6,780
Non-deductible expenses	17	(22)
<b>Actual income tax expense</b>	<b>8,761</b>	<b>6,758</b>

### (a) Movements in recognized temporary differences during the year

Deferred tax assets and liabilities of the Company as at 31 December 2017 are attributable to the following items:

	<b>1 January 2017</b>	<b>Recognized in profit or loss</b>	<b>31 December 2017</b>
	<b>Asset (liability)</b>	<b>Benefit (charge)</b>	<b>Asset (liability)</b>
Loans and advances to customers	(217)	217	
Property, plant and equipment		225	225
Other liabilities	132	(132)	
<b>Total</b>	<b>(85)</b>	<b>310</b>	<b>225</b>



Deferred tax assets and liabilities as at 31 December 2016 are attributable to the following items:

	<b>1 January 2016</b>	<b>Recognized in profit or loss</b>	<b>31 December 2016</b>
	<b>Asset (liability)</b>	<b>Benefit (charge)</b>	<b>Asset (liability)</b>
Loans and advances to customers	(434)	217	(217)
Other liabilities	39	93	132
<b>Total</b>	<b>(395)</b>	<b>310</b>	<b>(85)</b>

## 26 Derivative financial instruments at fair value through profit or loss

Derivative financial instruments are represented mainly by forward foreign currency exchange contracts and interbank swaps.

Management believes that these transactions are in substance foreign exchange swaps and accounts for these transactions in accordance with the Bank's accounting policy in respect of derivative financial instruments.

The table below sets out gross amounts of receivable and payable upon settlement of amounts of forward foreign currency exchange derivative contracts and of loans due from and deposits due to banks. 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 financial instruments:

	<b>2017</b>	<b>2016</b>
	<b>Forward exchange contracts</b>	<b>Forward exchange contracts</b>
UAH receivable	-	40,411
USD receivable	-	-
USD payable	-	(40,786)
EUR payable	-	-
<b>Fair value of assets</b>	<b>-</b>	<b>(375)</b>
<b>Maximum exposure to credit risk (gross amount receivable)</b>	<b>-</b>	<b>40,411</b>

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

Management monitors concentration of credit risk. For the analysis of concentration of credit risk in respect of loans and advances refer to note 9.

The Bank has to comply with varying NBU regulations that limit exposure to companies, groups 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 issues loans to individuals in exceptional cases only and focuses its activities on collecting the already existing loans issued to individuals.

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.

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*Off-balance sheet exposure to credit risk*

The maximum exposure to off-balance sheet credit risk at 31 December 2017 is as follows:

	<b>2017</b>	<b>2016</b>
Irrevocable credit lines (note 19(b))	1,024	1,529
Guarantees (note 19(b))	11,001	7,028
Gross amount receivable on derivatives (note 26)	-	40,411
<b>Total off-balance sheet exposure</b>	<b>12,025</b>	<b>48,968</b>

**(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 optimizing the return on risk.

*(i) 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 may differ from the below table.

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

	<b>USD</b>	<b>EUR</b>	<b>Other</b>
<b>Assets</b>			
Cash and cash equivalents	26,984	128,859	1,088
Due from banks	3,172	-	-
Loans and advances to customers	411,843	77,680	-
Other assets	84	251	-
	<b>442,083</b>	<b>206,790</b>	<b>1,088</b>
<b>Liabilities</b>			
Due to banks	(141,614)	-	-
Due to international financial institutions	-	(167,722)	-
Due to customers	(260,770)	(38,962)	(461)
Subordinated debt	(38,268)	-	-
Other liabilities	-	-	-
	<b>(440,652)</b>	<b>(206,684)</b>	<b>(461)</b>
<b>Net balance sheet position</b>	<b>1,431</b>	<b>106</b>	<b>627</b>
Derivative instruments: forward foreign currency exchange contracts (note 26)	-	-	-
<b>Net long /(short) position</b>	<b>1,431</b>	<b>106</b>	<b>627</b>

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Foreign currency positions as at 31 December 2016 are as follows:

	<b>USD</b>	<b>EUR</b>	<b>Other</b>
<b>Assets</b>			
Cash and cash equivalents	54,800	157,442	447
Due from banks	3,073	-	-
Loans and advances to customers	364,349	19,394	-
Other assets	6	55	-
	<b>422,228</b>	<b>176,891</b>	<b>447</b>
<b>Liabilities</b>			
Due to banks	(148,056)	(135,838)	(50)
Due to customers	(138,147)	(40,820)	(113)
Subordinated debt	(92,858)	-	-
Other liabilities	(14)	(1)	-
	<b>(379,075)</b>	<b>(176,659)</b>	<b>(163)</b>
<b>Net balance sheet position</b>	<b>43,153</b>	<b>232</b>	<b>284</b>
Derivative instruments: forward foreign currency exchange contracts (note 26)	(40,786)	-	-
<b>Net long /(short) position</b>	<b>2,367</b>	<b>232</b>	<b>284</b>

Other currencies are mainly represented by Turkish liras.

The following Table presents the currencies in which the Bank has significant positions as at 31 December. The analysis goal is to determine the effect of possible changes in the exchange rates of foreign currencies to hryvnia, with the unchangeable value of all other variables, on the Bank profit and losses statement. The effect on the equity does not differ from the effect on the profit and loss statement. The negative value presented in the table reflects the potential net decrease in the profit and loss statement or equity, while the positive values represent the potential net increase.

<b>Currency</b>	<b>Exchange rate increase against hryvnia, %, 2017</b>	<b>Effect on net profit after taxes for 2017</b>	<b>Exchange rate decrease against hryvnia, %, 2017</b>	<b>Effect on net profit after taxes for 2017</b>
	US dollar (USD)	+20.00	286	-20.00
EUR	+20.00	21	-20.00	(21)

<b>Currency</b>	<b>Exchange rate increase against hryvnia, %, 2016</b>	<b>Effect on net profit after taxes for 2016</b>	<b>Exchange rate decrease against hryvnia, %, 2016</b>	<b>Effect on net profit after taxes for 2016</b>
	US dollar (USD)	+20.00	8,631	-20.00
EUR	+20.00	46	-20.00	(46)

(ii) *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

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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 2017 are as follows:

	USD	EUR	UAH
<b>Assets</b>			
Cash and cash equivalents	0,05%	-	0.06%
Due from banks	1,46%	-	-
Loans and advances to customers	10,53%	10,26%	22,3%
<b>Liabilities</b>			
Due to banks	6,88%	-	-
Due to international financial institutions	5,00%	-	-
Due to customers	4,96%	4.89%	13.52%
Subordinated debt	8,8%	-	-

The average effective interest rates of major interest bearing assets and liabilities as at 31 December 2016 are as follows:

	USD	EUR	UAH
<b>Assets</b>			
Cash and cash equivalents	0,06%	-	6.7%
Due from banks	1,09%	-	-
Loans and advances to customers	10,7%	9.1%	24.3%
<b>Liabilities</b>			
Due to banks	6.61%	-	-
Due to customers	6.54%	5.48%	15.38%
Subordinated debt	8.8%	-	-

As at 31 December 2017, the Bank had one floating rate financial instrument (note 16). An increase in the effective interest rate by 1% will result in decrease in profit by UAH 1,005 thousand (31 December, 2016: two instruments with a floating rate, an increase in the effective interest rate by 1% will result in decrease in profits by UAH 1,175 thousand).

**(d) 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.

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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 non-derivative financial assets and liabilities, as at 31 December 2017 are as follows:

	<b>Within one month</b>	<b>From one to three months</b>	<b>From three months to one year</b>	<b>1-5 years</b>	<b>More than five years</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	215,969	-	-	-	-	215,969
NBU certificates of deposit	290,625	-	-	-	-	290,625
Due from banks	-	-	-	3,172	-	3,172
Loans and advances to customers	204,997	310,362	527,183	37,524	-	1,080,066
	<b>711,591</b>	<b>310,362</b>	<b>527,183</b>	<b>40,696</b>	<b>-</b>	<b>1,589,832</b>
<b>Liabilities</b>						
Due to banks	-	-	141,614	-	-	141,614
Due to international financial institutions	712	-	691	166,319	-	167,722
Due to customers	590,513	93,662	94,181	122,518	-	900,874
Subordinated debt	-	-	419	37,849	-	38,268
	<b>591,225</b>	<b>93,662</b>	<b>236,905</b>	<b>326,686</b>	<b>-</b>	<b>1,248,478</b>
Liquidity (gap) surplus for the period	120,366	216,700	290,278	(285,990)	-	341,354
<b>Cumulative liquidity (gap) surplus</b>	<b>120,366</b>	<b>337,066</b>	<b>627,344</b>	<b>341,354</b>	<b>341,354</b>	

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The contractual remaining maturities of non-derivative financial assets and liabilities, as at 31 December 2016 are as follows:

	<b>Within one month</b>	<b>From one to three months</b>	<b>From three months to one year</b>	<b>1-5 years</b>	<b>More than five years</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	235,022	-	-	-	-	<b>235,022</b>
NBU certificates of deposit	60,039	-	-	-	-	<b>60,039</b>
Due from banks	-	-	3,073	-	-	<b>3,073</b>
Loans and advances to customers	143,627	209,455	479,850	9,943	-	<b>842,875</b>
	<b>438,688</b>	<b>209,455</b>	<b>482,923</b>	<b>9,943</b>	-	<b>1,141,009</b>
<b>Liabilities</b>						
Due to banks	156,117	-	137,022	-	-	<b>293,139</b>
Due to customers	383,454	53,326	78,600	9,499	-	<b>524,879</b>
Subordinated debt	-	-	626	-	92,232	<b>92,858</b>
	<b>539,571</b>	<b>53,326</b>	<b>216,248</b>	<b>9,499</b>	<b>92,232</b>	<b>910,876</b>
Liquidity (gap) surplus for the period	(100,883)	156,129	266,675	444	(92,232)	<b>230,133</b>
<b>Cumulative liquidity (gap) surplus</b>	<b>(100,883)</b>	<b>55,246</b>	<b>321,921</b>	<b>322,365</b>	<b>230,133</b>	

Due to customers item includes term deposits of individuals with the right to the early withdrawal. The Bank management believes that the majority of individuals' deposits will not be withdrawn until the due date, so the customers' funds are classified based on remaining contractual maturities.

Taking into consideration the short-term nature of loans issued by the Bank, it is likely that many loans will be prolonged after the maturity date. On the other hand, based on the experience, some loans are paid before the maturity date specified in the contracts. Accordingly, the actual maturity of the loan portfolio may differ substantially from the term specified in the terms of the contracts.

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The analysis of the maturity dates of undiscounted financial liabilities (including interest payments that will be accrued in the future) of the Bank as at 31 December 2017 is presented in the Table below:

	<b>Within one month</b>	<b>From one to three months</b>	<b>From three months to one year</b>	<b>1-5 years</b>	<b>More than five years</b>	<b>Total</b>
Due to banks	794	1,588	146,210	-	-	<b>148,592</b>
Due to customers	595,272	98,657	114,432	136,136	-	<b>944,497</b>
Credit related commitments (note 19)	-	517	507	-	-	<b>1,024</b>
Due to international financial institutions	712	-	7,658	178,805	-	<b>187,175</b>
Subordinated debt	-	-	2,593	51,356	-	<b>53,949</b>
<b>Total</b>	<b>596,778</b>	<b>100,762</b>	<b>271,400</b>	<b>366,297</b>	-	<b>1,335,237</b>

The analysis of the maturity dates of undiscounted financial liabilities (including interest payments that will be accrued in the future) of the Bank as at 31 December 2016 is presented in the Table below:

	<b>Within one month</b>	<b>From one to three months</b>	<b>From three months to one year</b>	<b>1-5 years</b>	<b>More than five years</b>	<b>Total</b>
Due to banks	156,151	-	144,913	-	-	<b>301,064</b>
Due to customers	385,512	55,502	86,719	9,643	-	<b>537,376</b>
<i>Derivatives redeemed by supplying the underlying asset:</i>						
- payables under the contracts	40,786	-	-	-	-	<b>40,786</b>
- receivables under the contracts	(40,411)	-	-	-	-	<b>(40,411)</b>
Subordinated debt	-	-	6,072	23,822	110,181	<b>140,075</b>
<b>Total</b>	<b>542,038</b>	<b>55,502</b>	<b>237,704</b>	<b>33,465</b>	<b>110,181</b>	<b>978,890</b>

## 28 Capital management

### (i) Regulatory capital

Under the current capital requirements set by the NBU, banks have to maintain a ratio of capital to risk weighted assets (regulatory capital adequacy ratio) above the prescribed minimum level. If the Bank 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, which could lead to the imposition of sanctions by the NBU. This could have a material adverse effect on results of operations and financial condition. As at 31 December 2017, the minimum level required by the NBU is 10.0% (31 December 2016: 10.0%).

As at 31 December 2017, the Bank regulatory capital adequacy ratio, calculated in accordance with the NBU requirements, is 35.44% (31 December 2016: 39.44%). The Bank complied with the requirements of the National Bank of Ukraine regarding the regulatory capital adequacy ratio as at 31 December 2017 and 2016. The regulatory capital as at 31 December 2017 is UAH 366,669 thousand (31 December 2016: UAH 344,170 thousand).



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The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord I, as at 31 December:

	<b>2017</b>	<b>2016</b>
<b>Tier 1 capital</b>		
Share capital	274,019	178,474
Retained earnings, share premium and additional paid in capital	80,717	77,116
<b>Total Tier 1 capital</b>	<b>354,736</b>	<b>255,590</b>
Subordinated debt	38,268	92,858
<b>Total capital</b>	<b>393,004</b>	<b>348,448</b>

## 29 Balances with related parties

The Bank grants loans and advances to customers, 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 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 which are under common control with the Bank, members of the Supervisory Board, key management personnel and their close family members, companies that are controlled or significantly influenced by shareholders, by key management personnel or by their close family members.

As at 31 December 2016 and 2017, the ultimate controlling party of the Bank is JSC “ALTINBAŞ HOLDING ANONİM ŞİRKETİ”, which is ultimately controlled by members of Altinbaş family.

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

	<b>2017</b>	<b>2016</b>
<b>Balances and transactions with the Parent company</b>		
<b>Statement of financial position as at 31 December</b>		
Subordinated debt	38,268	92,858
<b>Statement of comprehensive income:</b>		
Interest expenses	7,811	10,446
<b>Balances and transactions with the key management personnel</b>		
<b>Statement of financial position as at 31 December</b>		
Loans and advances	-	10
Due to customers	9,834	2,094
<b>Statement of comprehensive income:</b>		
Interest income	3	6
Interest expenses	403	113
Salaries and related charges	11,041	10,531
<b>Balances with related parties</b>		
<b>Statement of financial position as at 31 December</b>		
Due to customers	61	64
<b>Statement of comprehensive income:</b>		
Interest expenses	-	-

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

	Interest			Interest rate			Interest rate	
	UAH	rate	USD	Interest rate	EUR	Interest rate		
<b>Balances with the Parent company and other entities under common control</b>								
Subordinated debt	-	-	38,268	5,5%	-	-	-	-
<b>Balances with key management personnel</b>								
Deposits from customers	53	15%	9,287	3-6%	-	-	-	-
Current accounts	220	0.25-6%	257	0.25-0.5%	17	0,25%	-	-
<b>Balances with related parties</b>								
Current accounts	-	-	61	0.25%	-	-	-	-

The foreign currency positions and interest rates of transactions with related parties as at 31 December 2016 are as follows:

	Interest			Interest rate			Interest rate	
	UAH	rate	USD	Interest rate	EUR	Interest rate		
<b>Balances with the Parent company and other entities under common control</b>								
Subordinated debt	-	-	92,858	5.5%	-	-	-	-
<b>Balances with key management personnel</b>								
Loans and advances	10	36.0%	-	-	-	-	-	-
Deposits from customers	-	-	1,846	4-6.5%	-	-	-	-
Current accounts	79	0.25-10%	161	0.25-2%	10	0.25%	-	-
<b>Balances with related parties</b>								
Current accounts	-	-	64	0.25%	-	-	-	-

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

	<b>Within one month</b>	<b>From one to three months</b>	<b>From three months to one year</b>	<b>1-5 years</b>	<b>More than five years</b>	<b>Total</b>
<b>Balances with the Parent company and other entities under common control</b>						
Subordinated debt	-	-	-	38,268	-	<b>38,268</b>
<b>Balances with key management personnel</b>						
Due to customers	720	3,047	6,067	-	-	<b>9,834</b>
<b>Balances with related parties</b>						
Due to customers	61	-	-	-	-	<b>61</b>

The contractual remaining maturities of balances with related parties as at 31 December 2016 are as follows:

	<b>Within one month</b>	<b>From one to three months</b>	<b>From three months to one year</b>	<b>1-5 years</b>	<b>More than five years</b>	<b>Total</b>
<b>Balances with the Parent company and other entities under common control</b>						
Subordinated debt	-	-	-	-	92,858	<b>92,858</b>
Due to customers	-	-	-	-	-	-
<b>Balances with key management personnel</b>						
Loans and advances	-	-	-	10	-	<b>10</b>
Due to customers	248	470	1,376	-	-	<b>2,094</b>
<b>Balances with related parties</b>						
Due to customers	64	-	-	-	-	<b>64</b>

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.

### 30 Estimation of fair value

#### (a) Fair value of financial assets and liabilities not measured at fair value

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities measured at amortized value in the financial statements. The table below does not set out the fair values of non-financial assets and non-financial liabilities.

	2017		2016	
	Total carrying amount	Fair value	Total carrying amount	Fair value
Cash and cash equivalents	215,969	215,969	235,022	235,022
NBU certificates of deposit	290,625	290,625	60,039	60,039
Due from banks	3,172	3,172	3,073	3,073
Loans and advances to customers	1,080,066	1,092,340	842,875	856,562
<b>Total</b>	<b>1,589,832</b>	<b>1,602,106</b>	<b>1,141,009</b>	<b>1,154,696</b>
Due to banks	141,614	141,614	293,139	293,139
Due to customers	900,874	904,710	524,879	525,163
Due to international financial institutions	167,722	167,722	-	-
Subordinated debt	38,268	38,813	92,858	102,367
<b>Total</b>	<b>1,248,478</b>	<b>1,252,859</b>	<b>910,876</b>	<b>920,669</b>

The methods and assumptions used to determine the fair value of the financial instruments that are not carried at fair value in the financial statements are described below.

#### *Assets which fair value approximately equal to their carrying amount*

For the financial assets and financial liabilities that are liquid or mature in short-term (less than three months), it is assumed that their carrying amount is approximately equal to their fair value. The said assumption also applies to deposits on demand, savings accounts with no fixed maturity, and floating-rate financial instruments.

#### *Financial assets and financial liabilities measured at amortized cost*

For the instruments carried at amortized cost, a cash flow discounting model using the current market rates for the similar financial instruments with the similar status, similar credit risk and maturity, is used.

#### (b) Financial instruments measured at fair value

All assets and liabilities which fair value is measured or disclosed in the financial statements are classified by the level of the fair value measurement hierarchy presented below at the lowest level being material one for the measurement of fair value as a whole:

- Level 1: instrument is measured at quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: valuation methods for which all inputs with significant effect on fair value belong to the lowest level of the hierarchy and can be obtained, directly or indirectly, based on the observable market sources; and
- Level 3: valuation methods for which all inputs with significant effect on fair value belong to the lowest level of the hierarchy and cannot be obtained, directly or indirectly, based on the observable market sources.

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For assets and liabilities recognized in the financial statements on an ongoing basis, the Bank at the end of each reporting period analyses whether there was a transition between levels of the hierarchy by repeated assessment of the breakdown by categories (based on the data of the lowest level, which is generally important for the fair value measurement).

For the purpose of disclosing the information at fair value, the Bank determines the classes of assets and liabilities based on the nature, characteristics and risks of an asset or liability, as well as fair value hierarchy.

<b>31 December 2017</b>	<b>Fair value</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets (liabilities) measured at fair value</b>				
Other liabilities (Derivative financial instruments)	-	-	-	-
<b>Financial assets carried at amortised cost</b>				
Cash and cash equivalents	-	215,969	-	<b>215,969</b>
NBU certificates of deposit	-	290,625	-	<b>290,625</b>
Due from banks	-	3,172	-	<b>3,172</b>
Loans and advances	-	993,120	99,220	<b>1,092,340</b>
<b>Financial assets carried at amortised cost</b>				
Due to banks	-	141,614	-	<b>141,614</b>
Due to customers	-	904,710	-	<b>904,710</b>
Due to international financial institutions	-	167,722	-	<b>167,722</b>
Subordinated debt	-	38,813	-	<b>38,813</b>

Information on changes in the value of investment property in 2017 is disclosed in note 10.

<b>31 December 2016</b>	<b>Fair value</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets (liabilities) measured at fair value</b>				
Other liabilities (Derivative financial instruments)	-	(375)	-	<b>(375)</b>
<b>Financial assets carried at amortised cost</b>				
Cash and cash equivalents	-	235,022	-	<b>235,022</b>
NBU certificates of deposit	-	60,039	-	<b>60,039</b>
Due from banks	-	3,073	-	<b>3,073</b>
Loans and advances	-	856,562	-	<b>856,562</b>
<b>Financial assets carried at amortised cost</b>				
Due to banks	-	293,139	-	<b>293,139</b>
Due to customers	-	525,163	-	<b>525,163</b>
Subordinated debt	-	-	102,367	<b>102,367</b>

Below is a description of the fair value measurement of financial instruments carried at fair value using valuation techniques. They include a valuation by the Bank of assumptions that might be used by the market participant in determining the value of the instruments.

#### *Derivative financial instruments*

Derivative financial instruments measured using valuation techniques using observable input data are mainly represented by currency swaps and forward currency contracts. The most common valuation techniques include the forward and swap valuation models using estimates of the future cash flows present value. Models use different inputs, including current and forward exchange rates.

For the year ended 31 December 2017 there were no transfers of financial assets or financial liabilities between levels of the fair value hierarchy.

### **31 Subsequent events**

Events after 31 December 2017 required no changes to financial statements.

### **32 Other information in accordance with the requirements of the Ukrainian legislation**

To comply with the National Committee for Securities and Stock Market Resolution no. 2187 dated 8 October 2013 (as amended), the Bank hereby discloses the following information as at 31 December 2017:

- The Bank's net assets value as at 31 December 2017 exceeds the share capital which complies with art. 155, the Civil Code of Ukraine.
- As at 31 December 2017, the Bank's share capital is fully paid in solely via cash contributions in the equivalent of UAH 204,933 thousand.
- Share capital contributions in the amount of UAH 204,933 thousand were made in the course of the share issues during 2006-2017.

Subject to Resolution #18 of the Shareholder of Public Joint-Stock Company WEST FINANCE AND CREDIT BANK dated 24 April 2017, it was decided to increase the Bank's share capital by increasing the total nominal value of the Bank's shares to UAH 204,932,973.60 (two hundred and four million nine hundred and thirty-two thousand nine hundred and seventy-three hryvnias 60 kopecks) and to UAH 1.80 per share by contributing a part of the Bank's profit in the amount of UAH 28,462,913.00 (twenty-eight million four hundred and sixty-two thousand nine hundred and thirteen hryvnias 00 kopecks) to the Bank's statutory capital. The new Charter was adopted by Resolution of the Shareholder (Minutes #18 dated 24 April 2017) and approved by the National Bank of Ukraine on 19 May 2017. Under NSSMC Share issue registration certificate No.№62/1/2017 of 16 June 2017, the issue of the Bank's registered ordinary shares in the amount of UAH 204,932,973.60 (two hundred and four million nine hundred and thirty-two thousand nine hundred and seventy-three hryvnias 60 kopecks), with nominal value of UAH 1.80 (one hryvnia 80 kopecks) per share was registered by the NSSMC.

Subject to the Shareholder's resolution (Minutes #20 dated 28 August 2017), it was decided to increase the share capital via additional contributions and private placement of the Bank's shares in the total amount of UAH 65,000,001.60. On 1 November 2017, the Bank obtained temporary share issue registration certificate No.118/1/2017-T from the National Commission on Securities and Stock Market on the registration of the issue of the Bank's shares in the total amount of UAH 65,000,001.60.

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Subject to the terms and conditions of the private placement, the actual placement comprised 36,111,112 ordinary registered shares of the Bank with the total nominal value of UAH 65,000,001.60 that were subsequently fully paid in by the Shareholder, which is entirely supported by relevant payment documents (payment order No.1 dated 22 December 2017) and share purchase agreements (securities sale and purchase agreement No. 3 dated 06 November 2017 for 36,111,112 shares; (payment order No. 1 dated 22 December 2017).

The entry into contracts with the original owners in the private placement process, as well as the private placement results and the report thereon were approved by Minutes of the Bank's Management Board dated 29 December 2017.

Subject to the Shareholder's resolution (Minutes #22 dated 12 January 2018), the Bank's Charter was amended due to the additional issue of the Bank's shares. The new edition of the Charter was approved by the National Bank of Ukraine on 13 February 2018. In accordance with the new edition, the amount of the Bank's share capital is UAH 269,932,975.20.

- There were no events subsequent to the balance sheet date till the date of the independent auditors report, except for those disclosed in note 31 to the financial statements, and other circumstances that had not been reflected in the financial statements, but might have significant impact on the Bank's financial position or significantly affect the Bank's performance in the foreseeable future. The composition and structure of the financial investments are presented in note 7 to the financial statements. As at 31 December 2017, the Bank financial investments include:
  - Deposit certificates issued by the NBU for UAH 290,625 thousand.
- There were no other financial statements prepared in accordance with the Laws of Ukraine and regulations of the Commission except for annual financial statements and interim financial statements prepared in accordance with International Financial Reporting Standards.

**Approved for issue and signed on behalf of the Bank Management Board**

I.U. Tikhonov

Head of the Board



I.M. Kuzmenko

Chief Accountant

29 March 2018