JOINT STOCK COMPANY
“FIRST UKRAINIAN INTERNATIONAL BANK”

Management report

Financial statements

For the year ended 31 December 2018,
with independent auditor’s report

Translation from Ukrainian original

Translation form Ukrainian original

JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"

Contents

Nature of business

PUBLIC JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" (the Bank or FUIB) was established on 20 November 1991 and commenced operations in April 1992. The Bank provides a full range of banking services, including taking deposits and granting loans, investing in securities, transferring payments in Ukraine and abroad, exchanging currencies and issuing and processing of payment cards.

The Bank is a member of Individuals Deposits Guarantee Fund starting from 2 September 1999 (registration certificate No. 102 dated 6 November 2012), which operates according to the Law of Ukraine No. 2740-III On Individuals Deposits Guarantee Fund. The Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual (31 December 2017: UAH 200 thousand).

As at 31 December 2018 and 2017, the Bank's shareholders are "SCM FINANCE" (92.2% of share capital), SCM HOLDINGS LIMITED (Cyprus) (7.7% of share capital) and an individual (0.1% of share capital). The ultimate controlling party of the Bank is a Ukrainian citizen, Mr. R.L. Akhmetov.

The Bank's legal address is: 4 Andriivska Street, Kyiv, Ukraine. As at 31 December 2018, the Bank had 6 regional centers and 175 branches throughout Ukraine (31 December 2017: 6 regional centers and 158 branches throughout Ukraine).

In December 2018, the Bank changed its name to JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" and its legal form was changed from public joint stock company to private joint stock company.

FUIB is a universal bank that has been operating in the Ukrainian financial market for more than 26 years and serves large and medium enterprises, small and medium companies and private individuals.

FUIB is included in the group of the largest banking institutions of the country according to the classification of the National Bank of Ukraine. The Bank is among TOP-10 Ukrainian banks in terms of key financial indicators, such as volume of assets, equity, loan portfolio, amounts from corporate clients, private individuals and others.

According to the Law of Ukraine "On banks and banking activity" and on the basis of licenses and written permissions granted by the National Bank of Ukraine FUIB is engaged in the following activities:

- accepting deposits from legal entities and private individuals;
- opening and maintaining current accounts of banks and clients;
- placing attracted funds on its own behalf and at its own risk;
- providing guarantees, sureties and other obligations from/to third parties;
- providing custody services, renting safe-deposits for valuables and documents;
- issuing, buying, selling and servicing checks, promissory notes and other negotiable payment instruments;
- issuing payment cards and processing card transactions;
- carrying out foreign currency operations;
- carrying out securities purchase and sale transactions on its own behalf and on behalf of clients;
- issuing its own securities;
- investing in statutory funds and shares of other legal entities;
- performing depositary activity and inscribed securities register keeping.

In 2018, the Ukrainian government continues to pursue a comprehensive structural reform agenda aiming at the removal of the existing imbalances in the economy, public finance and governance, fighting corruption, reforming judiciary system, etc. with the ultimate goal to secure conditions for the economic recovery in the country. Stabilization of the Ukrainian economy in the foreseeable future depends on success of actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions.

According to preliminary estimates, GDP growth in 2018 beat the record for the last 7 years and amounted to 3.3%. The largest increase was observed in the agricultural industry and amounted to 7.8% comparing to the year 2017, which is primarily due to the record harvest of cereals. Domestic trade and construction grew by 6.1% and 4.4% respectively. The lowest growth was observed in the industrial sector - only 1.1%.

The year 2018 was one of the most successful years in the history of banking in Ukraine. According to the NBU estimates, the total profit of Ukrainian banks was more than UAH 16 billion. Excluding the performance of state Russian banks and insolvent bank «Bank Financial Initiative» the rate of return for the year doubled to almost UAH 33 billion. FUIB has become the best profitable privately owned bank, and has been ranked 4th in the overall Ukrainian banks' rating.

Increased profitability of the banking system was driven by prevailing growth in operating income over costs (29% compared to 3% in operating costs) and decrease in expenses for expected credit losses allowances by 37%. The share of commission income in the general structure of income increased by 2% and reached almost 30%.

In 2018, the retail business reached the pre-crisis level of 2013 in the national currency terms. The largest growth was observed in the lending segment. At the end of 2018, the net volume of loans to individuals was almost UAH 106 billion which is by 3% more than in 2013 and by 34% more than in 2017. For the second year in a row the amount of loans to private individuals grew by more than UAH 20 billion while cash loans and credit cards remained the key priority. the There is a high competition within the segment with more and more attention paid to non-price parameters, such as: decision-making time, quality of service and active loyalty programs.

The amounts due to private individuals also reached the pre-crisis level in 2018 (UAH 268 billion compared to UAH 253 billion at the end of 2013). So, the the portfolio grew by more than 14% (by UAH 33 billion) during the year. The the foreign currency portfolio nearly remained unchanged since the beginning of the year and amounted to about USD 8.7 billion. For comparison: the the amounts due to private individuals in foreign currency were USD 23.6 billion at the end of 2013. The main restraints for foreign currency deposits recovery in the banking system are low interest rates and devaluation expectations of individuals. Approximately 65% of all amounts due to private individuals in national currency are concentrated with the state-owned banks.

The Net loans to legal entities in the national currency the were UAH 246 billion at the end of 2018 with an increase of 5% from the beginning of the year. The largest growth was reported by the state-owned banks. In 2018, the amounts due to legal entities in national currency the grew by 6% to UAH 280 billion. The largest increase was recorded in the current account balances (rise by 8% to UAH 197 billion), increasing its share in the amounts due to legal entities to 70%.

Since 2014, the Bank was not able to carry out its operating activities in the Crimea and certain areas of the Donetsk and Lugansk regions and was forced to relocate its activities from these regions. After the annexation of the Crimea, the Bank has closed all of its 10 branches in the area. Additionally, the Bank closed 42 branches that were located in regions outside the control of the Government of Ukraine in Donetsk and Lugansk regions.

Further development of banking system depends not only on business environment but also on the Ukrainian economy as a whole.

Management bodies and corporate governance

During 2018, he Supervisory Board of the bank the has performed its duties directed to protecting the rights of depositors, other creditors and the Bank's shareholders', and within its authority limits defined by the Bank's Statute and Ukrainian legislation, directed and controlled the activities of the the the the Bank's Management Board. The Supervisory Board of the Bank participated in all important and strategic decisions according to its authority limits and after conducting deep analysis of the events and the situation in the banking sector.

In 2018, the Management Board of the Bank provided information to the Supervisory Board on a regular basis and reported timely and comprehensively on: the strategy and business plan implementation, the Bank's performance, changes in regulatory requirements, execution of risk management policy and strategy, the functioning of the internal control system etc. Thus, the Supervisory Board of the Bank continuously performed oversight and advisory functions after in-depth analysis and taking into account all relevant facts.

the The Supervisory Board of the Bank in its activity is guided by the laws of Ukraine "On Banks and Banking activity", "On Joint Stock Companies", by other laws and regulations of Ukraine, by regulations of the National Bank of Ukraine, by the Charter of the Bank, by the General Shareholders' Meeting decisions as well as by the Bank's regulation "On the Supervisory Board of the JOINT-STOCK COMPANY" FIRST UKRAINIAN INTERNATIONAL BANK ".

The Members of the Supervisory Board as at the end of the year 2018 are presented below:

Members of the Supervisory Board

Popov Oleg Mikolayovych	Chairman of the Supervisory Board
Kurilko Sergiy Evgenievich	Member of the Supervisory Board
Dugadko Anna Oleksandrivna	Member of the Supervisory Board
Katanov George Bogomilov	Member of the Supervisory Board
Povazhna Margarita Victorivna	Member of the Supervisory Board
Susan Gail Buyske	Member of the Supervisory Board
Stalker Catherine Elizabeth Ann	Member of the Supervisory Board – an independent director
Ansis Grasmanis	Member of the Supervisory Board – an independent director
Mihov Valentin Lyubomirov	Member of the Supervisory Board – an independent director

The Management Board meetings agenda in the year 2018 usually included consideration of the following: main events to cover in the report to the Supervisory Board of the Bank; results of monthly, quarterly, semi-annual and annual performance of the Bank; approval of new branches opening and selection of premises for them; internal audit reports on the Bank's structural divisions and business processes inspection; risk management effective system implementation status; standard quarterly risk management reports (on risk appetite indicators, on interbank placements and investment securities transactions, prudential ratios compliance for relevant periods of the year 2018, including adherence to compliance risk tolerance limits, etc.); reporting on the Bank's regulatory audit status; monthly review of clients' complaints; social engineering; periodic review of the Bank's IT management reportsthe ; list of related parties monthly review and approval; internal regulations review and approval, as well as preliminary consideration of issues submitted for the Supervisory Board approval.

The Members of the Management Board as at the end of the year 2018 are presented below:

Members of the Management Board

Chernenko Sergiy Pavlovych	Chairman of the Board;
Kozhevin Igor Oleksiyovych	Deputy Chairman of the Board – CFO;
Volchkov Oleksiy Anatoliyovych	Deputy Chairman of the Board;
Kosenko Natalia Feliksivna	Deputy Chairman of the Board;
Shkolyarenko Konstantyn Oleksandrovych	Deputy Chairman of the Board;
Zagorodnikov Arthur Germanovych	Deputy Chairman of the Board;
Skalozub Leonid Pavlovych	Deputy Chairman of the Board;
Sebastian Rubaj	Deputy Chairman of the Board;
Eremenko Fedot Evgeniyovych	Deputy Chairman of the Board – CRO;
Khara Edward Anatoliyovych	Member of the Board, responsible for financial monitoring.

For its corporate governance the Bank is guided by the Corporate Governance Code of JOINT STOCK COMPANY «FIRST UKRAINIAN INTERNATIONAL BANK» adopted by Extraordinary General Meeting of Shareholders on 27 November 2018. The Code is publicly available the at https://about.pumb.ua/management

Before adopting the Corporate Governance Code of JOINT STOCK COMPANY «FIRST UKRAINIAN INTERNATIONAL BANK» on 27 November 2018 the Bank was guided by the following main corporate governance principles:

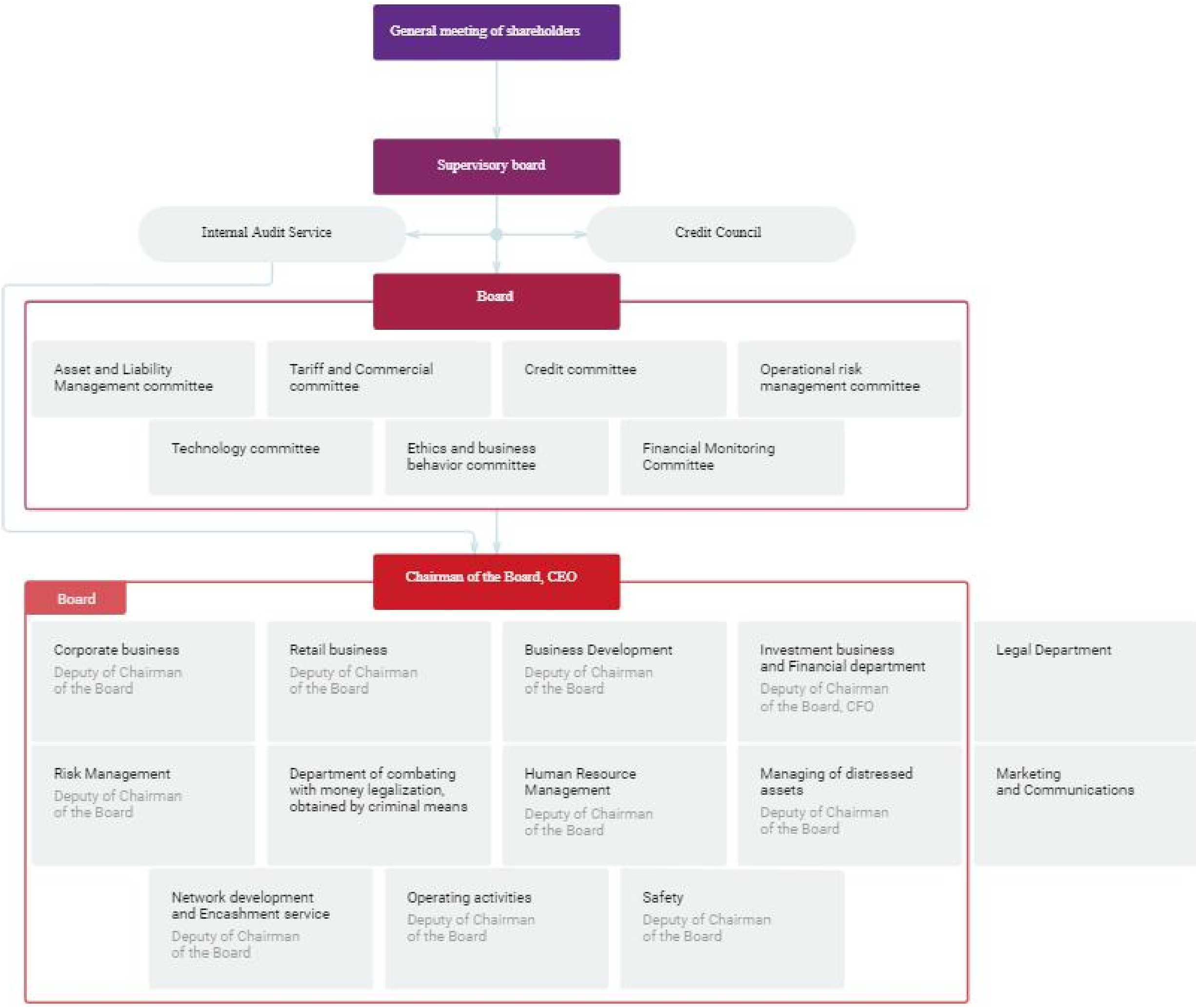
- honesty, integrity and respect in relations with owners (shareholders) and investors as well as constant readiness to provide adequate protection for their interests and maximize their wealth;
- avoidance of unreasonably complex and excessively costly procedures to exercise the rights of the Bank's shareholders, while complying with the Ukrainian legislation and the Charter of the Bank.;
- equal treatment of all shareholders, including open communications with minority ones;
- identify strategic objectives of the Bank and control their implementation;
- implementation of high-quality and effective management system of the Bank;
- accountability of the Management Board to the General Shareholders Meeting and to the Supervisory Board of the Bank, which controls the activities of the Management Board;
- setting standards, rules and practices of corporate behavior for all employees of the Bank and the procedures of informing on misconduct, including fraud or corruption, according to the Bank's Code of Conduct that reflects key principles and standards of the Bank;
- effective management of compliance and other risks which the Bank faces including conflict of interests in order to protect the interests of its depositors, clients, counterparties, owners (shareholders) and employees in accordance with the Bank's implemented internal procedures;
- the transparency of the Bank's activity which is ensured by timely disclosure of accurate, objective and relevant information on the activities undertaken;
- responsibility which is about the the Bank recognizing the rights of all interested parties assigned by the current legislation of Ukraine and the Bank's focus on the mutually beneficial cooperation with these parties to ensure financial stability and development of the Bank.

The Bank has defined and operates a transparent corporate governance structure that provides:

- general management at the highest level by the General Shareholders Meeting ;
- regulation and control by the Supervisory Board of the Bank with the delegation of some of its powers to the Supervisory Board committees or working groups established in accordance with the current legislation, the Charter of the Bank and other internal documents and decisions of the Supervisory Board, which act on the basis of the regulation approved by the Supervisory Board;
- operational activity is managed by the Management Board with the delegation of some of its powers to the Management Board committees established in accordance with the current legislation, the Charter of the Bank and other internal documents and decisions of the Management Board, which act on the basis of the regulation approved by the Management Board;
- segregation of duties among all departments of the Bank using the model of three lines of defense to create the Bank's risk management system, which should provide ongoing risk analysis to make timely and adequate management solutions to mitigate risks and reduce the associated losses.

The Bank's shareholders, the General Meeting, the Supervisory Board, the Management Board are also among the corporate governance structure together with the Corporate Secretary as the person responsible for the Bank's interaction with shareholders and fulfilling other functions in the field of corporate governance.

The current Corporate governance model provides a high level of organizational set up which is supported by the bank's impeccable reputation on the market. At the core of FUIB activity are effective functions of control and risk management as well as timely response to legislative changes:



Management's objectives and strategies for achieving them

The Bank strives to remain one of the leading players in the Ukrainian banking market, above all in service quality, innovations and technology, while providing the best in the industry economic effect for shareholders in terms of business value appreciation and return on invested capital.

FUIB is a universal bank of national scale that offers leading financial products and services to both legal entities and private individuals.

FUIB conducts a transparent business and values its reputation.

FUIB's main principle is client orientation and the in-depth understanding of their needs, as well as building a business structure in accordance with the best international standards.

In accordance with the Development Strategy, the Bank is going to take measures to improve the business management system and increase the efficiency of business processes. An important component of internal changes will be the upgrading of the Bank's staff skills. The implementation of the Bank's internal improvement projects aims to support the development of commercial activities, reduce operating costs and provide tight control over different risks.

FUIB's main objective is to become the Bank of First Choice to our clients. To ensure achieving this goal FUIB has a clear vision of development paths, clear strategy, professional team, impeccable reputation, strong brand and shareholder support.

The main directions of development within the Development Strategy are:

- focus on building an efficient and sustainable banking model;
- concentration on two main client segments: corporate and retail;
- diversification of funding base by sources and the loan portfolio by major borrowers and industries;
- ensuring high liquidity ratios;
- risk control and keeping the level of provision costs at planned levels with the help of rigorous borrowers' selection
- implementation of the best banking services standards.

FUIB is an innovative bank, ready to outperform the market for technology. The Bank introduces new products and processes in customer service, using both traditional and alternative channels for providing financial products and services. At the same time FUIB improves the quality of the service and develops individual solutions for customers, which will increase the market share in each of the product and customer segments. Such The development is aimed at achieving the business objectives set out by the Development Strategy and supporting changes to the management model that require the introduction of new modern mechanisms and a qualitatively different level of management information.

Expenditures for development in 2018 are aimed at implementation of the Bank's approved Development Strategy on the Ukrainian banking market.

The main criteria for the Bank's success are to fulfill the planned targets: by the number of clients actively engaged in operations with the Bank, on customer satisfaction with banking services, the share of bad debts in loan portfolio, return on equity and net profit.

The Bank regularly carries out operational monitoring of the objectives implementation and introduces the best banking practice standards to put them into action.

Risks and resources

Resources

The Bank's customers are a significant number of individuals and entities from various industries. The Payment cards business plays an important role in expanding the client base.

The Bank is a principal member of the international payment systems Visa and MasterCard and operates its own processing center, which serves a large number of cards from other domestic banks. The presence of a widely-developed network of own ATMs and the Bank's affiliation with the financial and industrial group contribute to attracting a large number of enterprises for servicing salary projects.

Resource base of FUIB is diversified by sources of attraction (clients' funds, funds from the National Bank of Ukraine by means of refinancing, funds attracted on international markets, funds from domestic banks, budget funds, etc.) and by major counterparties, client deposit portfolio - by major depositors, and funds of legal entities - by types of economic activity. This diversification mitigates sensitivity to liquidity risk.

the In 2018, total customer accounts increased by 7.0%, the accounts to individuals increased by 7.1% and amounts of corporate clients increased by 6.8%.

The Bank fulfills its obligations to creditors on time and in full. the Funds attracted on international markets including Eurobonds issued were repaid in 2018. This reduced the share of the currency component in the Bank's resource base and, accordingly, reduced the debt burden on the Bank in terms of exchange rate fluctuations.

FUIB focuses mainly on corporate lending, the share of retail business is one third from the total customer's loan portfolio. Short-term loans prevail in the loan portfolio as well as loans to the finance current activity. Diversification of corporate loan portfolio of the Bank by type of economic activity is acceptable.

Taking into account the currency structure of customer accounts and attraction of funds on international markets, about one third of the clients' loan portfolio was loans provided in freely convertible currencies. In terms of borrowers with currency loans the vast majority is among the largest legal entities borrowers. The absence of foreign currency inflows from certain borrowers increases the Bank's sensitivity to currency and credit risks. Loans from Top-20 largest borrowers constitute 28% of the total loan portfolio before allowance for expected credit losses. Currently the client loan portfolio is diversified by major borrowers. The concentration of loans in relation to the Tier 1 capital, which varies depending on the change in the volume and structure of regulatory capital, was due to the devaluation of the national currency in 2014, taking into account the currency structure of the loans to the largest borrowers.

The quality of the loan portfolio is acceptable. As of the beginning of this year, the share of legal entities loans with Class 10 and loans to individuals with Class 5 (assessed in accordance with Resolution No. 351 of the National Bank of Ukraine) was 28%.

Significant amount of funds was directed into expected credit losses allowances that ultimately covered 25.6% of the loan portfolio in order to mitigate credit risk sensitivity.

Significant amount of funds on customer current accounts increases the Bank's sensitivity to liquidity risk. Diversification of the resource base by major lenders reduces the Bank's sensitivity to liquidity risk. The quality of the resource base is acceptable.

Operating efficiency during the reporting period was high. The Bank generates a stable positive cash flow both on interest-bearing assets and on commissions and trading activities. Profitable performance of the Bank during the reporting period was moreover fortified by successful collections of previously written off bad debts.

FUIB capital adequacy ratio and Equity structure is acceptable. According to the asset quality review conducted by the National Bank of Ukraine there is no capital shortage as at 1 January 2019. The Bank's capital adequacy exceeds the normative ratio prescribed by the NBU and the Ukrainian banking system average (FUIB capital adequacy ratio N2 = 16.34%, normative – 10%, the Ukrainian banking system average – 16.18%).

The structure of regulatory capital allows to further increase capitalization using subordinate debt facilities.

Taking into account the structure of the Bank's liabilities by maturity, the amount and share of highly liquid assets is significant.

Investments in government bonds and deposit certificates of the National Bank of Ukraine comprise 63% of highly liquid assets. The funds on the correspondent account with the NBU are maintained to the extent necessary for servicing clients' operations and fulfillment of the Bank's obligations. The majority of funds on nostro accounts are placed with non-resident investment class banks.

FUIB's liquidity indicators are acceptable. At the end of 2018, the Bank's liquidity ratios were above the required levels set by the National Bank of Ukraine:

- (N4) Instant Liquidity Ratio – 68.66 %, minimum required by the NBU – 20%;
- (N5) Current Liquidity Ratio – 77.91 %, minimum required by the NBU – 40%;
- (N6) "Short-term Liquidity Ratio – 101.33 %, minimum required by the NBU – 60%.

Liquidity coverage ratio (LCR), a new prudential ratio for Ukrainian banks, adopted by the National Bank of Ukraine on 15 February 2018:

- for all currencies – 161%, minimum required by the NBU – 80%;
- in foreign currency – 148%, minimum required by the NBU – 50%.

In 2019, the Bank plans to finance its activities, the adequacy of working capital and liquidity by:

- increasing attractions from corporate customers;
- increasing funds from private individuals.

The Bank invests funds or acquire certain assets under the FUIB Growth Strategy. Financing is carried out through internal procedures with funds received from operating activities or profit reinvestment.

Total investment of the Bank in its fixed and intangible assets in 2018 amounted to UAH 392 million. Plan by the end of 2021 – more than USD 1.5 billion.

As at 31 December 2018, the Bank had capital expenditure commitments stipulated in the contracts for equipment purchase in the amount of UAH 24.2 million. The Bank's management has already allocated the necessary resources to fulfill the obligations. The Bank's management believes that future net income and financing will be sufficient to meet these and other similar obligations.

Plans for expansion or improvement of fixed assets and the reasons for their implementation are also carried out in accordance with the FUIB Growth Strategy and are financed through internal sources. Investment plans include expansion of branches network, ATMs, POS-terminals, investment in IT – in order to implement effective changes in business processes.

FUIB adheres to the high standards in the provision of decent and safe working conditions for employees and development of their professional skills. FUIB carries out its activities, observing the principles of conscientious working practices and respecting human rights.

The Bank's employees include economists and financiers, people of intellectual and creative professions, people who work in offices, branches and sales outlets. Employees are our Bank's main asset, the key to sustainable development of the financial institution.

A Collective Agreement which guarantees the protection of the rights and interests of each FUIB employee is in effect in the Bank. Everyone has equal rights and opportunities regardless of gender, race, age, place of residence, religion and political beliefs.

In 2018, FUIB traditionally invested in the improvement of the workplace safety, preservation of employees' life and health. The Bank conducted laboratory studies of workplaces for the presence of harmful factors, preliminary and periodic medical examinations of employees, financed the inspection of buildings to identify the potential danger of the facility, the conducted examination of the newly opened branches compliance with fire safety rules, the pre-trip medical examination of drivers of vehicles and much more.

Development of the employees is one of the main strategic directions. The Bank trains its employees remotely at trainings, seminars, master classes and workshops. By raising the level of knowledge and skills, our colleagues can implement more complex projects and tasks, thereby strengthening their competencies and developing the Bank.

For beginners, the Bank offers training that allows to adapt quickly and to fulfill their new responsibilities easily. For professionals, in order to discover their potential, it is possible to select training programs and inspiring projects together with the superior.

For the new technology fans, the the Bank implements the IT Drive project. Employees of the Information Technology Department initiate and implement the ideas aimed at improvement of the internal processes and the experience of customers in using the Bank products.

Managers of the Bank are trained in the “School of Management”, from mastering the basic skills of the manager to managing changes and projects.

Those employees who have something to share with others can be trained in the “Institute of Internal Coaching”. They can develop and conduct trainings for the colleagues.

The Bank has a Code of Conduct that reflects the basic principles of corporate conduct and ethical standards for employees of FUIB. The Code of Conduct is based on the principles of honesty and integrity and defines minimum requirements for the behavior of a Bank employee. The Code of Conduct of FUIB is intended to help each employee to get an idea of the ideology and system of values of the Bank, its corporate culture, established ethical norms of employee behavior, the manner of communication with colleagues, clients and partners, solve complex ethical situations, to prevent a situation of conflict of interests arising during the work process. The Bank expects all employees and representatives of the Bank to be guided by the highest standards of personal and professional integrity in all aspects of their activities and comply with all relevant laws, rules, practices and principles of the Bank. Under no circumstances should employees jeopardize the reputation of the Bank as well as the principles of integrity, even if it may grant the Bank with potential benefits. When starting to work at FUIB, each employee is responsible for their behavior, including compliance with the laws, this Code of Conduct, corporate principles and internal documents of the Bank.

When implementing innovative technologies into business processes and customer service, FUIB supports “green” standards and makes its contribution to the preservation of the environment.

Not only are self-service online systems convenient for customers and profitable for business, but they are also beneficial to the environment. Thus, Internet banking “FUIB online 2.0” offers savings in term of customer’s time and money and instead of visiting standard offices it offers a wide range of online services without leaving home. This in turn reduces the load on the Bank. Overall, this is a significant economy of natural resources and energy that would be required for the organization and operation of the branches.

Everyday FUIB employees make efforts to preserve the environment: apply principles of the “Green Office”: save energy resources, save paper, optimally use the equipment and procedures for electronic document management, collect waste paper and participate in other environmental initiatives.

In 2018, the Bank continued to replace traditional illuminants with energy-saving ones and to apply electricity saving policies. the Application of new energy-saving technologies in office premises reduces electricity and water consumption. There is an active environmental initiative for collecting paper for recycling and disposal of other recyclable materials. In addition, FUIB handed over for recycling to other organizations all hazardous and non-hazardous waste of the Bank for the year.

First Ukrainian International Bank is actively developing corporate volunteering. Our employees participate in environmental and social initiatives. FUIB employees took part in ecological volunteer clean-ups, participate in a large-scale nationwide action of SCM Group. With their own hands they make the life of their cities better, clean parks, squares and playgrounds from garbage. On the eve of the International Children's Day, FUIB employees together with their families participate in a charitable “Chestnut Run”, which is held in the central streets of Kyiv. FUIB team was the one of the most numerous teams of the run. All funds collected within the framework of the project are transferred to charity. FUIB's football team participates in the charitable futsal tournament “Cup of Hope”, which is organized by the club "Football For All" and a charitable foundation for assistance for children with cancer "Crab". All funds collected were transferred to charity. FUIB has been supporting children from orphanages for nine years. The Bank carries out charitable promotions to collect essential supplies and cash donations for the children of specialized child care centers in different regions of Ukraine. Fourth consecutive year FUIB has been participating in the Donor Day. The collected blood was transferred to small patients, suffering from oncological diseases. Third consecutive year FUIB has been participating in the Lots of Socks campaign. The bank's employees express their support for people with Down syndrome; they take part in a flash mob with colored socks and collect financial aid for the activities of the All-Ukrainian charitable organization “Down Syndrome”. It finances the work of the Center for Early Development and the implementation of programs for the development of children with Down syndrome.

Risks

Risk is inherent to banking and it is managed through the process of ongoing identification, measurement and control, subject to risk limits and other controls. The process of risk management is critical to the Bank’s continuing profitability, and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank’s strategic planning process.

The risk management policy, monitoring and control are conducted by a number of specialised bodies and units within the Bank. The unit most actively involved in such management is the Risk Management Division of the Bank subordinated to the Deputy Chairman of the Management Board on Risks (CRO) and reporting to the Supervisory Board, Management Board, Credit Council of the Bank, Assets and Liabilities Management Committee, Operational Risk Management Committee

The Bank’s risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical and expert models. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment. The Bank also runs worst case scenarios that would arise should extreme events, which are unlikely to occur, do, in fact, occur.

The Bank takes on the exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers. Such risks are monitored on a continuous basis and are subject to a regular review. Limits on the level of credit risk per borrower are approved regularly by the Credit Council of the Bank and the Credit Committee of the Bank.

The exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. The exposure to credit risk is also managed, in part, by obtaining collateral and corporate guarantees.

Liquidity risk is the risk that the Bank will be unable to discharge its payment obligations when due in the course of usual economic activity and under stress circumstances. To limit this risk, the management has ensured diversified funding sources in addition to the Bank’s core deposit base, manages assets in compliance with its liquidity principles and monitors future cash flows and liquidity on a daily basis.

To sure its ability to fulfill clients’ and own obligations, the Bankthe has implemented the a policy aimed at maintaining the liquid assets at the a level sufficient to cover any unexpected withdrawal of a part of the client deposits placed with the Bank as a precaution against further deterioration in the economic situation, specifically, through formation of so called “liquidity cushion”. The liquidity risk is measured by the Bank by using the gap analysis and forecasts of the expected future cash flows during a 1-year term. In addition, the stress tests scenarios are applied to the forecasted future cash flows developed based on the statistical data of the Ukrainian banks’ results under the conditions of the financial crisis.

In addition, the liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the NBU. At as 2018 year end, tThe Bank has safety margin on most economic NBU ratios.

Interest rate risk is a potential menace of losses incurrence, decrease in income or decrease in value of the Bank's capital as a result of unfavourable changes in interest rates in the market. The risk appears primarily as a result of differences in maturities of assets and liabilities of the Bank by terms of sensitivity to changes in interest rates. Thus, the interest rate risk is the result of the unbalanced structure of statement of financial position by assets and liabilities by residual term to re-pricing date that are sensitive to changes in interest rates.

The Bank assesses interest rate risk by scenario of parallel shift of yield curve towards the increase in interest rates by 200 bpp in major currencies (UAH, USD, EUR). As at 31 December 2018, the Bank was exposed to interest rate risk, whose realisation may impact net interest income within 1-year horizon – a possible decrease by UAH 56,331 thousand (31 December 2017: due to changes in the approach to assess the interest risk amount, the recalculated amount was a decrease by UAH 25,523 thousand).

The Bank assesses the above level of the interest rate risk as acceptable and controllable, which will not affect significantly the Bank's yield and stable financial position.

Currency risk is the risk associated with the impact of foreign exchange rates fluctuation on the value of financial instruments.

The Bank performs currency risk assessment using Value-at-Risk assessment methodology (VaR) taking into consideration recommendations of International Convergence of Capital Measurement and Capital Standards, June 2006 and Revision to Basel II market risk framework, December 2010. VaR allows to assess maximum possible extent of losses with set confidence level for a certain period of time.

The Bank performs VaR calculation using historical modelling method so as to assess the currency risk in normal and stressed conditions of financial market development. VaR calculation is based on 251 days disregarding historical data on market currency rates; the calculation period during which the Bank would be probably able to close open foreign currency positions is 10 days and one-sided confidence level is 99%.

The results of currency risk calculation using VaR method as at 31 December are as follows:

Index	**2018**	**2017**
Currency risk without diversification consideration		
USD	8,789	79,009
EUR	8,997	5,538
RUB	8,985	45,715
other currencies	4,803	4,076
Total currency risk without diversification	**31,574**	**134,338**
Diversification effect	(24,903)	(15,322)
Currency risk with diversification consideration	**6,671**	**119,016**

The above data is calculated based on internal management accounts of the Bank which are based on the operational financial statements prepared in accordance with IFRS.

Assets and Liabilities Committee of the Bank examines the results of currency risk assessment on a monthly basis.

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Bank. The Bank considers the total capital under management to be the total regulatory capital. The amount of the capital that the Bank manages is UAH 5,289,311 thousand as at 31 December 2018 (31 December 2017: UAH 3,526,143 thousand).

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets computed based on the Ukrainian accounting rules. As at 31 December 2018 and 2017, the Bank's capital adequacy ratio on this basis was as follows:

	2018	**2017**
Main capital	3,759,198	2,798,998
Additional capital	1,530,113	727,145
Withdrawals	(7,056)	(6,756)
Total equity	**5,282,255**	**3,519,387**
Risk-weighted assets	**32,324,099**	**29,916,078**
Capital adequacy ratio	**16.34%**	**11.76%**

As at 31 December 2018, the Bank was compliant with the regulatory requirements to capital.

As at 31 December 2018 and 2017, the Bank's capital adequacy ratio calculated in accordance with the Basel I requirements was as follows:

	2018	**2017**
Tier 1 capital		
Share capital	3,294,492	3,294,492
Share premium	101,660	101,660
Reserve fund	1,475,430	1,475,430
Retained earnings/ (accumulated deficit)	996,305	(620,266)
Total tier 1 capital	**5,867,887**	**4,251,316**
Tier 2 capital		
Asset revaluation reserves	449,982	553,409
Eligible subordinated debt	292,887	391,725
Total tier 2 capital	**742,869**	**945,134**
Total equity	**6,610,756**	**5,196,450**
Capital adequacy ratio at 31 December		
Risk-weighted assets	37,650,032	33,720,402
Total equity	6,610,756	5,196,450
Capital adequacy ratio (%)	**17.56%**	**15.41%**

The existing risk management system evolves along with the growth of the Bank and is based, among other, on the experience of overcoming major systemic crises in 1999, 2004, 2008, 2014. The management believes that the current stage the mature system of risk management has been formed, which allows to effectively eliminate both current and strategic challenges.

Shareholders and related parties relationships

In the normal course of business, the Bank enters into transactions with significant shareholders, companies under common control and other related parties. These transactions include settlements, loans, deposits, trade finance and foreign currency transactions. The outstanding balances as at 31 December 2018 and income and expenses for 2018 were as follows:

As at and for the year ended 31 December 2018	**Parent company**	**Entities under common control**	**Management**	**Other related parties**
Assets				
Loans to customers	–	1,441,263	251	5
(interest rate, % p.a.)		*(9.18)*	*(45.08)*	*(42.60)*
Allowance for loan impairment	–	(162,971)	(5)	–
Other assets	3	2,094	14	–
Liabilities				
Customer accounts	(127)	(10,652,205)	(90,207)	(134,776)
(interest rate, % p.a.)	–	*(9.85)*	*(3.22)*	*(5.52)*
Deposit certificates issued	–	(786,604)	(6,988)	–
Other liabilities	(1)	(2,434)	(4)	(16)
Credit related commitments				
Revocable commitments to extend credit	–	30,592	654	433
Guarantees and avals	–	285,085	–	–
Letters of credit	–	178,027	–	–
Income/(expense)				
Interest income	–	267,205	42	4
Interest expense	–	(869,304)	(3,575)	(6,777)
Fee and commission income	140	520,093	210	4,989
Other income	–	352	6	18
Charge to provision for commitments, guarantees and letters of credit	–	8	–	–
Allowance for loan impairment	–	85,670	(3)	–
Operating expenses	–	(142)	(845)	–

Performance results and further growth

Banks result

In 2018, the Bank's activities were characterised by the following trends.

As at 31 December 2018, Bank's total assets were UAH 49,865 mil, which is UAH 3,401 mil (+ 7.3%) more than in previous year (31 December 2017 - UAH 46,464 mil).

Corporate loan portfolio before deducting expected credit losses decreased by UAH 270 mil (-1.1%) to UAH 25,054 mil. Expected credit losses on the corporate loans increased by UAH 645 mil (+11.7%) to UAH 6,146 mil.

Retail loan portfolio before deducting ECL increased by UAH 3,713 mil (+47.3%) and amounted to UAH 11,562 mil. Expected credit losses on the retail loans increased by UAH 981 mil (+43.7%) to UAH 3,226 mil.

The Bank's assets had the following structure:

1. Loans to customers – 54.6% (31 December 2017 – 54.7%);
2. Cash on hand, Balances with NBU and Due from other banks – 16.6% (31 December 2017 – 17.7%);
3. Securities portfolio – 23.4% (31 December 2017 – 22.4%);
4. Property and equipment, Investment property, Intangible assets and Lease liabilities – 4.1% (31 December 2017 – 3.7%);
5. Other assets – 1.3% (31 December 2017 – 1.5%).

In 2018, Bank's total equity grew by UAH 1,513 mil (+31.5%) and as at 31 December 2018 equaled UAH 6,318 mil.

The operating income of the Bank before deducting the charge for allowance for impairment in 2018 was UAH 6,156 mil, which is higher by UAH 1,209 mil (+24.4%) than in 2017.

During 2018, the Bank received UAH 4,123 mil of net interest income, which is UAH 1,098 mil more than during 2017 (or +36.3%):

- Due to growth of retail loan portfolio
- As a result of active work with distressed portfolio
- Through increase in the securities portfolio
- Due to repayment of Eurobonds issued

In 2018, the Bank's net commission income was UAH 1,505 mil, which is UAH 321 mil (+ 27.2%) more than in 2017. This result was driven by increase in all types of commission income.

Gains from dealing operations and other income decreased by UAH 210 mil (-28.5%) to UAH 528 mil mostly due to reduction in other income (penalties received).

In 2018, the Bank's operating expenses increased by UAH 463 mil (+15.9%) and reached UAH 3,370 mil.

Inthe 2018, charge for allowance for impairment decreased by UAH 701 mil (- 60.6%) to UAH 455 mil.

Therefore, the Bank's net income for the year 2018 was the UAH 2,009 mil that is in 2.8 times more than previous year result (UAH 717 mil).

Bank's assets

The main active vectors of FUIB operations traditionally were loans and government securities. Total amount of loans before deducting expected credit losses rose by UAH 3,443 mil (+10.4%) up to UAH 36,617 mil as at 31 December 2018. Expected credit losses on loans increased by UAH 1,626 mil (+21.0%) to UAH 9,372 mil.

Lending operations. The Bank's lending activities were carried out in accordance with Ukrainian legislation, restriction established by the NBU under refinancing loans and the Bank's internal regulations.

At 31 December 2018, corporate loan portfolio was UAH 25,054 mil, which is UAH 270 mil (-1.1%) less than in previous year. the Loans to trading and agency companies (30.5%), food industry and agricultural (19.7%), building companies (18.5%) represent the major share in the Bank's loan portfolio by industry sector with food and agricultural industry portfolio demonstrating the biggest growth by UAH 1,050 mil and metallurgy industry showing the biggest decline by UAH 1,429 mil.

At 2018 year end, retail lending portfolio was UA 11,562 mil, which is UAH 3,713 mil (+47.3%) bigger than 31 December 2017.

The Bank's interest income on loans to customers (including financial lease) was UAH 5,129 mil in 2018, which is bigger by UAH 1,029 mil (+25.1%) than 2017. Relative share of income on loans to customers (including financial lease) in the interest income structure was 78% (2017: 79.2%).

Interest income on corporate lending decreased to UAH 2,549 mil, reduction in 2018 was UAH 98 mil (-3.7%). At the same time, interest income on retail lending increased by UAH 1,197 mil (+86.5%) to UAH 2,580 mil.

Securities transactions. At 31 December 2018, the Bank's securities portfolio was UAH 11,654 mil, which is bigger by UAH 1,257 mil (+12.1%) than 2017.

Total amount of Ukrainian Government debt securities and deposit certificates issued by the NBU in the Bank's investment portfolio reached UAH 11,636 mil, it's bigger by UAH 1,247 mil (+12.0%) than 31 December 2017.

In 2018, interest income on securities transaction was UAH 1,315 mil and increased by UAH 237 mil (+21.9%) compared to 2017. At the end of 2018, share of interest income on securities transaction in total interest income was 20.0% (2017: 20.8%).

The Investment business department carried out securities transactions in accordance to fixed limits.

Interbank operations. At 31 December 2018, due from other banks was UAH 5,594 mil, which is higher by UAH 47 mil than 2017 (+0.8%).

In 2018, interest income on interbank operations was UAH 131 mil (2.0% of total interest income) and increased by UAH 61 mil (+87.9%) compared to 2017.

Total assets structure was characterised by an increase in share of securities (from 22.4% to 23.4%).

Bank's liabilities

The Bank's total liabilities grew by UAH 1,888 mil, or +4.5% to UAH 43,547 mil at 31 December 2018.

Customer accounts. In 2018, customer accounts increased by UAH 2,586 mil (+7.0%), relative share in total liabilities structure increased from 89.3% to 91.3% in comparison with 2017. Corporate customer accounts grew by UAH 1,483 mil (+ 6.8%) and were UAH 23,171 mil, Retail customer accounts increased by UAH 1,103 mil (+7.1%) and reached UAH 16,610 mil. As a result, relative share of corporate customer accounts in total liabilities increased from 52.1% to 53.2%, retail – increased from 37.2% to 38.1%.

For the last year, total deposit certificates issued grew almost 4 times (UAH +645 mil) and reached UAH 832 mil.

Borrowings. At 2018 year end, due to other banks decreased by UAH 168 mil (-19.4%) and was equal to UAH 697 mil. The Bank fully redeemed the Eurobonds issued, which were UAH 1,915 mil at beginning of the year. Subordinated debt total value almost did not change – UAH 488 mil.

At the beginning of 2018, the Bank management has set the following key performance indicators: net profit before allowances and taxes, Net profit and NPS (Net promoter scope).

All key indicators were met at the end of the year:

- **Net profit before allowances and taxes** planned at UAH 2,021 mil, fact – UAH 2,787 mil;
- **Net profit** planned at UAH 1,316 mil, in fact – UAH 2,009 mil;
- **NPS (Net promoter scope)** planned at 61%, in fact 65%.

NPS (Net promoter scope) loyalty index, the generally accepted world metric that allows measuring client loyalty in banking and a lot of other industries by asking one simple question.

The classic NPS loyalty index is calculated based on the customer's answers to the a question and in our case, it sounded: "How likely that you will recommend using FUIB's services to your friend and colleagues? Use a scale from 0 to 10, where 0 - definitely would not recommend, and 10 - I will definitely recommend".

The Bank's achievements in 2018.

- FUIB holds the leading position in the annual rating of "50 leading Ukrainian banks", by Financial Club publication.
  - FUIB took 2nd place in the Corporate Bank nomination among banks with Ukrainian private capital, demonstrated the absolute growth of UAH loans of legal entities in January-November 2018;
  - One of the leading 4th place FUIB received the TOP-5 banks in the nomination "Servicing of legal entities"
- Independent credit rating agency "Credit-Rating" announced an increase in the long-term credit rating of the First Ukrainian International Bank to the level uaAA +. The rating forecast – positive. The agency also confirmed the reliability rating of the bank's deposits at the level of "5" (highest reliability).
- The First Ukrainian International Bank has entered TOP-10 banks of quality rating management reputation "Reputation Activists".
- According to "Prostobank Awards" rating of "Prostobank Consulting" company, FUIB's credit card "VSEMOZHY" entered TOP-2 of the best retail banking products in category "Credit Cards" in 2nd quarter.
- At once, two FUIB's products became leaders in rating of FinAwards 2018 from the leading financial portals of Ukraine - Minfin.ua and Finance.ua. "soloMANDRY" card became the leader in nomination "Best VIP credit card". The winner in category "Best cash loan" became TESTDRIVE from FUIB.
- First Ukrainian International Bank received award from Commerzbank AG for high-level quality of processing of commercial payments (STP-rate).
- First Ukrainian International Bank entered to TOP-3 banks rating in accordance to Minfin portal who granted largest volume of loans to private individuals from January to April 2018 inclusive.
- First Ukrainian International Bank has entered TOP-10 of the best banks of People's Rating, according to Minfin portal.
- First Ukrainian International Bank (FUIB) has won silver award in category "Consumer activation" for festival card.
- FUIB entered TOP 20 rating of most reliable Ukrainian banks, took 7 place. Banks reliability rating conducted by New Time publication with investment company Dragon Capital.
- According to annual PaySpace Magazine Awards-2018, Internet Banking of First Ukrainian International Bank "FUIB Online" is recognised as one of the best in the segment.
- FUIB, among 50 Ukrainian banks, became TOP 5 at profitability for 9 months of 2018, took 7th place according to indicators such as total assets, total deposit portfolio and total loan portfolio by delo.ua.

FUIB continues to develop innovative services and take care of convenience and comfort of its customers.

In 2018, FUIB joined to financial supermarket Ukrposhta. Now the Bank's services can be used through its network. This cooperation allows FUIB to inform more clients about the Bank's services.

Processing Center of FUIB has completed integration works and testing with the Central Router and Payment Center of the NPS PROSTIR, thereby implementing the possibility of accepting NPS PROSTIR payment cards in FUIB terminal network and network of bank-partners.

First Ukrainian International Bank and Kyivstar launched a project for the development of small business. The new offer will automate and improve the efficiency of processes, as well as reduce costs significantly.

FUIB was included in the list of banks authorized by the Ministry of Finance to pay pensions, financial assistance and salaries to employees of budgetary institutions.

Bank was connected to Partner Instalment Program of more than 150 Foxtrot stores throughout Ukraine and two "Rozetka" stores in Kyiv.

First Ukrainian International Bank joined the IFC project "Agricultural Receipts in Ukraine", thereby providing its clients with a new instrument for bank financing secured by future harvest.

"ALLO" stores, "ALLO" and "27.ua" online stores joined the network of FUIB partner stores.

The clients of the FUIB will be able to use the payment service "for active people". The service is available to Visa cardholders.

First Ukrainian International Bank has launched tariff package "Coder" for IT specialists with lowest commission for transferring cash from current to card account.

FUIB was the first in Ukraine to introduce a full-fledged banking in messengers. In October 2018, FUIB launched a banking service in Telegram messenger. Earlier, in April 2018, the banking service had been launched in Viber messenger. In the near future, FUIB also plans to launch their banking in Facebook messenger.

FUIB first launched registration service of insurance policy CIVOCL through Viber messenger. First Ukrainian International Bank provides a unique opportunity – to get a CIVOCL insurance policy through Viber messenger from 5 leading Ukrainian insurance companies with online payment and instant receipt of the policy to an e-mail address

First Ukrainian International Bank has launched a new Internet banking "PUMB Online for Entrepreneurs", which was created specifically for the owners of micro and small business.

FUIB today brings its customers - MasterCard cardholders, Apple Pay, which is transforming mobile payments with an easy, secure and individual payment tool that completely changes the scope of mobile payments, offering speed and convenience.

In the mobile application PUMB Online it became possible to add cards from other banks.

One of the priorities of FUIB's work is development of products and services for small and medium-sized businesses.

FUIB's mission is to provide customers with high-quality banking services, an impeccable service that is constantly being improved, and an individual approach. FUIB constantly improves business processes, implements the latest technological solutions, increases service level and products quality.

FUIB constantly strives to improve services quality provided to its customers.

Signed on behalf of the Management Board on 20 March 2019

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

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Independent auditor's report

To the Shareholders and Supervisory Board of JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"

Report on the audit of the financial statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and comply with the requirements for the preparation of financial statements established by Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV dated 19 July 1999.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance on loans to customers	
The assessment of expected credit loss allowance on loans to customers is a key area of judgment for the Bank's management. Due to the material nature of the loans to customers' balances, which represent 55% of total assets, and the related estimation uncertainty, expected credit loss allowance on loans to customers is considered a key audit matter. Allocation of loans to customers to appropriate IFRS 9 stages, identification of factors of significant increase in credit risk since origination, changes in the risk of default and determining the probability of default, and loss given default rates require significant use of professional judgment and are inherently uncertain processes involving various assumptions. The use of different assumptions could produce significantly different estimates of expected credit loss allowance on loans to customers. The disclosures in respect of expected losses are presented in Note 10 "Loans to customers" and the Bank's management approach for assessing and managing credit risk is described in Note 31 "Risk management" to the financial statements.	Our audit procedures included analysis of methodology of estimation of expected credit loss allowance on loans to customers, assessment and testing the design and operating effectiveness of the Bank's internal controls over expected credit loss allowance calculations including quality of underlying data, in particular assignment of credit ratings, calculation of days past due and check of cash flows used for estimation of loss given default rates. We tested the assumptions underlying identification of significant increase in credit risk since origination and changes in risk of default. In addition, we tested models used by the Bank to calculate expected credit loss and tested the accuracy of probability of default and recovery rates calculation. For loans in Stage 3, we also tested the Bank's forecasts of future cash flows and valuation of underlying collateral. We analysed associated disclosures in Note 10 to the financial statements in respect of expected credit loss allowance on loans to customers and the Bank's management approach for assessing and managing credit risk in Note 31 to the financial statements.

Key audit matter	How our audit addressed the key audit matter
Early adoption of IFRS 16, Leases	
The Bank decided to early adopt IFRS 16, Leases effective 1 January 2018. Early adoption of IFRS 16, Leases, is considered a key audit matter given the significance of impact on the Bank's total assets and total liabilities as at 1 January 2018 and the judgments needed in establishing the underlying key assumptions to determine lessee's incremental borrowing rate and lease terms.	We have evaluated the application of IFRS 16 and tested the Bank's calculation of lease liabilities, right of use of asset, lease and finance expenses in the statement of financial position and income statement. We tested the data used to calculate the transition adjustments. We assessed management's estimates used to calculate the transition adjustments (e.g., incremental borrowing rate, lease term). We analysed associated disclosures required under IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors in Note 4 to the financial statements.

Other information included in the Annual Information of the Issuer of Securities for 2018

Other information comprises the information included in the Management report (but does not include financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and other information, in particular the Corporate Governance report, included in the Bank's Annual Information of the Issuer of Securities, which is expected to be made available to us after that date. Management is responsible for the other information.

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 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. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information, in particular the Corporate Governance report, included in the Bank's Annual Information of the Issuer of Securities, if we conclude that there is a material misstatement therein, we will communicate the matter to the Supervisory Board.

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Responsibilities of management and the Supervisory Board for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Report in accordance with requirements of Section IV paragraph 11 "Instruction on preparation and publication of financial statements of banks in Ukraine" as approved by Resolution of the Board of National Bank of Ukraine No. 373 dated 24 October 2011 (as amended)

In accordance with Section IV paragraph 11 of "Instruction on preparation and publication of financial statements of banks in Ukraine" as approved by Resolution of the Board of National Bank of Ukraine No. 373 dated 24 October 2011 (as amended) ("Instruction No. 373"), we report the following:

In our opinion, based on the work undertaken in the course of our audit of the Bank's financial statements, Management report is prepared in accordance with requirements of Instruction No. 373 and information given is consistent with the financial statements.

We are required to report if we have identified material misstatements in the Management report in light of the knowledge and understanding obtained during the course of the audit of the Bank's financial statements. We have nothing to report in this regard.

Report on other legal and regulatory requirements

Pursuant to the requirements of Article 14 paragraph 4 of Law of Ukraine "On audit of financial statements and auditing activity" No. 2258-VIII dated 21 December 2017 (the "Law No. 2258-VIII") we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the auditor and period of engagement

We were first appointed as independent auditors to perform a statutory audit of the Bank's financial statements on 18 October 2012 by the Supervisory Board. Our appointment has been renewed annually by the Supervisory Board. The period of total uninterrupted engagement for performing the statutory audit of the Bank is seven years.

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Consistency of the independent auditor's report with the additional report to the audit committee

We confirm that our independent auditor's report is consistent with the additional report to the Audit Committee of the Bank, which we issued on 13 March 2019 in accordance with Article 35 of Law No. 2258-VIII.

Provision of non-audit services

We declare that no prohibited non-audit services referred to in Article 6 paragraph 4 of Law No. 2258-VIII were provided. In addition, there are no non-audit services which were provided by us to the Bank.

The partner in charge of the audit resulting in this independent auditor's report is Studynska Y.S.

For and on behalf of Ernst & Young Audit Services LLC:

Svistich O.M.
General Director

Registration number in the Register of auditors and audit firms: 101250

Studynska Y.S.
Partner

Registration number in the Register of auditors and audit firms: 101256

Movsesian L.S.
Auditor

Registration number in the Register of auditors and audit firms: 101249

Kyiv, Ukraine

20 March 2019

Ernst & Young Audit Services LLC is included in the Register of auditors and audit firms, registration number: 3516.

JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Statement of financial position as at 31 December 2018

(in thousands of Ukrainian hryvnias)

	Notes	2018	2017 (restated)
Assets			
Cash on hand and in transit	6	1,943,482	1,499,210
Balance with the National Bank of Ukraine	7	743,346	1,178,795
Due from other banks	8	5,594,226	5,547,316
Securities at fair value through profit or loss	9	93,200	162,887
Securities at fair value through other comprehensive income	9	11,560,514	–
Securities available-for-sale	9	–	10,233,489
Loans to customers	10	27,244,297	25,427,064
Current income tax asset		–	2,405
Other assets	13	631,513	697,098
Property and equipment	11	1,415,623	1,253,795
Investment property	11	71,876	149,347
Intangible assets	11	320,632	300,003
Right-of-use assets	12	246,482	–
Deferred tax assets	30	–	12,385
Total assets		**49,865,191**	**46,463,794**
Liabilities			
Due to the National Bank of Ukraine	14	1,002	–
Due to other banks	15	697,452	865,004
Customer accounts	16	39,780,153	37,194,276
Deposit certificates issued	17	832,460	187,194
Eurobonds issued	18	–	1,915,014
Other borrowed funds	19	–	11,193
Lease liabilities	20	267,402	–
Current income tax liability		62,242	–
Deferred tax liability	30	15,636	–
Other liabilities	21	1,402,830	996,732
Subordinated debt	22	488,145	489,656
Total liabilities		**43,547,322**	**41,659,069**
Equity	24		
Share capital		3,294,492	3,294,492
Share premium		101,660	101,660
Revaluation reserve for property and equipment		474,735	484,116
Revaluation reserve for securities		(24,753)	69,293
Reserve fund		1,475,430	1,475,430
Retained earnings/ (accumulated deficit)		996,305	(620,266)
Total equity		**6,317,869**	**4,804,725**
Total liabilities and equity		**49,865,191**	**46,463,794**

Signed on behalf of the Management Board on 20 March 2019

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

The accompanying notes on pages 6 to 81 are an integral part of these financial statements.

JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Income statement for the year ended 31 December 2018

(in thousands of Ukrainian hryvnias)

	Notes	2018	2017 (restated)
Interest income calculated using the effective interest rate	26	6,533,279	5,146,005
Other interest income		40,922	32,082
Interest expense	26	(2,451,479)	(2,153,448)
Net interest income		**4,122,722**	**3,024,639**
Allowance for impairment	8, 9, 10, 13, 33	(455,305)	(1,156,679)
Net interest income after allowance for impairment		**3,667,417**	**1,867,960**
Fee and commission income	27	1,988,679	1,643,649
Fee and commission expense	27	(483,180)	(459,645)
Net fee and commission income		**1,505,499**	**1,184,004**
Net gains/(losses) from operations with foreign currencies:			
- dealing		297,452	286,448
- translation differences		(47,926)	17,045
Net losses from securities at fair value through profit or loss:			
- dealing		(39)	(5)
- change in fair value		(794)	(5,180)
Net gains from securities available-for-sale			
- dealing		–	3,258
Net gains from securities at fair value through other comprehensive income:			
- dealing		21,382	–
Net (losses)/gains from revaluation of investment property	11	(449)	3,582
Net gains from derivative financial instruments		137,184	82,303
Net losses on restructuring of mortgage loans to individuals in foreign currency	10	(2,564)	(5,524)
Gains on initial recognition of financial assets at interest rate higher or lower than the market rate		1,654	-
Net losses on derecognition of financial assets measured at amortised cost		(212)	-
Reversal of the provision for commitments, guarantees, letters of credit and other losses	33	–	3,475
Other income	28	122,379	353,455
Operating income		**5,700,983**	**3,790,821**
Operating expenses	29	(3,369,555)	(2,906,786)
Income before income tax		**2,331,428**	**884,035**
Income tax expense	30	(322,920)	(166,743)
Net income for the reporting period		**2,008,508**	**717,292**
Income per share (in Ukrainian hryvnias per share)	36	**140.22**	**50.08**

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JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Statement of comprehensive income for the year ended 31 December 2018

(in thousands of Ukrainian hryvnias)

	2018	2017 (restated)
Net income for the year	**2,008,508**	**717,292**
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Unrealised losses from securities at fair value through other comprehensive income	(104,919)	–
Changes in allowance for expected credit losses from securities at fair value through other comprehensive	(17,130)	–
Unrealised gains from securities available-for-sale	–	50,987
Realised gains from securities at fair value through other comprehensive income reclassified to the income statement	(21,382)	–
Realised gains from securities available-for-sale reclassified to the income statement	–	(3,258)
Income tax related to components of other comprehensive income	20,644	(8,591)
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods	**(122,787)**	**39,138**
Total comprehensive income for the year	**1,885,721**	**756,430**

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JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Statement of cash flows for the year ended 31 December 2018

(in thousands of Ukrainian hryvnias)

	2018	2017 (restated)
Cash flows from operating activities		
Interest income received	6,181,101	5,018,269
Interest expense paid	(2,393,794)	(2,172,999)
Fee and commission income received	2,023,034	1,614,642
Fee and commission expense paid	(466,961)	(437,588)
Income received from trading in foreign currencies	297,452	286,448
Losses from securities	(39)	(5)
Gains on financial derivatives	125,276	64,100
Other income received	120,129	350,696
Operating expenses paid	(2,819,596)	(2,058,202)
Income tax paid	(209,607)	–
Cash flows from operating activities before changes in operating assets and liabilities	**2,856,995**	**2,665,361**
Net (increase)/decrease in operating assets		
Mandatory reserve balance with the National Bank of Ukraine	–	668,840
Due from other banks	(34,532)	491,735
Securities at fair value through profit or loss	85,543	101,793
Loans to customers	(2,502,316)	(1,811,548)
Other assets	(96,937)	35,760
Net increase/(decrease) in operating liabilities		
Due to the National Bank of Ukraine	1,000	–
Due to other banks	(188,018)	(320,191)
Customer accounts	2,943,292	3,172,495
Deposit certificates issued	675,730	(498,269)
Other liabilities	270,687	229,487
Net cash from operating activities	**4,011,444**	**4,735,463**
Cash flows from investing activities		
Purchases of property, equipment and intangible assets	(448,257)	(451,335)
Proceeds from sale of property and equipment and intangible assets	67,231	28,931
Purchase of securities	(79,265,004)	(27,707,255)
Sale of securities	78,041,374	27,385,454
Net cash used in investing activities	**(1,604,656)**	**(744,205)**
Cash flows from financing activities		
Lease payments made	(76,489)	–
Redemption of Eurobonds, other borrowed funds and subordinated debt (Note 37)	(1,854,961)	(2,404,764)
Net cash used in financing activities	**(1,931,450)**	**(2,404,764)**
Effect of exchange rate changes on cash and cash equivalents	(234,645)	195,394
Effect of expected credit losses on cash and cash equivalents	(1,987)	–
Net increase in cash and cash equivalents	**238,706**	**1,781,888**
Cash and cash equivalents at the beginning of the year	8,801,901	7,020,013
Cash and cash equivalents at the end of the year (Note 6)	**9,040,607**	**8,801,901**

Signed on behalf of the Management Board on 20 March 2019

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O.O. Poleschuk (Chief Accountant)

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JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK"
Statement of changes in equity for the year ended 31 December 2018

(in thousands of Ukrainian hryvnias)

	Share capital	Share premium	Revaluation reserve for property and equipment	Revaluation reserve for securities	Reserve fund	Retained earnings/ accumulated deficit) (restated)	Total equity
Balance at 31 December 2016	**3,294,492**	**101,660**	**509,866**	**30,155**	**1,475,430**	**(1,363,308)**	**4,048,295**
Net income for the year (restated)	–	–	–	–	–	717,292	717,292
Other comprehensive income for the year	–	–	–	39,138	–	–	39,138
Total comprehensive income for the year	**–**	**–**	**–**	**39,138**	**–**	**717,292**	**756,430**
Depreciation of the revaluation reserve for property and equipment	–	–	(9,570)	–	–	9,570	–
Transfer of property and equipment revaluation reserve resulted from disposal of assets	–	–	(16,180)	–	–	16,180	–
Balance at 31 December 2017 (restated)	**3,294,492**	**101,660**	**484,116**	**69,293**	**1,475,430**	**(620,266)**	**4,804,725**
Impact of adopting IFRS 9 (Note 3)	–	–	–	28,741	–	(401,318)	(372,577)
Balance at 1 January 2018 restated under IFRS 9	**3,294,492**	**101,660**	**484,116**	**98,034**	**1,475,430**	**(1,021,584)**	**4,432,148**
Net income for the year	–	–	–	–	–	2,008,508	2,008,508
Other comprehensive income for the year	–	–	–	(122,787)	–	–	(122,787)
Total comprehensive income for the year	**–**	**–**	**–**	**(122,787)**	**–**	**2,008,508**	**1,885,721**
Depreciation of the revaluation reserve for property and equipment	–	–	(9,356)	–	–	9,356	–
Transfer of property and equipment revaluation reserve resulted from disposal of assets	–	–	(25)	–	–	25	–
Balance at 31 December 2018	**3,294,492**	**101,660**	**474,735**	**(24,753)**	**1,475,430**	**996,305**	**6,317,869**

Signed on behalf of the Management Board on 20 March 2019

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)

The accompanying notes on pages 6 to 81 are an integral part of these financial statements.

1. Principal activities

JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" (the "Bank") was established on 20 November 1991 and commenced operations in April 1992. The Bank provides a full range of banking services, including taking deposits and granting loans, investing in securities, transfer of payments in Ukraine and abroad, exchange of currencies and issuance and processing of transactions with payment cards.

The Bank is a member of the Individuals Deposits Guarantee Fund starting from 2 September 1999 (registration certificate #102 dated 6 November 2012), which operates according to the Law of Ukraine #2740-III "*On Individuals Deposits Guarantee Fund*". The Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual (31 December 2017: UAH 200 thousand).

As at 31 December 2018 and 2017, the Bank's shareholders are "SCM FINANCE" (92.2% of share capital), SCM HOLDINGS LIMITED (Cyprus) (7.7% of share capital) and an individual (0.1% of share capital). The ultimate controlling party of the Bank is a Ukrainian citizen, Mr. R.L. Akhmetov.

The Bank's legal address is: 4 Andriivska Street, Kyiv, Ukraine. As at 31 December 2018, the Bank had 6 regional centers and 175 branches throughout Ukraine (31 December 2017: 6 regional centers and 158 branches throughout Ukraine).

In December 2018, the Bank's name was changed to JOINT STOCK COMPANY "FIRST UKRAINIAN INTERNATIONAL BANK" and its organizational and legal form was changed from public joint-stock company to private joint-stock company.

2. Operating environment of the Bank

The Bank conducts its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation, and significant imbalances in the public finance and foreign trade.

Following the significant deterioration in 2014 and 2015, the current political and economic situation in Ukraine remains unstable. In 2018, the Ukrainian government continues to pursue a comprehensive structural reform agenda aiming at the removal of the existing imbalances in the economy, public finance and governance, fighting corruption, reforming judiciary system, etc. with the ultimate goal to secure conditions for the economic recovery in the country. Stabilization of the Ukrainian economy in the foreseeable future depends on success of actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions.

During the year, the liquidity of the banking sector has been improving as a result of return of customer accounts. During 2018, the NBU gradually increased the discount rate from 14.5% to 18.0%.

The banking system improved during 2018: almost all key performance indicators of financial institutions had a positive dynamics. Consumer lending continue to grow, corporate lending in UAH increased as well. In consequence of the stability of the exchange rate and increase in interest rates during 2018, bank customers tended to deposits in the national currency.

Known and estimated results of the above factors on the financial position and performance of the Bank during the reporting period were taken into account while preparing these financial statements.

3. Basis of preparation and adoption of new or revised standards and interpretations

General

These financial statements are prepared in accordance with the International Financial Reporting Standards (the "IFRS") and requirements of the Law of Ukraine "On accounting and financial statements in Ukraine" #996-XIV of 16 July 1999 in respect of the preparation of financial instruments, under the historical cost convention except for financial instruments and investment property carried at fair value and premises and works of arts carried at revalued amount. These policies have been consistently applied by the Bank to all the periods presented, unless otherwise stated.

Adoption of new or revised standards and interpretations

Changes in accounting policies related to adoption of standards and interpretations applied for the first time in 2018 are provided below. The nature and effect of each new standards and amendment are described below.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 January 2018.

The Bank applies IFRS 9 Financial Instruments from 1 January 2018. The effect of applying the standard is provided in this Note below.

(in thousands of Ukrainian hryvnias)

3. Basis of preparation and adoption of new or revised standards and interpretations (continued)

Adoption of new or revised standards and interpretations (continued)

The Bank made use of the exemption allowing not to restate comparative data for prior periods in respect of changes in the classification and measurement (including impairment) of financial instruments. The differences between the previous carrying amount of instruments and their carrying amount under IFRS 9 are recognised as retained earnings and equity reserves as at 1 January 2018. The effect of applying IFRS 9 was calculated based on the facts and circumstances existed on the date of the first application. Therefore, the comparative information for 2017 is stated under IAS 39 and cannot be compared to the information provided for 2018.

Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "*basic lending arrangement*", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- ► Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- ► Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income;
- ► Instruments that are managed on other basis, including trading financial assets, are classified as measured at fair value through profit or loss.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation, with no subsequent reclassification, is made to classify such financial assets as FVOCI. In such a case, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

The Bank's adoption of new requirements of IFRS 9 as at 1 January 2018 did not result in reclassifications in the categories of financial instruments measurement.

Impairment

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan impairment by replacing IAS 39 incurred loss approach with an expected credit loss (ECL) approach.

From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Bank's impairment method are disclosed in Note 31. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed below.

(in thousands of Ukrainian hryvnias)

3. Basis of preparation and adoption of new or revised standards and interpretations (continued)

Adoption of new or revised standards and interpretations (continued)

The table below presents the initial measurement categories under IAS 39 and new categories under IFRS 9 for the Bank's financial assets as at 1 January 2018:

	Category under IAS 39 as at 31 December 2017	**Category under IFRS 9 as at 1 January 2018**
Assets		
Cash on hand and in transit	Loans and receivables	At amortised cost
Balance with the National Bank of Ukraine	Loans and receivables	At amortised cost
Due from other banks	Loans and receivables	At amortised cost
Securities at fair value through profit or loss	At fair value through profit or loss	At fair value through profit or loss
Securities at fair value through other comprehensive income	Available-for-sale	At fair value through other comprehensive income
Loans to customers	Loans and receivables	At amortised cost
Other financial assets	Loans and receivables	At amortised cost

The following items of the Statements of financial position, cash flows and changes in equity were renamed:

	As at 31 January 2017	**As at 1 January 2018**
Statement of financial position	Revaluation reserve for securities available-for-sale	Revaluation reserve for securities
Statement of cash flows - Cash flows from investing activities	Purchase of securities available-for-sale	Purchase of securities
Statement of cash flows - Cash flows from investing activities	Proceeds from sale of securities available-for-sale	Sale of securities
Statement of changes in equity	Revaluation reserve for securities available-for-sale	Revaluation reserve for securities

(in thousands of Ukrainian hryvnias)

3. Basis of preparation and adoption of new or revised standards and interpretations (continued)

Adoption of new or revised standards and interpretations (continued)

The effect of adoption of IFRS 9 *Financial Instruments* on the Statement of financial position as at 1 January 2018 is provided in the table below:

	Measurement under IAS 39 as at 31 December 2017 (restated)	**Effect of adopting IFRS 9**	**Measurement under IFRS 39 as at 31 December 2018**
Assets			
Cash on hand and in transit	1,499,210	−	1,499,210
Balance with the National Bank of Ukraine	1,178,795	−	1,178,795
Due from other banks	5,547,316	3,872	5,551,188
Securities at fair value through profit or loss	162,887	−	162,887
Securities at fair value through other comprehensive income	10,233,489	−	10,233,489
Loans to customers	25,427,064	(368,022)	25,059,042
Current income tax asset	2,405	−	2,405
Other assets	697,098	(4,677)	692,421
Property and equipment	1,253,795	−	1,253,795
Investment property	149,347	−	149,347
Intangible assets	300,003	−	300,003
Deferred tax assets	12,385	−	12,385
Total assets	**46,463,794**	**(368,827)**	**46,094,967**
Liabilities			
Due to other banks	865,004	−	865,004
Customer accounts	37,194,276	−	37,194,276
Deposit certificates issued	187,194	−	187,194
Eurobonds issued	1,915,014	−	1,915,014
Other borrowed funds	11,193	−	11,193
Other liabilities	996,732	3,750	1,000,482
Subordinated debt	489,656	−	489,656
Total liabilities	**41,659,069**	**3,750**	**41,662,819**
Equity			
Share capital	3,294,492	−	3,294,492
Share premium	101,660	−	101,660
Revaluation reserve for property and equipment	484,116	−	484,116
Revaluation reserve for securities	69,293	28,741	98,034
Reserve fund	1,475,430	−	1,475,430
Retained earnings/ (accumulated deficit)	(620,266)	(401,318)	(1,021,584)
Total equity	**4,804,725**	**(372,577)**	**4,432,148**
Total liabilities and equity	**46,463,794**	**(368,827)**	**46,094,967**

(in thousands of Ukrainian hryvnias)

3. Basis of preparation and adoption of new or revised standards and interpretations (continued)

Adoption of new or revised standards and interpretations (continued)

The effect expected credit losses from the first adoption of IFRS 9 Financial Instruments on Revaluation reserve for securities and Retained earnings/ (accumulated deficit) as at 1 January 2018 is provided in the table below:

	Revaluation reserve for securities	**Retained earnings/ (accumulated deficit)**
Due from other banks	–	3,872
Securities at fair value through other comprehensive income	28,741	(28,741)
Loans to customers	–	(368,022)
Other assets	–	(4,677)
Provision for commitments, guarantees and letters of credit	–	(3,750)
Effect of adopting IFRS 9	**28,741**	**(401,318)**

The effect of the first adoption of IFRS 9 *Financial Instruments* on the estimated allowance for expected credit losses as at 1 January 2018 is provided in the table below:

	Measurement under IAS 39 as at 31 December 2017	**Effect of adopting IFRS 9**		**Measurement under IFRS 39 as at 31 December 2018**
		Retained earnings/ (accumulated deficit)	**Interest income adjustment**	
Due from other banks	262,706	(3,872)	–	258,834
Securities at fair value through other comprehensive income	–	28,741	–	28,741
Loans to customers	7,746,544	368,022	1,407,344	9,521,910
Other assets	35,236	4,677	–	39,913
Provision for commitments, guarantees and letters of credit	7,645	3,750	–	11,395
Effect of adopting IFRS 9	**8,052,131**	**401,318**	**1,407,344**	**9,860,793**

The interest income adjustment in the table above reflects a change in the methodology due to application of IFRS 9, specifically, an increase in the gross carrying amount of loans to customers, as well as allowances for expected loan losses to reflect the accumulated contractual liabilities on interest.

Earlier application of IFRS 16 Leases

The Bank earlier applies IFRS 16 *Leases* from 1 January 2018 to contracts that were previously identified as leases applying IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement Contains a Lease*. At the same time, in compliance with IFRS 16, the Bank does not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Bank has earlier applied the requirements of IFRS 16 from 1 January 2018 that significantly modifies the Bank's financial statements. Under IFRS 16, the vast majority of lease contracts started to be recognised in the Statement of financial position as lease liabilities with simultaneous recognition of the right-of-use assets. The Bank applied a modified retrospective approach and did not adjust balances of prior years. At that, since the Bank recognised the right-of-use assets in the amount equal to the lease liabilities, there was no impact on the retained earnings/(accumulated deficit) of the Bank.

3. Basis of preparation and adoption of new or revised standards and interpretations (continued)

Changes in accounting policies (continued)

The Bank used the option under IFRS 16 not to recognise the right-of-use asset and lease liabilities for short-term lease contracts expiring within 12 months from the date of the first application and for the lease of low value assets. The option to extend/terminate lease contracts is considered on an individual basis through a managerial decision (Note 5). As at 1 January 2018, the weighted average rate of attraction of additional borrowings determined taking into account the country risk and the Bank risk was 16.7%.

As at 1 January 2018, the Bank recognised the right-of-use asset in the amount of UAH 257,016 thousand and lease liabilities in the amount of UAH 252,569 thousand. The difference between the amount of recognised right-of-use assets and the lease liability as at 1 January 2018 included advance payments under the guarantee lease payments. In 2018, the effect of applying IFRS 16 resulted in the decrease in profit before income tax in the amount of UAH 20,920 thousand, including: decrease in operating expenses by UAH 121,135 thousand, recognition of depreciation of the right-of-use assets in the amount of UAH 96,888 thousand and interest expense of UAH 45,167 thousand. During the reporting period, the effect of transition to IFRS 16 also had an impact on the statement of cash flows by the transfer of cash flows from operating activities to cash used in financing activities in the amount of UAH 76,489 thousand. The application of IFRS 16 did not have a general impact on the Bank's statement of cash flows.

Reconciliation of lease liabilities is provided in the table below

	Lease liabilities as at 1 January 2018
Minimum lease payments as at 31 December 2017	**243,448**
Exemption from IFRS 16, including	(6,744)
short-term lease	*(1,219)*
lease of low value assets	*(5,525)*
Effect of discounting as at 1 January 2018	(106,200)
Other	122,065
Lease liabilities as at 1 January 2018	**252,569**

Item "Other" reflects a change in approaches to determining the lease terms.

When applying IFRS 16, the Bank made the following changes in the presentation:

- the right-of-use asset line and lease liabilities line were added to the statement of financial position;
- the line "lease payments in the financial activities" was added to the statement of cash flows.

Disclosures on accounting for leases are provided in Note 12 and Note 20.

Restatement of financial statements for the year ended 31 December 2017

While preparing its financial statements for the year ended 31 December 2018, the Bank identified that, when calculating the effective interest rate on certain consumer loan products at initial recognition, the Bank mistakenly did not include the commission received from insurance companies for agency services. The Bank corrected an error by recalculating amounts in the financial statements for the year ended 31 December 2017.

The effect of restatement on the statement of financial position is provided below:

(in thousands of Ukrainian hryvnias)	**As reported**	**Adjustment**	**As restated**
Loans to customers	25,495,599	(68,535)	25,427,064
Total assets	**46,532,329**	**(68,535)**	**46,463,794**
Accumulated deficit	(551,731)	(68,535)	(620,266)
Total equity	**4,873,260**	**(68,535)**	**4,804,725**
Total liabilities and equity	**46,532,329**	**(68,535)**	**46,463,794**

3. Basis of preparation and adoption of new or revised standards and interpretations (continued)

Restatement of financial statements for the year ended 31 December 2017 (continued)

The effect of restatement on the income statement is provided below:

(in thousands of Ukrainian hryvnias)	As reported	Adjustment	As restated
Interest income	5,162,044	16,043	5,178,087
Net interest income	**3,008,596**	**16,043**	**3,024,639**
Net interest income after allowance for loan impairment	**1,851,917**	**16,043**	**1,867,960**
Fee and commission income	1,728,227	(84,578)	1,643,649
Net fee and commission income	**1,268,582**	**(84,578)**	**1,184,004**
Operating income	**3,859,356**	**(68,535)**	**3,790,821**
Income before income tax	**952,570**	**(68,535)**	**884,035**
Net income for the reporting period	**785,827**	**(68,535)**	**717,292**

The effect of restatement on the statement of cash flows is provided below:

(in thousands of Ukrainian hryvnias)	As reported	Adjustment	As restated
Cash flows from operating activities			
Interest income received	4,933,691	84,578	5,018,269
Fee and commission income received	1,699,220	(84,578)	1,614,642
Cash flows from operating activities before changes in operating assets and liabilities	**2,665,361**	**–**	**2,665,361**

The financial statements for 2016 were not restated and, accordingly, comparative statement of financial position as at 31 December 2016 is not provided, as error was not material to that financial statements.

4. Summary of significant accounting policies

Provided below is the summary of significant accounting policies applied when preparing these financial statements.

Classification - financial assets

Under IFRS 9, all debt financial assets that do not meet SPPI (solely payment of principal and interest) criterion, are classified at initial recognition as financial assets at fair value through profit or loss. Under this criterion, debt instruments that do not correspond to a "*basic lending arrangement*", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL.

After assessment of business model and SPPI test, a financial asset is classified at initial recognition as measured at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss.

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

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

4. Summary of significant accounting policies (continued)

Classification - financial assets (continued)

A debt instrument is measured at fair value through other comprehensive income only if it meets both the following conditions and is not classified at the Bank's discretion as measured at fair value through profit or loss:

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

For debt financial assets measured at fair value through other comprehensive income, gains and losses are recognised in other comprehensive income, except for the following items that are recognised in profit or loss in the same manner as for financial assets measured at fair value:

- Interest income calculated using the effective interest method;
- expected credit losses (ECL); and
- gains and losses from translation differences.

When a debt financial asset measured at fair value through other comprehensive income is derecognised, the accumulated gain or loss previously recognised in other comprehensive income is reclassified other comprehensive income into profit or loss.

When it comes to the initial recognition of investments in equity instruments not intended for trading, the Bank may, at its own discretion, make a decision, without the right of further cancellation, to recognise subsequent changes in their fair value in other comprehensive income. Such an option is chosen for each investment separately.

Gains and losses from such equity instruments are never reclassified to net income, and no impairment loss is recognised in profit or loss. Dividends are recognised in profit or loss, unless it is evident that they represent a return of the initial cost of the investment, in which case the dividends are recognised in other comprehensive income. When an investment is disposed, accumulated gains and losses recognised in other comprehensive income are reclassified to retained earnings.

All other financial assets are classified as measured at fair value through profit or loss.

In addition, at the initial recognition, the Bank may, at its own discretion, classify, without the right to further reclassification, a financial asset that meets the criteria for measurement at amortised cost or at fair value through other comprehensive income as measured at fair value through profit or loss, if this would eliminate or significantly reduce the accounting inconsistency that would otherwise have occurred.

Business model assessment

The Bank assesses the objectives of a business model within which an asset is held at the level of financial instrument portfolio, insofar as this best reflects the way the business is managed and information provided to management personnel. At that, the following information is considered:

- policies and objectives set for this portfolio of financial assets, as well as those set for the policies in practice, in particular, whether the strategy of management personnel is aimed at obtaining interest income provided for by an agreement, support for a certain structure of interest rates, ensuring matching of maturities of financial assets with maturities of financial liabilities used to finance these assets or obtaining cash flows through the sale of assets;
- how the portfolio effectiveness is evaluated and how this information is communicated to the Bank's management personnel;
- risks impacting the effectiveness of business model (and financial assets held within this business model) and how these risks are managed;
- how the managers who manage the business are remunerated (for example, whether this remuneration depends on the fair value of the assets they manage or on the contractual cash flows they receive from the assets);
- frequency, volume and terms of sales in past periods, the reasons for such sales, as well as expectations about the future level of sales. However, the information on sale levels is considered not separately, but as part of a single comprehensive analysis of how the Bank's objective of managing financial assets is achieved and how cash flows are managed.

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

Business model assessment (continued)

Financial assets held for trading which are managed and effectiveness of which is evaluated based on fair value are measured at fair value through profit or loss, since they are held neither for the purpose of obtaining contractual cash flows nor for the purpose of both obtaining contractual cash flows and selling financial assets.

Assessment of whether contractual cash flows are exclusively the payment of principal and interest

For the purposes of this assessment, *principal amount* is defined as the fair value of a financial asset at its initial recognition. The *Interest* is defined as a compensation for time value of money, credit risk related to a principal outstanding for a certain period of time, and other basic risks and expenses related to lending (for example, liquidity risk and administrative expenses), as well as profit margins.

In assessing whether contractual cash flows are exclusively the payment of principal and interest on the outstanding part of the principal ("SPPI" criterion), the Bank analyses the contractual terms of a financial instrument.

Reclassification

The classification of financial assets after initial recognition does not change, except in the period following the one in which the Bank changes its business model for managing financial assets. The Bank should reclassify its financial assets only if it has changed the business model used to manage these financial assets. It is expected that such changes occur very rarely. Such changes are determined by the Bank's senior management as a consequence of external or internal changes and are significant for the Bank's operations and obvious to external parties.

The classification of financial liabilities after initial recognition is not subject to change.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset or assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Bank either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Since 1 January 2018, any accumulated profit/loss recognised in other comprehensive income from equity investment securities classified at the Bank's discretion as measured at fair value through other comprehensive income is not subject to reclassification into net income or loss upon derecognition of such securities. Any participation interest in the transferred financial asset that meets the criteria for derecognition that has arisen or was retained by the Bank is recognised as a separate asset or liability.

Write offs

Loans and debt securities are subject to write-offs (partially or in full) when there are no reasonable expectations of their recoverability. In such cases, the Bank generally determines that a borrower has no assets or sources of income which can generate cash flows in the amount sufficient to repay debts that are subject to write-offs.

However, the Bank may continue to pursue activities aimed at collecting debts on written off financial assets in accordance with the policy of collecting amounts due.

4. Summary of significant accounting policies (continued)

Modification of financial assets and financial liabilities

Financial assets

As part of credit risk management, the Bank reviews the terms of loans to customers facing financial difficulties ("the policy of reviewing the terms of loan agreements"). If the Bank plans to change the terms of a financial asset in such manner that this change would result in the forgiveness of part of the existing contractual cash flows, the part of an asset is written off until the assessment of substantiality the modification of terms. The Bank performs a qualitative assessment of the substantiality of this modification following the Bank's policy for reviewing the terms of loan agreements.

If cash flows differ significantly ("substantial modification of terms"), the validity of rights to the contractual cash flows related to the original financial asset is deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value. Changes in cash flows for related to financial assets or financial liabilities are not considered to be a modification of terms if they result from current terms of the agreement, for example, changes in interest rates by the Bank due to changes in the NBU's discount rate if the relevant loan agreement allows for the Bank to change interest rates.

The Bank makes a quantitative and qualitative assessment of whether the modification of terms is substantial, that is, whether cash flows from the original financial asset and cash flows from the modified asset or a financial asset that changed it differ substantially. The Bank makes a quantitative and qualitative assessment of the substantiality of terms modification by analysing qualitative factors, quantitative factors and the cumulative effect of qualitative and quantitative factors. If cash flows differ substantially, the validity of rights to the contractual cash flows related to the original financial asset is deemed to have expired.

If cash flows from a modified asset measured at amortised cost do not differ substantially, such modification of terms does not result in derecognition of a financial asset. In this case, the Bank recalculates the gross carrying amount of a financial asset and recognises amount of adjustment of the gross carrying amount as profit or loss from the modification in profit or loss. The gross carrying amount of a financial asset is recalculated as the present value of revised or modified cash flows discounted using the original effective interest rate on this financial asset. Expenses and fees incurred adjust the carrying amount of modified financial asset and are amortised over the life of modified financial asset. If such modification is due to financial difficulties of a borrower, the related gain or loss is recognised as impairment losses. In other cases, the related gain or loss is recognised as interest income.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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

Financial guarantees

Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment. At each reporting date, the financial guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and, under IAS 37 (before 1 January 2018), (ii) the best estimate of expenditure required to settle the commitment at the reporting date, or, under IFRS 9 (from 1 January 2018), estimated allowance for expected credit losses. Any increase in the liability relating to financial guarantees is taken to the income statement.

Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including loan commitments and letters of credit. As with financial guarantees, under IAS 39, a provision was created for such instruments if they were irrevocable, however, from 1 January 2018, under IFRS 9, the requirements on assessment of expected credit losses are applied to such commitments.

4. Summary of significant accounting policies (continued)

Impairment - Financial assets, loan commitments and financial guarantees

IFRS 9 replaces the "incurred losses" model used in IAS 39 with the "expected credit losses" (ELC) model. The key principle is to timely recognise the improvement or deterioration of the credit quality of financial instruments, taking into account the accumulated historical information, current situation and reasonable forecasts of future events and economic conditions.

The new impairment model applies to the following financial instruments that are not measured at fair value through profit or loss:

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

Impairment losses on investments in equity instruments are not recognised.

Allowances for expected credit losses are recognised in the amount equal to either expected credit losses for 12 months or expected credit losses over the entire life of an instrument for financial instruments in respect of which a significant increase in credit risk was revealed. Expected credit losses over the entire life of an instrument are expected credit losses arising from all possible default events over the entire contractual life of a financial instrument, while expected credit losses for 12 months represent a part of the expected credit losses arising from the default events possible within 12 months after the reporting date.

The Bank recognises allowances for expected credit losses in the amount equal to expected credit losses over the entire life of an instrument, except for instruments in respect of which the amount of recognised allowance will be equal to the expected credit loss for 12 months:

- debt investment securities, if it was determined that they have low credit risk at the reporting date. The Bank believes that a debt security has a low credit risk if its credit rating corresponds to the world generally accepted definition of the "investment quality" rating, and
- other financial instruments (other than receivables under lease contracts), in respect of which there was no significant increase in credit risk from their initial recognition.
- allowances for losses on receivables under lease contracts will always be measured at the amount equal to the expected credit loss for the entire life of an instrument.

The notion of expected credit losses measurement, definitions of default and other interpretations of the key approaches to impairment are provided in Note 31.

Comparative information - classification and impairment under IAS 39

To compare information for the year ended 31 December 2017, provided below are key principles for measurement, classification and impairment under IAS 39.

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or financial assets available-for-sale. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition.

Financial assets at fair value through profit or loss

Financial assets held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the investments are impaired, as well as through the amortisation process.

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

Comparative information - classification and impairment under IAS 39 (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at fair value through profit or loss or designated as available-for-sale financial assets. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, income is recognised through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. After initial recognition available-for-sale financial assets are measured at fair value, except for shares carried at cost, with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the profit or loss. Interest calculated using the effective interest method is recognised in the income statement.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity. Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Impairment of financial assets

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired 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 financial asset (an incurred “loss event”) and that loss event (or events) has an impact on the amount or timing of the estimated future cash flows of the financial asset or Bank of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in overdue amounts or economic conditions that correlate with inability to settle a liability (default).

Due from other banks and loans to customers

For due from other banks and loans to customers carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets 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.

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

Comparative information - classification and impairment under IAS 39 (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, collateral type, past-due status and other relevant factors.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods on which historical loss experience is based and to remove the effects of past conditions that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the statement of profit or loss.

Available-for-sale financial investments

The Bank assesses at each statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

Fair value measurement

The Bank measures financial instruments carried at fair value through profit or loss, as well as at fair value through other comprehensive income and such non-financial assets as investment property at fair value at each reporting date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses the fair value valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Cash and cash equivalents

Cash and cash equivalents include balances on correspondent accounts and overnight deposits due from other banks, deposit certificates issued by the National Bank of Ukraine with maturity up to 1 working day, cash on hand and in transit and balances with the NBU, excluding mandatory reserve balances and accrued interests. Mandatory cash balances with the NBU are carried at amortised cost and represent mandatory reserve deposits.

Precious metals

Precious metals are accounted as other assets, and related income or loss is recognised in the income statement.

Gold and other precious metals are recorded at NBU bid prices, which approximate fair values and are quoted at a discount to London Bullion Market rates. Changes in the NBU bid prices are recorded in other income.

Repossessed collateral

Repossessed collateral represents non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Sale and repurchase agreements

Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions.

Securities sold under sale and repurchase agreements are retained in the statement of financial position. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or re-pledge the securities, in which case they are reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from other banks or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

4. Summary of significant accounting policies (continued)

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the income statement as net gains/(losses) from financial derivatives.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangements results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than for a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include liabilities due to the National Bank of Ukraine, due to other banks, issued deposit certificates, customer accounts, subordinated debt, Eurobonds issued and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the borrowings are derecognised, expense is recognised through the amortisation process.

Offsetting

Financial assets and liabilities are offset and the net amount is 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 to realise the asset and settle the liability simultaneously.

The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Income taxes

Income taxes have been provided for in the financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the end of reporting period. The income tax charge comprises current tax and deferred tax and is recognised in the income statement except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment, other than premises and items of arts are stated at cost, less accumulated depreciation and any impairment, where required.

Following initial recognition at cost, the Bank's premises and works of arts are carried at revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for premises and recognised in other comprehensive income.

When an item of premises is revalued, any accumulated depreciation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

The revaluation reserve is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Bank; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Construction in progress is carried at cost, less provision for any impairment in value. Upon completion, assets are reclassified to premises or leasehold improvements at their carrying amount. Construction in progress is not depreciated until the asset is available for use, in which case it is transferred to other category of plant and equipment.

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, management of the Bank estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Depreciation of an asset begins from the date of commissioning. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. For the key categories of property and equipment, the following annual depreciation rates are used.

Premises	2%-5%	
Leasehold improvements	20%	or over the term of lease if shorter than 5 years
Computers and other equipment	20%-33%	

Works of arts are not amortised. The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

Intangible assets

All of the Bank's intangible assets have a definite useful life and include capitalised computer software and licences.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable.

Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software and licences are amortised on a straight line basis over expected useful lives of 3 to 10 years.

Investment property

Investment property is property, which is held by and not occupied by the Bank, to earn rental income or for capital appreciation.

Investment property is initially recognised at cost and subsequently measured at fair value, which reflects market conditions at the reporting date.

Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement in gains less losses on revaluation of investment property in the year in which they arise.

If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Operating leases (before 1 January 2018)

Before 1 January 2018, the Bank applied IAS 17 *Leases*, as well as IFRIC 4 *Determining whether an Arrangement Contains a Lease*.

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor was classified as operating leases. If the Bank was a lessee, then lease payments under an operating lease were recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

If the Bank was a lessor, assets subject to operating leases were presented in the statement of financial position according to the nature of the asset. Lease income from operating leases were recognised in the income statement on a straight-line basis over the lease term as other income. The direct costs incurred in modernisation were added to the carrying amount of the leased asset.

Leases (from 1 January 2018)

A lease is entered into by a contract which conveys to a user (lessee) the right to control the use of an identified asset for a period of time in exchange for consideration. A portion of an asset may be separated as a separate identified asset if it is physically distinct. If it cannot be physically distinct, then a portion of an asset is not a separately identified asset, unless it represents substantially all of the capacity of the asset and thereby provides the customer with the right to obtain substantially all of the economic benefits from use of the asset.

If a contractual payment contains more than one lease component or a combination of lease and non-lease component, the contract is based on the relative values of the payment itself.

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

Leases (from 1 January 2018) (continued)

Bank as a lessee

For short-term lease not exceeding 12 months from the inception date, as well as for lease of the underlying assets of low value, the Bank applies the practical expedient not to recognise the right-of-use and lease liabilities. Lease payments under such contracts are recognised as operating expenses over the entire term of contract.

In other cases, the net present value of lease payments is recognised as a financial liability. And the lease payments are divided into payment of principal and interest using the effective interest method.

Accordingly, the right-of-use asset is recognised at the net present value of lease liabilities on a contract commencement date, including other direct related costs. Preliminary payments made prior to the commencement date, as well as consideration received from a lessor, are included in a right-of-use asset. The right-of-use asset is amortised on a straight-line basis over the lease term or over the useful life of the asset, if this term is shorter than the lease term.

In the event of a change in the amount of expected lease payments, for example due to an indexed calculation, or based on new estimates of contractual options, the liability is revalued. The adjustment is made with the corresponding adjustment of the right-of-use assets.

Bank as a lessor

A lease under which the Bank acts as a lessor and all the risks and rewards incidental to ownership of an underlying asset are transferred to a lessee, is classified as a finance lease. In this case, the net present inflows of minimum lease payments are recognised as an asset in the form of receivables. Payments from the lessee are divided to repayment of the carrying amount of asset and interest income recognised over the term of finance lease using the effective interest method.

All other lease contracts under which the Bank acts as a lessor are classified as operating leases: a lease facility continues to be stated in the Bank's statement of financial position, and lease payments are generally recognised as income on a straight-line basis over the lease term.

Retirement and other employee benefit obligations

The Bank pays the unified social tax and contributes to the social insurance funds to the state budget in respect of its employees. The Bank's contributions are expensed as incurred. The Bank has no other post-retirement benefit plans.

Trade and other payables

Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital

Ordinary shares are classified as equity. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising on the sale of treasury shares are shown as adjustments to share premium.

Segment reporting

Segment reporting comprises the following operating segments: Corporate banking, Retail banking, Distressed assets management, Investment banking and unallocated.

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

Interest income and expense

Effective interest rate

Interest income and interest expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to:

- gross carrying amount of a financial asset; or
- amortised cost of a financial liability.

When calculating the effective interest rate for not credit-impaired financial assets, the Bank estimates future cash flows based on all contractual terms of financial instruments, but not expected credit losses. For credit-impaired financial assets, the credit-adjusted effective interest rate is calculated using estimated future cash flows, including expected credit losses.

The effective interest rate calculation includes transaction costs, as well as all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include additional expenses directly related to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus any repayments of the principal plus or minus the cumulative amortisation using the effective interest method of any difference between the amount at initial recognition and the maturity amount and minus, in the case of a financial asset, any reduction for expected credit losses (or an allowance for impairment before 1 January 2018).

Gross carrying amount of a financial assets stated at amortised cost is the amortised cost of a financial asset before recognizing the impairment loss.

Calculation of interest income and expense

When calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of an asset (when an asset is not credit-impaired) or the fair value of a liability.

However, for financial assets that have become credit-impaired after initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of a financial asset. If a financial asset is no longer credit-impaired, the interest income is once again calculated on the basis of gross carrying amount.

For financial assets that were credit-impaired at the initial recognition, interest income is calculated by applying the effective interest rate to the net amortised cost of a financial asset adjusted for credit risk. The calculation of interest income on such assets is not carried out based on the gross carrying amount, even if the credit risk related to them will subsequently decrease.

Fee and commission income

Fees, commissions and other income and expense items, including fees for issuance of guarantees, are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commitment fees for loans or borrowings which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan or borrowings. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction.

(in thousands of Ukrainian hryvnias)

4. Summary of significant accounting policies (continued)

Foreign currency translation

The Ukrainian hryvnia is the Bank's functional currency as it is the currency of the primary economic environment in which the Bank operates. Transactions in other currencies are treated as transactions in foreign currencies. All transactions in foreign currencies are translated into the functional currency at the official exchange rate of the NBU at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the official exchange rate of the NBU at the reporting period. Gains and losses resulting from the translation of foreign currency transactions are recognised in the income statement as foreign exchange translation results. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Amendments of the financial statements after issue

The Bank's shareholders have the power to amend the financial statements after issue.

New accounting pronouncements

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on the date it first applies IFRS 17. This standard is not applicable to the Bank.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The Bank will apply interpretation from its effective date. Since the Bank operates in a complex tax environment, applying the Interpretation may affect its financial statements. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

4. Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Bank.

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

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments will have no impact on the Bank’s financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with earlier application permitted.

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

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

4. Summary of significant accounting policies (continued)

New accounting pronouncements (continued)

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

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. Since the Bank does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with earlier application permitted. These amendments will apply on future business combinations of the Bank.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with earlier application permitted. These amendments are currently not applicable to the Bank but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. The amendments must first be applied to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with the amendments, the Bank does not expect any effect on its financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its financial statements.

(in thousands of Ukrainian hryvnias)

5. Significant accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management of the Bank also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of loans and receivables

The Bank regularly reviews its loan portfolios and accounts receivables to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a repayment of the borrower's debts before the decrease can be identified with an individual loan in that loan portfolio and accounts receivables. When calculating future cash flows, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment for groups of loans and accounts receivables. The methodology and 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.

The Bank regularly assesses assets pledged as collateral for the individually impaired loans (Stage 3) to estimate the amount of losses likely to be incurred. The amount of the future cash flow from sale of assets is influenced by the value of the assets and the expected term of sale. A simultaneous 10% decrease in the value of assets held by the Bank as collateral on loans and 50% increase in the expected term of assets' sale would result in an increase in impairment losses of UAH 168,160 thousand (2017: UAH 191,669 thousand) on loans individually determined to be impaired.

A 10% increase in the value of collateral for individually impaired loans would result in a decrease of impairment loss of UAH 74,997 thousand (2017: UAH 113,741 thousand).

Impairment loss on corporate loans, which are collectively assessed for impairment (Stages 1 and part of loans to customers not meeting the materiality criterion at Stage 2), may be influenced by the probability of borrower's default (PD) and the level of loss incurred when a borrower defaults (LGD). A simultaneous 10% increase in PD and in LGD would result in an increase in impairment losses of UAH 42,834 thousand (2017: UAH 40,453 thousand). A simultaneous 10% decrease in PD and in LGD would result in a decrease in impairment losses of UAH 47,335 thousand (2017: UAH 36,600 thousand).

Impairment loss on collectively assessed retail loans may be influenced by the probability of borrower's default (PD) and recovery rate (RR). A simultaneous 10% increase in PD and 10% decrease in RR would result in an increase in expected impairment losses of UAH 50,067 thousand (2017: UAH 17,793 thousand). A simultaneous 10% decrease in PD and in PR would result in a decrease in impairment losses of UAH 57,449 thousand (2017: UAH 18,881 thousand).

Fair value of own use premises, works of arts and investment property

As stated in Note 4, the Bank's premises, works or arts and investment property are subject to revaluation on a regular basis. Such revaluations are based on the results of work of an independent appraiser. The basis for their work is the sales comparisons approach, which is further confirmed by the income approach. When performing the revaluation certain judgments and estimates are applied by the appraisers in determination of the comparable premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalization rate to be applied for the income approach. In 2018, the Bank performed revaluation of own premises by engaging independent appraisers, upon the results of which the Bank has concluded that the fair value of premises does not differ materially from their carrying amount. If the price per square meter is 5% higher or lower, the fair value of own premises would be UAH 41,849 thousand higher or lower, respectively (2017: UAH 41,746 thousand), and the fair value of investment property would be UAH 3,594 thousand higher or lower, respectively (2017: UAH 7,467 thousand).

5. Significant accounting estimates and judgements in applying accounting policies (continued)

Determining the terms under lease contracts

The Bank takes into account all available facts and circumstances that give rise to an economic incentive to exercise an option to extend the lease or not to exercise the option to terminate the lease. The Bank determines the total lease term as three years, insofar as during exactly this period the Bank is reasonably certain to exercise the option to extend the lease term up to three years, and also is reasonably certain to exercise the option to terminate longer lease terms after three years. An exception to determination of the total lease term may be cases where there are undeniable facts and circumstances that indicate a different intended term of use (for example, but not limited to, scheduled early termination of a lease contract or a lease of key strategic premises, for example, the Bank's head offices).

Related party transactions

In the normal course of business the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments at their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for such judgement is the pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms of related party transactions are disclosed in Note 35.

Fair value measurements

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 32.

(in thousands of Ukrainian hryvnias)

6. Cash and cash equivalents

For the purpose of the cash flow statement cash and cash equivalents comprised the following:

	2018	2017
Cash on hand and in transit	1,943,482	1,499,210
Current accounts and overnight deposits with other banks (Note 8)	4,155,797	4,124,389
Current accounts and overnight deposits with other banks – expected credit losses (Note 8)	(1,987)	–
Current accounts and overnight deposits with other banks – interest income accrued (Note 8)	(31)	(493)
Current account with the National Bank of Ukraine (Note 7)	743,346	1,178,795
Deposit certificates (Note 9)	2,202,893	2,002,054
Deposit certificates − interest income accrued	(2,893)	(2,054)
Total cash and cash equivalents	**9,040,607**	**8,801,901**

7. Balance with the National Bank of Ukraine

	2018	2017
Correspondent account with the National Bank of Ukraine	743,346	1,178,795
Total balance with the National Bank of Ukraine	**743,346**	**1,178,795**

In accordance with the NBU requirements, the Bank’s mandatory reserve balance is computed as a percentage of certain Bank liabilities for the prior provisioning month.

As at 31 December 2018, the National Bank of Ukraine did not require the banks to hold the mandatory reserve on a separate account. The control over the formation of mandatory reserves is carried out per month based on average data for the entire period of holding.

8. Due from other banks

	2018	2017
Current accounts and overnight deposits with other banks		
- OECD countries	3,584,477	3,462,633
- domestic	18,510	70,044
- other countries	552,810	591,712
Total current accounts and overnight deposits with other banks	**4,155,797**	**4,124,389**
including accrued interest income	**31**	**493**
Term deposits with other banks, including:		
- OECD countries	1,395,474	1,106,530
- domestic	2,854	258,528
- other countries	42,396	43,787
- reverse sale and repurchase agreements	−	276,788
Total term deposits with other banks	**1,440,724**	**1,685,633**
Less: expected credit losses	*(2,295)*	*(262,706)*
Total due from other banks	**5,594,226**	**5,547,316**

(in thousands of Ukrainian hryvnias)

8. Due from other banks (continued)

Movements in the gross carrying amount of due from other banks during 2018 were as follows:

Due from other banks	Stage 1	Stage 3	Total
Gross carrying amount at 1 January 2018	**5,553,184**	**256,838**	**5,810,022**
New assets	2,242,840	−	**2,242,840**
Repaid or sold assets	(929,937)	−	**(929,937)**
Decrease in carrying amount during the period	(1,033,551)	−	**(1,033,551)**
Use of allowance	−	(239,836)	**(239,836)**
Translation differences	(236,015)	(17,002)	**(253,017)**
At 31 December 2018	**5,596,521**	**−**	**5,596,521**

Movements in the allowance for impairment of due from other banks during 2018 were as follows:

Due from other banks	*Stage 1*	*Stage 3*	*Total*
Expected credit losses at 1 January 2018	**1,995**	**256,839**	**258,834**
New assets	589	−	**589**
Changes in expected credit risk estimation	1,175	−	**1,175**
Use of allowance	−	(239,836)	**(239,836)**
Translation differences	(1,464)	(17,003)	**(18,467)**
At 31 December 2018	**2,295**	**−**	**2,295**

Movements in the allowance for impairment of due from other banks during 2017 were as follows:

	2017 **Total due from other banks**
Allowance for impairment at the beginning of the period	**254,862**
Charge to the allowance for impairment during the reporting period	(473)
Translation differences	8,317
Allowance for impairment at the end of the period	**262,706**

As at 31 December 2018, term deposits placed with other banks in OECD and other countries of UAH 742,995 thousand (31 December 2017: UAH 588,907 thousand) represented security deposits against import letters of credit and guarantees issued by the Bank in favour of its clients.

As at 31 December 2018, UAH 1,166,164 thousand on current accounts and overnight deposits with other banks representing 21% of the total amount due from other banks were placed with one OECD bank with AA rating confirmed by the international rating agencies (31 December 2017: UAH 1,122,825 thousand representing 19% of the total amounts due from other banks were placed with one OECD bank with BBB+ rating confirmed by the international rating agencies).

Analysis by credit quality of due from other banks outstanding at 31 December 2018 is as follows:

	Current accounts and overnight deposits with other banks	**Term deposits with other banks**	**Total**
Stage 1			
AA- to AA+ rated	2,065,779	4,158	**2,069,937**
A- to A+ rated	1,436,771	1,278,238	**2,715,009**
BBB- to BBB+ rated	605,839	155,423	**761,262**
BB- to BB+ rated	15	51	**66**
B- to B+ rated	5,441	−	**5,441**
Unrated	41,952	2,854	**44,806**
Total neither past due nor impaired	**4,155,797**	**1,440,724**	**5,596,521**
Less expected credit losses	(1,987)	(308)	**(2,295)**
Total due from other banks	**4,153,810**	**1,440,416**	**5,594,226**

(in thousands of Ukrainian hryvnias)

8. Due from other banks (continued)

The credit ratings were based on the ratings assigned by the international rating agencies Fitch. Counterparties included in the category of "unrated" are represented by banks, considered to be mid-size or small banks by the amount of total assets.

Analysis by credit quality of due from other banks outstanding at 31 December 2017 is as follows:

	Current accounts and overnight deposits with other banks	**Term deposits with other banks**	**Total**
Neither past due nor impaired			
AA- to AA+ rated	1,202,415	4,392	**1,206,807**
A- to A+ rated	310,445	1,044,607	**1,355,052**
BBB- to BBB+ rated	2,059,689	100,632	**2,160,321**
BB- to BB+ rated	243,515	686	**244,201**
B- to B+ rated	59,655	–	**59,655**
Unrated	248,670	278,478	**527,148**
Total neither past due nor impaired	**4,124,389**	**1,428,795**	**5,553,184**
Individually impaired			
- More than 360 days overdue	–	256,838	**256,838**
Total individually impaired	**–**	**256,838**	**256,838**
Less allowance for impairment	–	(262,706)	**(262,706)**
Total due from other banks	**4,124,389**	**1,422,927**	**5,547,316**

9. Securities

Securities at fair value through profit or loss

	2018	**2017**
Ukrainian Government debt securities	93,200	162,887
Total securities at fair value through profit or loss	**93,200**	**162,887**

Securities at fair value through other comprehensive income

	2018
Ukrainian Government debt securities	8,334,691
NBU deposit certificates	3,208,313
US Government debt securities	27,583
Less: expected credit losses	(17,130)
Total debt securities	**11,553,457**
including accrued interest income	***200,187***
Shares	7,057
Total securities at fair value through other comprehensive income	**11,560,514**

(in thousands of Ukrainian hryvnias)

9. Securities (continued)

Securities available-for-sale

	2017
Ukrainian Government debt securities	8,224,378
NBU deposit certificates	2,002,054
Total debt securities	**10,226,432**
including accrued interest income	***319,256***
Shares	7,057
Total securities available-for-sale	**10,233,489**

Analysis of changes in carrying amount of securities at fair value through other comprehensive income during 2018 is as follows:

Debt securities	**Stage 1**	**Total**
Gross carrying amount at 1 January 2018	**10,226,432**	**10,226,432**
New assets	161,327,330	161,327,330
Assets repaid	(159,844,983)	(159,844,983)
Decrease in carrying amount during the period	(135,209)	(135,209)
Translation differences	(2,983)	(2,983)
At 31 December 2018	**11,570,587**	**11,570,587**

Analysis of changes in allowance for expected credit losses on securities at fair value through other comprehensive income during 2018 is as follows:

Debt securities	**Stage 1**	**Total**
Expected credit losses at 1 January 2018	**28,741**	**28,741**
New assets	13,127	13,127
Assets repaid	(11,657)	(11,657)
Changes in expected credit risk estimation	(13,081)	(13,081)
At 31 December 2018	**17,130**	**17,130**

Analysis by credit quality of debt securities at value through other comprehensive income as at 31 December 2018 is as follows:

	Government debt securities	**NBU deposit certificates**	**US Government debt securities**	**Total**
Stage 1				
AAA rated	–	–	27,583	**27,583**
B- rated	8,334,691	3,208,313	–	**11,543,004**
Total neither past due nor impaired	**8,334,691**	**3,208,313**	**27,583**	**11,570,587**
Less: expected credit losses	(17,123)	–	(7)	**(17,130)**
Total debt securities	**8,317,568**	**3,208,313**	**27,576**	**11,553,457**

(in thousands of Ukrainian hryvnias)

9. Securities (continued)

Analysis by credit quality of debt securities available-for-sale as at 31 December 2017 is as follows:

	Government debt securities	NBU deposit certificates	Total
Neither past due nor impaired			
B- rated	8,224,378	2,002,054	**10,226,432**
Total neither past due nor impaired	**8,224,378**	**2,002,054**	**10,226,432**
Total debt securities	**8,224,378**	**2,002,054**	**10,226,432**

The credit ratings for Ukrainian Government debt securities' issuers and deposit certificates issued by the NBU are based on sovereign rating of Ukraine.

The primary factor that the Bank considers in determining whether a debt security is impaired is an issuer's credit risk.

As at 31 December 2018, deposit certificates issued by the NBU with nominal value of UAH 2,200,000 thousand (31 December 2017: UAH 2,000,000 thousand) with maturity up to 1 working day are classified by the Bank as cash and cash equivalents (Note 6).

As at 31 December 2018, the Ukrainian Government debt securities include state treasury bonds with maturity dates from 2 January 2019 through 12 February 2020 and the effective interest rates from 5% to 23% p.a. (31 December 2017: with maturity dates from 10 January 2018 through 23 December 2019 and the effective interest rates from 4% to 23% p.a.), and deposit certificates issued by the NBU with maturity dates from 3 January 2019 through 4 January 2019 and effective interest rate from 17% to 20% p.a. (31 December 2017: with maturity date from 3 January 2018 and effective interest rate 13% p.a.), as well as US Government debt securities maturity date 28 February 2019 and effective interest rate of 2% p.a.

As at 31 December 2018, the Government debt securities with carrying amount of UAH 3,057 thousand were pledged as collateral against the loan from the National Bank of Ukraine (Notes 14 and 34).

10. Loans to customers

	2018	2017 (restated)
Corporate loans	24,937,942	25,324,687
Finance lease	116,410	–
Less: expected credit losses	(6,146,422)	(5,501,375)
Total corporate loans less expected credit losses	**18,907,930**	**19,823,312**
Loans to individuals		
Consumer loans	7,018,902	4,804,444
Mortgage loans	1,002,623	1,163,980
Car loans	157,644	129,546
Other loans to individuals	3,383,048	1,750,951
Less: expected credit losses	(3,225,850)	(2,245,169)
Total loans to individuals less expected credit losses	**8,336,367**	**5,603,752**
Total loans to customers	**27,244,297**	**25,427,064**

As at 31 December 2018, loans to customers include loans with fixed interest rates of UAH 35,326,828 thousand (31 December 2017: UAH 33,111,193 thousand) and loans with floating interest rates of UAH 1,289,741 thousand (31 December 2017: UAH 62,415 thousand).

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Changes in expected credit losses on loans measured at amortised cost

The tables below disclose the changes in the gross carrying amount and changes in the expected loan losses on loan contracts with the Bank's customers. New assets are considered loans issued during 2018. Changes during the period include increase or decrease in the gross carrying amount and expected credit losses under the contracts existed at the beginning and end of the reporting period. Repaid assets are fully repaid loans, except those sold or written-off against an allowance.

Analysis of changes in gross carrying amount and corresponding ECL on corporate loans during the year ended 31 December 2018 is as follows:

Corporate loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying amount at 1 January 2018	**12,066,720**	**3,659,124**	**9,972,750**	**380,931**	**26,079,525**
New assets	5,726,806	–	–	–	**5,726,806**
Assets repaid	(4,578,503)	(2,394)	(1,160,320)	(44,829)	**(5,786,046)**
Transfers to Stage 1	492,776	(6,024)	(486,752)	–	**–**
Transfers to Stage 2	(198,045)	198,045	–	–	**–**
Transfers to Stage 3	(33,895)	(609,856)	643,751	–	**–**
Increase/(decrease) in carrying amount during the period	64,327	65,891	(164,067)	(18,617)	**(52,466)**
Changes to contractual cash flows due to modifications not resulting in derecognition	4,723	7,167	1,900	(6,888)	**6,902**
Use of allowance	–	–	(713,235)	–	**(713,235)**
Translation differences	(129,727)	(36,369)	(151,617)	(5,831)	**(323,544)**
At 31 December 2018	**13,415,182**	**3,275,584**	**7,942,410**	**304,766**	**24,937,942**

Corporate loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Expected credit losses at 1 January 2018	**174,750**	**240,565**	**6,079,508**	**54,209**	**6,549,032**
New assets	89,534	–	–	–	**89,534**
Assets repaid	(32,689)	–	(72,140)	(9,199)	**(114,028)**
Transfers to Stage 1	167,423	(207)	(167,216)	–	**–**
Transfers to Stage 2	(55,302)	55,302	–	–	**–**
Transfers to Stage 3	(1,118)	(34,227)	35,345	–	**–**
Changes in expected credit risk estimation	(130,687)	(101,992)	329,064	(16,681)	**79,704**
Recovery of loans written off in previous years	–	–	5,284	–	**5,284**
Changes to contractual cash flows due to modifications not resulting in derecognition	45	296	643	(714)	**270**
Use of allowance	–	–	(713,235)	–	**(713,235)**
Adjustment to interest income	–	–	341,456	789	**342,245**
Translation differences	(1,405)	(1,761)	(88,875)	(1,397)	**(93,438)**
At 31 December 2018	**210,551**	**157,976**	**5,749,834**	**27,007**	**6,145,368**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Changes in expected credit losses on loans measured at amortised cost (continued)

Analysis of changes in gross carrying amount and corresponding ECL on finance lease during the year ended 31 December 2018 is as follows:

Finance lease	**Stage 1**	**Total**
Gross carrying amount at 1 January 2018	**–**	**–**
New assets	116,410	**116,410**
At 31 December 2018	**116,410**	**116,410**

Finance lease	**Stage 1**	**Total**
Expected credit losses at 1 January 2018	**–**	**–**
New assets	1,054	**1,054**
At 31 December 2018	**1,054**	**1,054**

Analysis of changes in gross carrying amount and corresponding ECL on consumer loans to individuals during the year ended 31 December 2018 is as follows:

Consumer loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount at 1 January 2018	**3,984,529**	**48,733**	**1,055,515**	**5,088,777**
New assets	4,990,117	–	–	**4,990,117**
Assets repaid	(2,471,117)	(30,926)	(45,340)	**(2,547,383)**
Transfers to Stage 1	6,358	(6,358)	–	**–**
Transfers to Stage 2	(71,734)	71,734	–	**–**
Transfers to Stage 3	(103,861)	(29,497)	133,358	**–**
Increase/(decrease) in carrying amount during the period	(733,259)	88,295	140,463	**(504,501)**
Use of allowance	–	–	(8,108)	**(8,108)**
At 31 December 2018	**5,601,033**	**141,981**	**1,275,888**	**7,018,902**

Consumer loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Expected credit losses at 1 January 2018	**78,927**	**17,868**	**1,042,817**	**1,139,612**
New assets	193,299	–	–	**193,299**
Assets repaid	(7,194)	(880)	(5,640)	**(13,714)**
Transfers to Stage 1	1,491	(1,491)	–	**–**
Transfers to Stage 2	(3,058)	3,058	–	**–**
Transfers to Stage 3	(5,962)	(14,981)	20,943	**–**
Changes in expected credit risk estimation	(47,855)	64,424	121,491	**138,060**
Recovery of loans written off in previous years	–	–	3,259	**3,259**
Use of allowance	–	–	(8,108)	**(8,108)**
Adjustment to interest income	–	–	62,161	**62,161**
At 31 December 2018	**209,648**	**67,998**	**1,236,923**	**1,514,569**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Changes in expected credit losses on loans measured at amortised cost (continued)

Analysis of changes in gross carrying amount and corresponding ECL on mortgage loans to individuals during the year ended 31 December 2018 is as follows:

Mortgage loans	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 1 January 2018	**126,943**	**2,774**	**1,289,160**	**931**	**1,419,808**
New assets	4,036	−	−	−	**4,036**
Assets repaid	(19,340)	(13)	(69,463)	(183)	**(88,999)**
Transfers to Stage 1	717	(717)	−	−	**−**
Transfers to Stage 2	(2,367)	2,367	−	−	**−**
Transfers to Stage 3	(1,015)	(1,541)	2,556	−	**−**
Increase/(decrease) in carrying amount during the period	(10,418)	(218)	68,902	340	**58,606**
Use of allowance	(1,988)	−	(361,798)	−	**(363,786)**
Translation differences	(552)	(30)	(26,460)	−	**(27,042)**
At 31 December 2018	**96,016**	**2,622**	**902,897**	**1,088**	**1,002,623**

Mortgage loans	Stage 1	Stage 2	Stage 3	POCI	Total
Expected credit losses at 1 January 2018	**12,184**	**726**	**1,231,321**	**523**	**1,244,754**
New assets	2,616	−	−	−	**2,616**
Assets repaid	(130)	−	(9,238)	(93)	**(9,461)**
Transfers to Stage 1	53	(53)	−	−	**−**
Transfers to Stage 2	(548)	548	−	−	**−**
Transfers to Stage 3	(346)	(583)	929	−	**−**
Changes in expected credit risk estimation	(4,510)	591	(40,652)	157	**(44,414)**
Recovery of loans written off in previous years	−	−	6,295	−	**6,295**
Use of allowance	(1,988)	−	(361,798)	−	**(363,786)**
Adjustment to interest income	−	−	92,766	36	**92,802**
Translation differences	(164)	(13)	(31,745)	−	**(31,922)**
At 31 December 2018	**7,167**	**1,216**	**887,878**	**623**	**896,884**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Changes in expected credit losses on loans measured at amortised cost (continued)

Analysis of changes in gross carrying amount and corresponding ECL on car loans to individuals during the year ended 31 December 2018 is as follows:

Car loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount at 1 January 2018	**5,509**	**213**	**153,746**	**159,468**
New assets	183	–	–	**183**
Assets repaid	(3,533)	(75)	(2,183)	**(5,791)**
Transfers to Stage 2	(70)	70	–	**–**
Transfers to Stage 3	(114)	(8)	122	**–**
Increase/(decrease) in carrying amount during the period	(968)	(109)	10,263	**9,186**
Use of allowance	–	–	(3,733)	**(3,733)**
Translation differences	–	–	(1,669)	**(1,669)**
At 31 December 2018	**1,007**	**91**	**156,546**	**157,644**

Car loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Expected credit losses at 1 January 2018	**1,112**	**36**	**153,746**	**154,894**
New assets	2	–	–	**2**
Assets repaid	(15)	(4)	(117)	**(136)**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	(82)	(4)	86	**–**
Changes in expected credit risk estimation	(804)	(25)	(6,984)	**(7,813)**
Recovery of loans written off in previous years	–	–	2,517	**2,517**
Use of allowance	–	–	(3,733)	**(3,733)**
Adjustment to interest income	–	–	13,354	**13,354**
Translation differences	–	–	(2,323)	**(2,323)**
At 31 December 2018	**212**	**4**	**156,546**	**156,762**

Analysis of changes in gross carrying amount and corresponding ECL on other loans to individuals during the year ended 31 December 2018 is as follows:

Other loans to individuals	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount at 1 January 2018	**1,425,433**	**21,222**	**386,719**	**1,833,374**
New assets	1,136,383	–	–	**1,136,383**
Assets repaid	(39,750)	(771)	(5,126)	**(45,647)**
Transfers to Stage 1	4,120	(4,120)	–	**–**
Transfers to Stage 2	(31,406)	31,406	–	**–**
Transfers to Stage 3	(62,302)	(14,786)	77,088	**–**
Increase/(decrease) in carrying amount during the period	330,989	36,959	96,343	**464,291**
Use of allowance	–	–	(5,288)	**(5,288)**
Translation differences	–	–	(65)	**(65)**
At 31 December 2018	**2,763,467**	**69,910**	**549,671**	**3,383,048**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Changes in expected credit losses on loans measured at amortised cost (continued)

Other loans to individuals	Stage 1	Stage 2	Stage 3	Total
Expected credit losses at 1 January 2018	**40,289**	**10,134**	**383,195**	**433,618**
New assets	36,962	–	–	**36,962**
Assets repaid	(1,232)	(355)	(1,601)	**(3,188)**
Transfers to Stage 1	1,472	(1,472)	–	**–**
Transfers to Stage 2	(1,331)	1,331	–	**–**
Transfers to Stage 3	(3,990)	(10,973)	14,963	**–**
Changes in expected credit risk estimation	14,874	37,402	57,279	**109,555**
Recovery of loans written off in previous years	–	–	2,317	**2,317**
Use of allowance	–	–	(5,288)	**(5,288)**
Adjustment to interest income	–	–	83,812	**83,812**
Translation differences	(22)	–	(131)	**(153)**
At 31 December 2018	**87,022**	**36,067**	**534,546**	**657,635**

For the year ended 31 December 2018, the Bank restructured mortgage loans to individuals in foreign currency into consumer loans in local currency. As at 31 December 2018, the carrying amount of restructured loans was UAH 39,381 thousand (31 December 2017: UAH 50,988 thousand). Net losses on restructured mortgage loans to individuals in foreign currency for the year ended 31 December 2018 was UAH 2,564 thousand (31 December 2017: UAH 5,524 thousand).

Movements in the allowance for impairment of the loan portfolio during the year ended 31 December 2017 were as follows:

	Corporate loans	Consumer loans	Mortgage loans	Car loans	Other loans to individuals	Total
Allowance for impairment of loans to customers at the beginning of the period	**6,557,846**	**830,758**	**2,524,323**	**291,507**	**245,814**	**10,450,248**
Charge to the allowance for impairment during the reporting period	1,165,727	32,615	(86,526)	265	70,882	**1,182,963**
Recovery of loans written off in previous years	(20,848)	(1,615)	(1,850)	(340)	(1,158)	**(25,811)**
Use of allowance	(2,305,174)	(40,669)	(1,447,162)	(166,926)	(1,038)	**(3,960,969)**
Translation differences	103,824	(98)	(4,072)	383	76	**100,113**
Allowance for impairment of loans to customers at 31 December 2017	**5,501,375**	**820,991**	**984,713**	**124,889**	**314,576**	**7,746,544**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Changes in expected credit losses on loans measured at amortised cost (continued)

Analysis of allowance for impairment of the loan portfolio by type and effective allowance rate as at 31 December 2017 was as follows:

	Corporate loans	Consumer loans (restated)	Mortgage loans	Car loans	Other loans to individuals	Total
Allowance recognised for loans individually determined to be impaired	5,117,216	–	196,288	–	–	**5,313,504**
Allowance recognised for loans collectively determined to be impaired	199,169	752,585	778,496	123,580	287,653	**2,141,483**
Allowance recognised on collective basis for loans without specific evidence of impairment	184,990	68,406	9,929	1,309	26,923	**291,557**
Total recognised allowance for impairment	**5,501,375**	**820,991**	**984,713**	**124,889**	**314,576**	**7,746,544**
Gross amount of loans individually determined to be impaired, before deducting any impairment allowance	9,453,087	–	223,165	–	–	**9,676,252**
Gross amount of loans collectively determined to be impaired, before deducting any impairment allowance	207,452	768,714	831,210	123,638	303,029	**2,234,043**
Gross amount of loans without specific evidence of impairment, before deducting any impairment allowance	15,664,148	4,035,730	109,605	5,908	1,447,922	**21,263,313**
Gross amount of loans before deducting any impairment allowance	**25,324,687**	**4,804,444**	**1,163,980**	**129,546**	**1,750,951**	**33,173,608**
Provisioning rate for individually impaired loans	54%	0%	88%	0%	0%	**55%**
Provisioning rate for collectively impaired loans	96%	98%	94%	100%	95%	**96%**
Allowance rate for loans without specific evidence of impairment	1%	2%	9%	22%	2%	**1%**

The amount of undiscounted ECL at initial recognition on POCI loans that were initially recognised during the year ended 31 December 2018 was as follows:

	2018
Corporate loans	157,562
Mortgage loans to individuals	2
Total non-discounted expected credit losses at initial recognition of POCI	**157,564**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Modified loans

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

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

The table below includes Stage 2 and 3 assets that were modified during the period, with the related modification gains or loss.

	2018
Loans to customers modified during the period	
Amortised cost before modification	822,578
Net modification gain	9,067

Collateral and other credit enhancements

The amount and type of collateral required by the Bank depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for securities lending and reverse repurchase transactions: securities;
- for commercial lending: charges over real estate property, inventory and trade receivables, deposits;
- for retail lending: property rights for movable and immovable property, deposits.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

As at 31 December 2018, loans were secured by customer deposits with the Bank of UAH 381,586 thousand (31 December 2017: UAH 381,960 thousand) (Note 16).

Credit quality of the loan portfolio

The loan portfolio quality is managed by using the Bank's internal credit ratings. The Bank's policy is to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

While determining corporate borrower's rating, the Bank uses rating calculated under internal rating model.

High rating has the following characteristics: expanding operating activity of a borrower, stable financial position (sufficient equity, low dependency of external sources of funding), high efficiency of business model. The entities with high rating are either the market leaders or have stable market position, highly effective management and organisational structure. The risk of loan quality deterioration is minimal, credit history is excellent.

Standard rating is assigned to borrowers with stable volumes of operating activity, with performance effectiveness at industry average. There is some dependency on external sources of funding. The risk of default is low. The entities with standard rating have stable market position at the regional and national level. These are entities with adequate management and organisational structure. Credit history is positive, with insignificant technical delays in repayment of borrowings.

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Credit quality of the loan portfolio (continued)

Below standard rating is assigned to the borrowers with unstable or decreasing operational activities, low business efficiency, high dependency of external sources of funding, repayment of loan with cash inflows might be problematic and therefore the risk of default is high. Credit history can be characterized by existence of significant overdue payments. Market position is not stable, the decrease or loss of market share is possible.

The description of internal credit ratings used by the Bank for retail borrowers is provided below.

High rating is assigned to the borrowers with strong financial position. Creditworthiness and solvency are significantly above loan servicing level. Risk of creditworthiness deterioration is minimal.

Standard rating is assigned to the borrowers with stable financial position. Creditworthiness and solvency are sufficient for the loan servicing. The risk of default is low.

Below standard rating is assigned to the borrowers with unstable or worsening financial position. Creditworthiness and solvency are marginally sufficient for the loan servicing. The risk of default is increasing due to negative impact of external factors on cash flows available for the repayment of loan.

Analysis by credit quality of loans outstanding as at 31 December 2018 is as follows:

	Stage	**High rating**	**Standard rating**	**Below standard rating**	**Impaired**	**Total**
Loans to customers:						
- Corporate loans	Stage 1	6,026,249	5,150,723	2,027,659	–	**13,204,631**
	Stage 2	78,193	3,027,467	11,948	–	**3,117,608**
	Stage 3	–	–	–	2,192,576	**2,192,576**
	POCI	–	–	–	277,759	**277,759**
- Finance lease	Stage 1	35,854	70,075	9,427	–	**115,356**
- Consumer loans	Stage 1	5,239,228	–	152,157	–	**5,391,385**
	Stage 2	14,274	–	59,709	–	**73,983**
	Stage 3	–	–	–	38,965	**38,965**
- Mortgage loans	Stage 1	7,018	–	81,831	–	**88,849**
	Stage 2	–	–	1,406	–	**1,406**
	Stage 3	–	–	–	15,019	**15,019**
	POCI	–	–	–	465	**465**
- Car loans	Stage 1	406	–	389	–	**795**
	Stage 2	19	–	68	–	**87**
- Other loans to individuals	Stage 1	100,222	–	2,576,223	–	**2,676,445**
	Stage 2	319	–	33,524	–	**33,843**
	Stage 3	–	–	–	15,125	**15,125**
Total		**11,501,782**	**8,248,265**	**4,954,341**	**2,539,909**	**27,244,297**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Credit quality of the loan portfolio (continued)

Analysis by credit quality of loans outstanding as at 31 December 2017 is as follows:

	Corporate loans	Consumer loans	Mortgage loans	Car loans	Other loans to individuals	Total
Without individual evidence of impairment						
Neither past due nor impaired						
high rating	7,590,808	3,912,963	1,532	26	110,408	**11,615,737**
standard rating	6,596,438	–	–	–	–	**6,596,438**
below standard rating	1,127,960	1,836	101,789	5,245	1,090,840	**2,327,670**
Total neither past due nor impaired	**15,315,206**	**3,914,799**	**103,321**	**5,271**	**1,201,248**	**20,539,845**
Past due but not impaired						
- less than 30 days overdue	348,942	89,882	5,090	483	216,636	**661,033**
- 31 to 90 days overdue	–	31,050	1,194	154	24,557	**56,955**
- 91 to 180 days overdue	–	–	–	–	5,430	**5,430**
- 181 to 360 days overdue	–	–	–	–	20	**20**
- more than 360 days overdue	–	–	–	–	30	**30**
Total past due but not individually impaired	**348,942**	**120,932**	**6,284**	**637**	**246,673**	**723,468**
With individual evidence of impairment						
Loans determined to be impaired individually or collectively						
- less than 30 days overdue	5,040,129	5,555	32,334	51	8,317	**5,086,386**
- 31 to 90 days overdue	2,480,784	2,165	1,314	37	1,749	**2,486,049**
- 91 to 180 days overdue	1,940	26,977	613	84	15,049	**44,663**
- 181 to 360 days overdue	823,551	46,168	8,040	352	38,776	**916,887**
- more than 360 days overdue	1,314,135	687,848	1,012,074	123,114	239,139	**3,376,310**
Loans determined to be impaired individually or collectively	**9,660,539**	**768,713**	**1,054,375**	**123,638**	**303,030**	**11,910,295**
Less allowance for impairment	**(5,501,375)**	**(820,991)**	**(984,713)**	**(124,889)**	**(314,576)**	**(7,746,544)**
Total loans to customers	**19,823,312**	**3,983,453**	**179,267**	**4,657**	**1,436,375**	**25,427,064**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2018, the Bank's 20 largest borrowers, with aggregate loan amount of UAH 10,343,501 thousand, represented 28% of the gross loan portfolio (31 December 2017: UAH 12,833,634 thousand issued to 20 largest borrowers represented 39% of the gross loan portfolio).

The loan portfolio of the Bank by economic sectors, the credit risk of which has an impact on the credit quality, is as follows:

	2018	**2017**
Individuals	11,562,217	7,848,921
Trade and agency services	7,635,856	6,682,255
Food industry and agriculture	4,927,166	3,877,260
Property development	4,638,168	4,914,504
Machine building	2,713,861	2,413,628
Non-banking financial institutions	1,141,198	1,394,675
Transport, communication and infrastructure	824,512	208,707
Woodworking	685,095	767,816
Metallurgy	490,470	1,919,896
Mining and energy	364,184	1,663,142
Chemical	358,704	233,378
Other	1,275,138	1,249,426
Total loans to customers before allowance for expected credit losses	**36,616,569**	**33,173,608**

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

The financial effect of collateral is presented by disclosing collateral values separately for:

- those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying amount of the asset ("over-collateralised assets"); and
- those financial assets where collateral and other credit enhancements are less than the carrying amount of the asset ("under-collateralised assets").

The effect of collateral as at 31 December 2018 is as follows:

	Over-collateralised assets		**Under-collateralised assets**	
	Carrying amount net of allowance	**Fair value of collateral**	**Carrying amount net of allowance**	**Fair value of collateral**
Corporate loans	11,134,739	19,440,108	7,657,835	4,898,963
Finance lease	98,412	190,104	16,944	16,515
Consumer loans	1,526	13,710	5,502,807	–
Mortgage loans	55,486	395,795	50,253	28,035
Car loans	882	66,816	–	–
Other loans to individuals	2,241	16,200	2,723,172	–
Total	**11,293,286**	**20,122,733**	**15,951,011**	**4,943,513**

(in thousands of Ukrainian hryvnias)

10. Loans to customers (continued)

Concentration of loans to customers (continued)

The effect of collateral as at 31 December 2017 is as follows:

	Over-collateralised assets		Under-collateralised assets	
	Carrying amount net of allowance	**Fair value of collateral**	**Carrying amount net of allowance**	**Fair value of collateral**
Corporate loans	10,549,258	19,884,740	9,274,054	3,899,456
Consumer loans	2,138	8,595	4,049,850	–
Mortgage loans	98,205	666,932	81,062	42,850
Car loans	4,657	111,034	–	–
Other loans to individuals	1,491	5,686	1,434,884	–
Total	**10,655,749**	**20,676,987**	**14,839,850**	**3,942,306**

The analysis of finance lease receivables at 31 December 2018 is as follows:

	Within 1 year	From 1 to 5 days
Gross investment in finance leases	76,693	152,638
Unearned future finance income on finance leases	(57,687)	(55,234)
Net investment in finance leases	**19,006**	**97,404**

(in thousands of Ukrainian hryvnias)

11. Property and equipment, investment property and intangible assets

	Premises	Leasehold improve-ments	Works of art	Computers and other equipment	Capital investments in property and equipment	Total property and equipment	Intangible assets	Total
Cost or revalued amount at 1 January 2017	**1,209,150**	**70,192**	**17,005**	**758,056**	**8,623**	**2,063,026**	**550,636**	**2,613,662**
Accumulated depreciation and amortization	(294,725)	(49,140)	–	(505,766)	–	**(849,631)**	(263,058)	**(1,112,689)**
Carrying amount at 1 January 2017	**914,425**	**21,052**	**17,005**	**252,290**	**8,623**	**1,213,395**	**287,578**	**1,500,973**
Additions	–	–	–	114,052	117,559	**231,611**	138,091	**369,702**
Disposals/write-offs	–	(265)	–	(42)	–	**(307)**	(8)	**(315)**
Transfers to another category	5,349	15,192	–	102,189	(122,730)	**–**	–	**–**
Transfers to investment property	(12,029)	–	–	–	–	**(12,029)**	–	**(12,029)**
Impairment of PE in ATO zone	(50,017)	–	–	–	–	**(50,017)**	–	**(50,017)**
Depreciation and amortisation charge	(22,812)	(8,100)	–	(97,946)	–	**(128,858)**	(125,658)	**(254,516)**
Carrying amount at 31 December 2017	**834,916**	**27,879**	**17,005**	**370,543**	**3,452**	**1,253,795**	**300,003**	**1,553,798**
Cost or revalued amount at 31 December 2017	**1,206,020**	**83,138**	**17,005**	**908,380**	**3,452**	**2,217,995**	**612,534**	**2,830,529**
Accumulated depreciation and amortization	(371,104)	(55,259)	–	(537,837)	–	**(964,200)**	(312,531)	**(1,276,731)**
Carrying amount at 31 December 2017	**834,916**	**27,879**	**17,005**	**370,543**	**3,452**	**1,253,795**	**300,003**	**1,553,798**
Additions	–	–	–	116,585	204,207	**320,792**	176,128	**496,920**
Disposals/write-offs	(1,333)	(177)	–	255	(203)	**(1,458)**	–	**(1,458)**
Transfers to another category	8,880	22,183	–	137,499	(168,562)	**–**	–	**–**
Transfers from investment property	16,841	–	–	–	–	**16,841**	–	**16,841**
Depreciation and amortisation charge	(22,329)	(10,005)	–	(142,013)	–	**(174,347)**	(155,499)	**(329,846)**
Carrying amount at 31 December 2018	**836,975**	**39,880**	**17,005**	**482,869**	**38,894**	**1,415,623**	**320,632**	**1,736,255**
Cost or revalued amount at 31 December 2018	**1,135,897**	**103,312**	**17,005**	**1,035,255**	**38,894**	**2,330,363**	**785,938**	**3,116,301**
Accumulated depreciation and amortization	(298,922)	(63,432)	–	(552,386)	–	**(914,740)**	(465,306)	**(1,380,046)**
Carrying amount at 31 December 2018	**836,975**	**39,880**	**17,005**	**482,869**	**38,894**	**1,415,623**	**320,632**	**1,736,255**

As at 31 December 2018, the Bank's own premises, furniture, equipment, leasehold improvements and ATMs, with net book value of UAH 1,537,063 thousand (31 December 2017: UAH 1,328,173 thousand) were insured against risks of natural disasters, robbery, fire and unlawful acts of third parties.

As at 31 December 2018, property and equipment and intangible assets with cost or revalued amount of UAH 472,370 thousand were fully depreciated or amortised (31 December 2017: UAH 534,255 thousand). These assets are still used by the Bank.

As at 31 December 2018, an independent valuation of the Bank's own premises was carried out, the results of which led the Bank to conclude that the fair value of premises does not differ significantly from their carrying amount.

(in thousands of Ukrainian hryvnias)

11. Property and equipment, investment property and intangible assets (continued)

As at 31 December 2018, the , carrying amount of premises and works of art would have been UAH 329,734 thousand (31 December 2017: UAH 317,327 thousand) had these assets been measured using the cost model. The amount reconciles to the carrying amount of the premises and works of art as follows:

	2018	2017
Premises at revalued amount in the statement of financial position	836,975	834,916
Revaluation reserve presented in equity, net of tax	(510,052)	(520,400)
Premises at cost less accumulated depreciation and impairment	**326,923**	**314,516**
Works of art at revalued amount in the statement of financial position	17,005	17,005
Revaluation reserve on works of art presented in equity, net of tax	(14,194)	(14,194)
Works of art at cost less accumulated depreciation and impairment	**2,811**	**2,811**
Total premises and works of art	**329,734**	**317,327**

Changes in carrying amount of investment property were as follows:

	2018	2017
Fair value of investment property at the beginning of the period	**149,347**	**185,857**
Sale	(60,181)	(24,396)
Transfer from/(to) owner-occupied premises	(16,841)	12,029
Transfer to repossessed property collateral	–	(27,725)
Fair value gains	2,561	12,401
Fair value losses	(3,010)	(8,819)
Fair value of investment property at the end of the period	**71,876**	**149,347**

The rental income received from investment property in 2018 was UAH 9,324 thousand (2017: UAH 11,715 thousand) (Note 28). The operating and maintenance expenses on investment property in 2018 were UAH 2,209 thousand (2017: UAH 2,154 thousand).

12. Right-of-use assets

Movements in right-of-use assets for the year ended 31 December 2018 were as follows:

	Buildings and premises
Carrying amount at 1 January 2018	**257,016**
Additions	86,354
Depreciation	(96,888)
Carrying amount at 31 January 2018	**246,482**

Expenses under short-term lease contracts, to which the simplification for recognition under IFRS 16 for the year ended 31 December 2018 is applied, amount to UAH 1,219 thousand. Expenses related to lease contracts for low-value items, to which the exemption under IFRS 16 related to the recognition for the year ended 31 December 2018 is applied, amount to UAH 5,525 thousand. There are no expenses related to variable lease payments not included in the estimate of lease liabilities for the year ended 31 December 2018.

(in thousands of Ukrainian hryvnias)

13. Other assets

	2018	2017
Financial assets		
Settlements on card operations	136,774	121,050
Accrued income and settlements	58,613	67,142
Receivables on transfers and payments	35,184	35,055
Settlements on cooperation agreements	31,501	62,109
Derivative financial assets	12,802	3,336
Purchase of foreign currency	4,803	3,629
Other financial assets	18,457	4,741
Allowance for impairment	(37,831)	(35,236)
Total financial assets	**260,303**	**261,826**
Non-financial assets		
Repossessed real estate collateral	231,985	263,804
Prepayments for property and equipment and intangible assets	73,334	96,611
Prepaid expenses, including for assets insurance	27,190	38,273
Prepayments for other taxes	25,004	22,884
Prepayments for services	11,551	9,093
Precious metals	162	166
Other non-financial assets	4,818	7,281
Allowance for impairment	(2,834)	(2,840)
Total non-financial assets	**371,210**	**435,272**
Total other assets	**631,513**	**697,098**

Movements in allowance for impairment of other financial assets during the year ended 31 December 2018 were as follows:

	2018	2017
Allowance for impairment at 1 January	**39,913**	**38,523**
Charge to the allowance for impairment during the reporting period	4,316	10,218
Use of allowance	(6,247)	(14,214)
Recovery of allowance	31	–
Effect of changes in exchange rates	(182)	709
At 31 December	**37,831**	**35,236**

Movements in allowance for impairment of other non-financial assets during the year ended 31 December 2018 were as follows:

	2018	2017
Allowance for impairment at 1 January	**2,840**	**2,784**
Charge to the allowance for impairment during the reporting period	248	25
Use of allowance	(244)	–
Recovery of allowance	(10)	31
At 31 December	**2,834**	**2,840**

14. Due to the National Bank of Ukraine

The Bank obtained from the National Bank of Ukraine the loan of UAH 1,000 thousand bearing 20% p.a. with maturity on 3 January 2019. As at 31 December 2018, the carrying amount of the loan was UAH 1,002 thousand and the loan was secured by treasury securities with the fair value of UAH 3,057 thousand (Notes 9 and 34). As at the date of issue of these financial statements, the loan was repaid in full.

(in thousands of Ukrainian hryvnias)

15. Due to other banks

	2018	2017
Current accounts of other banks		
- Domestic	419,705	392,293
- OECD countries	60	60
Total current accounts of other banks	**419,765**	**392,353**
Term deposits of other banks		
- Domestic	277,687	292,410
Total term deposits of other banks	**277,687**	**292,410**
Loans received from other banks		
- Domestic	–	180,241
Total loans received from other banks	**–**	**180,241**
Total amounts due to other banks	**697,452**	**865,004**

As at 31 December 2018, placements of 10 largest banks of UAH 539,287 thousand made 77% of total amounts due to other banks (31 December 2017: UAH 653,513 thousand, or 76%).

16. Customer accounts

	2018	2017
Legal entities		
- Current accounts	15,150,050	13,279,220
- Term deposits	8,020,526	8,408,626
Individuals		
- Current accounts	4,793,431	4,377,968
- Term deposits	11,816,146	11,128,462
Total customer accounts	**39,780,153**	**37,194,276**

As at 31 December 2018, deposits of the Bank's 10 largest customers, with an aggregate amount of UAH 4,337,735 thousand represented 11% of customer accounts (31 December 2017: UAH 5,545,493 thousand, or 15%).

As at 31 December 2018, included in customer accounts were deposits of UAH 381,586 thousand (31 December 2017: UAH 381,960 thousand) held as part of collateral for loans to customers (Note 10) and credit related commitments with carrying amount of UAH 76,498 thousand (31 December 2017: UAH 59,292 thousand). In addition, UAH 712,863 thousand (31 December 2017: UAH 579,240 thousand) is held as collateral for commitments under import letters of credit, guarantees and promissory notes endorsements (Note 33).

Economic sector concentrations within customer accounts were as follows:

	2018	2017
Individuals	16,609,577	15,506,430
Trade and agency services	4,432,928	3,935,843
Mining and energy	3,532,635	2,520,664
Metallurgy	3,155,701	4,415,315
Transport, communication and infrastructure	2,920,002	2,891,580
Property development	2,344,881	1,187,893
Machine building	1,869,124	2,706,123
Non-banking financial institutions	624,749	649,385
Food industry and agriculture	345,910	463,541
Chemical	231,318	170,224
Woodworking	66,382	68,775
Other	3,646,946	2,678,503
Total customer accounts	**39,780,153**	**37,194,276**

(in thousands of Ukrainian hryvnias)

17. Deposit certificates issued

As at 31 December 2018, the Bank issued the deposit certificates with the interest rate from 0.3% to 2.8% p.a. As at 31 December 2018, the Bank had the following outstanding deposit certificates:

	2018	**2017**
Deposit certificates denominated in USD	832,460	187,194
Total deposit certificates issued	**832,460**	**187,194**

18. Eurobonds issued

As at 31 December 2018, the Bank fully redeemed the Eurobonds issued (as at 31 December 2017: the carrying amount was USD 68,230 thousand, which was equal to UAH 1,915,014 thousand).

19. Other borrowed funds

As at 31 December 2017, other borrowed funds included a loan received from Landesbank Berlin AG. The loan from Landesbank Berlin AG is denominated in Euros and bears interest at a weighted average rate of EURIBOR + 0.25% p.a. on the outstanding amount with maturity on 6 September 2018. The interest was accrued on the outstanding amount of the loan. The loan was received for the purpose of financing the acquisition of imported equipment by Bank's customers. The loan was repaid in full on 6 September 2018.

20. Lease liabilities

Undiscounted lease payments under the leases of buildings and premises were as follows:

	2018
Up to 1 month	11,601
From 1 to 3 months	23,203
From 3 to 6 months	34,804
From 6 to 12 months	69,609
More than 12 months	184,960
Total	**324,177**

21. Other liabilities

	2018	**2017**
Financial liabilities		
Amounts in settlements	738,510	503,832
Payable under operations with plastic cards	137,354	79,647
Deferred income on credit lines	30,261	33,612
Provision for commitments, guarantees and letters of credit (Note 33)	12,690	7,645
Derivative financial liabilities	6,721	10,355
Other financial liabilities	1,613	2,486
Total financial liabilities	**927,149**	**637,577**
Non-financial liabilities		
Amounts payable to employees	367,166	236,505
Amounts payable for services	45,516	70,360
Contributions to the Individuals Deposits Guarantee Fund	31,597	27,506
Other taxes payable	19,628	16,379
Allowance for other losses (Note 33)	3,697	2,987
Other non-financial liabilities	8,077	5,418
Total non-financial liabilities	**475,681**	**359,155**
Total other liabilities	**1,402,830**	**996,732**

(in thousands of Ukrainian hryvnias)

22. Subordinated debt

As at 31 December 2018, the Bank had three deposits attracted under subordinated debt terms.

The first subordinated loan in UAH was attracted by the Bank from a Ukrainian company in 2009 in the amount of UAH 127,300 thousand carrying an interest rate of 12.75% p.a. and maturing in November 2014. In September 2014, the additional agreement was signed extending maturity of the loan till 1 September 2021. As at 31 December 2018, the carrying amount of the attraction was UAH 128,570 thousand (31 December 2017: UAH 128,616 thousand).

The second subordinated loan was attracted by the Bank from a Ukrainian company in 2009 in the amount of UAH 135,000 thousand bearing 12.75% p.a. and maturing in November 2014. In September 2014, the additional agreement was signed extending maturity of the loan till 1 September 2021. As at 31 December 2018, the carrying amount of the attraction was UAH 136,342 thousand (31 December 2017: UAH 136,394 thousand).

The third subordinated loan was attracted by the Bank from a Ukrainian company in 2009 in the amount of UAH 220,000 thousand carrying an interest rate of 9.5% p.a. and maturing in October 2015. In September 2014, the additional agreement was signed extending maturity of the loan till 1 September 2021. As at 31 December 2018, the carrying amount of the attraction was UAH 223,233 thousand (31 December 2017: UAH 224,646 thousand).

23. Derivative financial instruments

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities.

As at 31 December 2018, the Bank had the following contracts:

	Notional amount at fair value of assets receivable	Notional amount at fair value of liabilities payable	Positive fair value of assets	Negative fair value of liabilities
Forward currency contracts				
Placement of UAH / attraction of USD	105,057	(101,848)	3,396	(187)
Placement of UAH / attraction of EUR	239,010	(242,492)	64	(3,546)
Attraction of UAH / placement of EUR	649,139	(639,925)	9,342	(128)
Total forward currency contracts	**993,206**	**(984,265)**	**12,802**	**(3,861)**
Forward contracts on securities				
To sell securities	79,510	(82,370)	–	(2,860)
Total forward contracts on securities	**79,510**	**(82,370)**	**–**	**(2,860)**

(in thousands of Ukrainian hryvnias)

23. Derivative financial instruments (continued)

As at 31 December 2017, the Bank had the following contracts:

	Notional amount at fair value of assets receivable	Notional amount at fair value of liabilities payable	Positive fair value of assets	Negative fair value of liabilities
Forward currency contracts				
Placement of UAH / attraction of USD	126,308	(127,650)	192	(1,534)
Placement of UAH / attraction of EUR	357,991	(361,685)	–	(3,694)
Placement of UAH / Attraction of EUR	4,161	(4,146)	15	–
Total forward currency contracts	**488,460**	**(493,481)**	**207**	**(5,228)**
Forward contracts on securities				
To sell securities	555,631	(557,629)	3,129	(5,127)
Total forward contracts on securities	**555,631**	**(557,629)**	**3,129**	**(5,127)**

24. Share capital and other reserves

As at 31 December 2018, the Bank's approved and authorised share capital comprised 14,323,880 ordinary shares with a nominal value of UAH 230 per share. All shares have equal voting rights. As at 31 December 2018, all shares were fully paid and registered.

Nature and purpose of reserves

Revaluation reserve for property and equipment

Revaluation reserve for property and equipment is used to reflect the increase in fair value of premises and works of art, and its decrease, but to the extent this reduction relates to increasing the value of the same asset previously recognised in equity.

Revaluation reserve for securities

This reserve reflects changes in fair value of securities at fair value through other comprehensive income.

Bank's reserve fund

The Bank's reserve fund is created under the Charter and the laws of Ukraine up to reaching 25 percent of regulatory capital at the beginning of each year. The amount of deductions to the reserve fund is not less than 5 percent of the annual income of the Bank. The reserve fund is created to cover general banking risks, including future losses and other unforeseen losses in all asset items and off-balance sheet liabilities.

(in thousands of Ukrainian hryvnias)

25. Segment analysis

The information on main banking segments of the Bank as at 31 December 2018 is set out below:

2018	**Corporate banking**	**Retail banking**	**Distressed assets management**	**Investment banking**	**Unallocated**	**Total**
Segment assets	**18,969,753**	**8,888,956**	**349,115**	**17,403,746**	**4,253,621**	**49,865,191**
including:						
Loans to customers, net	18,782,855	8,320,949	140,493	–	–	**27,244,297**
− loans to customers, gross	23,697,624	10,508,204	2,410,741	–	–	**36,616,569**
− allowance	(4,914,769)	(2,187,255)	(2,270,248)	–	–	**(9,372,272)**
Other financial statements items	186,898	568,007	208,622	17,403,746	4,253,621	**22,620,894**
Segment liabilities	**23,261,224**	**16,722,936**	**–**	**427,545**	**3,135,617**	**43,547,322**
including:						
Customer accounts	23,170,576	16,609,577	–	–	–	**39,780,153**
Other financial statements items	90,648	113,359	–	427,545	3,135,617	**3,767,169**

The information on profit and loss of the reportable operating segments of the Bank for 2018 is set out below:

2018	**Corporate banking**	**Retail banking**	**Distressed assets management**	**Investment banking**	**Unallocated**	**Total**
Interest income	2,458,682	2,573,170	29,988	1,438,187	74,174	**6,574,201**
Interest expense	(1,395,088)	(814,438)	–	(141,661)	(100,292)	**(2,451,479)**
Transfers	436,794	223,360	(76,209)	(1,277,305)	693,360	**–**
Net interest income	**1,500,388**	**1,982,092**	**(46,221)**	**19,221**	**667,242**	**4,122,722**
Net fee and commission income	166,447	577,371	238,842	109,796	413,043	**1,505,499**
Trading income	80,271	50,719	49	276,220	–	**407,259**
(Operating expenses) and other income/(expenses)	(657,900)	(1,845,847)	(292,597)	(49,205)	(403,198)	**(3,248,747)**
Provisions for contingencies	(112,018)	(455,627)	90,955	9,846	11,539	**(455,305)**
Segment result	**977,188**	**308,708**	**(8,972)**	**365,878**	**688,626**	**2,331,428**
Income tax expense	(135,348)	(42,758)	1,243	(50,677)	(95,380)	**(322,920)**
Net income for the reporting period	**841,840**	**265,950**	**(7,729)**	**315,201**	**593,246**	**2,008,508**

(in thousands of Ukrainian hryvnias)

25. Segment analysis (continued)

The information on main banking segments of the Bank as at 31 December 2017 is set out below:

2017	**Corporate banking**	**Retail banking (restated)**	**Distressed assets management**	**Investment banking**	**Unallocated**	**Total**
Segment assets	**19,739,242**	**6,128,965**	**604,269**	**16,586,171**	**3,405,147**	**46,463,794**
including:						
Loans to customers, net	19,553,435	5,552,210	321,419	–	–	**25,427,064**
- loans to customers, gross	23,597,797	6,853,364	2,722,447	–	–	**33,173,608**
- allowance	(4,044,362)	(1,301,154)	(2,401,028)	–	–	**(7,746,544)**
Other financial statements items	185,807	576,755	282,850	16,586,171	3,405,147	**21,036,730**
Segment liabilities	**21,773,062**	**15,718,083**	**–**	**2,500,965**	**1,666,959**	**41,659,069**
including:						
Customer accounts	21,687,846	15,506,430	–	–	–	**37,194,276**
Other financial statements items	85,216	211,653	–	2,500,965	1,666,959	**4,464,793**

The information for profit and loss of the reportable operating segments of the Bank for 2017 is set out below:

2017	**Corporate banking**	**Retail banking (restated)**	**Distressed assets management**	**Investment banking**	**Unallocated**	**Total**
Interest income	2,508,075	1,365,152	58,564	1,160,203	86,093	**5,178,087**
Interest expense	(873,823)	(860,960)	–	(363,296)	(55,369)	**(2,153,448)**
Transfers	(377,910)	665,187	(114,360)	(784,827)	611,910	**–**
Net interest income	**1,256,342**	**1,169,379**	**(55,796)**	**12,080**	**642,634**	**3,024,639**
Net fee and commission income	138,236	441,640	230,246	102,961	270,921	**1,184,004**
Trading income	164,211	41,684	371	177,603	–	**383,869**
(Operating expenses) and other income/(expenses)	(615,472)	(1,243,456)	(322,631)	(35,498)	(334,741)	**(2,551,798)**
Provisions for contingencies	(1,235,264)	(73,324)	149,388	473	2,048	**(1,156,679)**
Segment result	**(291,947)**	**335,923**	**1,578**	**257,619**	**580,862**	**884,035**
Income tax expense	51,104	(70,798)	(276)	(45,095)	(101,678)	**(166,743)**
Net income for the reporting period	**(240,843)**	**265,125**	**1,302**	**212,524**	**479,184**	**717,292**

The respective operating segments were formed according to the Bank's approved business development and management.

The information concerns services rendered within segments and is presented to the management of the Bank responsible for decision making for the purpose of resources allocation and segment performance assessment.

For the purpose of internal management reporting, the transactions of the Bank are split into the following segments:

Corporate business: this business segment includes serving current accounts of legal entities, attraction of deposits, granting credit lines in "overdraft" form, serving card accounts, granting loans and other types of finance as well as foreign exchange and trade finance transactions.

The corporate business segment consists of the following sub-segments: LCC (large corporate clients with annual turnover from UAH 400,000 thousand or the Bank's insiders according to the NBU's requirements), MCC (medium-size corporate clients with annual turnover from UAH 80,000 thousand to UAH 400,000 thousand or the limit of asset transactions per client from UAH 16,000 thousand), SCC (small and micro corporate clients with annual turnover up to UAH 80,000 thousand or the limit of asset transactions per client up to UAH 16,000 thousand), SC (state-owned companies with a share of state or communal ownership not less than 10% of the charter capital).

Retail banking: provision of banking services to individuals. This segment includes the same types of banking services as the segment of corporate banking servicing as well as the services of opening and maintenance of accounts of private entrepreneurs and individuals, including the accounts for personal usage, current and saving accounts, attraction of deposits, servicing of credit and debit cards under salary projects, mortgage and car lending and targeted lending in commercial networks.

(in thousands of Ukrainian hryvnias)

25. Segment analysis (continued)

Distressed asset management: this business segment includes the workout of corporate, retail loans and securities having the following evidence of impairment:

- individual assessments of impairment;
- payment delay (from 180 days of principal amount delay for retail and 30 days for corporate clients);
- other evidence of impairment according to the internal assessments by the management.

This business segment renders services of restructuring and past-due debt collection.

Investment banking: Investment banking activities This segment covers financial instruments trade, transactions on the inter-bank market, transactions on capital markets, transactions with securities, foreign exchange and banknotes for the purpose of income gaining.

Unallocated items: this segment covers asset and liability management center (is a main regulator of transfer pricing in the Bank and includes the transactions aimed at liquidity support of the Bank's activity); Head Office (this segment includes fixed assets, corporate rights, deferred tax assets, advances and receivables related to administrative and economic activity of the Bank); and the Processing Center (this segment includes informational and technical support to payment card settlements).

Capital expenditure is not included into the segment information reviewed by the Management Board. Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

Revenues for each individual country are not reported to the chief operational decision maker as they are mainly represented by revenues from Ukraine, including revenues from off-shore companies of Ukrainian customers, based on the domicile of the customer. Revenues from other countries do not exceed 10% of total revenues of the Bank. Revenues include interest and commission income.

The Bank has no customer for which the revenue represents 10% or more of the total revenues.

26. Interest income and expense

	2018	2017 (restated)
Interest income calculated using the effective interest rate		
Loans to customers		
- legal entities	2,538,672	2,647,297
- individuals	2,579,710	1,383,059
Securities at fair value through other comprehensive income	1,283,907	1,045,948
Due from other banks	130,990	69,701
	6,533,279	**5,146,005**
Other interest income		
Finance lease to corporate customers	10,182	–
Securities at fair value through profit or loss	30,740	32,082
Total interest income	**6,574,201**	**5,178,087**
Interest expense		
Individuals		
- term deposits	(803,432)	(850,308)
- current accounts	(8,308)	(3,832)
Legal entities	–	–
- term deposits	(956,115)	(450,635)
- current accounts	(439,769)	(418,035)
Eurobonds issued	(132,230)	(359,666)
Subordinated debt	(52,832)	(53,242)
Deposit certificates issued	(3,002)	(10,812)
Due to other banks	(10,543)	(6,675)
Due to the National Bank of Ukraine	(2)	–
Lease liabilities	(45,167)	–
Other borrowed funds	(79)	(243)
Total interest expense	**(2,451,479)**	**(2,153,448)**
Net interest income	**4,122,722**	**3,024,639**

Information on interest income and expenses from transactions with related parties is set out in Note 35.

(in thousands of Ukrainian hryvnias)

27. Fee and commission income and expense

	2018	2017 (restated)
Payment cards	584,984	512,333
Settlement transactions with customers	505,494	455,215
Servicing loans, including under cooperation agreements	436,945	275,334
Conversion operations	237,823	214,070
Cash deposits and withdrawals	135,936	102,629
Documentary operations	59,106	64,671
Fiduciary activities	6,875	4,526
Other	21,516	14,871
Fee and commission income	**1,988,679**	**1,643,649**
Payment cards	(362,550)	(321,601)
Agency agreements	(64,890)	(61,954)
Settlement transactions	(30,100)	(25,605)
Purchase and collection of cash	(13,709)	(12,315)
Documentary operations	(5,477)	(5,152)
Servicing loans	(5,184)	(30,702)
Fiduciary activities	(851)	(1,323)
Other	(419)	(993)
Fee and commission expense	**(483,180)**	**(459,645)**
Net fee and commission income	**1,505,499**	**1,184,004**

Information on fee and commission income and expenses from transactions with related parties is set out in Note 35.

28. Other income

	2018	2017
Penalties received	69,809	266,849
Other rental income	14,538	12,878
Income from disposal of property and equipment	11,744	20,441
Rental income from investment properties (Note 11)	9,324	11,715
Dividends received	6,599	5,355
Income from indemnity received	238	26,854
Return of interest paid in past years due to early cancellation of deposit agreement	234	598
Other income	9,893	8,765
Total other income	**122,379**	**353,455**

29. Operating expenses

	2018	2017
Salary, employee benefits and compulsory contributions to State funds	1,856,794	1,298,113
Depreciation and amortisation (Note 11)	329,846	254,516
Maintenance of premises and equipment	169,319	127,346
Rent of premises	167,482	142,869
Advertising, entertainment expenses	134,799	68,662
Contributions to Individuals Deposits Guarantee Fund	121,785	107,414
Non-performing loans settlement expenses	117,540	175,351
Communication services	77,509	57,568
Audit, legal, consulting services	71,424	41,328
Decrease in value of the Bank's property	53,920	398,570
Security services	29,369	28,422
State duties and taxes, other than income tax	25,631	29,398
Staff training	19,366	11,949
Impairment of assets located in ATO zone (Note 11)	–	50,017
Charge to allowances for impairment of other assets (Note 13)	–	10,243
Other	194,771	105,020
Total operating expenses	**3,369,555**	**2,906,786**

Included in salary, employee benefits and compulsory contributions to State funds was the unified social tax in the amount of UAH 253,597 thousand (2017: UAH 178,032 thousand).

(in thousands of Ukrainian hryvnias)

29. Operating expenses paid (continued)

Lease of premises includes expenses under short-term lease contracts, for which an exemption on recognition under IFRS 16 is applied, in the amount of UAH 1,291 thousand and expenses related to agreements of the lease of low value items, for which an exemption is applied in respect of recognition in the amount of UAH 5,525 thousand (Note 12).

30. Income taxes

Income tax expense was comprised of the following:

	2018	**2017**
Current tax expense	274,255	–
Deferred tax expense	48,665	166,743
Income taxes expense for the reporting period	**322,920**	**166,743**

The Bank's income for 2018 is taxable at the rate of 18% (2017: 18%). The reconciliation between the expected and the actual income tax expense is provided below:

	2018	**2017**
Income before income tax	**2,331,428**	**884,035**
Theoretical tax benefit at the applicable statutory rate	**419,657**	**159,126**
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-taxable income	(4,148)	(1,324)
- Non-deductible expenses	1,311	11,463
- Expenses recognised only in tax accounting	(22,338)	(3,586)
- Change in unrecognised deferred tax asset	(71,562)	–
- Other non-temporary differences	–	12,337
- Adjustment of current income tax for the prior periods	–	(11,273)
Income tax expense for the year	**322,920**	**166,743**

The differences between the national and IFRS taxation result in specific temporary differences arising between the carrying amounts of some assets and liabilities for the purposes of financial reporting and their tax bases. The tax effect of changes in such temporary differences shall be accounted for at the income tax rates expected to be applied in the period of realization of such differences.

(in thousands of Ukrainian hryvnias)

30. Income taxes (continued)

Deferred tax assets and liabilities as at 31 December 2018 and 2017 and their movements for the respective years are as follows:

	31 December 2017	Effect of application of IFRS 9 (Note 4)	Credited/ (charged) to other comprehensive income	Credited/ (charged) to income statement	31 December 2018
Tax effect of deductible and taxable temporary differences					
Allowances for loan impairment and credit related commitments	2,425	66,389	–	(65,864)	2,950
Securities at fair value through other comprehensive income	(15,210)	5,173	20,644	(5,173)	5,434
Property and equipment and investment property	13,205	–	–	(37,225)	(24,020)
Tax losses carry forward	11,965	–	–	(11,965)	–
Estimated net deferred tax asset / (liability)	**12,385**	**71,562**	**20,644**	**(120,227)**	**(15,636)**
Unrecognised deferred tax asset	–	(71,562)	–	71,562	–
Net deferred tax asset / (liability)	**12,385**	**–**	**20,644**	**(48,665)**	**(15,636)**

	31 December 2016	Credited/ (charged) to other comprehensive income	Credited/ (charged) to income statement	31 December 2017
Tax effect of deductible and taxable temporary differences				
Allowances for loan impairment and credit related commitments	(40,975)	–	43,400	2,425
Securities available-for-sale	(6,619)	(8,591)	–	(15,210)
Property and equipment and investment property	6,978	–	6,227	13,205
Other	4,294	–	(4,294)	–
Estimated net deferred tax liability	**(36,322)**	**(8,591)**	**45,333**	**420**
Tax losses carry forward	224,041	–	(212,076)	11,965
Net deferred tax asset	**187,719**	**(8,591)**	**(166,743)**	**12,385**

31. Risk management

Introduction

Risk is inherent to banking and it is managed through the process of ongoing identification, measurement and control, subject to risk limits and other controls. The process of risk management is critical to the Bank's continuing profitability, and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk Management Process

The risk management policy, monitoring and control are conducted by a number of specialised bodies and units within the Bank. The unit most actively involved in such management is the Risk Management Division of the Bank subordinated to the Deputy Chairman of the Management Board on Risks (CRO). The risk Management Division of the Bank is reporting and subordinated to the Supervisory Board of the Bank as the risk management system participant.

Supervisory Board of the Bank

The Supervisory Board of the Bank has the highest degree of authority with respect to the risk management of the Bank, and is empowered through the Bank's Charter to approve any transactions on behalf of the Bank for amounts in excess of UAH 3,000 million.

Management Board

The Management Board of the Bank is generally responsible for the activities of the Bank, including those relating to risk management. The Management Board of the Bank delegates its powers with respect to the overall asset and liability management to the Assets and Liabilities Management Committee of the Bank, authorities on operational risk management – to the Committee on Operational Risk Management of the Bank and approves the composition of these Committees. In addition, the Management Board of the Bank is responsible for development and preliminary approval of the Bank's credit policy. Final approval of credit policy is within the competence of the Supervisory Board. The Supervisory Board agrees upon the Credit Council decisions on projects of lending to the Bank's related individuals with limit credit risk more than 1% of regulatory capital, calculated on the next date before the decision.

Credit Council of the Bank

The Credit Council of the Bank approves loans issued with the maximum credit exposure of UAH 3,000 million and sets limits on interbank deals. A representative of the shareholders is a member of the Credit Council of the Bank. The decisions taken by the Credit Council of the Bank in terms of projects which maximum credit exposures exceeding UAH 200 million shall become valid if four positive votes are in place, one being of the Credit Council's member from the Supervisory Board of the Bank. The decisions made by the Credit Council in terms of projects which maximum credit exposures below UAH 200 million shall become valid if four positive votes are in place, one being of the Credit Council's member from the Supervisory Board or of an external expert (a representative of the shareholder). The Council meets twice a week.

31. Risk management (continued)

Introduction (continued)

Credit Committee of the Bank

The Credit Committee is responsible for the decisions on restructuring and issue of loans with a maximum credit exposure of UAH 30 million. Also, the Credit Committee of the Bank approves issuance of loans which bear no credit risk covered by cash collateral. Meetings of the Committee are held several times in a week, as required.

Assets and Liabilities Management Committee of the Bank

The Assets and Liabilities Management Committee is responsible for managing the Bank’s assets and liabilities and the overall financial structure. It is also primarily responsible for monitoring of the interest rate, currency and liquidity risks of the Bank.

Operational Risk Management Committee of the Bank

Operational Risk Management Committee of the Bank is responsible for operational risk management with the aim to decrease operational losses, banking processes, systems and technologies improvement, approval and implementation of measures aimed at assurance of going concern of the Bank.

For the purpose of operative management and reactions identified operational risks and managing factors of operational risks, the Bank has established five subcommittees based on the Operational Risk Management Committee.

Subcommittee “Personnel”

Subcommittee “Personnel” analyses matters on intentional and unintentional actions of personnel, errors made by personnel, qualification and personnel sufficiency assessment etc.

Subcommittee “Processes”

Subcommittee “Processes” analyses matters of processes organization, quality of communications, existing processes effectiveness and of the required optimization.

Subcommittee “External factors”

Subcommittee “External factors” analyses incidents of intentional actions of third parties, liquidation of repercussions of force majeure and intentional damage of the Bank’s reputation.

Subcommittee “Systems”

Subcommittee “Systems” analyses IT systems quality issues, common understanding of IT risks and development of balanced decisions as to IT risks with consideration the specifics and interests of the business units of the Bank.

Subcommittee “Informational security”

Subcommittee “Informational security” considers matters of development of IT security management system, development of IT risks management culture, IT incidents management.

Risk Management Division of the Bank

The Risk Management Division is responsible for the development of credit risk management methodologies, procedures and reporting allowing the Bank to perform quantitative assessment of credit, interest, currency, operational and liquidity risks. This business units within the risk management chain are responsible for implementation of procedures related to risk management, execute current control of the above risks on a permanent basis and control the execution of the decisions of the Bank's Credit bodies, the Bank's Assets and Liabilities Management Committee the Operational Risk Management Committee.

Risk measurement and reporting systems

The Bank’s risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical and expert models. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment. The Bank also runs worst case scenarios that would arise should extreme events, which are unlikely to occur, do, in fact, occur.

(in thousands of Ukrainian hryvnias)

31. Risk management (continued)

Introduction (continued)

Risk monitoring and control are primarily performed based on the limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of the risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. The information compiled from all the businesses is examined and processed in order to analyse, control and early identify the risks. This information is presented and explained to the Management Board of the Bank, Assets and Liabilities Management Committee of the bank, Operational Risk Management Committee of the Bank, Credit Council of the Bank and the head of each respective business division. The report includes the information on the aggregate credit exposure, credit metric forecasts, limit exceptions, liquidity and interest rate risks and risk profile changes, information on operational risk. On a monthly basis, the detailed reporting on liquidity, currency, interest and operational rate risks, industry, customer and geographic risks is prepared. The management assesses the appropriateness of the allowance for expected credit losses on a monthly basis.

Risk mitigation

As a part of its overall financial risk management process, for the purpose of interest, currency, credit and liquidity risks management the Bank uses a system of limits and restrictions that ensures that actual risk measures are at the levels that do not exceed the Bank's tolerance to those risks.

The Bank actively uses collateral to reduce its credit risks (see below for more detail).

To mitigate market risks the Bank may use derivatives to a limited extent.

Credit risk

The Bank takes on the exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers. Such risks are monitored on a continuous basis and are subject to a regular review. Limits on the level of credit risk per borrower are approved regularly by the Credit Council of the Bank and the Credit Committee of the Bank.

The exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. The exposure to credit risk is also managed, in part, by obtaining collateral and corporate guarantees.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes guarantees and letters of credit available to its customers which may require that the Bank make payments on their behalf. They expose the Bank to similar risks as loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives before the effect of mitigation through the use of master netting or collateral agreements, is shown in their carrying amounts as accurately as possible.

If recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instruments, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Credit quality of financial assets

The credit quality of financial assets is managed by using both external and the Bank's internal credit ratings. The credit quality by class of asset for loan-related statement of financial position lines, based on the external ratings and the Bank's credit rating system is presented in Note 8, Note 9 and Note 10.

(in thousands of Ukrainian hryvnias)

31. Risk management (continued)

Credit risk (continued)

Impairment assessment

The allowance for expected credit losses is calculated based on the following: if for a financial instrument there are no evidence of increase in credit risk since origination, the ECL allowance is based on the 12 months' expected credit loss (12mECL); if there is a significant increase in credit risk since origination or a financial instrument has been determined as impaired, the assessment is based on credit losses expected to arise over the life of a financial instrument (the lifetime expected credit loss or LTECL).

The Bank has established a methodology of identifying evidence of impairment and increase in credit risk since origination of a financial instrument and determined the required criteria on termination of such evidence. The Bank analyses the loan portfolio (carried at amortised cost or at fair value through other comprehensive income) to identify and terminate evidence of impairment and increase in credit risk since origination of a financial instrument on a monthly basis.

Based on this methodology, the Bank groups loans as follows (Stages):

- Stage 1: for financial instruments without evidence of impairment or increase in credit risk, the ELC allowance is based on 12mECL (on a portfolio basis). Stage 1 includes financial instruments at initial recognition, loans having no evidence of increase in credit risk since origination of financial instruments for which the credit risk has improved and they have been reclassified from Stage 2.
- Stage 2: for financial instruments with evidence of increase in credit risk, the ECL allowance is based on LTECL (allowance can be assessed on both individual basis and portfolio basis). Stage 2 includes financial instruments, for which evidence of increase in credit risk since origination were identified, or financial instruments for which the credit risk has improved and they have been reclassified from Stage 3.
- Stage 3: for financial instruments with evidence of impairment, the ECL allowance is based on LTECL (allowance can be assessed on both individual basis and portfolio basis).
- POCI - Purchased or originated credit impaired financial assets that are credit impaired on initial recognition. At initial recognition, the amount of financial instrument LTECL in included in calculation of a credit-adjusted EIR. Subsequently, the Bank recognises in profit or loss at each reporting date the amount of changes in the expected credit losses on such financial instruments for the lifetime as the gain or impairment loss.

Significant increase in credit risk and termination of evidence of increased credit risk

In determining whether there is a significant increase in the credit risk of a financial instrument, the Bank considers reasonable and verified information that is relevant and accessible without excessive cost or effort, including both quantitative and qualitative information, as well as analysis based on the Bank's historical experience, expert credit quality assessment.

To assess a significant increase in credit risk, the Bank identifies whether there has been a significant increase in credit risk as compared to the probability of default since the initial recognition of a financial instrument.

The key considerations in the analysis of a significant increase in credit risk include the identification of: whether payments of the principal amount or interest on the loan are overdue for more than 30 days (for legal entities and individuals) and 3 days (for banks).

31. Risk management (continued)

Credit risk (continued)

Additional evidence of a significant increase in the credit risk of a financial instrument is, in particular, the following observable data:

- deterioration of the financial status of a borrower-legal entity, which resulted in decrease in the internal rating by 3 points;
- the Bank's restructuring of the loan on the terms of repayment re-scheduling which the Bank does not consider to be a deterioration in the creditor's terms, but which may indicate probable difficulties in fulfilment of an agreement in the future;
- identification of indicators of probable increase in credit risk determined as part of the "early warning signals" procedure;
- a decrease in the bank's internal rating by 2 points for resident banks;
- a decrease in international rating (according to a rating agency's bulletin, such as Standard & Poor's, Moody's, FitchRating) by 3 points or a recall of international rating for non-resident banks.

Termination of all of the above evidence of a significant increase in credit risk and fulfilment of contractual obligations by the client for at least 3 months after the elimination of all evidences is considered a criterion that the credit risk has decreased to such a level that a financial instrument may be reclassified to Stage 1.

Impairment (default) and termination of evidence of impairment

In assessing the occurrence of a default event on the Bank borrower's obligations, the qualitative and quantitative indicators developed within the Bank are taken into account.

The key considerations in the analysis of loan impairment include the identification of whether payments of the principal amount or interest on the loan are overdue for more than 90 days (for legal entities and individuals) and 7 days (for banks).

Additional evidence of a credit impairment of a financial instrument is, in particular, the following observable data:

- a borrower's or issuer's significant financial difficulties;
- the Bank's restructuring of loan on the terms which the Bank would not consider in other circumstances (i.e. with a deterioration in the creditor's terms);
- probability of a borrower's bankruptcy or liquidation;
- probability of the Bank's taking of such actions as sale of collateral (if any) or the forgiveness/sale of the loan at a discount;
- for resident banks, the public recognition of a bank insolvent and imposing the temporary administration;
- for non-resident banks, a decrease in international rating (according to a rating agency's bulletin, such as Standard & Poor's, Moody's, FitchRating) to a default level.

Evidence of default termination is the elimination of all the above evidence of impairment and fulfilment of contractual obligations by the client for at least 6 months after the elimination of all evidence of default.

LTECL allowance

For Stage 2, Stage 3 and POCI loans, the Bank calculates an allowance expected credit losses for over the lifetime of the financial instruments either on a portfolio basis or on an individual basis.

The Bank determines the amount of allowance for expected loan losses separately for each significant loan (the Bank determines the significance threshold separately for each type of lending - corporate lending, retail lending and interbank transactions) on an individual basis. The items considered when determining the allowance amounts include the feasibility of the counterparty's business plan, its ability to improve the performance once a financial difficulty has arisen, projected receipts and the realisable value of collateral, and the timing of the expected cash flows.

The Bank determines the ECL allowance on financial instruments provided to customers, each of which is not individually significant, in a portfolio basis. Expected credit losses are determined taking into account the following information: loss in a portfolio in the prior periods for a certain type of financial instrument over the lifetime of the financial asset, current economic environment, the time period until a possible loss in the future.

(in thousands of Ukrainian hryvnias)

31. Risk management (continued)

Credit risk (continued)

12mECL

For Stage 1 loans, the Bank calculates the allowance based on 12-month expected loan losses, on a portfolio basis. To calculate the allowance, the Bank classifies the portfolio of financial instruments to groups with similar characteristics (for example, segment, customer rating, type of credit product, etc.). Expected credit losses are determined taking into account the following information: loss in a portfolio on a 12-month horizon in the prior periods, current economic environment, the time period until a possible loss in the future.

Input data for ECL assessment

The key inputs for ECL assessment calculated on a portfolio basis, are:

- probability of default (PD);
- loss give default (LGD).

These figures are derived from internal statistic models and other historical data. The probability of default (PD) is an estimate at a specific date calculated on the basis of the Bank's statistical data and evaluated using valuation tools adapted to different categories of counterparties. If counterparties facing a credit risk migrate between rating levels, this result in a change in the assessment of the respective probability of default.

Accumulated probability of default over the lifetime of a financial instrument is the probability that a financial instrument will exposure to default over its lifetime. This probability is calculated for a group of homogeneous assets. The probability of default is based on the Bank's historical data.

LGD rate is an amount of probable loss in the event of default. The Bank assesses the LGD based on information on the collation rates of counterparty-defaulters. The collection amount is calculated on the basis of the discounting of cash flows using the effective interest rate as a discount factor.

The ECL allowance is reviewed by the credit risk management divisions to ensure its alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed based on the methods applied for loans; when the loss is considered probable, provisions are recorded against other credit related commitments.

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to discharge its payment obligations when due in the course of usual economic activity and under stress circumstances. To limit this risk, the management has ensured diversified funding sources in addition to the Bank's core deposit base, manages assets in compliance with its liquidity principles and monitors future cash flows and liquidity on a daily basis.

The Bank, with the view to ensuring proper discharge of both its own and clients' obligations, has implemented the policy aimed at maintaining the liquid assets at the level sufficient to cover any unplanned withdrawal of a part of the client deposits placed with the Bank as a precaution against further deterioration in the economic situation, specifically, through formation of so called "liquidity cushion". The liquidity risk is measured by the Bank by using the gap analysis and forecasts of the expected future cash flows during a 1-year term. In addition, the stress tests scenarios are applied to the forecasted future cash flows developed based on the statistical data of the Ukrainian banks' results under the conditions of the financial crisis.

(in thousands of Ukrainian hryvnias)

31. Risk management (continued)

Liquidity risk and funding management (continued)

In addition, the liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the NBU. As at 31 December 2018, these ratios were as follows:

Ratio	2018, %	2017, %
N4 "Instant Liquidity Ratio" (cash and balances on correspondent accounts / liabilities repayable on demand) (minimum required by the NBU – 20%)	68.66	43.15
N5 "Current Liquidity Ratio" (assets receivable or realisable within 31 days / liabilities repayable within 31 days) (minimum required by the NBU – 40%)	77.91	77.41
N6 "Short-term Liquidity Ratio" (certain assets with original maturity up to 1 year / liabilities with original maturity up to 1 year including off-balance sheet commitments) (minimum required by the NBU – 60%)	101.33	95.75
LCR - On 15 February 2018, the NBU approved a new prudential ratio for Ukrainian banks - the Liquidity coverage ratio (LCR).		
LCR in total for all currencies (minimum required by the NBU - 80%)	161	–
LCR in foreign currencies (minimum required by the NBU - 50%)	148	–

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2018. based on contractual undiscounted repayment obligations except for gross settled derivatives which are shown by contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

At 31 December 2018	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Due to the National Bank of Ukraine	1,003	–	–	–	–	**1,003**
Due to other banks	697,452	–	–	–	–	**697,452**
Customer accounts	27,622,774	4,533,918	5,010,006	2,732,943	245,257	**40,144,898**
Deposit certificates issued	7,004	786,958	39,133	–	–	**833,095**
Gross settled derivative financial instruments:						
- amounts payable	86,230	–	–	–	–	**86,230**
- amounts receivable	(79,509)	–	–	–	–	**(79,509)**
Other financial liabilities	920,428	–	–	–	–	**920,428**
Subordinated debt	4,615	8,784	13,697	27,246	577,438	**631,780**
Total undiscounted financial liabilities	**29,259,997**	**5,329,660**	**5,062,836**	**2,760,189**	**822,695**	**43,235,377**

(in thousands of Ukrainian hryvnias)

31. Risk management (continued)

Liquidity risk and funding management (continued)

At 31 December 2017	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 12 months**	**Total**
Due to other banks	865,182	–	–	–	–	**865,182**
Customer accounts	25,785,004	3,632,800	4,733,775	3,316,709	48,853	**37,517,141**
Deposit certificates issued	18,605	85,447	48,481	36,678	–	**189,211**
Eurobonds issued	–	532,508	519,315	999,052	–	**2,050,875**
Other borrowed funds	–	109	–	11,213	–	**11,322**
Gross settled derivative financial instruments:						
- amounts payable	766,910	–	–	–	–	**766,910**
- amounts receivable	(756,555)	–	–	–	–	**(756,555)**
Other financial liabilities	627,222	–	–	–	–	**627,222**
Subordinated debt	9,231	8,784	13,549	27,395	627,463	**686,422**
Total undiscounted financial liabilities	**27,315,599**	**4,259,648**	**5,315,120**	**4,391,047**	**676,316**	**41,957,730**

The table below shows the contractual expiry of the Bank's financial commitments and contingencies.

	Up to 1 month	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**More than 12 months**	**Total**
2018	484,445	548,822	629,354	217,954	245,447	**2,126,022**
2017	378,158	769,642	464,957	207,959	111,789	**1,932,505**

Financial commitments and contingences include guarantees, letters of credit and credit limits on overdrafts, with the expected draw-down at any time starting from the reporting date till the date of contractual expiry. The Bank expects that not all of the contingent liabilities or commitments will be drawn before the expiry of the commitments.

(in thousands of Ukrainian hryvnias)

31. Risk management (continued)

Liquidity risk and funding management (continued)

The table below shows the analysis of carrying amounts of assets and liabilities according to when they are expected to be recovered or settled as at 31 December 2018:

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 12 months	Total
Assets						
Cash on hand and in transit	1,943,482	–	–	–	–	**1,943,482**
Balance with the National Bank of Ukraine	743,346	–	–	–	–	**743,346**
Due from other banks	4,196,000	725,909	647,360	17,135	7,822	**5,594,226**
Securities at fair value through profit or loss	1,898	–	8,689	41,491	41,122	**93,200**
Securities at fair value through other comprehensive income	5,102,202	1,426,772	1,583,803	2,444,437	1,003,300	**11,560,514**
Loans to customers	5,664,172	4,153,059	3,651,533	6,804,755	6,970,778	**27,244,297**
Other financial assets	260,303	–	–	–	–	**260,303**
Total financial assets	**17,911,403**	**6,305,740**	**5,891,385**	**9,307,818**	**8,023,022**	**47,439,368**
Liabilities						
Due to the National Bank of Ukraine	1,002	–	–	–	–	**1,002**
Due to other banks	697,452	–	–	–	–	**697,452**
Customer accounts	27,566,261	4,446,745	4,904,997	2,638,981	223,169	**39,780,153**
Deposit certificates issued	6,989	786,604	38,867	–	–	**832,460**
Eurobonds issued	–	–	–	–	–	**–**
Other borrowed funds	–	–	–	–	–	**–**
Lease liabilities	–	–	–	–	267,402	**267,402**
Other financial liabilities	927,149	–	–	–	–	**927,149**
Subordinated debt	4,615	–	–	–	483,530	**488,145**
Total financial liabilities	**29,203,468**	**5,233,349**	**4,943,864**	**2,638,981**	**974,101**	**42,993,763**
Liquidity gap arising from financial instruments	**(11,292,065)**	**1,072,391**	**947,521**	**6,668,837**	**7,048,921**	**4,445,605**

(in thousands of Ukrainian hryvnias)

31. Risk management (continued)

Liquidity risk and funding management (continued)

The table below shows the analysis of carrying amounts of assets and liabilities according to when they are expected to be recovered or settled as at 31 December 2017:

	Up to 1 month (restated)	From 1 to 3 months (restated)	From 3 to 6 months (restated)	From 6 to 12 month (restated)	More than 12 months (restated)	Total
Assets						
Cash on hand and in transit	1,499,210	–	–	–	–	**1,499,210**
Balance with the National Bank of Ukraine	1,178,795	–	–	–	–	**1,178,795**
Due from other banks	4,962,419	30,891	485,565	62,861	5,580	**5,547,316**
Securities at fair value through profit or loss	3,867	–	771	–	158,249	**162,887**
Securities available-for-sale	2,515,938	175,502	655,425	3,307,455	3,579,169	**10,233,489**
Loans to customers	3,733,295	6,217,121	2,356,303	8,173,999	4,946,346	**25,427,064**
Other financial assets	261,826	–	–	–	–	**261,826**
Total financial assets	**14,155,350**	**6,423,514**	**3,498,064**	**11,544,315**	**8,689,344**	**44,310,587**
Liabilities						
Due to other banks	865,004	–	–	–	–	**865,004**
Customer accounts	25,734,713	3,558,019	4,620,868	3,234,952	45,724	**37,194,276**
Deposit certificates issued	18,559	84,918	48,005	35,712	–	**187,194**
Eurobonds issued	–	479,737	479,737	955,540	–	**1,915,014**
Other borrowed funds	62	–	–	11,131	–	**11,193**
Other financial liabilities	637,577	–	–	–	–	**637,577**
Subordinated debt	4,615	–	–	–	485,041	**489,656**
Total financial liabilities	**27,260,530**	**4,122,674**	**5,148,610**	**4,237,335**	**530,765**	**41,299,914**
Liquidity gap arising from financial instruments	**(13,105,180)**	**2,300,840**	**(1,650,546)**	**7,306,980**	**8,158,579**	**3,010,673**

The maturity analysis does not reflect the historical stability of current liabilities. Their realisation historically took place within the period exceeding the one indicated in the table above. These balances are included in the table above as the amounts with the maturity dates in the period of up to 1 month.

The Bank's ability to repay its liabilities depends on its ability to attract the equivalent amount of assets within the same period of time. The current volume of liquid assets will enable the Bank to operate in a stable manner even under a situation when there may be a partial withdrawal of clients' deposits from the Bank and in case of further deterioration of the economic situation.

The management of the Bank believes that in spite of a substantial portion of the customers' demand accounts, the diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

Included in "Customer accounts" are term deposits of individuals. Pursuant to the Ukrainian legislation, the Bank is obliged to repay such deposits upon the depositor's demand (Note 14). Management of the Bank believes that majority of term deposits of individuals will not be withdrawn till the date of maturity, thus customer accounts are disclosed by contractual maturity.

(in thousands of Ukrainian hryvnias)

31. Risk management (continued)

Market risk

Market risk – non-trading

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, exchange rates and other prices. The Bank manages its exposures to market risk for non-trading portfolios. Non-trading positions are managed and monitored using the sensitivity analysis.

Interest rate risk

Interest rate risk is a potential menace of losses incurrence, decrease in income or decrease in cost of capital of the Bank as a result of unfavourable changes in interest rates in the market. The risk appears primarily as a result of differences in maturities of assets and liabilities of the Bank by terms of sensitivity to changes in interest rates. Thus, the interest rate risk is the result of the unbalanced structure of statement of financial position by assets and liabilities by residual term to re-pricing date that are sensitive to changes in interest rates.

To assess its interest risk the Bank uses gap analysis of interest-bearing assets and liabilities, performs analysis of sensitivity of interest-bearing assets and liabilities to changes in interest rates.

Interest risk control is performed in accordance with the report of spread and margin changes.

The Bank assesses interest rate risk by scenario of parallel shift of yield curve towards the increase in interest rates by 200 bpp in major currencies (UAH, USD, EUR). As at 31 December 2018, the Bank was exposed to interest rate risk, whose realisation may impact net interest income within 1-year horizon – a possible decrease by UAH 56,331 thousand (31 December 2017: due to change in the approach to assess the interest risk amount, the recalculated amount was a decrease by UAH 25,523 thousand).

The Bank assesses the above level of the interest rate risk as acceptable and controllable, which is not to affect significantly the Bank's yield and stable financial position. Interest rates are set by the Tariff Commercial Committee of the Bank taking into consideration transfer interest rates and cost of risks set by the Bank's Assets and Liabilities Management Committee. In accordance with the internal policies of the Bank, the delegation of authority regarding the change of interest rates is established. The control over transaction effectiveness with interest-bearing instruments is performed by the Tariff Commercial Committee of the Bank on a monthly basis.

(in thousands of Ukrainian hryvnias)

31. Risk management (continued)

Currency risk

Currency risk is the risk connected with the impact of foreign exchange rates fluctuation on the value of financial instruments.

The Bank performs currency risk assessment using Value-at-Risk assessment methodology (VaR) taking into consideration recommendations of International Convergence of Capital Measurement and Capital Standards, June 2006 and Revision to Basel II market risk framework, December 2010. VaR allows to assess maximum possible extent of losses with set confidence level for a certain period of time.

The Bank performs VaR calculation using historical modelling method so as to assess the currency risk in normal and stressed conditions of financial market development. VaR calculation is based on 251 days disregarding historical data on market currency rates; the calculation period during which the Bank would be probably able to close open foreign currency positions is 10 days and one-sided confidence level is 99%.

When determining the currency risk, the estimated VaR is multiplied by the sum of number "3" and mark-up in the amount "1" in accordance with Basel recommendations.

Disregarding the fact that VaR allows to accept a currency risk assessment, it is necessary to consider the following weaknesses of the method:

- the use of past currency and banking metals exchange rates does not allow to fully estimate possible currency and banking metals rates fluctuations in the future;
- the use of 10-days calculation period stipulates that all open positions in foreign currencies and banking metals may be closed within 10 trading days. This estimation may inaccurately reflect the currency risk value in the periods of diminishing market liquidity whereby the period of positions closure by the Bank may increase;
- the use of 99% one-sided confidence level does not allow to estimate the volume of losses expected with 1% probability;
- VaR calculation is performed based on open positions of the Bank in foreign currencies and banking metals as at the end of the day and may not reflect the risk accepted by the Bank during the day.

The results of currency risk calculation using VaR method as at 31 December are as follows:

Index	2018	2017
Currency risk without diversification consideration		
USD	8,789	79,009
EUR	8,997	5,538
RUB	8,985	45,715
other currencies	4,803	4,076
Total currency risk without diversification	**31,574**	**134,338**
Diversification effect	(24,903)	(15,322)
Currency risk with diversification consideration	**6,671**	**119,016**

The above data is calculated based on internal management accounts of the Bank based on the operational financial statements prepared in accordance with IFRS.

Assets and Liabilities Committee of the Bank examines the results of currency risk assessment on a monthly basis.

Operational risk

The Bank calculates the value of accepted operational risk – "risk appetite" – on an annual basis.

Risk appetite value is approved by the Operational Risk Management Division and is taken into account during the budget process. It should be noted that the calculation of risk appetite does not include past events that had one-off force-majeure nature and/or that are not expected to arise in the future due to elimination of their causes.

The calculation of actual losses caused by operational risks and monitoring of the Bank's compliance with the set "risk appetite" is performed on a quarterly basis for consideration by the Supervisory Board. In the event of significant operational risk events, an immediate notification to the Management Board and Supervisory Board is provided for, as well as a detailed investigation of the causes is made and measures to exclude the incident recurrence in the future are taken.

(in thousands of Ukrainian hryvnias)

31. Risk management (continued)

Operational risk (continued)

The system of operational risk management has been functioning since 2011 and includes, in particular:

- The Bank-wide consolidation of operational risk events;
- Annual self-assessment of operational risk;
- Annual stress testing of operational risk in accordance with the requirements of the National Bank of Ukraine;
- Quarterly monitoring of key risk indicators (KRIs).

To obtain a uniform assessment of the level of operational risk, a comparative analysis of the results of different approaches is carried out (the resulting risk level is assessed according to the scale: low, medium, high).

Registered operational risk events are subject to a detailed review and assessment of adverse consequences, and the events requiring additional management decisions or development of additional mitigation measures are considered by ORMC Subcommittee or the Operational Risk Management Committee.

The operational risk management system is effective and integrated into the Bank's overall risk management system.

To ensure continuous operations, the Bank carries out a hands-on testing of the Business Continuity Plan on an annual basis.

(in thousands of Ukrainian hryvnias)

32. Fair value measurements

Fair value of financial assets and liabilities not carried at fair value

Set out below is the comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried at amortised cost in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2018			2017 (restated)		
	Carrying amount	Fair value	Unrecognised gains/(losses)	Carrying amount	Fair value	Unrecognised gains/(losses)
Financial assets						
Cash on hand	1,943,482	1,943,482	–	1,499,210	1,499,210	–
Balance with the National Bank of Ukraine	743,346	743,346	–	1,178,795	1,178,795	–
Due from other banks						
- Current accounts and overnight deposits	4,153,810	4,153,810	–	4,124,389	4,124,389	–
- Term deposits with other banks	1,440,416	1,440,416	–	1,422,927	1,422,927	–
Loans to customers						
- Corporate loans	18,792,575	18,641,201	(151,374)	19,823,312	19,731,017	(92,295)
- Finance lease	115,355	73,948	(41,407)	–	–	–
- Consumer loans	5,504,332	5,504,332	–	3,983,453	3,983,453	–
- Mortgage loans	105,740	97,791	(7,949)	179,267	163,817	(15,450)
- Car loans	882	514	(368)	4,657	1,951	(2,706)
- Other loans to individuals	2,725,413	2,725,413	–	1,436,375	1,436,375	–
Financial liabilities						
Due to the National Bank of Ukraine	1,002	1,002		–	–	–
Due to other banks:						
- Current accounts of other banks	419,765	419,765	–	392,353	392,353	–
- Term deposits of other banks	277,687	277,687	–	292,410	292,410	–
- Loans from other banks	–	–	–	180,241	180,241	–
Customer accounts						
- *legal entities*	23,170,576	23,173,439	(2,863)	21,687,846	21,699,886	(12,040)
- individuals	16,609,577	16,639,523	(29,946)	15,506,430	15,554,848	(48,418)
Deposit certificates issued	832,460	832,460	–	187,194	187,194	–
Eurobonds issued	–	–	–	1,915,014	2,018,215	(103,201)
Other borrowed funds	–	–	–	11,193	11,193	–
Subordinated debt	488,145	410,330	77,815	489,656	436,653	53,003
Total unrecognised change in unrealised fair value			(156,092)			(221,107)

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying amount

For the financial assets and financial liabilities that are liquid or have a short term maturity (less than three months), it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

(in thousands of Ukrainian hryvnias)

32. Fair value measurements (continued)

Financial assets and financial liabilities carried at amortised cost

For quoted debt issued the fair values are calculated based on quoted market prices at reporting date. For those instruments where quoted market prices are not available, and for those ones for which fair value differs from carrying amount, namely loans to customers, due from other banks, balances with the National Bank of Ukraine, due to other banks, customer accounts, deposit certificates, other financial assets and liabilities, a discounted cash flow model is used based on a current market rates offered for similar financial instruments with similar provisions, similar credit risk and maturity.

Financial instruments recorded at fair value or fair value of which is disclosed

All the assets and liabilities whose fair value is measured or disclosed in the financial statements are classified by fair value sources hierarchy level presented below on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2: valuation techniques for which all inputs which have a significant effect on the recorded fair value belong to the lowest hierarchy level and are directly or indirectly based on market data; and
- Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value belong to the lowest hierarchy level and are not observable on the market.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

	Date of	Fair value measurement using			
31 December 2018	**valuation**	**Level 1:**	**Level 2:**	**Level 3:**	**Total**
Assets measured at fair value					
Government debt securities	31 December 2018	–	8,427,891	–	**8,427,891**
US Government debt securities	31 December 2018	–	27,583		**27,583**
Forward currency contracts	31 December 2018	–	12,803	–	**12,803**
NBU deposit certificates	31 December 2018	–	3,208,313	–	**3,208,313**
Property and equipment – premises	1 December 2018	–	–	836,975	**836,975**
Works of art	1 December 2016	–	–	17,005	**17,005**
Investment property	1 December 2018	–	–	71,876	**71,876**
Assets for which fair values are disclosed					
Cash on hand and in transit	31 December 2018	1,943,482	–	–	**1,943,482**
Balance with the National Bank of Ukraine	31 December 2018	–	743,346	–	**743,346**
Due from other banks	31 December 2018	–	5,594,226	–	**5,594,226**
Loans to customers	31 December 2018	–	–	27,043,199	**27,043,199**
Shares	31 December 2018	–	–	7,057	**7,057**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2018	–	6,721	–	**6,721**
Liabilities for which fair values are disclosed					
Due to the National Bank of Ukraine	31 December 2018	–	1,002	–	**1,002**
Due to other banks	31 December 2018	–	697,452	–	**697,452**
Customer accounts	31 December 2018	–	–	39,812,962	**39,812,962**
Deposit certificates issued	31 December 2018	–	–	832,460	**832,460**
Subordinated debt	31 December 2018	–	410,330	–	**410,330**

(in thousands of Ukrainian hryvnias)

32. Fair value measurements (continued)

Assets and liabilities at fair value

Information about changes of value of premises, work of art and investment property during 2018 has been disclosed in Note 11.

		Fair value measurement using			
31 December 2017 (restated)	**Date of valuation**	**Level 1:**	**Level 2:**	**Level 3:**	**Total**
Assets measured at fair value					
Government debt securities	31 December 2017	–	8,387,265	–	**8,387,265**
Forward currency contracts	31 December 2017	–	3,336	–	**3,336**
NBU deposit certificates	31 December 2017	–	2,002,054	–	**2,002,054**
Property and equipment – premises	31 December 2017	–	–	834,916	**834,916**
Works of art	1 December 2016	–	–	17,005	**17,005**
Investment property	31 December 2017	–	–	149,347	**149,347**
Assets for which fair values are disclosed					
Cash on hand and in transit	31 December 2017	1,499,210	–	–	**1,499,210**
Balance with the National Bank of Ukraine	31 December 2017	–	1,178,795	–	**1,178,795**
Due from other banks	31 December 2017	–	5,547,316	–	**5,547,316**
Loans to customers	31 December 2017	–	–	25,316,613	**25,316,613**
Shares	31 December 2017	–	–	7,057	**7,057**
Liabilities measured at fair value					
Forward currency contracts	31 December 2017	–	10,355	–	**10,355**
Liabilities for which fair values are disclosed					
Due to other banks	31 December 2017	–	865,004	–	**865,004**
Customer accounts	31 December 2017	–	–	37,254,734	**37,254,734**
Deposit certificates issued	31 December 2017	–	–	187,194	**187,194**
Eurobonds issued	31 December 2017	2,018,215	–	–	**2,018,215**
Other borrowed funds	31 December 2017	–	11,193	–	**11,193**
Subordinated debt	31 December 2017	–	436,653	–	**436,653**

The following is the description of the determination of fair value for the financial instruments which are recorded at fair value using the valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

The derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using the present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Securities

The securities valued using a valuation technique or pricing models primarily consist of unquoted debt securities. These securities are valued using discounted cash flows models which sometimes only incorporate the data observable in the market, such as interest rates, and at other times use both observable and non-observable data. The non-observable inputs to the models include the assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry in which the investee operates.

(in thousands of Ukrainian hryvnias)

32. Fair value measurements (continued)

Premises, works of art and investment property

The basis for their work is the sales comparisons approach, which is further confirmed by the income approach. When performing the revaluation certain judgments and estimates are applied by the appraisers in determination of the comparable premises to be used in the sales comparison approach, the useful life of the assets revalued, the capitalization rate to be applied for the income approach.

During 2018 and 2017, the Bank did not transfer any financial assets or financial liabilities between fair value hierarchy levels

During 2018 and 2017, the Bank recognised neither changes in the carrying amounts of the Level 3 financial assets at fair value nor resulting profit or loss.

33. Contingencies and commitments

Tax and other regulatory compliance

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. The legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. The management of the Bank believes that its interpretation of the relevant legislation is appropriate, and that the Bank has complied with all regulations and paid or accrued all taxes and withholdings that are applicable.

At the same time, there is a risk that the transactions and interpretations not challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time.

Capital expenditure commitments

As at 31 December 2018, the Bank had capital expenditure commitments in respect of purchase of equipment of UAH 24,161 thousand (31 December 2017: UAH 23,899 thousand). The Bank’s management has already allocated the necessary resources in respect of these commitments. The Bank’s management believes that the future income and funding will be sufficient to cover these commitments and any similar commitments.

Credit related commitments

The guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the risk of the clients’ defaults or inability to perform the contracts with third parties. The Bank manages its risk of loss by requiring a significant proportion of guarantees to be secured with deposits in the Bank. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of the customers authorising third parties to draw drafts on the Bank up to a stipulated amount under the specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than direct borrowings.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to the credit risk on commitments to extend credit, the Bank is potentially exposed to loss. However, due to its revocable nature the Bank is able to refuse to issue the loans, guarantees or letters of credit to the customer due to the deterioration of the customer's solvency.

The total outstanding contractual amount of undrawn credit lines, letters of credit and guarantees does not necessarily represent future cash needs, as these financial instruments may expire or terminate without being funded.

The letters of credit issued by the Bank are as follows:

	2018	**2017**
Confirmed import letters of credit	122,055	51,205
Non-confirmed import letters of credit	90,323	78,397
Cash collateral (Note 16)	(209,202)	(118,038)
Provision for import letters of credit	(91)	(83)
Total letters of credit	**3,085**	**11,481**

(in thousands of Ukrainian hryvnias)

33. Contingencies and commitments (continued)

Credit related commitments (continued)

The guarantees issued are as follows:

	2018	2017
Guarantees and promissory note endorsements	1,913,644	1,802,903
Cash collateral (Note 16)	(503,661)	(461,202)
Provision for guarantees and avals	(12,599)	(7,562)
Guarantees and promissory note endorsements	**1,397,384**	**1,334,139**

The amount of undrawn revocable commitments to extend credit issued by the Bank as at 31 December 2018 was UAH 9,884,813 thousand (31 December 2017: UAH 7,230,289 thousand). The management considers the commitments to extend credit as revocable due to the fact that the Bank can stop further financing of the client or early cancel the credit limit funds based on the agreements providing for a wide range of the trigger events for early cancellation of credit limits, Such events include, inter alia, a deterioration in the financial position of the client, a reduction in cash flows to a customer's current accounts, loss of collateral or a significant decrease in its fair value, decisions of the regulatory authorities affecting the Ukrainian monetary market.

Movements in the provision for commitments, guarantees and letters of credit during 2018 were as follows:

Commitments, guarantees and letters of credit	Stage 1
Expected credit losses at 1 January 2018	**11,395**
New commitments, guarantees and letters of credit	6,182
Repaid commitments, guarantees and letters of credit	(3,087)
Changes in expected credit risk estimation	(1,536)
Translation differences	(264)
At 31 December 2018 (Note 21)	**12,690**

Movements in allowance for other losses during 2018 were as follows:

	2018
Other expected credit losses at 1 January 2018	**2,987**
Charge to the allowance for other losses during the reporting period	727
Translation differences	(17)
At 31 December 2018 (Note 21)	**3,697**

Movements in the provision for commitments, guarantees, letters of credit and other losses for 2017:

	2017
Provision for commitments, guarantees and letters of credit at the beginning of the period	**13,599**
Charge to provision for commitments, guarantees and letters of credit during the reporting period	(3,475)
Translation differences	508
Provision for commitments, guarantees, letters of credit and other losses at 31 December 2017 (Note 21)	**10,632**

(in thousands of Ukrainian hryvnias)

34. Financial assets pledged as collateral

As at 31 December 2018, the Bank pledged securities at fair value through other comprehensive income with a carrying amount of UAH 3,057 thousand as collateral against the loan from the National Bank of Ukraine in the amount of UAH 1,000 thousand.

35. Related party transactions

For the purposes of these financial statements, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

In the normal course of business, the Bank enters into transactions with significant shareholders, companies under common control and other related parties. These transactions include settlements, loans, deposits, trade finance and foreign currency transactions. The outstanding balances as at 31 December 2018 and as at 31 December 2017 and income and expenses for 2018 and 2017 were as follows:

As at and for the year ended 31 December 2018	**Parent company**	**Entities under common control**	**Management**	**Other related parties**
Assets				
Loans to customers	–	1,441,263	251	5
(interest rate, % p.a.)		*(9.18)*	*(45.08)*	*(42.60)*
Allowance for loan impairment	–	(162,971)	(5)	–
Other assets	3	2,094	14	–
Liabilities				
Customer accounts	(127)	(10,652,205)	(90,207)	(134,776)
(interest rate, % p.a.)	–	*(9.85)*	*(3.22)*	*(5.52)*
Deposit certificates issued	–	(786,604)	(6,988)	–
Other liabilities	(1)	(2,434)	(4)	(16)
Credit related commitments				
Revocable commitments to extend credit	–	30,592	654	433
Guarantees and avals	–	285,085	–	–
Letters of credit	–	178,027	–	–
Income/(expense)				
Interest income	–	267,205	42	4
Interest expense	–	(869,304)	(3,575)	(6,777)
Fee and commission income	140	520,093	210	4,989
Other income	–	352	6	18
Charge to provision for commitments, guarantees and letters of credit	–	8	–	–
Allowance for loan impairment	–	85,670	(3)	–
Operating expenses	–	(142)	(845)	–

(in thousands of Ukrainian hryvnias)

35. Related party transactions (continued)

As at and for the year ended 31 December 2017	**Parent company**	**Entities under common control**	**Management**	**Other related parties**
Assets				
Loans to customers	–	2,992,383	146	1
(interest rate, % p.a.)	–	(9.93)	(38.88)	(37)
Allowance for loan impairment	–	(60,221)	(1)	–
Other assets	12	2,782	62	–
Liabilities				
Customer accounts	(91)	(7,135,974)	(64,692)	(127,878)
(interest rate, % p.a.)	–	*(9.35)*	*(5.9)*	*(6.68)*
Deposit certificates issued	–	–	(36,083)	–
Other liabilities	–	(12,345)	(8)	(15)
Credit related commitments				
Revocable commitments to extend credit	–	208,105	181	430
Guarantees and avals	–	226,629	–	–
Letters of credit	–	81,246	–	–
Income/(expense)				
Interest income	–	361,344	17	4
Interest expense	–	(353,796)	(3,618)	(6,459)
Fee and commission income	120	360,604	149	406
Other income	–	230	60	15
Charge to provision for commitments, guarantees and letters of credit	–	8	–	–
Allowance for loan impairment	–	(42,854)	–	–
Operating expenses	–	(470)	(874)	–

The allowance for loan impairment in respect of loans to related parties has been assessed on both individual and collective basis.

Aggregate amounts lent to and repaid by related parties during 2018 were as follows:

	Parent company	**Entities under common control**	**Management**	**Other related parties**
Amounts lent to related parties during the year	–	322,673	146	4
Amounts repaid by related parties during the year	–	(1,797,845)	(40)	–
Other changes	–	(75,948)	(1)	–

Aggregate amounts lent to and repaid by related parties during 2017 were as follows:

	Parent company	**Entities under common control**	**Management**	**Other related parties**
Amounts lent to related parties during the year	–	1,465,405	63	–
Amounts repaid by related parties during the year	–	(301,036)	(86)	(1)
Other changes	–	129,419	–	–

In 2018, the remuneration of members of the Management Board comprised salaries of UAH 70,725 thousand (2017: UAH 66,658 thousand), compulsory contributions to the State funds of UAH 1,200 thousand (2017: UAH 52,408 thousand) and allowance for additional remuneration payment of UAH 135,861 thousand (2017: UAH 52,408 thousand). In 2018, the remuneration to members of the Supervisory Board comprised UAH 3,726 thousand (2017: UAH 1,620 thousand).

(in thousands of Ukrainian hryvnias)

36. Earnings per share

Basic earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period without regard to shares repurchased. The Bank does not have converted preferred shares, thus diluted earnings per share is equal to basic earnings per share.

	2018	**2017 (restated)**
Income for the reporting period	2,008,508	717,292
Weighted average number of ordinary shares outstanding during the period	14,323,880	14,323,880
Income per share, basic (in hryvnias per share)	**140.22**	**50.08**

37. Changes in liabilities related to financial activity

Changes in cash flows from financing activities in the statement of cash flows for the year ended 31 December 2018 were as follows:

	Eurobonds issued	**Other borrowed funds**	**Subordinated debt**	**Lease liabilities**
Carrying amount at 31 December 2016	**4,290,540**	**18,995**	**490,750**	**–**
Repayment	(2,394,876)	(9,888)	–	–
Translation differences	18,589	2,139	–	–
Other	761	(53)	(1,094)	–
Carrying amount at 31 December 2017	**1,915,014**	**11,193**	**489,656**	**–**
Effect of adopting IFRS 16	–	–	–	252,569
Carrying amount at 1 January 2018	**1,915,014**	**11,193**	**489,656**	**252,569**
Repayment	(1,844,078)	(10,883)	–	(76,489)
Translation differences	(76,258)	(249)	–	–
Other	5,322	(61)	(1,511)	91,322
Carrying amount at 31 December 2018	**–**	**–**	**488,145**	**267,402**

The "Other" line includes the effect of accrued but not paid interest on Eurobonds issued, other borrowed funds and subordinated debt. The Bank classifies the paid interest as cash flows from operating activities.

38. Capital

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBU in supervising the Bank. The Bank considers the total capital under management to be the total regulatory capital. The amount of the capital that the Bank manages is UAH 5,289,311 thousand as at 31 December 2018 (31 December 2017: UAH 3,526,143 thousand).

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise the shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and risks associated with its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amounts of dividend payments to the shareholders, return the capital to the shareholders or issue capital securities. No changes were made in the objectives, policies and processes since the previous years.

(in thousands of Ukrainian hryvnias)

38. Capital (continued)

NBU capital adequacy ratio

The NBU requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets computed based on the NBU's requirements as to credit risk. As at 31 December 2018 and 2017, the Bank's capital adequacy ratio on this basis was as follows:

	2018	**2017**
Main capital	3,759,198	2,798,998
Additional capital	1,530,113	727,145
Withdrawals	(7,056)	(6,756)
Total equity	**5,282,255**	**3,519,387**
Risk-weighted assets	**32,324,099**	**29,916,078**
Capital adequacy ratio	**16.34%**	**11.76%**

The regulatory capital consists of the main capital, which comprises paid-in registered share capital, share premium, reserves created in accordance with the Ukrainian legislation less net book value of intangible assets and losses of current and prior years decreased by the amount of accrued income overdue for more than 30 days net of the provision for overdue accrued interest. In addition, the main capital is decreased for the amount by which uncovered credit risk exceeds the prior and current year income. The other component of the regulatory capital is additional capital, which includes standard provisions for interbank and customer loans, property revaluation reserve, current year profit decreased by the amount of accrued income overdue for more than 30 days net of the provision for overdue accrued interest, long-term subordinated debt, retained earnings of prior years decreased for the amount of the uncovered credit risk.

As at 31 December 2018 and 2017, the Bank was compliant with the regulatory requirements to capital.

As at 31 December 2018 and 2017, the Bank's capital adequacy ratio calculated in accordance with the Basel I requirements was as follows:

	2018	**2017 (restated)**
Tier 1 capital		
Share capital	3,294,492	3,294,492
Share premium	101,660	101,660
Reserve fund	1,475,430	1,475,430
Retained earnings/ (accumulated deficit)	996,305	(620,266)
Total tier 1 capital	**5,867,887**	**4,251,316**
Tier 2 capital		
Asset revaluation reserves	449,982	553,409
Eligible subordinated debt	292,887	391,725
Total tier 2 capital	**742,869**	**945,134**
Total equity	**6,610,756**	**5,196,450**
Capital adequacy ratio at the reporting date		
Risk-weighted assets	37,650,032	33,720,402
Total equity	6,610,756	5,196,450
Capital adequacy ratio (%)	**17.56%**	**15.41%**

(in thousands of Ukrainian hryvnias)

39. Events after the reporting period

On 31 January 2019, the Bank made a full repayment of the subordinated debt based on the decision of the National Bank of Ukraine.

Signed on behalf of the Management Board on 20 March 2019

S.P. Chernenko (Chairman of the Management Board)

I.O. Kozhevin (Chief Financial Officer)

O.O. Poleschuk (Chief Accountant)