KREDOBANK Group

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditors’ Report

31 December 2019

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Independent Auditors' Report

To the Management Board of the Joint Stock Company "Kredobank"

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Joint Stock Company "Kredobank" (the "Bank") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statements of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of Ukrainian legislation on financial reporting.

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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit losses from loans and advances to customers

See Note 7 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Loans and advances to customers comprise 61% of total assets and are presented net of provision for expected credit losses (ECLs), which are estimated on a regular basis and are sensitive to the assumptions used. The expected credit loss model requires that management apply professional judgments and make assumptions on the following major issues: — timely identification of a significant increase in credit risk and a default event on loans and advances to customers (classified as Stages 1, 2, and 3 in accordance with IFRS 9); — calculation of exposure at default (EAD), estimation of probability of default (PD) and loss given default (LGD); — estimation of expected cash flows on loans and advances to customers classified as Stage 3. Due to significant amount of loans and advances to customers and uncertainty inherent in assessment of provision for ECLs, this issue is a key audit matter.	We analyzed main aspects of the Group's methodology and policies on evaluation of its compliance with IFRS 9 *Financial Instruments*, including through involvement of financial risk management professionals. To analyze the adequacy of professional judgment used by management and the assumptions made in calculating provision for expected credit losses, we, among others, performed the following audit procedures: — In a sampling of loans where potential change in estimation of ECLs may significantly affect the consolidated financial statements, we tested the appropriateness of Stage assigned by the Group by analyzing financial and non-financial information on selected borrowers, and assumptions and professional judgments used by the Group; — For a sampling of loans classified as Stage 3 that were subject to individual assessment for impairment, and focusing on those with the most significant potential impact on the consolidated financial statements, we evaluated reasonableness of future cash flows based on our understanding and available market information; — For loans and advances to customers with ECLs estimated on a collective basis, we analyzed principles of operation and application of relevant models by checking the mathematical accuracy of calculations, and inputs in the models by verifying with primary documents on a selective basis;

	— Analyzed the forecast information included in the calculation of ECL. — We performed testing of control over accuracy of calculations of days past due of loans. We also satisfied ourselves that the disclosures in the consolidated financial statements adequately reflect the Group's exposure to credit risk.

Other Information

Management is responsible for the other information. The other information includes:

— Annual Management Report as at and for the year ended 31 December 2019 (that does not include the consolidated financial statements and our independent auditors' report thereon);

— Annual Information of Securities Issuer to be disclosed and reported to the National Securities and Stock Market Commission (hereinafter "the Commission").

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, 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.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

— Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Pursuant to Article 14(4) of the Law of Ukraine "*On Audit of Financial Statements and Auditing*", we provide the following information in our Independent Auditors' Report in addition to ISA requirements.

Appointment of the Auditor and Period of Engagement

We were appointed by the Supervisory Board of the Bank on 22 June 2017 to audit the consolidated financial statements of the Group as at and for the year ended 31 December 2019. Our total uninterrupted period of audit engagements is 5 years, covering the years ended 31 December 2015 to 31 December 2019.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 6(4) of the Law of Ukraine "*On Audit of Financial Statements and Auditing*" were provided.

In addition, for the period to which our statutory audit relates, we have not provided any services to the Group, which have not been disclosed in the Annual Management Report of the Group.

Additional Report to the Supervisory Board

We confirm that our auditors' report is consistent with the additional report to the Supervisory Board of the Bank.

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

Anna Parkhomenko

Registration No. 101539 in the Register of Auditors and Audit Organisations

Deputy Director

JSC KPMG Audit

14 April 2020

In thousands of hryvnias	Note	31 December 2019	31 December 2018 *
Assets			
Cash and cash equivalents	5	2 923 310	2 157 346
Due from other banks	6	7 438	8 436
Loans and advances to customers	7	11 694 946	9 647 561
Investment securities	8	3 072 580	3 783 284
Current income tax prepayment		84	150
Deferred income tax asset	26	32 560	30 496
Investment property	9	28 506	22 170
Intangible assets	10	137 341	103 281
Premises, leasehold improvements and equipment	10	1 070 912	871 152
Other financial assets	11	70 042	49 384
Other non-financial assets	12	109 703	122 789
Total assets		**19 147 422**	**16 796 049**
Liabilities			
Due to other banks	13	1 612 017	2 281 407
Customer accounts	14	13 952 459	11 953 144
Due to other financial institutions	15	484 956	165 851
Debt securities	16	279 470	304 076
Current income tax liabilities		36 148	12 900
Other financial liabilities	17	240 083	147 587
Other non-financial liabilities	18	143 238	137 766
Total liabilities		**16 748 371**	**15 002 731**
Equity			
Share capital	19	2 248 969	2 248 969
Revaluation reserve for premises		111 747	108 275
Revaluation reserve for investment securities at fair value through other comprehensive income		79 776	76 169
Accumulated deficit		(41 441)	(640 095)
Total equity		**2 399 051**	**1 793 318**
Total liabilities and equity		**19 147 422**	**16 796 049**

* The Group initially applied IFRS 16 Leases from 1 January 2019. According to the selected transition method, comparative information was not recalculated (Note 3(u)). As a result of the transition to IFRS 16, the Group did not change the presentation of comparative information.

Approved to issue and signed on behalf of the Management Board on April 14, 2020.

АКЦІОНЕРНЕ ТОВАРИСТВО «КРЕДОБАНК» KredoBank 09807862 АТ «КРЕДОБАНК» у м. Львів

Jerzy Jacek Szugajew
Acting Chairman of the Management Board

Vasyl Lototsky
Chief Accountant

Responsible employee: O. Lisnyy (tel. 032 297 27 82)

In thousands of hryvnias	Note	2019	2018 *
Interest income calculated using the effective interest method	21	2 164 988	1 755 469
Other interest income	21	119 661	74 363
Interest expense	21	(815 739)	(554 983)
Net interest income		**1 468 910**	**1 274 849**
Fee and commission income	22	615 516	575 476
Fee and commission expense	22	(151 129)	(139 066)
Gains less losses from trading in foreign currencies		(4 561)	25 073
Foreign exchange translation result		64 286	17 783
Gain (loss) arising from derecognition of investment securities at fair value through other comprehensive income		3 198	3 713
Gain (loss) arising from derecognition of financial assets at amortized cost		5 948	(3 840)
Estimation of expected credit losses	23	(65 604)	(75 909)
Provisions for other nonfinancial assets	12	476	(3 833)
Commitment provision	31	-	(15 819)
Other operating income	24	46 448	23 708
Employee payments expenses	25	(533 182)	(436 423)
Depreciation costs	10	(250 279)	(170 027)
Administrative and other operating expenses	25	(485 356)	(495 538)
Profit before tax		**714 671**	**580 147**
Income tax expense for the year	26	(118 874)	(110 176)
Profit for the year		**595 797**	**469 971**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Investment securities at fair value through other comprehensive income			
- Net change in the fair value of investment securities at fair value through other comprehensive income	20	6 805	35 647
- Net change in the fair value of investment securities at fair value through other comprehensive income transferred to net profit and loss	20	(3 198)	(7 543)
Revaluation of premises and equipment	20	6 329	-
Other comprehensive income for the year		**9 936**	**28 104**
Total comprehensive income for the year		**605 733**	**498 075**
Basic and diluted profit per share attributable to shareholders of the Group (UAH per share)	27	0,0026	0,0021

* The Group initially applied IFRS 16 Leases from 1 January 2019. According to the selected transition method, comparative information was not recalculated (Note 3(u)). As a result of the transition to IFRS 16, the Group did not change the presentation of comparative information.

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In thousands of hryvnias	Note	Share capital	Revaluation reserve for investment securities at fair value through other comprehensive income	Revaluation reserve for premises	Accumulated deficit	Total equity
Balance at 31 December 2017		**2 248 969**	**23 563**	**110 536**	**(1 084 705)**	**1 298 363**
Impact of adopting IFRS 9		-	24 502	-	(27 622)	(3 120)
Balance at 1 January 2018 including the impact of adopting IFRS 9		**2 248 969**	**48 065**	**110 536**	**(1 112 327)**	**1 295 243**
Profit for the year		-	-	-	469 971	469 971
Other comprehensive income	20	-	28 104	-	-	28 104
Total comprehensive income for 2018		-	28 104	-	469 971	498 075
Transfer of revaluation reserve on premises to accumulated deficit upon disposal of premises and amortization of revaluation reserve		-	-	(2 261)	2 261	-
Balance at 31 December 2018 *		**2 248 969**	**76 169**	**108 275**	**(640 095)**	**1 793 318**
Profit for the year		-	-	-	595 797	595 797
Other comprehensive income	20	-	3 607	6 329	-	9 936
Total comprehensive income for 2019		-	3 607	6 329	595 797	605 733
Transfer of revaluation reserve on premises to accumulated deficit upon disposal of premises and amortization of revaluation reserve		-	-	(2 857)	2 857	-
Balance at 31 December 2019		**2 248 969**	**79 776**	**111 747**	**(41 441)**	**2 399 051**

* The Group initially applied IFRS 16 Leases from 1 January 2019. According to the selected transition method, comparative information was not recalculated (Note 3(u)). As a result of the transition to IFRS 16, the Group did not change the presentation of comparative information.

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In thousands of hryvnias	Note	2019	2018 *
Cash flows from operating activities			
Interest received		2 305 216	1 918 321
Interest paid		(800 522)	(539 531)
Fees and commissions received		609 834	573 682
Fees and commissions paid		(151 129)	(139 066)
Income received from trading in foreign currencies		(4 561)	25 073
Other operating income received		36 816	20 666
Employee costs paid		(519 661)	(426 626)
Administrative and other operating expenses paid		(464 131)	(462 404)
Income tax paid		(97 785)	(124 300)
Cash flows from operating activities before changes in operating assets and liabilities		**914 077**	**845 815**
Net decrease in due from other banks		1 095	7 724
Net increase in loans and advances to customers		(2 537 300)	(1 774 588)
Net increase in other financial and non-financial assets		(5 849)	(41 207)
Net (decrease)/increase in due to other banks		(182 423)	451 399
Net increase in customer accounts		2 819 391	1 096 709
Net (decrease)/increase in other financial and non-financial liabilities		(79 751)	61 530
Net cash from operating activities		**929 240**	**647 382**
Cash flows from investing activities			
Acquisition of investment securities		(5 976 114)	(4 484 771)
Proceeds from disposal and redemption of investment securities		6 279 347	3 700 295
Acquisition of premises and equipment	10	(210 272)	(268 586)
Proceeds from disposal of premises and equipment		8 115	11 381
Acquisition of intangible assets	10	(86 348)	(62 310)
Net cash from / (used in) investing activities		**14 728**	**(1 103 991)**
Cash flows from financing activities			
Proceeds from other financial institutions	15	116 390	54 389
Repayment of due to other financial institutions	15	(4 900)	-
Proceeds from the own debt securities placement	16	16 770	291 100
Redemption of issued own debt securities	16	(42 683)	-
Payment of lease liabilities		(51 073)	-
Net cash from financing activities		**34 504**	**345 489**
Effect of exchange rate changes on cash and cash equivalents		**(212 508)**	**(53 588)**
Net increase/(decrease) in cash and cash equivalents		**765 964**	**(164 708)**
Cash and cash equivalents at the beginning of the year	5	2 157 346	2 322 054
Cash and cash equivalents at the end of the year	5	**2 923 310**	**2 157 346**

* The Group initially applied IFRS 16 Leases from 1 January 2019. According to the selected transition method, comparative information was not recalculated (Note 3(u)). As a result of the transition to IFRS 16, the Group did not change the presentation of comparative information.

Approved to issue and signed on behalf of the Management Board on April 14, 2020.

АКЦІОНЕРНЕ ТОВАРИСТВО «КРЕДОБАНК» KredoBank 09807862 АТ «КРЕДОБАНК» м. ЛЬВІВ

Jerzy Jacek Szugajew
Acting Chairman of the Management Board

Vasyl Lototsky
Chief Accountant

Responsible employee: O. Lisnyy (tel. 032 297 27 82)

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks for the year ended 31 December 2019 for Joint-Stock Company “Kredobank” (the “Bank”) and its subsidiary – “Finance Company Idea Capital” Limited Liability Company (together the “Group”). As at 31 December 2019 and 31 December 2018 the Bank fully owns “Finance Company Idea Capital” Limited Liability Company.

The Bank was incorporated and is domiciled in Ukraine. The Bank is a joint-stock company limited by shares and was set up in accordance with Ukrainian laws. During 2018 and as at 31 December 2018 the Bank was a public joint-stock company. On 29 November 2018 PKO Bank Polski S.A., as the only shareholder of the Bank, made the decision №03/2018 to change the type of joint-stock company from a public joint-stock company to a private joint-stock company and to change the Bank's name to the Joint-Stock Company "KREDOBANK" in order to bring Bank’s activities into compliance with the requirements of the Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine Concerning Facilitation of Business and Investment Attraction by Issuers of Securities". A type of joint-stock company and the name of the Bank changes were made at the date of state registration of the new version of the Charter of JSC "KREDOBANK" - at January 21, 2019.

As at 31 December 2019 and 31 December 2018, the Bank’s immediate parent company was PKO Bank Polski S.A. (Poland). The Bank is a member of the PKO Bank Polski S.A. Group (“PKO BP S.A. Group”). The largest shareholder of the PKO BP S.A. Group is the Ministry of State Assets of Poland, that controls PKO Bank Polski S.A. as owns 29.43% in the share capital of PKO Bank Polski S.A. Share of other shareholders of PKO BP S.A. does not exceed 10% of voting shares. The Bank does not have transactions with the Ministry of State Assets of Poland. As at 31 December 2019 and 31 December 2018, PKO BP S.A. owns 100% of shares of the Bank.

Principal activity. The Group’s principal business activity includes commercial banking operations, corporate and retail banking operations within Ukraine. The Bank was founded in 1990 as a joint stock company. Initially registered by the USSR State Bank, the Bank was re-registered by the National Bank of Ukraine (the “NBU”) on 14 October 1991 under the name of West-Ukrainian Commercial Bank. In 2002, the Bank was renamed as Kredyt Bank (Ukraina). In November 2005, the shareholders of the Bank made the decision to change the name to Kredobank. Under the decision of Extraordinary General Shareholders Meeting on 26 November 2009, the Bank changed its name to Public Joint Stock Company “Kredobank” in order to bring its activities into compliance with the requirements of the Law of Ukraine On Joint-Stock Companies.

The Bank operates under Licence #43 issued by the NBU on 11 October 2011 that provide the Bank with the right to conduct banking operations, including currency operations. The Bank also possesses licenses for custodial services issued on 10 October 2013 and licences for securities operations issued on 7 November 2012. The Bank participates in the State deposit insurance scheme (registration #051 dated 19 October 2012), which operates according to the Law of Ukraine “On Deposit Guarantee Fund” dated 23 February 2012 (as amended). The Deposit Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand per individual in case bank liquidation procedure is started.

As at 31 December 2019, the Bank has 86 outlets (in 2018 – 93 outlets) in Ukraine.

The strategic goal of the Bank is a place in the TOP-7 banks in retail lending, and support growth rate more than twice average in the banking sector, as well as unified quality of service in all outlets and remote channels. The mission of the Bank is to be a reliable financial partner for clients and an attractive employer for employees. Due to the specialization and concentration of resources, the Bank seeks to achieve and maintain long-term business stability, thereby ensuring the return on investment of its shareholders.

”Finance Company Idea Capital” Limited Liability Company acquires the right of claim on liabilities under loan agreements and collects the claimed debts for profit-making purposes.

Registered address and place of business. The Bank’s registered address and place of business is:

78 Saharova Str.
79026 Lviv
Ukraine

Presentation currency. These consolidated financial statements are presented in thousands of hryvnias ("UAH"), unless otherwise stated.

2 Operating environment of the Group

In 2019 the Ukrainian economy and banking sector continued to be significantly affected by the following political and social factors that arose in previous years:

- a part of Ukrainian territory (Autonomous Republic of Crimea) remained under temporary occupation by the Russian Federation as a result of the annexation that was not recognized by international community (United Nations General Assembly Resolution 68/262 of 27 March 2014 "Territorial Integrity of Ukraine" and United Nations General Assembly Resolution 71/205 of 19 December 2016 "Situation of the human rights in the temporarily occupied Autonomous Republic of Crimea)";
- on a part of Ukrainian territory (certain areas in the Donetsk and Lugansk regions), the military conflict and armed clashes with separatist groups supported from abroad continued during 2018. The Ukrainian authorities continued the anti-terrorist operation with the involvement of the Armed Forces and law enforcement bodies.

Since the end of 2015, military activities in the region have significantly decreased as a result of the "Minsk Agreements". As at the date of approval of these consolidated financial statements, certain areas of the Donetsk and Lugansk regions remained under control of the separatist groups, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

The above circumstances make impossible any business of Ukrainian banks and companies in Autonomous Republic of Crimea and on part of the Donetsk and Lugansk regions.

The annexation of Autonomous Republic of Crimea, the armed conflict in the East part of Ukraine and the resulting sharp deterioration of the relationship between Ukraine and the Russian Federation, deepened the ongoing economic crisis, caused a fall in the country's gross domestic product and foreign trade in 2014-2015, deterioration in state finances, depletion of the National Bank of Ukraine's foreign currency reserves, significant devaluation of the national currency and a further downgrading of the Ukrainian sovereign debt credit ratings. Following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions, which among others included restrictions on purchases of foreign currency by individuals and companies, a ban on payment of dividends abroad, a ban on early repayment of foreign loans and restrictions on cash withdrawals from banks. These events had a negative effect on Ukrainian companies and banks, significantly limiting their ability to obtain financing on domestic and international markets.

Following the continuous recession, Ukrainian economy resumed its growth in 2016. Real GDP was 2,3% year-on-year in 2016. The main factor of economic recovery was intensification of domestic consumer and investment demand. The sharp inflation reduction to 12,4% year-on-year and foreign exchange market stabilization caused the commercial and retail customer deposits grown in national currency by 12% and 5% year-on-year, respectively.

The GDP growth rate accelerated to 2.5% in 2017. Economic growth was supported by export growth due to an enabling external economic environment, improvement in the financial situation of enterprises and investment activity of business, the recovery of private consumption. At the same time inflation accelerated from 12.4% in December 2016 to 13.7% in December 2017 year-on-year. The reasons for the acceleration of inflation in 2017 are rising prices for raw food and fuel.

In 2018, real GDP increased by 3,3% that is the highest point in the last 7 years, due to further household incomes increase, which stimulated consumer demand, high business expectations and the resulting increase in investment activity, as well as generally favorable conditions on foreign markets.

Real GDP increased by 2,5% in the 1 Quarter of 2019, by 4,6% - in the 2 Quarter of 2019 and by 4,1% - in the 3 Quarter of 2019. As in the previous year, private consumption and investment were the key drivers of economic growth. The record harvest of cereals has a positive impact on the economy for the second year in a row.

To get the inflation rate back to average level the National Bank of Ukraine was forced to move towards tight monetary policy in 2017 after its easing during 2016 and half-year of 2017 (the discount rate has decreased from 22% to 12.5% during this period). For this purpose the NBU increased the discount rate twice in October and December by 1 pp. As the result the discount rate was 14.5% as at 31 December 2017.

In 2018 NBU has continued to increase the discount rate - to 18% at the end of the year. Tight monetary policy of the National Bank of Ukraine restrained inflationary pressures in particular through the exchange rate channel. Consequently consumer inflation began to slow down and was 9.8% in December.

2 Operating environment of the Group (continued)

A rapid inflation slowdown from the beginning of 2019 to 4,1% in December allowed the NBU to begin the cycle of monetary policy easing. During 2019, the NBU lowered interest rate five times from 18% at the beginning of the year to 13.5% at the end of December.

A moderate devaluation of the hryvnia exchange rate against the US dollar in 2017 (-3.2% y/y) contributed to accelerating the inflow of national currency deposits into the banking system – deposits in hryvnia grew by 19.4% over 2017, compared with an increase of 5% in 2016. In 2018 against the backdrop of slight increase in hryvnia against the US dollar (by 1,4% – from 28,07 UAH/USD to 27,69 UAH/USD), there was an unchanged volume of corporate deposits in the banking sector (+0.1%) while deposits in the retail segment increased by 7.3% since the beginning of the year.

In 2019 there was a significant strengthening of the hryvnia against the US dollar - by 14.5% to 23.69 UAH/USD due to significant export earnings and a significant increase in foreign investors' interest in government bonds denominated in UAH. According to the results of 2019, the deposits in the banking sector increased by 14.3%, both due to the growth of corporate deposits by 22.8% and the increase in retail deposits by 8.6%.

Bank’s loan activity remained low in 2019 - the sector's aggregate loan portfolio decreased by -9.4% as a result of a decrease in corporate loan portfolio by -12.8%. Instead, retail loans continued to grow - by 4.7% year-on-year for four quarters. Retail portfolio growth was driven by an increase in hryvnia loans to individuals - by 24.1% y-o-y, indicating that consumer loans remain the driver of banks' loan activity.

Cooperation with International Monetary Fund (IMF) remains an important macroeconomic stability factor for Ukraine. In September 2016 Ukraine received the third tranche under EFF, in April 2017 – the fourth tranche of around USD 1 bn., and there was issuance of Eurobonds in the amount of USD 3 bn. As a result, as at 31 December 2017 Ukraine’s international reserves increased to USD 18.8 bn. In 2018 after the 1.5 year suspension of funding, the IMF Board of Directors approved a new stand-by (SBA) cooperation program with Ukraine, which involves the allocation of about $ 3.9 billion to Ukraine for 14 months. The first tranche of the program SBA in the amount of about $ 1.4 billion came to Ukraine in December and Ukraine's international reserves reached a five-year high ($ 20.8 billion), which significantly reduced the medium-term macroeconomic risks for Ukraine. In 2019 there was not any funding from IMF because of slow pace of reforms related to presidential and early parliamentary elections. Nevertheless, the steady predominance of the currency supply over demand in the foreign exchange market has enabled the National Bank to increase its international reserves to USD 25.3 billion at the end of December 2019.

In addition, in the first months of 2020, there is a significant upheaval in the global market caused by the coronavirus outbreak. Among other factors, this led to a sharp decline in the price of oil and stock indices, as well as the depreciation of the hryvnia. In view of the potential threat from the coronavirus, Ukrainian government authorities have taken measures to curb the outbreak by imposing restrictions on the movement of people within Ukraine and between cities in the worst-hit regions, suspending transport connection with Ukraine and restricting entry to Ukraine. The government has introduced quarantine by April 24, 2020. Some businesses also have instructed employees to stay home and reduce or suspend business operations.

The economic consequences of these events include:

- undermining business and economic activity in Ukraine, which has an impact on supply chains, including trade and transportation, travels and tourism, entertainment, manufacturing, construction, retail, insurance and education; and
- increasing economic uncertainty, reflecting more volatile asset prices and exchange rates.

The National Bank of Ukraine has also taken additional measures in response to these events. Outlets are advised to adjust the timetable and take additional sanitation in all outlets to ensure compliance with the requirements of the Ministry of Health of Ukraine.

The NBU also requires banks to suspend the obligation to fulfill the principal obligation, the performance of which is secured by a mortgage and to prevent foreclosure on a mortgage for the period of quarantine. Charging and collecting penalties for late payment of housing and utility services, for consumer loans and increasing interest rate or any other mandatory payments for consumer loans has been suspended during the quarantine period.

2 Operating environment of the Group (continued)

These measures can significantly affect the Group's operations and financial results in a manner not currently determinable. The financial results of the Group mainly depend on the credit quality of customers and counterparties, as well as on the volatility of the financial markets as a whole. The Group is closely monitoring the development of the situation on the world and Ukrainian markets in order to minimize negative consequences, while maintaining its conservative risk profile. The Group has conducted a stress test and monitors liquidity on a daily basis as part of the operational and strategic management of liquidity risk in order to ensure compliance with prudential liquidity ratios, match the actual volume of liquid assets to their required level, as well as ensure long-term liquidity safety.

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

3 Significant accounting policies

a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and investment property, and by the investment securities at fair value through other comprehensive income. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (Note 3(u)).

Going concern. Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group’s financial position, current intentions, continuing financial support from the parent company, budgeted profitability of future operations and access to financial resources and analysed the impact of the current financial and economic situation on future operations of the Group.

b) Consolidated financial statements

Business combinations. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Subsidiaries. Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances, including cases when protective rights arising from collateral agreements on lending transactions become significant. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation. Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3 Significant accounting policies (continued)

Goodwill. Goodwill on acquisitions of subsidiaries is included in intangible assets.

c) Financial instruments – key measurement terms. Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the Group. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held by the Group and placing orders to sell the position in a single transaction might affect the quoted price.

The quoted market price used to value financial assets is the current bid price; the quoted market price for financial liabilities is the current asking price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period (Note 32).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Determination and calculation of amortized cost, as well as the application of the effective interest method are described in Note 3 (i).

d) Financial assets and liabilities classification

Business model assessment

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

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

3 Significant accounting policies (continued)

The main types of business models, within which financial assets are held are the following:

- business model for holding financial assets to collect their contractual cash flows (held to collect);
- business model for holding financial assets to collect their contractual cash flows as well as to sell them (held to collect and for sale);
- other business models including: trading, managing assets on the fair value basis and maximising cash flows through sale.

In the case of a business model "held to collect" sales are not a blocking factor for classification to this model. Information about sales activity is not considered by the Group in isolation, but as part of a holistic assessment of how the Group stated objective for managing the financial assets is achieved and how the cash flows are realised. Therefore, the Group consider the frequency, volume and timing of sales in prior periods, the reasons for these sales. The following sales may be consistent with the "held to collect" business model:

- deterioration of credit quality to a level that is not acceptable to the Group under the risk management policy;
- getting out of crisis.

Also, the classification for the model "held to collect" is not contrary to sales made at the time of maturity of the asset under the terms of the contract, insignificant by volume or frequency sales.

The significance of sales is determined by comparing the volume of the sold portfolio to the total size of the portfolio attributed to this model at the beginning of the reporting period, and by comparing the result of assets sale to the revenue generated by such a portfolio. For the analysis of the volume of sales, aggregation is carried out for a period equal to the average maturity of the portfolio.

If sales volumes will substantially exceed those expected by the Group at the time of evaluating business models, this will not lead to changes in business models for existing assets, but will have an impact on the definition of a business model, for new assets generated by the Group.

For a business model, the goal of which is achieved by model for holding financial assets to collect their contractual cash flows as well as to sell them, sales volumes are not a significant criterion - even a significant volume and amount of them is allowed, however the purpose of sale is considered by the Group.

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

Financial assets classification

The Group classifies financial assets and determines measurement approach at their initial recognition.

The Group classifies financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

There are three principal classification categories for financial assets:

- measured at amortised cost;
- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL).

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

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

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

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

3 Significant accounting policies (continued)

For debt financial assets at fair value through other comprehensive income, gains and losses are recognized in other comprehensive income, except for those items recognized in profit or loss in the same way as for financial assets measured at amortized cost:

- interest income calculated using the effective interest method;
- expected credit losses and reversal of impairment losses; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis. Further, gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are generally recognized in profit or loss unless they clearly represent a recovery of a part of the cost of investment. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

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

In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group’s claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

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

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially

represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Reclassification of financial assets is carried out prospectively only in case of changing the business model within which they are held.

Financial liabilities, equity investments and financial assets designated at fair value through profit or loss cannot be reclassified.

3 Significant accounting policies (continued)

Financial liabilities classification

All financial liabilities are measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss;
- financial liabilities that arise when the transfer of a financial asset does not comply with the terms of a withdrawal or when the principle of continued participation is applied;
- financial guarantee contracts, pledges, avals;
- loan commitments at a lower rate than the market;
- conditional indemnity recognized by the Group as a purchaser in the business combination to which IFRS 3 Business Combinations applies. Such conditional consideration is subsequently measured at fair value through profit or loss.

Reclassification. Financial liabilities after initial recognition cannot be reclassified.

e) Initial recognition of financial instruments

Financial instruments at fair value through profit or loss are initially recognized at fair value. Transactions costs that are attributable to the acquisition or issue of such financial assets are reflected as expenses at the date they are incurred.

All other financial instruments are initially recognized at fair value plus/minus transaction costs. Transaction costs and other payments that are directly attributable to the recognition of financial instruments are reflected as discount (premium).

The transaction costs include fees paid to agents, consultants, brokers and dealers, regulatory bodies, stock exchanges, taxes etc.

The transaction costs and fee and commission income which are an integral part of the financial instrument yield (other than financial instruments measured at FVTPL) are included in initial value of the financial instrument and are included in the effective interest rate.

All transactions in the acquisition or sale of financial assets that provide for delivery during the period specified by law or market traditions ("ordinary" sale) are recognized at the date of settlement.

f) Derecognition of financial assets

Financial assets

Derecognition of financial assets occurs when:

- the contractual rights to the cash flows from the financial asset expire;
- it transfers the financial asset and the transfer qualifies for derecognition;
- financial assets are written-off.

The Group transfers a financial assets only if:

- transfers the contractual rights to receive the cash flows of the financial asset, or
- retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets all of the following conditions:
  - the Group has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
  - the Group is prohibited by the terms of the transfer contract from selling or pledging the original asset to the eventual recipients for the obligation to pay them cash flows;
  - the Group has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. Interest earned on such investments is passed to the eventual recipients.

3 Significant accounting policies (continued)

When the Group transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:

- if the Group transfers substantially all the risks and rewards of ownership of the financial asset, the Group derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer;
- if the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the financial asset;
- if the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group determines whether it has retained control of the financial asset.

The control of the transferred asset is not available if the party to whom the asset is transferred has the real ability to sell it to an unrelated third party and may sell this sale unilaterally without the need to impose additional restrictions on such transfer.

If the control over a financial asset is not retained, the recognition of such an asset is terminated, otherwise, if the control over the financial asset is retained, its recognition continues to be recognized within the further continuing involvement.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not reclassified in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Significantly different are the conditions under which the net present value of the cash flows under the new terms discounted using the original effective interest rate (for a floating interest rate interest rate, the effective interest rate that was calculated at the last change in the nominal interest rate) differs by at least 10% of the discounted present value of cash flows remaining before the maturity date of the original financial liability.

Any expense or remuneration is the income/expense from derecognition if the changes in the terms of a financial liability are reflected in the accounting as a repayment of the original financial liability and the recognition of a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid is recognised in profit or loss.

If the exchange or amendment of debt obligations (modification) does not result in the cessation of recognition, any costs and remunerations from the exchange / modification adjust the carrying amount of the financial liability and are amortized over the term of the new liability (effective interest rate is not recalculated, but adjusted to reflect these costs/remunerations).

3 Significant accounting policies (continued)

g) Modification of financial instruments

Financial assets

Modified financial asset – an asset by which the contractual cash flows provided have been reviewed by agreement or modified.

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, that is whether the cash flows under initial financial asset differ significantly from cash flows from modified financial asset or the asset that has replaced initial financial asset. To determine the type of modification and its consequences, a quantitative and qualitative analysis of changes in terms of the contract, and the combined effects of qualitative and quantitative factors, is conducted. If the cash flows are significantly different, the rights to the contractual cash flows for the original financial asset are considered to have expired. In making this assessment, the Group is guided by the derecognition of financial liabilities by analogy.

Qualitative factors are the following:

- change the currency of the financial asset;
- change of the borrower, except for changes due to the death of the borrower;
- change of terms of financial asset that lead to non-compliance with the SPPI criterion (for example, adding a conversion condition).

In case any criteria is met, modification is considered significant. Changes in accounting policies are described in Note 3 (v).

If the modification of the terms of the loan agreement was so significant that it leads to the recognition of a new asset and at the same time the asset fulfills the conditions of classification to default - the new asset is classified as initially impaired.

Changes in the value of cash flows from existing financial assets or financial liabilities are not considered to be modifications if they are provided by the original terms of the contract.

As a part of credit risk management the Group reviews the terms of loans to customers with financial difficulties ("the practice of reviewing the terms of credit agreements") in order to maximize the return on the original contractual terms rather than to originate a new asset. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). As a result, the amount of the contracted cash flows remaining at the time of the modification is recognized as an initial financial asset is likely to be equivalent to the value of newly modified cash flows under the contract. The Group performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

3 Significant accounting policies (continued)

For loans in which the borrower has an option to prepay the loan at par without significant penalty, the Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Compensation paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Group performs a quantitative evaluation of whether the modification is substantial. For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument to take into account the influence of such commissions.

h) Impairment – Financial assets, loan commitments and financial guarantee contracts

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued and loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL or 12-month ECL. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECLs

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

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

3 Significant accounting policies (continued)

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired.

The Group, for the purposes of assessing expected credit losses, classifies financial instruments in accordance with IFRS 9 to one of the three stages of impairment. The impairment stage is determined on the basis of how significantly the level of credit risk of a financial instrument has changed at the reporting date compared to the date of its initial recognition.

Financial instruments that are not subject to a significant increase in credit risk compared to the date of initial recognition are classified to the first stage of impairment by the Group.

Financial instruments that show signs of a significant increase in credit risk compared to the date of initial recognition and are not in default are classified to the second stage of impairment.

Financial assets in the state of default are classified by the Group to the third stage of impairment. Financial assets that are credit-impaired on initial recognition are classified as purchased or originated financial assets. The Group does not recognize loss allowances at the date of initial recognition of purchased or originated credit-impaired financial assets – gross carrying value is its fair value. Initially, expected credit losses are included in credit-adjusted effective interest rate. Any changes in expected credit losses are recognized in profit or loss even if such changes exceed the amount of the previously formed loss allowances for such a financial asset.

Loss allowances are always recognized for purchased or originated credit-impaired financial assets on a lifetime basis.

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising collateral (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group (for balances with other banks default is recognized if a financial asset is 30 days past due). Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.
- the restructuring of the loan associated with financial difficulties of the borrower;
- initiation of litigation, liquidation or bankruptcy proceedings of the borrower.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenants;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Group; and
- based on data obtained from external sources;
- start of liquidation or bankruptcy procedure for the borrower.

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

3 Significant accounting policies (continued)

The rate of recovery

The Group sets a certain period necessary to restore the quality of financial assets. The terms of the quality recovery period are deemed to be fulfilled if, during a 6-months period from the date the Group introduces measures to restore the ability of the counterparty to fulfil its obligations, there are no signs of impairment, compliance with obligations to the Group is ensured.

Significant increase in credit risk

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

When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

The Group primarily identify whether a significant increase in credit risk has occurred for an exposure by analyzing indicators that are:

- the borrower is more than 30 days past due but less than 90 days past due on any material credit obligation to the Group. Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding;
- breaches of covenant, the identification of threatening features that are likely to affect the quality of debt service;
- based on data developed internally and obtained from external sources;
- the period of credit quality restoration has ended and there are no prerequisites for attributing them to impaired ones after restructuring (forbearance);
- the value of the LtV (loans to collateral ratio) exceeds 200% (for individual mortgages);
- for banks a significant increase in credit risk occurs if the borrowers' rating has declined by 3 notches.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired

Inputs into measurement of ECLs

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

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

These parameters are derived from internally developed statistical models and other historical data used in models for calculating regulatory capital. They are adjusted to reflect forward-looking information.

PD estimates are estimates at a certain date, which are calculated based on statistical models and assessed using tools tailored to the various categories of counterparties and exposures. PD estimates are based on migration matrices, which are based on the type of credit product and payment periods.

3 Significant accounting policies (continued)

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties after the default date.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is the gross carrying amount at default.

For lending commitments and financial guarantees, the EAD considers the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period.

For overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECLs over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period.

These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

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

- instrument type;
- client type;
- period of debt overdue;
- geographic location of the borrower;
- loan currency.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD. The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Forward-looking information

The Group incorporates forward-looking information into its measurement of ECLs. This assessment is based on external information. External information may include economic data and forecasts published by governmental bodies, and selected private sector and academic forecasters, such as of Ministry of Economic Development and Trade of Ukraine, State Statistics Service of Ukraine, National Bank of Ukraine.

The Group also periodically carries out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variable and credit risk and credit losses. This key driver is forecasts of real GDP change, forecasts of unemployment and dynamics of the calculated wages, including per 1 employee.

3 Significant accounting policies (continued)

The following macro-economic variables are used in base scenario in estimation of expected credit losses on loans and advances to customers as at 31 December 2019:

Macroeconomic indicator	01.01.2020	01.01.2021	01.01.2022	01.01.2023
Accrued wages of employees (in % to prior period)	122,30	121,60	116,45	113,16
Monthly average wages per 1 employee (in % to prior year)	119,90	120,40	115,30	114,30
Real GDP change (in % to prior period)	2,90	4,20	4,90	5,30
Change in the GDP volume index per 1 person	3,34	4,83	5,64	6,10
Gross capital accumulation by type of non-financial assets (in % to prior period)	14,31	24,00	27,00	25,00

As at 31 December 2019 the Group incorporates 3 forward-looking scenarios, weighted by 15.9% for optimistic, 68.2% for base and 15.9% for pessimistic scenarios.

Collateral

When calculating the amount of expected credit losses for the credit-impaired assets, the Group accepts the value of a collateral that meets the established eligibility criteria established by the Group and determined by the regulator as a means of credit quality improving.

Write-off

Write-off of the gross carrying amount of a financial instrument at the expense of the current allowance is recognized after its recognition as uncollectible, the existence of the allowance for expected credit losses, and the simultaneous fulfilment of other prerequisites defined by the requirements of the current legislation of Ukraine and the internal regulatory documents of the Group. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Reimbursement of amounts written-off previously are included in the “Estimation of expected credit losses” in the consolidated statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision as part of Other financial liabilities;
- *where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

3 Significant accounting policies (continued)

i) Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method during the period from the date of initial recognition to the date of derecognition or reclassification of financial instruments. The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset; or the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

Credit-adjusted effective interest rate – is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the amortised value of the financial asset which is purchased or originated credit-impaired asset. When calculating the credit-adjusted effective interest rate, the Group estimates all contractual terms of the financial asset and expected credit losses.

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

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

Interest income is calculated by applying the effective interest rate applied to the gross carrying amount of the financial asset at amortised cost except:

- purchased or originated credit-impaired assets. For such assets interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset from the date of initial recognition; the calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.
- financial assets which are not purchased or originated credit-impaired assets, but subsequently have become credit-impaired. In this case, the Group applies effective interest rate to the amortised cost of the asset in the subsequent reporting periods after the date of their recognition as credit-impaired. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Information on when financial assets become credit-impaired is described in Note 3(h).

The effective interest rate is revised as a result of periodic reestimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

Presentation

Interest income calculated using the effective interest method presented in the consolidated statement of profit or loss and other comprehensive income includes:

- interest income calculated using the effective interest method on financial assets measured at amortised cost;
- interest calculated using the effective interest method on debt instruments measured at FVOCI.

Other interest income presented in the consolidated statement of profit and loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL and net investments in finance leases.

Interest expense presented in the consolidated statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

3 Significant accounting policies (continued)

j) Fee and commission income and expense

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Commission income on credit related commitments at market rates are integral part of effective interest rate, if it is probable that the Group will enter into a specific loan agreement and will not plan to realize the loan within a short period of time after it is provided. If there is no high probability that it will be issued to the borrower within the framework of the loan commitment, then the commission fees for the loan are recognized evenly over the duration of the loan commitment.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

All other payments, commission and other income and expenses are generally accounted for using the accrual method depending on the degree of completeness of the particular transaction, which is defined as the proportion of the actual service provided in the total amount of services to be provided. Other commission income, including commission fee for servicing accounts, remuneration for investment management services, other commission fees, are recognized as the services are provided.

Commissions due to negotiation or participation in third-party transaction negotiations (for example, purchase of loans, shares or other securities, or acquisition or sale of companies) that the Group earns upon completion of the transaction are recognised after the completion of the transaction.

k) *Cash and cash equivalents*

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include unrestricted balances with the NBU, deposit certificates and all interbank placements with original maturities of less than three months. Funds restricted are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

l) *Due from other banks*

Due from other banks are accounted for when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from banks are carried at amortised cost.

m) Loans and advances to customers

'Loans and advances to customers' caption in the consolidated statement of financial position includes:

- loans to customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- finance lease receivables.

n) Investment securities

The 'investment securities' caption in the consolidated statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

o) Due to other banks, Customer accounts, due to other financial institutions and debt securities

Due to other banks, customer accounts, due to other financial institutions and debt securities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method (see Note 3(d)).

3 Significant accounting policies (continued)

p) Financial guarantees and loan commitments

The Group has credit related commitments including loan commitments, letters of credit and financial guarantees. Financial guarantees – are non-cancellable guarantee to make payments in the case when a client fails to fulfil its obligations to third parties. Financial guarantees has the same risk as loans.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 3(h)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The Group has issued no loan commitments that are measured at FVTPL. For other loan commitments the Group recognises a loss allowance (Note 3(h)).

Liabilities arising from financial guarantees and loan commitments are included within provisions.

q) Other captions of the consolidated statement of financial position

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognized at fair value when acquired (but not higher than carrying value of the settled overdue loans) and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently accounted for in accordance with the accounting policies for these categories of assets.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both. Investment property includes assets under construction for future use as investment property.

The same property can be divided into structurally separated parts used for different purposes: one part – to receive rental income or equity increase; the other part – for using in the Group's activity or for administrative purposes.

Investment property is initially recognised at cost of acquisition, including transaction costs, and subsequently remeasured at fair value to reflect market conditions at the end of the reporting period.

Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. The fair value of the Group's investment property is determined based on reports of the internal appraiser who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. The basis used for the valuation was market value.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Premises, leasehold improvements and equipment. Premises, leasehold improvements and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Since 2012, land and buildings are accounted for under the revaluation model. At the date of revaluation accumulated depreciation of buildings was eliminated against the gross carrying amount of the asset and the net amount was recalculated to the revalued amount of the asset.

3 Significant accounting policies (continued)

Buildings held by the Group are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of profit or loss and other comprehensive income, in which case the increase is recognised in the consolidated statement of profit or loss and other comprehensive income. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for buildings included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset and through annual amortization of the revaluation reserve.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises, leasehold improvements and equipment. If any such indication exists, management 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 or 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).

Depreciation. Land and construction in progress are not depreciated. Depreciation of premises, leasehold improvements and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives, years
Premises	70
Furniture and fixtures	5-15
Motor vehicles	7
Computers and equipment	5-15
Leasehold improvements	over the term of the underlying lease

Intangible assets. The Group's intangible assets have the definite useful life and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an 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 is amortised on a straight line basis over expected useful lives of no more than 10 years.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in profit or loss for the year 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 administrative and other operating expenses.

3 Significant accounting policies (continued)

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 end of the reporting period date which are expected to apply to the period when the temporary differences will reverse. 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.

Deferred income tax is not recognized for retained earnings after acquisition or other changes in the reserves of subsidiaries whose dividend policy is controlled by the Group if it is quite probable that the difference will not be repaid through dividends or otherwise in the future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of each reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Staff costs. Wages, salaries, contributions to the Ukrainian state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

r) Foreign currency translation

The functional currency of the Bank and its subsidiary is the currency of the economic environment in which the Bank and its subsidiary operate. The functional and presentation currency is the national currency of Ukraine, hryvnias.

Monetary assets and liabilities are translated into the functional currency at the official exchange rate of the NBU at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the NBU are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The principal rates of exchange used for translating foreign currency balances were as follows:

	31 December 2019, UAH	**31 December 2018, UAH**
1 US Dollar (USD)	23,6862	27,6883
1 Euro (EUR)	26,4220	31,7141
1 zloty (PLN)	6,1943	7,3706
1 Russian Ruble (RUB)	0,3816	0,3983

3 Significant accounting policies (continued)

s) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to management being the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately in these consolidated financial statements based on the ultimate domicile of the counterparty. The ultimate domicile and the actual place of business of the counterparties generally coincide.

u) Changes in accounting policies

(i) Initial adoption of IFRS 16 Leases

The Group initially applied *IFRS 16 Leases* from 1 January 2019.

The Group applied IFRS 16 using the modified retrospective approach. At the date of initial application on January 1, 2019, the Group recognizes the lease liabilities at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee, the Group leases many assets including property, production equipment and IT equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of property, where lease and non-lease components cannot be separated, the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under IAS 17

Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all other leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

3 Significant accounting policies (continued)

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognize right-of-use assets and liabilities for leases of low value assets (e.g. renting area for ATMs).

Leases classified as finance leases under IAS 17

The Group leases a number of items of production equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

As a lessor

The Group leases out its investment property, including right-of-use assets. The Group has classified these leases as operating leases.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease.

The Group sub-leases some of its properties. Under IAS 17, the head main and sub-lease contracts were classified as operating leases. On transition to IFRS 16, the right-of-use assets recognized from the main leases are presented in investment property, and measured at fair value at that date. The Group assessed the classification of the sub-lease contracts with reference to the right-of-use asset rather than the underlying asset, and concluded that they are operating leases under IFRS 16.

Impact on consolidated financial statements

On transition to IFRS 16, the Group recognized additional right-of-use assets and additional lease liabilities, without recognizing the difference in retained earnings. The impact on transition is summarized below:

In thousands of hryvnias	**1 January 2019**
Right-of-use assets – premises and equipment	104 296
Lease liabilities	108 581

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 17,75%.

In thousands of hryvnias	**1 January 2019**
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	**165 191**
Discounted using the incremental borrowing rate at 1 January 2019	127 208
Recognition exemption for leases of low-value assets	(3 295)
Recognition exemption for leases with less than 12 months of lease term at transition	(15 332)
Lease liabilities recognised at 1 January 2019	**108 581**

Policy applicable before 1 January 2019

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

3 Significant accounting policies (continued)

(ii) Interest income on credit-impaired loans

Following the IFRIC decision finalized in March 2019 on presentation of the unwinding of the discount following the curing of a credit-impaired financial asset, the Group changed the presentation for 2018 by reclassifying the effect of unwinding of the discount on present value of ECL in the amount of UAH 23 255 thousand for the cured credit-impaired financial assets into the 'Estimation of expected credit losses' line item. Previously, the effect was disclosed under the "Interest income calculated using the effective interest method' line item.

(iii) Changes in accounting policies for POCI assets

In December 2019, a decision of the Group's management made changed the methodology for recognizing initially impaired assets in terms of lifting restrictions on the use of qualitative criteria for modifying financial instruments. Namely: previously for the borrowers in financial difficulties substantial modification due to the "a) change of the currency" and "b) replacement of the borrower" did not result in the asset being recognized as POCI at the point of initial recognition, if the purpose of the restructuring was to obtain the debt repayment as soon as possible. Also, the Group started to apply 10% quantitative threshold for evaluation on whether the modification is substantial, i.e. the modification is considered to be substantial if the present value of the cash flows under the new terms, discounted using the original effective interest rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset. For credit-impaired financial assets a substantial modification results in the new asset being recognized as POCI.

Changes described above are applied by the Group since January 2020. The Management believes that retrospective application of changes in the criteria applied to the modification of financial instruments would not have a material effect on the structure of the Group's financial results.

Had the Group applied the new accounting policy retrospectively, as at 31 December 2019, the gross carrying amount of Stage 3 loans would have been reduced by UAH 55 748 thousand (expected credit losses would have been reduced by UAH 48 476 thousand), Stage 2 loans – by UAH 6 593 thousand (expected credit losses – by UAH 457 thousand), Stage 1 loans – by UAH 797 thousand (expected credit losses – by UAH 14 thousand). Accordingly, the amount of POCI assets would have been increased by UAH 14 191 thousand.

Had the Group applied the new accounting policy retrospectively, as at 31 December 2018, the gross carrying amount of Stage 3 loans would have been reduced by UAH 95 212 thousand (expected credit losses would have been reduced by UAH 78 103 thousand), Stage 1 loans – by UAH 8 671 thousand (expected credit losses – by UAH 239 thousand). Accordingly, the amount of POCI assets would have been increased by UAH 25 541 thousand.

3 Significant accounting policies (continued)

v) Presentation of consolidated statement of financial position in order of liquidity

The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the consolidated statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. The following table provides information for each line item in the consolidated statement of financial position which combines contractual amounts to be recovered or settled.

	31 December 2019			31 December 2018		
	Amounts to be recovered or settled per contract			Amounts to be recovered or settled per contract		
In thousands of hryvnias	Within 12 months after the reporting period	After 12 months after the reporting period	Total	Within 12 months after the reporting period	After 12 months after the reporting period	Total
Assets						
Cash and cash equivalents	2 923 310	-	2 923 310	2 157 346	-	2 157 346
Due from other banks	7 438	-	7 438	8 436	-	8 436
Loans and advances to customers	5 352 203	6 342 743	11 694 946	4 453 697	5 193 864	9 647 561
Investment securities	1 844 430	1 228 150	3 072 580	2 591 782	1 191 502	3 783 284
Current income tax prepayment	84	-	84	150	-	150
Deferred income tax asset	-	32 560	32 560	-	30 496	30 496
Investment property	-	28 506	28 506	-	22 170	22 170
Intangible assets	-	137 341	137 341	-	103 281	103 281
Premises, leasehold improvements and equipment	-	1 070 912	1 070 912	-	871 152	871 152
Other financial assets	70 042	-	70 042	48 151	1 233	49 384
Other assets	109 653	50	109 703	122 789	-	122 789
Total assets	**10 307 160**	**8 840 262**	**19 147 422**	**9 382 351**	**7 413 698**	**16 796 049**
Liabilities						
Due to other banks	1 612 017	-	1 612 017	2 281 407	-	2 281 407
Customer accounts	13 817 986	134 473	13 952 459	11 861 944	91 200	11 953 144
Due to other financial institutions	268 727	216 229	484 956	165 851	-	165 851
Debt securities	29 592	249 878	279 470	304 076	-	304 076
Current income tax liabilities	36 148	-	36 148	12 900	-	12 900
Other financial liabilities	159 838	80 245	240 083	147 581	6	147 587
Other non-financial liabilities	143 238	-	143 238	137 766	-	137 766
Total liabilities	**16 067 546**	**680 825**	**16 748 371**	**14 911 525**	**91 206**	**15 002 731**

w) Other standards

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

– *Amendments to References to Conceptual Framework in IFRS Standards.*

– *Definition of a Business (Amendments to IFRS 3).*

– *Definition of Material (Amendments to IAS 1 and IAS 8).*

– *IFRS 17 Insurance Contracts.*

4 Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities. 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 also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements with the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities include:

- ***Financial assets classification:*** an assessment of business model in which assets are held and an assessment whether the contractual cash flows of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3 (d).

- ***Expected credit losses (impairment) of financial instruments:*** an assessment whether there has been a significant increase in credit risk compared to the date of initial recognition, and including forward-looking information in the measurement of expected credit losses – Note 3 (h).

- ***Buildings assessment.*** As noted in Note 3, buildings held by the Group are subject to revaluation with sufficient regularity. The revaluation was carried out by the internal appraiser who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. The valuation was based on a comparative sales method. In making the valuation, certain judgments were used, in particular to determine such premises, in determining the value by the method of comparing sales prices.

  The Group's premises were revaluated at market value as at 31 December 2019. The valuation was based on a comparative sales method and was carried out by the internal appraiser who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. For each real estate property several comparables were selected based on the following criteria: location, type, condition and size. Adjustments were applied for a price representing an offer rather than an actual transaction (bargain discount), location, size, floor and condition and other adjustments. Bargain discount applied by the internal appraiser was usually in the range from 10% to 15%. Other adjustments applied by the internal valuator were usually in the range from 10% to 15%. The evaluator used only a comparative method to evaluate all objects of property, plant and equipment.

  Changes in such assumptions may affect the fair value of the assets. If the price per square meter differs by 10%, the fair value of buildings will increase / decrease by UAH 31 018 thousand (in 2018 - by UAH 26 900 thousand).

- ***Definition of terms under leases.*** The Group considers all available facts and circumstances that give rise to an economic incentive to exercise the extension options. The Group determines the total lease term based on the option to extend the lease and terminate the longer lease term. Where practicable, the Group seeks to include renewal options in new leases to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise extension options. As a result, the lease term for most lease objects is 2-7 years.

5 Cash and cash equivalents

In thousands of hryvnias	**2019**	**2018**
Cash on hand	563 204	463 881
Cash balances on correspondent accounts with the NBU	621 498	470 312
Correspondent accounts with other banks	1 287 912	972 855
Deposit certificates issued by the NBU	450 831	250 460
Loss allowances for expected credit losses	(135)	(162)
Total cash and cash equivalents	**2 923 310**	**2 157 346**

As at 31 December 2019 and 2018 the Bank was in compliance with the mandatory reserve requirements.

5 Cash and cash equivalents (continued)

As at 31 December 2019, the Group's cash and cash equivalents for the purposes of the consolidated statement of cash flows amounted to UAH 2 923 310 thousand (as at 31 December 2018: UAH 2 157 346 thousand).

Interest rate analysis of cash and cash equivalents is disclosed in Note 29. Information on related party balances is disclosed in Note 35.

The credit quality of cash and cash equivalents based on Moody's ratings is summarised as follows:

In thousands of hryvnias	2019	2018
Cash balances on correspondent accounts with the NBU	**621 498**	**470 312**
Deposit certificates issued by the NBU	**450 831**	**250 460**
Correspondent accounts with other banks:		
- Aa1 - Aa3 rated	929 743	829 002
- A1 - A3 rated	309 844	119 581
- Baa1 - Baa3 rated	16 841	5 179
- Ba1 - Ba3 rated	5 073	3 991
- Unrated	26 411	15 102
Loss allowances for expected credit losses	**(135)**	**(162)**
Total cash and cash equivalents, excluding cash funds	**2 360 106**	**1 693 465**

As at 31 December 2019, the Group had a concentration of balances on current accounts with other credit institutions of UAH 1 051 959 thousand due from three largest banks with credit ratings of investment grade (as at 31 December 2018 – UAH 885 754 thousand).

The movements in expected credit losses are as follows:

In thousands of hryvnias	Note	2019	2018
Loss allowances for expected credit losses at 1 January		**162**	**1 800**
Remeasurement of loss allowance	23	(22)	132
Financial assets that have been derecognised	23	-	(548)
New financial assets originated	23	-	1
Write-offs		-	(963)
Effect of exchange rate of foreign currency		(5)	(260)
Loss allowances for expected credit losses at 31 December		**135**	**162**

6 Due from other banks

In thousands of hryvnias	2019	2018
Guarantee deposits	4 517	3 387
Loans from banks	3 025	5 211
Loss allowances for expected credit losses	(104)	(162)
Total due from other banks	**7 438**	**8 436**

Guarantee deposits include assets placed mostly as guarantee deposits for card settlements and transfers, as well as a documentary transaction. Loans due from banks are short-term loans to other banks with initial term of payment over 90 days.

Amounts due from other banks are not collateralised. The credit quality of due from banks outstanding as at 31 December 2019 is below. This analysis is based on Moody's ratings.

In thousands of hryvnias	Loans from banks	Guarantee deposits	Total
Assets with 12-month expected credit losses - Stage 1			
- Unrated	3 025	4 517	7 542
Loss allowances for 12-months expected credit losses	(66)	(38)	(104)
Total due from other banks	**2 959**	**4 479**	**7 438**

6 Due from other banks (continued)

The credit quality of due from banks outstanding as at 31 December 2018 based on Moody's ratings is as follows:

In thousands of hryvnias	Loans from banks	Guarantee deposits	Total
Assets with 12-month expected credit losses - Stage 1			
- Unrated	5 211	3 387	8 598
Loss allowances for 12-months expected credit losses	(132)	(30)	(162)
Total due from other banks	**5 079**	**3 357**	**8 436**

The movements in expected credit losses during 2019 are as follows:

In thousands of hryvnias	Note	Loans from banks	Guarantee deposits	Total
Loss allowances for 12-months expected credit losses at 1 January 2019 - Stage 1		**132**	**30**	**162**
Remeasurement of loss allowance	23	(618)	-	**(618)**
Financial assets that have been derecognised	23	(270)	-	**(270)**
New financial assets originated	23	822	8	**830**
Loss allowances for 12-months expected credit losses at 31 December 2019 - Stage 1		**66**	**38**	**104**

The movements in expected credit losses during 2018 are as follows:

In thousands of hryvnias	Note	Loans from banks	Guarantee deposits	Total
Loss allowances for 12-months expected credit losses at 1 January 2018 - Stage 1		**191**	**32**	**223**
Remeasurement of loss allowance	23	(5)	(1)	**(6)**
Financial assets that have been derecognised	23	(408)	-	**(408)**
New financial assets originated	23	354	-	**354**
Effect of exchange rate of foreign currency		-	(1)	**(1)**
Loss allowances for 12-months expected credit losses at 31 December 2018 - Stage 1		**132**	**30**	**162**

Refer to Note 34 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 29.

7 Loans and advances to customers

In thousands of hryvnias	**2019**	**2018**
Corporate loans	6 606 667	5 981 571
Loans to individuals - car loans	2 952 955	2 397 813
Loans to individuals - mortgage loans	1 267 471	970 721
Loans to individuals - other consumer loans	1 557 486	978 552
Loss allowances for expected credit losses	(689 633)	(681 096)
Total loans and advances to customers	**11 694 946**	**9 647 561**

7 Loans and advances to customers (continued)

Changes in loss allowances for expected credit losses during 2019 are as follows:

In thousands of hryvnias	Note	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses for not credit-impaired	Stage 3 Lifetime expected credit losses for credit-impaired	Purchased credit-impaired	Total
Loss allowances for expected credit losses at 1 January 2019		**169 392**	**31 819**	**462 119**	**17 766**	**681 096**
Increase from origination of assets during the year	23	166 717	352	1 329	**-**	**168 398**
Net remeasurement of loss allowance for expected credit losses	23	(146 909)	142 002	(66 984)	3 557	**(68 334)**
Write-offs and sales **		(85)	(213)	(137 096)	(1 684)	**(139 078)**
Adjustment for interest income from credit-impaired loans		(104)	-	48 141	28 208	**76 245**
Effect of exchange rate of foreign currency		(3 013)	(300)	(25 381)	-	**(28 694)**
Other movements, including transfers to Stages:		(13 294)	(133 858)	147 152	-	**-**
- transfer from Stage 1		(19 047)	18 314	733	-	**-**
- transfer from Stage 2		5 143	(154 259)	149 116	-	-
- transfer from Stage 3		610	2 087	(2 697)	-	-
Loss allowances for expected credit losses at 31 December 2019		**172 704**	**39 802**	**429 280**	**47 847**	**689 633**

* Remeasurement of loss allowance for expected credit losses includes the following: changes for loans issued during 2019, for which there was a change in the level of expected loan losses from the date of issue to the end of the year; changes in loans issued before 2019 that remained in the portfolio as at 31 December 2019; changes for loans derecognised during the period. The table above discloses the accumulated impact of changes in the level of expected credit losses, including if a significant increase/decrease in credit risk was recognized several times during the year, which resulted in the transfer between stages for several times.

** The amount of loans written off during 2019 is UAH 16 449 thousand.

As at 31 December 2019, loans issued in 2019 and outstanding as at 31 December 2019 amounted to UAH 6 930 624 thousand (56% of loans and advances to customers as at 31 December 2019), including corporate loans – UAH 3 794 173 thousand (31% of loans and advances to customers as at 31 December 2019), out of which 73% of loans have initial maturity up to 2 years and due to short term nature the days of debt overdue is the most significant criterion for significant increase of credit risk for such loans. Credit quality of corporate loans and advances increases, therefore new loan grantings exceed loan repayments of outstanding exposures. As at 31 December 2019 UAH 3 232 723 thousand of loans outstanding as at 1 January 2019 were fully repaid (31%), including loans in Stage 1 – UAH 3 127 925 thousand (loss allowance as at 31 December 2018 amounted to UAH 55 676 thousand).

7 Loans and advances to customers (continued)

Changes in loss allowances for expected credit losses during 2018 are as follows:

In thousands of hryvnias	Note	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses for not credit-impaired	Stage 3 Lifetime expected credit losses for credit-impaired	Purchased credit-impaired	Total
Loss allowances for expected credit losses at 1 January 2018		**207 801**	**10 529**	**681 393**	**15 078**	**914 801**
Increase from origination of assets during the year	23	186 855	11	2 362	-	**189 228**
Net remeasurement of loss allowance for expected credit losses	23	(284 452)	127 119	12 521	(4 809)	**(149 621)**
Write-offs		(55)	(38)	(301 479)	(7 036)	**(308 608)**
Adjustment for interest income from credit-impaired loans		(516)	(78)	26 545	396	**26 347**
Effect of exchange rate of foreign currency		(803)	29	(4 414)	-	**(5 188)**
Repayment of POCI assets in excess of initial loss recognised		-	-	-	14 137	**14 137**
Other movements, including transfers to Stages:		60 562	(105 753)	45 191	-	**-**
- transfer from Stage 1		(19 520)	18 098	1 422	-	**-**
- transfer from Stage 2		50 663	(127 471)	76 808	-	**-**
- transfer from Stage 3		29 419	3 620	(33 039)	-	**-**
Loss allowances for expected credit losses at 31 December 2018		**169 392**	**31 819**	**462 119**	**17 766**	**681 096**

* Remeasurement of loss allowance for expected credit losses includes the following: changes for loans issued during 2018, for which there was a change in the level of expected credit losses from the date of issue to the end of the year; changes in loans issued before 2018 that remained in the portfolio as at 31 December 2018; changes for loans derecognised during the period. The table above discloses the accumulated impact of changes in the level of expected credit losses, including if a significant increase/decrease in credit risk was recognized several times during the year, which resulted in the transfer between stages for several times.

As at 31 December 2018, loans issued in 2018 amounted to UAH 5 728 549 thousand (55% of loans and advances to customers as at 31 December 2018), including corporate loans – UAH 3 287 446 thousand (32% of loans and advances to customers as at 31 December 2018), out of which 71% of loans have initial maturity up to 2 years and due to short term nature the days of debt overdue is the most significant criterion for significant increase of credit risk for such loans. Credit quality of corporate loans and advances increases, therefore new loan grantings exceed loan repayments of outstanding exposures. As at 31 December 2018 UAH 3 092 919 thousand of loans outstanding as at 1 January 2018 were fully repaid (35%). As a result release of allowance due to repayment of old loans results in greater release of allowance than additional ECL charge on new loan grantings.

During 2019 the Group made the assignment of claims of clients debts in the amount of UAH 200 073 thousand (during 2018 - UAH 101 554 thousand). At the time of the assignment, the net carrying amount was UAH 70 955 thousand (2018 – UAH 6 396 thousand).

During 2018 the Group purchased credit-impaired loans amounted to UAH 294 108 thousand at a price of UAH 21 578 thousand. The aggregate amount of undiscounted expected credit losses for credit-impaired financial assets at the time of initial recognition is UAH 272 530 thousand.

The amount of loans that were written off during 2019, but remain the subject of enforcement activity, is UAH 16 449 thousand (in 2018 - UAH 217 170 thousand).

7 Loans and advances to customers (continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2019		2018	
In thousands of hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	5 777 912	47	4 347 086	42
Agriculture and food processing	2 339 252	19	2 030 938	20
Trade	1 687 999	14	1 592 813	15
Manufacturing	1 525 263	12	1 504 938	15
Other services	546 690	4	404 414	4
Real estate and construction	214 690	2	125 966	1
Transportation	154 194	1	131 625	1
Mining	40 805	-	17 723	-
Health resorts	4 220	-	88 146	1
Hotels	1 358	-	16 050	-
Sports and recreation services	398	-	558	-
Financial services	444	-	243	-
Other	91 354	1	68 157	1
Total loans and advances to customers (before expected credit losses)	**12 384 579**	**100**	**10 328 657**	**100**

As at 31 December 2019, the total gross carrying value of top 10 borrowers of the Group was UAH 741 156 thousand (31 December 2018: UAH 705 294 thousand), or 6% of the loan portfolio before expected credit losses (31 December 2018: 7% of the loan portfolio before impairment).

As at 31 December 2019, loans and advances to customers in the amount of UAH 317 765 thousand (31 December 2018: UAH 374 753 thousand) were secured by deposits in the amount of UAH 368 141 thousand (31 December 2018: UAH 435 232 thousand). Refer to Note 14 and Note 29.

7 Loans and advances to customers (continued)

Credit quality analysis of the loans outstanding as at 31 December 2019 is presented below:

In thousands of hryvnias	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses for not credit-impaired	Stage 3 Lifetime expected credit losses for credit-impaired	Purchased credit-impaired	Total
Corporate loans					
- not yet past due	6 121 410	10 078	83 745	-	**6 215 233**
- less than 30 days overdue	73 255	6 221	5 879	-	**85 355**
- 30 to 90 days overdue	-	14 643	30 733	-	**45 376**
- 91 to 180 days overdue	-	150	73 059	-	**73 209**
- 181 to 360 days overdue	-	206	25 156	-	**25 362**
- over 360 days overdue	-	-	162 132	-	**162 132**
Loss allowances for expected credit losses	(46 563)	(4 472)	(214 775)	-	**(265 810)**
Carrying value of the loans to legal entities	**6 148 102**	**26 826**	**165 929**	**-**	**6 340 857**
Loans to individuals - car loans					
- not yet past due	2 728 160	753	13 540	-	**2 742 453**
- less than 30 days overdue	68 756	-	3 545	-	**72 301**
- 30 to 90 days overdue	1 065	29 741	5 929	-	**36 735**
- 91 to 180 days overdue	-	-	26 575	-	**26 575**
- 181 to 360 days overdue	-	-	28 973	-	**28 973**
- over 360 days overdue	-	-	45 918	-	**45 918**
Loss allowances for expected credit losses	(29 725)	(12 115)	(69 257)	-	**(111 097)**
Carrying value of the car loans to individuals	**2 768 256**	**18 379**	**55 223**	**-**	**2 841 858**
Loans to individuals - mortgage loans					
- not yet past due	1 149 803	17 711	21 221	-	**1 188 735**
- less than 30 days overdue	5 640	-	786	-	**6 426**
- 30 to 90 days overdue	-	8 661	5 497	-	**14 158**
- 91 to 180 days overdue	-	23	9 963	-	**9 986**
- 181 to 360 days overdue	-	-	17 153	-	**17 153**
- over 360 days overdue	-	-	31 013	-	**31 013**
Loss allowances for expected credit losses	(19 740)	(4 828)	(45 532)	-	**(70 100)**
Carrying value of mortgage loans to individuals	**1 135 703**	**21 567**	**40 101**	**-**	**1 197 371**
Loans to individuals - other consumer loans					
- not yet past due	1 323 956	504	7 495	791	**1 332 746**
- less than 30 days overdue	52 595	-	1 959	50	**54 604**
- 30 to 90 days overdue	421	26 234	3 745	95	**30 495**
- 91 to 180 days overdue	-	449	27 742	227	**28 418**
- 181 to 360 days overdue	-	72	48 339	341	**48 752**
- over 360 days overdue	-	4	14 368	48 099	**62 471**
Loss allowances for expected credit losses	(76 676)	(18 387)	(99 716)	(47 847)	**(242 626)**
Carrying value of other consumer loans to individuals	**1 300 296**	**8 876**	**3 932**	**1 756**	**1 314 860**
Total loans and advances to customers	**11 352 357**	**75 648**	**265 185**	**1 756**	**11 694 946**

7 Loans and advances to customers (continued)

Credit quality analysis of the loans outstanding as at 31 December 2018 is presented below:

In thousands of hryvnias	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses for not credit-impaired	Stage 3 Lifetime expected credit losses for credit-impaired	Purchased credit-impaired	Total
Corporate loans					
- not yet past due	5 464 464	2 409	114 045	-	**5 580 918**
- less than 30 days overdue	47 440	27 545	4 538	-	**79 523**
- 30 to 90 days overdue	145	25 302	2 297	-	**27 744**
- 91 to 180 days overdue	-	16	3 686	-	**3 702**
- 181 to 360 days overdue	-	2	11 643	-	**11 645**
- over 360 days overdue	-	11	278 028	-	**278 039**
Loss allowances for expected credit losses	(47 308)	(7 365)	(293 312)	-	**(347 985)**
Carrying value of the loans to legal entities	**5 464 741**	**47 920**	**120 925**	**-**	**5 633 586**
Loans to individuals - car loans					
- not yet past due	2 258 351	52	9 111	-	**2 267 514**
- less than 30 days overdue	42 498	-	2 161	-	**44 659**
- 30 to 90 days overdue	-	19 252	6 614	-	**25 866**
- 91 to 180 days overdue	-	-	11 561	-	**11 561**
- 181 to 360 days overdue	-	-	22 360	-	**22 360**
- over 360 days overdue	-	-	25 853	-	**25 853**
Loss allowances for expected credit losses	(29 892)	(8 492)	(46 663)	-	**(85 047)**
Carrying value of the car loans to individuals	**2 270 957**	**10 812**	**30 997**	**-**	**2 312 766**
Loans to individuals - mortgage loans					
- not yet past due	881 322	228	37 088	-	**918 638**
- less than 30 days overdue	5 436	-	1 671	-	**7 107**
- 30 to 90 days overdue	-	5 167	2 319	-	**7 486**
- 91 to 180 days overdue	-	-	2 051	-	**2 051**
- 181 to 360 days overdue	-	214	4 682	-	**4 896**
- over 360 days overdue	-	-	30 543	-	**30 543**
Loss allowances for expected credit losses	(22 848)	(2 641)	(47 855)	-	**(73 344)**
Carrying value of mortgage loans to individuals	**863 910**	**2 968**	**30 499**	**-**	**897 377**
Loans to individuals - other consumer loans					
- not yet past due	813 241	3	6 554	1 252	**821 050**
- less than 30 days overdue	41 692	10	1 501	116	**43 319**
- 30 to 90 days overdue	477	18 402	2 106	160	**21 145**
- 91 to 180 days overdue	-	803	19 373	77	**20 253**
- 181 to 360 days overdue	-	146	31 749	624	**32 519**
- over 360 days overdue	-	10	18 257	21 999	**40 266**
Loss allowances for expected credit losses	(69 344)	(13 321)	(74 289)	(17 766)	**(174 720)**
Carrying value of other consumer loans to individuals	**786 066**	**6 053**	**5 251**	**6 462**	**803 832**
Total loans and advances to customers	**9 385 674**	**67 753**	**187 672**	**6 462**	**9 647 561**

7 Loans and advances to customers (continued)

The Group classifies loans and advances to customers by credit quality based on the borrower's financial condition and ability to service the debt.

Information on collateral as at 31 December 2019 is summarised below:

In thousands of hryvnias	Corporate loans	Car loans	Mortgage loans	Consumer loans	Total
Unsecured loans	754 164	263 904	20 147	1 553 287	**2 591 502**
Loans collateralised by:	-	-	-	-	
- cash deposits	317 765	-	-	-	**317 765**
- residential real estate	134 394	-	1 165 870	344	**1 300 608**
- other real estate	2 264 787	-	57 365	-	**2 322 152**
- other assets	3 135 557	2 689 051	24 089	3 855	**5 852 552**
Total loans and advances to customers (before expected credit losses)	**6 606 667**	**2 952 955**	**1 267 471**	**1 557 486**	**12 384 579**

Information on collateral as at 31 December 2018 is summarised below:

In thousands of hryvnias	Corporate loans	Car loans	Mortgage loans	Consumer loans	Total
Unsecured loans	578 295	118 558	21 082	974 578	**1 692 513**
Loans collateralised by:					
- cash deposits	374 544	-	-	209	**374 753**
- residential real estate	134 570	-	877 915	2 163	**1 014 648**
- other real estate	2 107 115	-	48 486	219	**2 155 820**
- other assets	2 787 047	2 279 255	23 238	1 383	**5 090 923**
Total loans and advances to customers (before expected credit losses)	**5 981 571**	**2 397 813**	**970 721**	**978 552**	**10 328 657**

The information on the collateral in the table above includes financial lease receivables. Namely, as at 31 December 2019 in the amount of loans secured by other assets, included financial lease receivables from legal entities in the amount of UAH 722 246 thousand (as at 31 December 2018 - UAH 451 112 thousand) and UAH 9 353 thousand - individuals (car loans) (as at 31 December 2018 – UAH 7 540 thousand).

As at 31 December 2019 mortgage loans amounted to UAH 59 460 thousand are foreign currency mortgage loans and are subject to the specific requirements of the Ukrainian legislation on collateral (2018: UAH 79 993 thousand).

Other assets mainly include equipment, other movable property and property rights for future real estate. The disclosure above represents the lower of the carrying value of the loan or fair value of collateral taken as at 31 December, depending on what is the lowest amount; the remaining part is disclosed within the unsecured exposures. The carrying value of the loans was allocated based on liquidity of the assets taken as collateralised.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements exceed its carrying value ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements equal to their carrying value or are lower than their carrying value ("under-collateralised assets"). The analysis below covers only the individually impaired loans.

The effect of collateral on individually impaired loans as at 31 December 2019 is summarised below:

	Over-collateralised assets		Under-collateralised assets	
In thousands of hryvnias	Carrying value of the assets	Fair value of collateral, adjusted for discounts and expected disposal terms	Carrying value of the assets	Fair value of collateral, adjusted for discounts and expected disposal terms
Corporate loans	110 476	175 542	49 390	32 857
Mortgage loans	1 575	2 953	20 844	12 413
Consumer loans	-	-	-	-
Car loans	2 165	3 242	788	581
Total	**114 216**	**181 737**	**71 022**	**45 851**

7 Loans and advances to customers (continued)

The effect of collateral on individually impaired loans as at 31 December 2018 is summarised below:

	Over-collateralised assets		**Under-collateralised assets**	
In thousands of hryvnias	**Carrying value of the assets**	**Fair value of collateral, adjusted for discounts and expected disposal terms**	**Carrying value of the assets**	**Fair value of collateral, adjusted for discounts and expected disposal terms**
Corporate loans	78 628	122 584	38 358	28 763
Mortgage loans	5 712	10 096	12 318	6 612
Consumer loans	-	-	-	-
Car loans	3 101	4 691	849	797
Total	**87 441**	**137 371**	**51 525**	**36 172**

For other commercial loans without specifically identified impairment, the fair value of collateral was estimated at the inception of the loans and is adjusted for subsequent changes in value once a year in line with the significant market changes in value for real estate or for other pledged assets in accordance with the Group's policies and procedures.

The fair value of collateral is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, discounted for the time required for its recovery and disposal. This amount includes possible costs of debt recovery through the foreclosure such as court expenses, disposal costs and other costs related to debt recovery through the foreclosure.

The fair value of real estate properties at the end of the reporting period is based on the actual expert opinion of the firm of independent appraisers engaged by the Group on a contractual basis or by the internal appraiser who holds a relevant qualification certificate, which are not related (affiliates, related parties, associates) to the Group according to the legislation.

The Group's credit risk management policies and procedures are described in Note 29. The maximum credit risk exposure represents the carrying value of loans and advances at the relevant reporting date.

Collateral and other ways to improve the quality of loans and advances are described below.

The Group accepts the following types of collateral:

- Loans to individuals – residential mortgage property and vehicles;
- Loans to legal entities and industrial companies – corporate properties such as premises, shares, accounts receivable and third party guarantees;
- Commercial real estate development – real property for which the financing has been received.

Although collateral might be an important factor to mitigate the credit risk, the Group's policy provides for granting loans primarily based on the customer's creditworthiness rather than the proposed collateral value. Depending on the customer's condition and banking product, loans may be issued without taking collateral.

Included to loans are finance lease receivables. The table below summarizes reconciliation between gross investments in lease and present value of minimal lease payments as at 31 December 2019:

In thousands of hryvnias	**Gross investment in lease**	**Present value of minimum lease payments**	**Unrealized financial income**
Finance lease receivables			
- less than 1 year	457 951	380 849	77 102
- from 1 to 5 years	447 778	354 508	93 270
- over 5 years	1 282	849	433
Less loss allowances for expected credit losses	**(12 167)**	**(12 167)**	**-**
Total after deduction of loss allowances for expected credit losses	**894 844**	**724 039**	**170 805**

7 Loans and advances to customers (continued)

Included to loans are finance lease receivables. The table below summarizes reconciliation between gross investments in lease and present value of minimal lease payments as at 31 December 2018:

In thousands of hryvnias	**Gross investment in lease**	**Present value of minimum lease payments**	**Unrealized financial income**
Finance lease receivables			
- less than 1 year	263 948	213 103	50 845
- from 1 to 5 years	303 602	242 935	60 667
- over 5 years	3 639	2 614	1 025
Less loss allowances for expected credit losses	**(6 573)**	**(6 573)**	**-**
Total after deduction of loss allowances for expected credit losses	**564 616**	**452 079**	**112 537**

Refer to Note 32 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 29. Information on related party balances is disclosed in Note 35.

Modified financial assets

The table below provides information on financial assets that were modified when the amount of the loss allowance was estimated at an amount equal to the amount of lifetime expected credit losses.

In thousands of hryvnias	**2019**	**2018**
Financial assets modified during the period		
Amortised cost before modification	100 297	161 262
Net modification loss	(643)	(1 591)
Financial assets modified since initial recognition		
Gross carrying amount at 31 December of financial assets for which loss allowance has changed to 12-month measurement during the period	-	23 161

8 Investment securities

In thousands of hryvnias	**31 December 2019**	**31 December 2018**
Investment securities at fair value through other comprehensive income		
Ukrainian government bonds	2 716 749	2 892 610
Corporate shares	10	10
Total investment securities at fair value through other comprehensive income	2 716 759	2 892 620
Investment securities at amortized cost		
Ukrainian government bonds	362 224	913 738
Corporate bonds	23 261	23 261
Loss allowances for expected credit losses	(29 664)	(46 335)
Total investment securities at amortized cost	355 821	890 664
Total investment securities	**3 072 580**	**3 783 284**

As at 31 December 2019, sovereign credit rating of Ukraine assigned by Standard & Poor's is B (31 December 2018: B-).

The Group pledged government bonds with a total nominal value of UAH 108 463 thousand as collateral under loan obtained from the German-Ukrainian Fund, the fair value of bonds provided as collateral as at 31 December 2019 is UAH 113 695 thousand (as at 31 December 2018 – UAH 57 159 thousand) (Note 15).

8 Investment securities (continued)

The movements in amounts of expected credit losses during 2019 are as follows:

In thousands of hryvnias	Note	Investment securities at fair value through other comprehensive income	Investment securities at amortized cost	Total
Ukrainian government bonds				
Loss allowances for 12-months expected credit losses at 1 January 2019 - Stage 1		**52 208**	**23 074**	**75 282**
Repayment and sales of assets during the period	23	(22 433)	(2 864)	**(25 297)**
Increase from acquisition of assets during the period	23	78 143	7 228	**85 371**
Remeasurement of loss allowance *	23	(70 377)	(18 156)	**(88 533)**
Effect of exchange rate of foreign currency		(5 434)	(2 879)	**(8 313)**
Loss allowances for 12-months expected credit losses at 31 December 2019 - Stage 1		**32 107**	**6 403**	**38 510**
Corporate bonds				
Loss allowances for expected credit losses for credit-impaired assets at 1 January 2019 (Stage 3)		-	23 261	**23 261**
Loss allowances for expected credit losses for credit-impaired assets at 31 December 2019 (Stage 3)		**-**	23 261	**23 261**
Total amount of loss allowances for expected credit losses at 31 December 2019		**32 107**	**29 664**	**61 771**

* Remeasurement of loss allowance for expected credit losses includes the changes for investment securities acquired during 2019, for which there was a change in the level of expected credit losses from the date of acquisition to the end of the year, as well as in investment securities purchased until 2019 that remained in the portfolio at 31 December 2019.

During 2019 the Group purchased UAH 5 976 114 thousand of investment securities that resulted in increase of allowance for expected credit losses by UAH 85 371 thousand. During 2019 the group sold and obtained repayment of investment securities for UAH 6 279 347 thousand, that together with changes in credit risk during the period for purchased, repaid and sold instruments resulted in release of allowance for expected credit losses by UAH 113 830 thousand.

The movements in amounts of expected credit losses during 2018 are as follows:

In thousands of hryvnias	Note	Investment securities at fair value through other comprehensive income	Investment securities at amortized cost	Total
Ukrainian government bonds				
Loss allowances for 12-months expected credit losses at 1 January 2018 - Stage 1		**24 502**	**4 415**	**28 917**
Repayment and sales of assets during the period	23	(9 507)	(3 050)	**(12 557)**
Increase from acquisition of assets during the period	23	31 806	15 477	**47 283**
Remeasurement of loss allowance	23	5 656	6 458	**12 114**
Effect of exchange rate of foreign currency		(249)	(226)	**(475)**
Loss allowances for 12-months expected credit losses at 31 December 2018 - Stage 1		**52 208**	**23 074**	**75 282**
Corporate bonds				
Loss allowances for expected credit losses for credit-impaired assets at 1 January 2018 (Stage 3)		-	23 261	**23 261**
Loss allowances for expected credit losses for credit-impaired assets at 31 December 2018 (Stage 3)		**-**	23 261	**23 261**
Total amount of loss allowances for expected credit losses at 31 December 2018		**52 208**	**46 335**	**98 543**

9 Investment property

In thousands of hryvnias	Note	2019	2018
Investment properties at fair value at 1 January		**22 170**	**14 592**
Transfers from real estate occupied by the Group	10	-	8 860
Transfers to real estate occupied by the Group	10	-	(1 269)
Sale		-	(422)
Net change of fair value		6 336	409
Investment properties at fair value at 31 December		**28 506**	**22 170**

As at 31 December 2019 and 31 December 2018, investment properties include commercial premises held by the Group to earn rental income, which were transferred from premises and leasehold improvements.

Information on income from operating lease is disclosed in Note 24.

As at 31 December 2019 and 31 December 2018, fair value of the Group's investment properties was determined based on the reports of internal appraiser who holds the relevant professional qualification and has recent experience in valuation of property of the similar category and location. Valuation is based on market value of assets.

The fair values of investment properties are categorised into Level 3 of the fair value hierarchy as at 31 December 2019 and 2018 (Note 32).

10 Premises, leasehold improvements, equipment and intangible assets

In thousands of hryvnias	Note	Premises and leasehold improvements, right-of-use assets that relate to rented premises	Computer and equipment	Security systems, furniture and fixtures	Motor vehicles	Unfinished construction	Total premises, leasehold improvements and equipment	Computer software licences	Total
Cost at 1 January 2018		340 496	430 145	263 852	41 524	5 713	1 081 730	205 343	1 287 073
Accumulated depreciation		(49 044)	(178 958)	(88 518)	(16 254)	-	(332 774)	(120 788)	(453 562)
Carrying amount at 1 January 2018		**291 452**	**251 187**	**175 334**	**25 270**	**5 713**	**748 956**	**84 555**	**833 511**
Additions		55 265	142 444	63 884	4 421	2 572	268 586	62 310	330 896
Transfers to other category		-	-	4 589	-	(5 410)	(821)	821	-
Disposal cost		(9 279)	(6 780)	(14 730)	(1 463)	-	(32 252)	(1 330)	(33 582)
Disposal – accumulated depreciation		3 068	6 627	9 238	1 417	-	20 350	1 140	21 490
Depreciation charge		(16 486)	(52 733)	(50 814)	(5 779)	-	(125 812)	(44 215)	(170 027)
Transfers to investment property	9	(8 860)	-	-	-	(264)	(9 124)	-	(9 124)
Transfers from investment property	9	1 269	-	-	-	-	1 269	-	1 269
Carrying amount at 31 December 2018		**316 429**	**340 745**	**187 501**	**23 866**	**2 611**	**871 152**	**103 281**	**974 433**
Cost at 31 December 2018		378 891	565 809	317 595	44 482	2 611	1 309 388	267 144	1 576 532
Accumulated depreciation		(62 462)	(225 064)	(130 094)	(20 616)	-	(438 236)	(163 863)	(602 099)
Carrying amount at 31 December 2018		**316 429**	**340 745**	**187 501**	**23 866**	**2 611**	**871 152**	**103 281**	**974 433**
Additions		45 551	99 163	51 978	5 189	8 391	210 272	86 348	296 620
Transfers to other category		-	-	2 542	-	(2 581)	(39)	39	-
Disposal cost		(2 666)	(8 040)	(19 726)	(3 193)	-	(33 625)	(35 134)	(68 759)
Disposal – accumulated depreciation		2 196	8 046	10 187	3 002	-	23 431	35 134	58 565
Depreciation charge		(17 939)	(70 842)	(52 622)	(5 729)	-	(147 132)	(52 327)	(199 459)
Transfers to financial leases		-	-	-	-	(30)	(30)	-	(30)
Revaluation - cost adjustment		(49 087)	-	-	-	-	(49 087)	-	(49 087)
Revaluation - accumulated depreciation adjustment		42 531	-	-	-	-	42 531	-	42 531
Carrying amount at 31 December 2019		**337 015**	**369 072**	**179 860**	**23 135**	**8 391**	**917 473**	**137 341**	**1 054 814**
Cost at 31 December 2019		372 689	656 932	352 389	46 478	8 391	1 436 879	318 397	1 755 276
Accumulated depreciation		(35 674)	(287 860)	(172 529)	(23 343)	-	(519 406)	(181 056)	(700 462)
Carrying amount at 31 December 2019		**337 015**	**369 072**	**179 860**	**23 135**	**8 391**	**917 473**	**137 341**	**1 054 814**

10 Premises, leasehold improvements, equipment and intangible assets (continued)

In thousands of hryvnias	Note	Premises and leasehold improvements, right-of-use assets that relate to rented premises	Computer and equipment	Security systems, furniture and fixtures	Motor vehicles	Unfinished construction	Total premises, leasehold improvements and equipment	Computer software licenses	Total
Right of use assets that relate to rented premises									
Cost at 1 January 2019		**103 981**	**315**	**-**	**-**	**-**	**104 296**	**-**	**104 296**
Additions		96 317	4 270	-	-	-	100 587	-	100 587
Disposal		(624)	-	-	-	-	(624)	-	(624)
Depreciation of right-of-use assets		(50 056)	(764)	-	-	-	(50 820)	-	(50 820)
Carrying amount at 31 December 2019		**149 618**	**3 821**	**-**	**-**	**-**	**153 439**	**-**	**153 439**
Carrying amount at 31 December 2019		**486 633**	**372 893**	**179 860**	**23 135**	**8 391**	**1 070 912**	**137 341**	**1 208 253**

The Group presents right-of use assets that do not meet the definition of investment property in "Premises, leasehold improvements, equipment and intangible assets".

Derecognition of right-of-use assets during 2019 is a result of entering in to finance sub-lease.

As at 31 December 2019, the cost of fully depreciated equipment that is still in use is UAH 169 274 thousand (31 December 2018: UAH 126 221 thousand), and the cost of fully amortized intangible assets that are still in use is UAH 46 436 thousand (31 December 2018: UAH 81 427 thousand).

As at 31 December 2019 and 31 December 2018, the Group has no premises and equipment of which ownership, use and disposal are limited by laws of Ukraine. The Group also has neither pledged property, equipment and intangible assets, nor property and equipment disposed from use for their further sale. However, there are some limitations in the title to software licenses used by the Group.

The Group's premises were revaluated at market value as at 31 December 2019. The valuation was based on a comparative sales method and was carried out by the internal appraiser who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. For each real estate property several comparables were selected based on the following criteria: location, type, condition and size. Adjustments were applied for a price representing an offer rather than an actual transaction (bargain discount), location, size, floor and condition and other adjustments. Bargain discount applied by the internal appraiser was usually in the range from 10% to 15%. Other adjustments applied by the internal valuator were usually in the range from 10% to 15%. The evaluator used only a comparative method to evaluate all objects of property, plant and equipment.

The fair value of the Group's buildings are categorized into Level 3 of the fair value hierarchy.

Had the assets been recognized at cost less depreciation, the carrying value of the premises would have amount to UAH 210 238 thousand as at 31 December 2019 (31 December 2018: UAH 183 265 thousand).

Leases

Amounts recognised in profit or loss:

In thousands of hryvnias	Note	2019
2019 – Leases under IFRS 16		
Interest on lease liabilities	21	22 406
Expenses relating to short-term leases	25	15 484
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	25	3 295
2018 – Operating leases under IAS 17		
Lease expense	25	79 624

10 Premises, leasehold improvements, equipment and intangible assets (continued)

Amounts recognised in consolidated statement of cash flows:

In thousands of hryvnias	**2019**
Total cash outflow for leases	51 073

Movements in lease liability in 2019 were as follows:

In thousands of hryvnias	**Note**	**Lease liabilities**
Balance at 1 January 2019		**108 581**
Changes from financing cash flows:		
Payment of lease liabilities - principal		(51 073)
Total changes from financing cash flows		**(51 073)**
Effect of exchange rate of foreign currency		691
Other changes:		
Lease additions		94 370
Other changes:		(558)
Interest expense	21	22 406
Interest paid		(21 002)
Total liability-related other changes		**95 216**
Balance at 31 December 2019	**17**	**153 415**

Extension options

Some property leases contain extension options exercisable by the Group. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Group doesn’t expect any penalties as the leases will either be extended or lease liabilities will be fulfilled in accordance with the terms of the contract.

Leases as lessor

The Group leases out its investment property. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Note 24 sets out information about the operating leases of investment property.

Rental income recognised by the Group during 2019 was UAH 4 562 thousand (2018: UAH 3 513 thousand) (Note 24).

11 Other financial assets

In thousands of hryvnias	**2019**	**2018**
Receivables from operations with plastic cards	22 719	21 026
Receivables from operations with customers and banks and other	34 583	22 426
Accrued income receivable	13 886	8 204
Non-confirmed cash	-	3 404
Currency swap contracts	1 024	-
Loss allowances for expected credit losses	(2 170)	(5 676)
Total other financial assets	**70 042**	**49 384**

11 Other financial assets (continued)

Movements in the loss allowance of other financial assets during 2019 are as follows:

In thousands of hryvnias	Note	Accrued income receivable (Stage 2,3)	Non-confirmed cash (Stage 3)	Receivables from operations with customers and banks and other (Stage 3)	Total
Loss allowances for expected credit losses at 1 January 2019		**1 916**	**3 404**	**356**	**5 676**
Net remeasurement of loss allowance during the year	23	211	(6)	17	222
Amounts written off during the year as uncollectible		(242)	(3 398)	(31)	(3 671)
Effect of exchange rate of foreign currency		-	-	(57)	(57)
Loss allowances for expected credit losses at 31 December 2019		**1 885**	**-**	**285**	**2 170**

Movements in the loss allowance of other financial assets during 2018 are as follows:

In thousands of hryvnias	Note	Accrued income receivable (Stage 2,3)	Non-confirmed cash (Stage 3)	Receivables from operations with customers and banks and other (Stage 3)	Total
Loss allowances for expected credit losses at 1 January 2018		**4 534**	**3 733**	**320**	**8 587**
Net remeasurement of loss allowance during the year	23	(1 766)	-	72	(1 694)
Amounts written off during the year as uncollectible		(852)	(329)	(11)	(1 192)
Effect of exchange rate of foreign currency		-	-	(25)	(25)
Loss allowances for expected credit losses at 31 December 2018		**1 916**	**3 404**	**356**	**5 676**

The amount of loss allowances for expected credit losses on accrued income that are not impaired as at 31 December 2019 is UAH 104 thousand (at 31 December 2018 – UAH 83 thousand).

Receivables from operations with customers and banks in the amount of UAH 34 298 thousand (31 December 2018 - UAH 22 097 thousand) and receivables from operations with plastic cards in the amount of UAH 22 719 thousand (31 December 2018 – UAH 21 026 thousand) are represented by transit accounts for transfers and payment cards that are subject to the clearing on the next business day, and for which no expected credit losses assessment is performed.

11 Other financial assets (continued)

Analysis by credit quality of other financial assets at 31 December 2019 is as follows:

In thousands of hryvnias	Accrued income receivable	Receivables from operations with customers and banks and other	Receivables from operations with plastic cards	Forward contracts assets	Total
Assets without estimation of expected credit losses (not overdue)	**-**	**34 298**	**22 719**	**1 024**	**58 041**
Past due but not impaired other financial assets with 12-month expected credit losses					
- not yet past due	6 352	-	-	-	**6 352**
- less than 30 days overdue	48	-	-	-	**48**
- 31 to 90 days overdue	757	-	-	-	**757**
Credit-impaired other financial assets (Stage 3)					
- not yet past due	-	285	-	-	**285**
- 91 to 180 days overdue	566	-	-	-	**566**
- 181 to 360 days overdue	1 215	-	-	-	**1 215**
- over 360 days overdue	4 948	-	-	-	**4 948**
Total credit-impaired other financial assets (gross)	**6 729**	**285**	**-**	**-**	**7 014**
Less loss allowances for expected credit losses	**(1 885)**	**(285)**	**-**	**-**	**(2 170)**
Total other financial assets	**12 001**	**34 298**	**22 719**	**1 024**	**70 042**

Analysis by credit quality of other financial assets at 31 December 2018 is as follows:

In thousands of hryvnias	Accrued income receivable	Receivables from operations with customers and banks and other	Receivables from operations with plastic cards	Non-confirmed cash	Total
Assets without estimation of expected credit losses	**-**	**22 070**	**21 026**	**-**	**43 096**
Past due but not impaired other financial assets with 12-month expected credit losses					
- not yet past due	1 216	-	-	-	1 216
- less than 30 days overdue	36	-	-	-	36
- 31 to 90 days overdue	617	-	-	-	617
Credit-impaired other financial assets (Stage 3)					
- not yet past due	-	356	-	3 404	3 760
- 91 to 180 days overdue	1 041	-	-	-	1 041
- 181 to 360 days overdue	1 591	-	-	-	1 591
- over 360 days overdue	3 703	-	-	-	3 703
Total credit-impaired other financial assets (gross)	**6 335**	**356**	**-**	**3 404**	**10 095**
Less loss allowances for expected credit losses	**(1 916)**	**(356)**	**-**	**(3 404)**	**(5 676)**
Total other financial assets	**6 288**	**22 070**	**21 026**	**-**	**49 384**

The primary factors that the Group considers in determining whether a receivable is impaired are its overdue status. As a result, the Group presents above an ageing analysis of receivables that are individually determined to be impaired. Other receivables generally are not collaterised.

Information on related party balances is disclosed in Note 35.

12 Other non-financial assets

In thousands of hryvnias	2019	2018
Prepaid expenses	38 386	50 262
Prepayments for goods and unfinished construction	34 345	35 918
Inventory	19 948	29 639
Prepayment for services	17 381	5 437
Prepaid taxes other than income tax	1 499	4 974
Receivables from settlements with employees and other	1 945	1 601
Repossessed collateral and assets for sale	1 612	1 612
Provision for impairment of other non-financial assets	(5 413)	(6 654)
Total other non-financial assets	**109 703**	**122 789**

Movements in the provision for other non-financial assets are in the table below. This provision is created mainly for subscriptions of goods, works, services that were not received by the Group in the term specified by the agreement, as well as regarding identified deficiencies.

In thousands of hryvnias	2019	2018
Provision for impairment at 1 January	**6 654**	**5 280**
Provision for impairment during the year	(476)	3 833
Amounts written off during the year as uncollectible	(549)	(2 439)
Effect of exchange rate of foreign currency	(216)	(20)
Provision for impairment at 31 December	**5 413**	**6 654**

13 Due to other banks

In thousands of hryvnias	2019	2018
Correspondent accounts and overnight placements of other banks	1 132 354	2 016 870
Term placements and loans from other banks	475 497	259 863
Funds in settlements for escrow operations	4 166	4 674
Total due to other banks	**1 612 017**	**2 281 407**

As at 31 December 2019, term deposits and loans include UAH 475 497 thousand (as at 31 December 2018: UAH 259 863 thousand) received from PKO BP S.A. and correspondent accounts and overnight deposits of other banks include UAH 44 447 thousand (31 December 2018: UAH 907 556 thousand) of balances on accounts of PKO BP S.A.

Refer to Note 32 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 29. Information on related party balances is disclosed in Note 35.

14 Customer accounts

In thousands of hryvnias	2019	2018
Legal entities		
- Current/settlement accounts	5 209 436	4 282 231
- Term deposits	2 176 827	1 873 280
Individuals		
- Current/demand accounts	2 324 267	2 106 679
- Term deposits	4 241 929	3 690 954
Total customer accounts	**13 952 459**	**11 953 144**

14 Customer accounts (continued)

Economic sector concentrations within customer accounts are as follows:

In thousands of hryvnias	2019 Amount	2019 %	2018 Amount	2018 %
Individuals	6 566 196	47	5 797 633	48
Other services	1 599 782	11	1 437 771	12
Manufacturing	1 346 979	10	1 144 689	10
Financial services	1 190 227	9	821 790	7
Trade	1 140 415	8	973 081	8
Real estate	674 778	5	502 956	4
Agriculture	310 601	2	246 530	2
Transport and communication	208 612	1	235 238	2
Other	914 869	7	793 456	7
Total customer accounts	**13 952 459**	**100**	**11 953 144**	**100**

As at 31 December 2019, the Group had 140 customers (31 December 2018: 122 customers) with balances above UAH 10 000 thousand each. The aggregate balance on accounts of these customers was UAH 4 043 458 thousand (31 December 2018: UAH 3 042 512 thousand), or 29% (31 December 2018: 25%) of total customer accounts.

As at 31 December 2019, included in customer accounts are deposits of UAH 33 853 thousand (31 December 2018: UAH 35 055 thousand) held as collateral for guarantees issued. Refer to Note 31.

As at 31 December 2019, included in current accounts of individuals are prepayments at loan agreements amounting UAH 64 769 thousand that are not due (31 December 2018: UAH 45 498 thousand).

As at 31 December 2019, included in customer accounts are deposits amounted to UAH 368 141 thousand (31 December 2018: UAH 435 232 thousand) held as collateral for loans granted to customers amounted to UAH 317 765 thousand (31 December 2018: UAH 374 753 thousand). Refer to Note 7.

Refer to Note 32 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 29. Information on related party balances is disclosed in Note 35.

15 Due to other financial institutions

In thousands of hryvnias	2019	2018
Financial Company Pryvatni Investytsii	207 965	5 340
German-Ukrainian Foundation	102 592	102 501
European Fund for Southeast Europe	174 399	58 010
Total other financial institutions	**484 956**	**165 851**

In October 2017, the Group received a loan for a term of two years from the German-Ukrainian Fund (GUF) in the amount of UAH 100 000 thousand at the rate of UIRD 3 months (UIRD - Ukrainian Index of Retail Deposit Rates) multiplied by a factor of 0.774. In October 2019 the loan was repaid.

In October 2019, the Group received a loan for a term of two years from the German-Ukrainian Fund (GUF) in the amount of UAH 100 000 thousand at the rate of UIRD 3 months (UIRD - Ukrainian Index of Retail Deposit Rates) multiplied by a factor of 0.774, which is 13.437% as at 31 December 2019. According to the agreement, the funds are directed to lending to small and medium enterprises within the framework of the Small and Medium Enterprises Support Program in Ukraine.

The Group pledged government bonds with a total nominal value of UAH 108 463 thousand as collateral under loan obtained, the fair value of bonds provided as collateral as at 31 December 2019 is UAH 113 695 thousand (as at 31 December 2018: UAH 57 159 thousand) (Note 8).

In July 2018, the European Fund for Southeast Europe S.A., SICAV-SIF placed a deposit in the Bank amounting to UAH 54 889 thousand at a rate of 14.5% per annum until July 2020. In July 2018 the Fund purchased Groups' debt securities in the amount of UAH 250 000 thousand (Note 16).

15 Due to other financial institutions (continued)

In December 2019, EFSE entered into an agreement to purchase the Groups' bonds in the amount of UAH 116 390 thousand. The bond purchase was finished in January 2020. As at 31 December 2019, funds directed by EFSE to purchase bonds are disclosed in due to other financial institutions.

In accordance with the concluded agreements, these funds are intended for current and investment loans of micro and small enterprises and entrepreneurs.

Accrued interest expenses during 2019 amounted to UAH 19 766 thousand (2018: UAH 15 660 thousand). Interest payments were UAH 19 860 thousand (2018: UAH 12 063 thousand). Principal payments amounted to UAH 4 900 thousand in 2019 (2018: UAH 500 thousand).

In 2019, PKO BP S.A. made a assignment of debt of a subsidiary of FC Private Investments Group. The debt amounted to UAH 212,559 thousand at the date of the assignment. As at 31 December 2019 and 2018, the Group has pledged the following assets and equity instruments as collateral for loan of Financial Company Pryvatni Investytsii:

- Property rights for cash and deposits placed with the Bank in amount of UAH 9 086 thousand (31 December 2018: UAH 2 043 thousand);
- 100% of the Bank's rights for participant's capital belonging in subsidiary (31 December 2018: 100%);
- Property rights for all debts purchased by the Bank's subsidiary in the amount of UAH 10 863 thousand (31 December 2018: UAH 22 691 thousand).

As at 31 December 2018, the corresponding debt was classified as "Due to other banks" in the amount of UAH 258 863 thousand. A change in classification is associated with a change in creditor.

Change in amounts due to other financial institutions during 2019 and 2018 are presented as follows:

In thousands of hryvnias	**2019**	**2018**
Due to other financial institutions as at 1 January	165 851	107 865
Amounts attracted during the year	116 390	54 889
Amounts paid during the year	(4 900)	(500)
Interest accrued	19 766	15 660
Interest paid	(19 860)	(12 063)
Change in classification of loan of the subsidiary company	212 559	-
Other changes	(4 850)	-
Due to other financial institutions as at 31 December	**484 956**	**165 851**

Refer to Note 32 for the disclosure of the fair value of due to other financial institutions.

16 Debt securities

In November 2017 the Group performed placement of bonds of series «A» with a total nominal value of UAH 250 000 thousand.

In July 2018 the Group performed placement of bonds of series «B» with a total nominal value of UAH 250 000 thousand. This series of bonds was fully acquired by the European Fund for South-Eastern Europe (SICAV-SIF).

As at the date of issue of these consolidated financial statements, bonds of series «A» were included in the stock exchange listing of PUBLIC JOINT-STOCK COMPANY "UKRAINIAN EXCHANGE". Bonds of both issues were afloat and were included in the stock exchange listing of PUBLIC JOINT STOCK COMPANY "STOCK EXCHANGE" PERSPECTYVA".

Since the beginning of 2019, the series A bonds have been redempted with a total number of 43 014 units, with a total value of UAH 42 683 thousand. The Group can sell the redempted bonds at any time. In 2019, 16 664 bonds of series "A" with value in the amount UAH 16 770 thousand were placed

As at 31 December 2019 the nominal value of Groups' obligations on issued bonds was UAH 268 172 thousand (2018: UAH 294 522 thousand).

During 2019 interest paid amounted to UAH 44 848 thousand (2018: UAH 14 526 thousand).

Refer to Note 32 for the disclosure of the fair value of debt securities.

17 Other financial liabilities

Other financial liabilities are presented as follows:

In thousands of hryvnias	Note	2019	2018
Lease liabilities	10	153 415	-
Other accrued liabilities		57 870	56 461
Provision for credit related commitments	31	15 131	11 024
Funds in settlements		13 204	73 851
Accounts payable for factoring agreement		-	6 000
Other		463	251
Total other financial liabilities		**240 083**	**147 587**

Provision for credit related commitments represents expected credit losses on financial guarantees and loan commitments. Information about movement of the provision for loan commitments is disclosed in Note 31.

Refer to Note 32 for disclosure of fair value of each class of other financial liabilities.

18 Other non-financial liabilities

Other non-financial liabilities are presented as follows:

In thousands of hryvnias	2019	2018
Accrued employee benefit costs	94 120	80 779
Deferred income	15 298	11 596
Amounts payable to Individuals' Deposits Guarantee Fund	12 862	12 003
Taxes payable other than on income	10 521	10 740
Commitment provision	7 998	21 857
Other	2 439	791
Total other non-financial liabilities	**143 238**	**137 766**

Movements in the provision for other non-financial liabilities is disclosed in Note 31.

19 Share capital

In thousands of hryvnias, except for number of shares	Number of outstanding shares	Nominal amount	Total
At 1 January 2017	224 896 946 916	2 248 969	2 248 969
At 31 December 2018	224 896 946 916	2 248 969	2 248 969
At 31 December 2019	224 896 946 916	2 248 969	2 248 969

The share capital of the Bank amounts to UAH 2 248 969 thousand (2018: UAH 2 248 969 thousand).

As at 31 December 2019, the total number of issued shares, at which the reports on placement results were registered, comprised 224 896 946 916 (31 December 2018: 224 896 946 916) ordinary shares with nominal value of UAH 0.01 per share. All ordinary shares have equal voting rights.

As at 31 December 2019 and 2018 all ordinary shares were fully paid and registered.

The Group's shareholder structure is presented below:

Shareholder	2019	2018
PKO BP S.A.	100,00%	100,00%

In 2018, PKO BP SA, as owner of a dominant controlling interest in the Bank took advantage of his right under Art. 65-2 of the Law of Ukraine "On Joint Stock Companies", and made a redemption of shares of other shareholders (in accordance with the procedure provided for in paragraph 2 of the Final and Transitional Provisions of the Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine on Increasing the Level of Corporate Governance in Joint-Stock Companies").

20 Other comprehensive income recognized in equity

Analysis of other comprehensive income by equity component item is as follows:

In thousands of hryvnias	**Revaluation reserve for investment securities at fair value through other comprehensive income**	**Revaluation reserve for premises**	**Total**
Year ended 31 December 2018			
Investment securities at fair value through other comprehensive income:			
- Net change in the fair value of investment securities at fair value through other comprehensive income	35 647	-	35 647
- Net change in the fair value of investment securities at fair value through other comprehensive income transferred to net profit or loss	(7 543)	-	(7 543)
Total other comprehensive income	**28 104**	**-**	**28 104**
Year ended 31 December 2019			
Investment securities at fair value through other comprehensive income:			
- Net change in the fair value of investment securities at fair value through other comprehensive income	6 805	-	6 805
- Net change in the fair value of investment securities at fair value through other comprehensive income transferred to net profit or loss	(3 198)	-	(3 198)
Revaluation of premises and equipment	-	6 329	6 329
Total other comprehensive income	**3 607**	**6 329**	**9 936**

21 Interest income and expense

In thousands of hryvnias	**2019**	**2018**
Interest income		
Loans and advances to individuals	1 096 612	811 971
Loans and advances to legal entities	932 709	795 260
Investment securities at fair value through other comprehensive income	194 141	161 590
Investment securities at amortized cost	42 401	42 184
Due from other banks	11 598	12 927
Deposit certificates issued by the NBU	7 188	5 900
Total interest income	**2 284 649**	**1 829 832**
Interest expense		
Customer accounts of individuals	385 142	274 124
Customer accounts of legal entities	295 803	207 540
Due to other banks	59 279	49 754
Debt securities	46 155	22 743
Lease liabilities	22 406	-
Amounts due to the National Bank of Ukraine	6 952	822
Other	2	-
Total interest expense	**815 739**	**554 983**
Net interest income	**1 468 910**	**1 274 849**

Interest income on impaired financial assets amounts to UAH 37 981 thousand for 2019 (2018: UAH 57 832 thousand).

Information on interest income and expense on transactions with related parties is disclosed in Note 35.

22 Fee and commission income and expense

In thousands of hryvnias	2019	2018
Fee and commission income		
Cash and settlement transactions	471 741	441 305
Purchase and sale of foreign currency	103 426	105 773
Agency fee from insurance companies	18 852	14 115
Guarantees issued and other documentary	9 699	4 505
Other	11 798	9 778
Total fee and commission income	**615 516**	**575 476**
Fee and commission expense		
Cash and settlement transactions	149 437	137 841
Received guarantees and other documentary	1 115	808
Transactions with securities	517	402
Other	60	15
Total fee and commission expense	**151 129**	**139 066**
Net fee and commission income	**464 387**	**436 410**

Information on fee and commission income and expense on transactions with related parties is disclosed in Note 35.

23 Estimation of expected credit losses

In thousands of hryvnias	Note	2019	2018
Cash and cash equivalents	5	(22)	(415)
Due from other banks	6	(58)	(60)
Loans and advances to customers	7	89 341	37 865
Investment securities at fair value through other comprehensive income	8	(14 667)	27 955
Investment securities at amortized cost	8	(13 792)	18 885
Other financial assets - accrued income	11	211	(1 766)
Other financial assets - non-confirmed cash	11	(6)	-
Other financial assets - transactions with customers	11	17	72
Financial guarantee contracts	31	832	(276)
Loan commitments	31	3 748	(6 351)
Estimation of expected credit losses		**65 604**	**75 909**

In addition to the expected credit losses on initial recognition, derecognition and other remeasurements (refer to Note 7), loans and advances to customers for 2019 include repayments of loans written off in prior periods as uncollectible in the amount of UAH 10 723 thousand (2018 – UAH 1 742 thousand).

24 Other operating income

In thousands of hryvnias	2019	2018
Penalties and fine received	15 240	6 851
Income from revaluation of investment property	6 938	-
Income from operating leases	4 562	3 513
Enrollment in income balances on which the statute of limitations has expired	4 017	1 386
Reimbursement of legal expenses	3 214	1 128
Gain from leasing contracts	2 800	-
Gain from disposal of premises and equipment	2 331	2 450
Income from revaluation of premises and equipment	429	-
Insurance compensations	162	205
Income from transactions with construction financing fund	-	3
Other	6 755	8 172
Total other operating income	**46 448**	**23 708**

25 Administrative and other operating expenses

In thousands of hryvnias	**2019**	**2018**
Wages, bonuses and other employee costs	442 490	362 550
Social contributions accrued on employee benefits	90 692	73 873
Total employee payments expenses	**533 182**	**436 423**
Software maintenance	95 259	93 712
Repair and maintenance of premises and equipment	62 744	57 469
Contributions to Individuals' Deposit Guarantee Fund	50 208	43 708
Utilities	47 412	42 355
Communication	35 710	33 657
Security services	33 650	26 948
Advertising and marketing services	28 015	28 362
Professional services	22 594	27 607
Operating lease expense for premises	18 779	79 624
Business trips	10 359	8 864
Taxes other than on income	6 708	6 626
Impairment and disposal of premises	4 440	3 846
Charity	2 407	2 378
Other	67 071	40 382
Total administrative and other operating expenses	**485 356**	**495 538**

No discretionary pensions or other post-employment benefits are provided by the Group.

26 Income tax

(a) Components of income tax expense

Components of income tax expense are presented as follows:

In thousands of hryvnias	**2019**	**2018**
Current tax	120 938	117 755
Deferred tax	(2 064)	(7 579)
Income tax expense	**118 874**	**110 176**

In accordance with the transitional provisions of IFRS 9, the change in the valuation is recognized as at 1 January, 2018 as equity (accumulated deficit). In addition, an increase in the deferred tax asset of UAH 3 183 thousand is recognized in equity as a result of the recognition of the provision for expected losses for credit related commitments as at 1 January 2018 in accordance with IFRS 9.

(b) Reconciliation of tax expense and profit or loss multiplied by applicable tax rate

The Group's applicable income tax rate for Group's income is 18% (2018: 18%). Reconciliation of expected and actual income tax expense is presented as follows.

In thousands of hryvnias	**2019**	**2018**
Profit before tax	**714 671**	**580 147**
The theoretical amount of tax costs at the current tax rate (2019 - 18%, 2018 - 18%)	128 641	104 426
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income not recognised for tax purposes	(6 229)	-
- Income recognised for tax purposes only	109	-
- Costs related to debt forgiveness and formation of provisions not included for tax purposes	738	5 053
- Other costs not included for tax purposes	4 456	3 426
Tax losses used by the Group's subsidiary	(6 221)	(452)
Effect of accounting policies changes and other changes of temporary differences	(2 620)	(2 277)
Income tax expense for the year	**118 874**	**110 176**

26 Income tax (continued)

(c) Deferred taxes by type of temporary differences

Differences between IFRS and statutory tax regulations in Ukraine give rise to temporary differences between carrying amounts of assets and liabilities used for financial reporting purposes and their tax bases, and on tax losses carried forward. Tax effect of movements in these temporary differences is presented as follows.

In thousands of hryvnias	1 January 2019	Credited/ (charged) to profit or loss for the year	31 December 2019
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment	23 964	3 458	27 422
Commitment provision and other losses	6 532	(1 394)	5 138
Tax losses carried forward	11 393	(6 221)	5 172
Uncertain tax asset	(11 393)	6 221	(5 172)
Net deferred tax asset	**30 496**	**2 064**	**32 560**

In thousands of hryvnias	At 1 January 2018	Impact of adopting IFRS 9	At 1 January 2018, including the impact of adopting IFRS 9	Credited/ (charged) to profit or loss for the year	31 December 2018
Tax effect of deductible/(taxable) temporary differences					
Premises and equipment	17 367	-	17 367	6 597	23 964
Commitment provision and other losses	2 367	3 183	5 550	982	6 532
Tax losses carried forward	11 871	-	11 871	(478)	11 393
Uncertain tax asset	(11 871)	-	(11 871)	478	(11 393)
Net deferred tax asset	**19 734**	**3 183**	**22 917**	**7 579**	**30 496**

The recognized deferred tax asset is the amount of income tax that may be credited against future income taxes and is recognized in the consolidated statement of financial position. Deferred income tax assets are recognized only to the extent that it is probable that the tax credit will be used. Estimation of future taxable profits and the amount of tax credit that can be used in the future is based on the medium-term business plan that prepares management and the results of its extrapolation for future periods.

27 Basic and diluted profit per share

The Bank prepared its consolidated financial statements and separate financial statements as at and for the year ended 31 December 2019 and 31 December 2018 in accordance with IFRS 10 “Consolidated financial statements” and IAS 27 “Separate financial statements”. Basic profit per share is calculated and disclosed based on the IFRS consolidated financial statements. During the reporting period, the Bank had no dilutive financial instruments. Therefore, basic profit per share is equal to diluted profit per share.

Profit per share is calculated as follows:

In thousands of hryvnias	2019	2018
Profit/(loss) for the year attributable to ordinary shareholders	595 797	469 971
Weighted average number of ordinary shares in issue (thousands)	224 896 947	224 896 947
Basic and diluted profit per share attributable to shareholders of the Group (UAH per share)	**0,0026**	**0,0021**

28 Segment analysis

Operating segments are components engaged in business operations that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is a person or a group of persons who allocate resources and measure the Group's performance. The CODM functions are performed by Management Board.

(a) Reportable segments

The Group has the following three key reportable segments:

- Retail banking – banking services to individuals including current and saving accounts, deposits, investments, credit and debit cards, consumer and mortgage loans, currency transactions, money transfers.
- Corporate banking – direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities.
- Treasury and investment banking – financial instruments trading, capital market transactions, operations with foreign currencies and banknotes.

(b) Factors used to identify reportable segments

The Group's segments represent strategic business units targeting different customers. They are managed separately since each business unit requires different marketing strategies and service levels.

(c) Measurement of operating segment profit or loss, assets and liabilities

Management Board reviews financial information prepared in accordance with the NBU requirements and IFRS.

The following approaches are applied to segment analysis:

(i) resources are reallocated among segments using internal interest rates set by Treasury Department. These internal interest rates are determined by reference to market interest rate benchmarks, contractual maturities of loans, and historical information on actual repayment of customer account balances;

(ii) income tax, and certain other items are not allocated to segments.

For operating decision making purposes, segment performance is measured based on profit before tax.

Reports include information on intersegment transfer (internal) results of reportable segments. Transfer result is calculated as the difference between transfer revenue and transfer expense per each segment based on transfer prices set by major currency and maturity. For corporate and retail segments, transfer revenue is calculated as estimated revenue from sales of attracted resources to Treasury and Investment Banking segment at acquisition transfer prices; transfer expenses are calculated as estimated expenses on purchase of resources from Treasury and Investment Banking segment at transfer prices on placements.

Transfer prices and transfer revenue/expenses are calculated in accordance with "Methodology for determining and applying transfer prices within "KREDOBANK" approved by Resolution of Management Board No. 292 dated 11 March 2019).

(d) Reportable segment profit or loss, assets and liabilities

Reportable segments for the year ended 31 December 2019 are presented as follows:

In thousands of hryvnias	**Retail banking**	**Corporate banking**	**Treasury and Investment banking**	**Unallocated**	**Total**
Reportable segment assets	5 358 176	6 380 314	6 014 548	1 394 384	**19 147 422**
Reportable segment liabilities	6 648 042	7 657 875	2 061 874	380 580	**16 748 371**
Capital expenditure	-	-	-	296 620	**296 620**

28 Segment analysis (continued)

Capital expenditures represent additions to non-current assets other than financial instruments and deferred tax assets.

In thousands of hryvnias	**Retail banking**	**Corporate banking**	**Treasury and Investment banking**	**Unallocated**	**Eliminations**	**Total**
2019						
External revenues:						
- Interest income	1 096 612	932 709	255 328	-	-	**2 284 649**
- Fee and commission income	274 161	319 255	1 502	20 598	-	**615 516**
- Other operating income	18 333	4 143	-	23 972	-	**46 448**
Gains less losses from trading in foreign currencies	11 451	-	(16 012)	-	-	**(4 561)**
Foreign exchange translation result	-	-	64 286	-	-	**64 286**
Gain (loss) arising from derecognition of investment securities at fair value through other comprehensive income	-	-	3 198	-	-	**3 198**
Revenues from other segments						
- Interest income	695 975	711 249	1 508 211	-	(2 915 435)	**-**
Total revenues	**2 096 532**	**1 967 356**	**1 816 513**	**44 570**	**(2 915 435)**	**3 009 536**
Interest expense	(1 173 414)	(1 016 622)	(1 518 732)	(22 406)	2 915 435	**(815 739)**
Estimation of expected credit losses	(108 252)	18 908	28 539	(4 799)	-	**(65 604)**
Provisions for other non-financial assets	-	-	-	476	-	**476**
Gain (loss) arising from derecognition of financial assets at amortized cost	1 517	4 067	-	364	-	**5 948**
Fee and commission expense	(108 880)	(12 114)	(30 135)	-	-	**(151 129)**
Employee payments expenses, depreciation costs, administrative and other operating expenses	(669 059)	(512 465)	(87 293)	-	-	**(1 268 817)**
Segment result	**38 444**	**449 130**	**208 892**	**18 205**	**-**	**714 671**
Income tax expense for the year						**(118 874)**
Profit for the year						**595 797**

Reportable segments for the year ended 31 December 2018 are presented as follows:

In thousands of hryvnias	**Retail banking**	**Corporate banking**	**Treasury and Investment banking**	**Unallocated**	**Total**
Reportable segment assets	4 016 734	5 658 956	5 964 399	1 155 960	**16 796 049**
Reportable segment liabilities	5 804 344	6 187 768	2 763 095	247 524	**15 002 731**
Capital expenditure	**-**	**-**	**-**	330 896	**330 896**

28 Segment analysis (continued)

Capital expenditures represent additions to non-current assets other than financial instruments and deferred tax assets.

In thousands of hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Eliminations	Total
2018						
External revenues:						
- Interest income	832 417	798 069	222 601	-	-	**1 853 087**
- Fee and commission income	253 559	299 807	22 110	-	-	**575 476**
- Other operating income	11 421	1 097	646	10 544	-	**23 708**
Gains less losses from trading in foreign currencies	14 299	-	10 774	-	-	**25 073**
Foreign exchange translation result	-	-	17 783	-	-	**17 783**
Gain (loss) arising from derecognition of investment securities at fair value through other comprehensive income	-	-	3 713	-	-	**3 713**
Revenues from other segments						**-**
- Interest income	521 985	531 990	1 111 347	-	(2 165 322)	**-**
Total revenues	**1 633 681**	**1 630 963**	**1 388 974**	**10 544**	**(2 165 322)**	**2 498 840**
Interest expense	(838 607)	(755 008)	(1 126 690)	-	2 165 322	**(554 983)**
Estimation of expected credit losses	(50 052)	(4 441)	(46 365)	1 694	-	**(99 164)**
Provisions for other nonfinancial assets	-	-	-	(3 833)	-	**(3 833)**
Gain (loss) arising from derecognition of financial assets at amortized cost	(3 069)	(771)	-	-	-	**(3 840)**
Commitment provision	-	-	-	(15 819)	-	**(15 819)**
Fee and commission expense	(99 441)	(11 032)	(28 593)	-	-	**(139 066)**
Employee payments expenses, depreciation costs, administrative and other operating expenses	(631 986)	(423 660)	(46 342)	-	-	**(1 101 988)**
Segment result	**10 526**	**436 051**	**140 984**	**(7 414)**	**-**	**580 147**
Income tax expense for the year						**(110 176)**
Profit for the year						**469 971**

(e) Analysis of revenues by product and service

Analysis of Group's revenues by product and service is disclosed in Note 21 (interest income) and Note 22 (fee and commission income).

(f) Geographical information

Ukraine represents the only geographical segment, as majority of revenues and assets are attributable to Ukraine. The Group has no significant revenues from outside Ukraine and all its non-current assets other than financial instruments are attributable to Ukraine. Refer to Note 29 for geographical analysis of Group's assets and liabilities.

(g) Major customers

The Group has no customers representing more than 10% of total revenue of the Group.

29 Financial risk management

Risk management relates to financial risks, operational risks, and legal risks. Financial risks comprise market risk (including currency risk, interest rate risk, and other price risk), credit risk, and liquidity risk. The purpose of financial risk management is to establish risk limits and ensure adherence to such limits. The operational and legal risk management is intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Group is exposed to credit risk, which is the risk that a party to a financial instrument fails to meet its contractual obligations resulting in a financial loss to the other party. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For guarantees and credit related commitments, the maximum exposure to credit risk is the total amount of commitments (see Note 31). Credit risk is managed by making strategic decisions on acceptable credit risk, approving credit limits, updating principles and processes for credit risk assessment, implementing and improvement of risk assessment tools that allow maintaining risk within acceptable parameters, developing information tools that computerize credit risk assessment process and ensure quality and integrity of data used in the process, planning of operations and preparing recommendations, obtaining collateral, and by other tools intended to mitigate credit risk as described in Note 7.

The Group structures its exposures to credit risk by establishing limits per borrower or group of borrowers. Management approves credit risk limits on a regular basis. Such risks are regularly monitored and reviewed at least on a yearly basis.

The Group established the following corporate bodies responsible for approving credit limits per individual borrowers:

- Supervisory Board reviews and approves credit applications above USD 5.0 million and, in case of loan restructuring, above USD 6.25 million;
- Management Board reviews and approves credit applications up to USD 5.0 million and, in case of loan restructuring, up to USD 6.25 million;
- Credit Committee reviews and approves credit applications up to UAH 30 million, Small Credit Committee and Small Restructuring Committee – up to UAH 5 million, and Credit Restructuring Committee – up to USD 5 million. Credit Committee and Small Credit Committee generally meet two times per week. Credit Restructuring Committee and Small Restructuring Committee generally meet once a week;
- Deputies of the Chairman of Management Board and directors of the Head Office departments have individual powers to approve new credit decisions with the limits below UAH 1.5 million (2018: UAH 1.25 million);
- Directors of independent branches have individual powers to approve new credit decisions with the limits below UAH 0.75 million (2018: UAH 0.1 million).

Loan applications prepared by account managers are forwarded to relevant department that performs credit analysis and makes a decision or passes them on to the relevant credit committee for approval of credit limit within the scope of authority. Exposure to credit risk is also managed by obtaining collateral and corporate and personal guarantees.

The Group reviews ageing of outstanding loans and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Notes 6, 7, 8 and 11.

Credit risk of off-balance sheet financial instruments is defined as potential loss due to failure of the other party to a financial instrument to perform its contractual obligations. The Group applies the same credit policies to contingent liabilities as it applies to on-balance sheet financial instruments through established credit approvals, exposure control, and monitoring procedures.

The report on the loan portfolio analysis with detailed analysis of credit risk exposure per overall loan portfolio and per lending segment is presented to governing bodies of the Group on a monthly basis.

29 Financial risk management (continued)

In addition, the Bank follows a system of internal concentration limits which consists of directed long-term strategies of the Bank in relation to the structure of individual segments of the loan portfolio and concentration limits established for certain sectors of the economy.

In order to avoid concentration limits exceeding, these limits are subject to monitoring (control). Monitoring of concentration limits is carried out on a monthly and quarterly basis by the Department of Credit Risk. The monitoring results are presented as a part of the risk report to the Management Board and the Supervisory Board.

In order to avoid significant loss caused by credit risk, the Bank performs ongoing control over adherence to credit risk parameters established by the NBU.

As at 31 December 2019, maximum credit risk exposure per counterparty, N7 ratio, calculated as the Bank's total claims to a counterparty or a group of related counterparties and total financial liabilities of a counterparty or a group of related counterparties to the Bank to regulatory capital is 4.89%, while the required ratio is up to 25% (31 December 2017: 3.98%).

As at 31 December 2019, large credit risks ratio, N8, calculated as total large credit risk exposure per counterparties, groups of related counterparties, and the Bank's related parties to regulatory capital is 0.00%, while the required ratio is up to 800% (31 December 2017: 0.00%).

Financial assets subject to offsetting are presented as follows:

In thousands of hryvnias

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position: Financial instruments	Related amounts not offset in the consolidated statement of financial position: Cash collateral received	Net amount
Loans and advances to customers	329 947	-	329 947	-	(317 765)	12 182
Total financial assets	**329 947**	**-**	**329 947**	**-**	**(317 765)**	**12 182**
Customer accounts	(368 141)	-	(368 141)	317 765	-	(50 376)
Total financial liabilities	**(368 141)**	**-**	**(368 141)**	**317 765**	**-**	**(50 376)**

Market risk. The Group is exposed to market risks arising from open positions in: (a) currency, (b) interest rate and (c) equity instruments, all of which are largely dependent on general and specific market developments. Management Board sets acceptable risk limits and monitors adherence to the limits on a daily basis. However, this approach does not prevent losses outside the limits in the event of significant market developments.

Currency risk. Management sets currency risk limits and overall acceptable risk exposure for overnight and intra-day positions, with periodical control performed. The Group is exposed to currency risks arising from open foreign currency positions. These positions are calculated as the differences between assets and liabilities in the same currency as at the reporting date. The Group evaluates and monitors levels of long and short foreign currency open positions using hryvnia as a base currency. Open position limits are set at the level required by the NBU and calculated as open currency position of regulatory capital of the Bank. Compliance with these limits is monitored on a daily basis. Respective reports are submitted to Asset, Liability and Tariff Management Committee (ALTCO) on a weekly basis.

29 Financial risk management (continued)

The Group's currency risk exposure as at the reporting date is presented as follows:

	At 31 December 2019				At 31 December 2018			
In thousands of hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
US Dollars	4 253 120	4 507 037	71 059	(182 858)	4 022 096	4 148 898	(63 885)	(190 687)
EUR	2 142 004	2 139 298	-	2 706	2 406 912	2 420 955	1 436	(12 607)
British pounds	17 988	18 403	-	(415)	10 995	9 452	-	1 543
Russian roubles	7 580	7 598	-	(18)	29 409	25 635	-	3 774
Other	165 376	164 782	-	594	123 361	125 843	12 751	10 269

The above analysis only includes monetary assets and liabilities. Management believes that investments in equity instruments and non-monetary assets will not give rise to significant currency risk.

The following table presents sensitivity analysis of profit or loss and equity to reasonably possible changes in exchange rates as at the reporting date applied to Group's functional currency, with all other variables remaining constant:

	At 31 December 2019		At 31 December 2018	
In thousands of hryvnias	**Impact on profit or loss**	**Impact on equity**	**Impact on profit or loss**	**Impact on equity**
US dollar strengthening by 10% (2018: strengthening by 10%)	(14 994)	(14 994)	(15 636)	(15 636)
US dollar weakening by 10% (2018: weakening by 10%)	14 994	14 994	15 636	15 636
Euro strengthening by 10% (2018: strengthening by 10%)	222	222	(1 034)	(1 034)
Euro weakening by 10% (2018: weakening by 10%)	(222)	(222)	1 034	1 034
Russian rouble strengthening by 10% (2018: strengthening by 10%)	(1)	(1)	309	309
Russian rouble weakening by 10% (2018: weakening by 10%)	1	1	(309)	(309)
Other currencies strengthening by 10% (2018 strengthening by 10%)	15	15	969	969
Other currencies weakening by 10% (2018: weakening by 10%)	(15)	(15)	(969)	(969)

The exposure was calculated only for monetary items denominated in currencies other than Bank's and its subsidiary's functional currency.

Interest rate risk. The Group is exposed to interest rate risk arising from the effects of fluctuations in the prevailing market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, however it may decrease or cause losses in case of unexpected fluctuations.

The table below presents the potential impact on the Group's profit for a 12-month period in case of an increase or decrease in interest rates on financial instruments denominated in major currencies:

		31 December 2019		31 December 2018	
	Type of financial instrument rate	**Rate change (b. p.)**	**Impact on profit or loss (thousands of hryvnias)**	**Rate change (b. p.)**	**Impact on profit or loss (thousands of hryvnias)**
UAH	- variable rate	+200/-200	+121 334 / -121 334	+200/-200	+95 902 / - 95 902
	- constant rate	+200/-200	-53 500 / +53 500	+200/-200	-43 489 / +43 489
USD	- variable rate	+200/-200	+4 401 / -4 401	+200/-200	-2 227 / +2 227
	- constant rate	+200/-200	-2 693 / +2 693	+200/-200	+13 173 / -13 173
EUR	- variable rate	+200/-200	+2 551 / -2 551	+200/-200	+13 521 / -13 521
	- constant rate	+200/-200	+5 008 / -5 008	+200/-200	-10 000 / +10 000

The table below presents the potential impact on the Group's other comprehensive income for investment securities at FVOCI as at 31 December 2019:

	Rate change (b. p.)	**Impact on other comprehensive income (thousands of hryvnias)**
UAH	+100/-100	-846 / +846
USD	+100/-100	-16 542 / +16 542
EUR	+100/-100	-1 263 / +1 263

29 Financial risk management (continued)

The Group monitors interest rates on financial instruments. The table below summarises effective interest rates on interest bearing financial instruments as at the relevant reporting date:

	2019				2018			
% per annum	**UAH**	**US Dollars**	**EUR**	**Other**	**UAH**	**US Dollars**	**EUR**	**Other**
Assets								
Cash and cash equivalents								
- Interest bearing correspondent accounts with other banks	0%	1%	-1%	0%	0%	1%	0%	0%
- Deposit certificates issued by the NBU	13%	-	-	-	18%	-	-	-
Due from other banks	14%	0%	-	-	16%	-	-	-
Loans and advances to customers								
- at fixed rate	31%*	6%	5%	9%	23%	6%	5%	8%
- at variable rate	19%	7%	5%	-	17%	7%	5%	-
Investment securities at fair value through other comprehensive income	16%	6%	4%	-	19%	6%	4%	-
Investment securities at amortized cost	-	7%	-	-	-	6%	4%	-
Liabilities								
Due to other banks								
- at fixed rate	0%	0%	0%	0%	-	-	0%	2%
- at variable rate	-	-	0%	-	-	5%	-	-
Due to other financial institutions								
- at fixed rate	15%	-	-	-	15%	-	-	-
- at variable rate	13%	6%	-	-	10%	-	-	-
Customer accounts								
- current and settlement accounts	2%	0%	0%	0%	1%	0%	0%	0%
- Term deposits	15%	1%	0%	-	16%	2%	0%	-
Debt securities	17%	-	-	-	16%	-	-	-

“-“ in the table above means that the Group has no assets or liabilities denominated in the corresponding currency. Information presented in the table relates to fixed rates, unless stated otherwise.

* Increase of interest rate is connected with increase of lending of cash loans with average interest rate 40.3 %.

Other price risk. The Group is exposed to early repayment risk due to providing fixed rate loans, including mortgages, which allow a borrower to early repay its loan. The Group’s current year profit and equity as at the reporting date would not be significantly influenced by changes in early repayment rates, since such loans are carried at amortised cost, and loan amount at early repayment is equal or close to amortised cost of loans and advances to customers.

29 Financial risk management (continued)

Geographical risk concentration. Geographical analysis of Group's assets and liabilities at 31 December 2019 is presented as follows:

In thousands of hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	1 654 959	1 261 427	6 924	**2 923 310**
Due from other banks	7 438	-	-	**7 438**
Loans and advances to customers	11 693 128	784	1 034	**11 694 946**
Investment securities	3 072 580	-	-	**3 072 580**
Other financial assets	69 976	39	27	**70 042**
Total financial assets	**16 498 081**	**1 262 250**	**7 985**	**17 768 316**
Non-financial assets	**1 377 221**	**1 885**	**-**	**1 379 106**
Total assets	**17 875 302**	**1 264 135**	**7 985**	**19 147 422**
Liabilities				
Due to other banks	1 087 908	524 109	-	**1 612 017**
Customer accounts	13 796 358	121 113	34 988	**13 952 459**
Due to other financial institutions	310 557	174 399	-	**484 956**
Debt securities	18 472	260 998	-	**279 470**
Other financial liabilities	214 471	25 611	1	**240 083**
Total financial liabilities	**15 427 766**	**1 106 230**	**34 989**	**16 568 985**
Non-financial liabilities	**179 159**	**205**	**22**	**179 386**
Total liabilities	**15 606 925**	**1 106 435**	**35 011**	**16 748 371**
Net position	**2 268 377**	**157 700**	**(27 026)**	**2 399 051**

Assets and liabilities have been classified based on counterparty's resident country. Cash on hand, premises, leasehold improvements, and equipment have been classified based on the country of their physical presence.

Liabilities due to other banks, concentrated in OECD countries, include UAH 519 944 thousand of liabilities due to the parent bank (2018: UAH 1 167 419 thousand) (Note 35).

Geographical analysis of Group's assets and liabilities at 31 December 2018 is presented as follows:

In thousands of hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	1 185 824	957 724	13 798	**2 157 346**
Due from other banks	8 436	-	-	**8 436**
Loans and advances to customers	9 645 181	965	1 415	**9 647 561**
Investment securities	3 783 284	-	-	**3 783 284**
Other financial assets	49 243	113	28	**49 384**
Total financial assets	**14 671 968**	**958 802**	**15 241**	**15 646 011**
Non-financial assets	**1 149 168**	**870**	**-**	**1 150 038**
Total assets	**15 821 136**	**959 672**	**15 241**	**16 796 049**
Liabilities				
Due to other banks	1 109 314	1 172 093	-	2 **281 407**
Customer accounts	11 822 233	102 887	28 024	**11 953 144**
Due to other financial institutions	107 841	58 010	-	**165 851**
Debt securities	44 856	259 220	-	**304 076**
Other financial liabilities	130 224	17 362	1	**147 587**
Total financial liabilities	**13 214 468**	**1 609 572**	**28 025**	**14 852 065**
Non-financial liabilities	**150 443**	**183**	**40**	**150 666**
Total liabilities	**13 364 911**	**1 609 755**	**28 065**	**15 002 731**
Net position	**2 456 225**	**(650 083)**	**(12 824)**	**1 793 318**

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivative instruments. The Group does not maintain sufficient cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

29 Financial risk management (continued)

The Group seeks to maintain a stable funding base primarily consisting of amounts due to banks, corporate and retail customer deposits, and debt securities. The Group invests the funds in portfolios of liquid assets in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring compliance of balance sheet liquidity ratios with regulatory requirements.

The Bank calculates liquidity ratios on a daily basis in accordance with the NBU requirements. These ratios include:

- Short-term liquidity ratio (N6) calculated as liquid assets to liabilities with one year or less maturity ratio. As at 31 December 2019, the ratio was 70%, with the required ratio being not less than 60% (31 December 2018: 70%, with the required ratio being not less than 60%).
- Liquidity Coverage Ratio (LCR) in all currencies. As at 31 December 2019, LCR in all currencies was 111%, with the required ratio being not less than 100% (31 December 2018: 93% with the required ratio being not less than 80%).
- Liquidity Coverage Ratio (LCR) in foreign currencies. As at 31 December 2019, LCR in foreign currencies was 105% with the required ratio being not less than 100% (31 December 2018: 38% with the required ratio being not less than 50%). As at 31 December 2018, the Bank violated the actual average arithmetic value of the foreign currency liquidity ratio (LCR) in foreign currency and the LCR in foreign currency at the end of 2018, which was 38.3% and 42.92% respectively, with normative value not less than 50%. Due to the non-compliance with normative values of LCR in foreign currency and at the request of the National Bank of Ukraine (NBU), the Bank has developed a plan of measures to achieve the normative value of the relevant indicators. As at 31 December 2019 the Bank complied with normative LCR ratios.

The Treasury Department receives information on liquidity profile of financial assets and liabilities. The Treasury Department ensures availability of adequate portfolio of short-term liquid assets, largely made up of liquid securities, deposits with banks, and other inter-bank facilities, to maintain sufficient liquidity.

The tables below show Group's liabilities by remaining contractual maturity. The amounts disclosed represent contractual undiscounted cash flows, including total credit related commitments and commitments to extend financial guarantees. Such undiscounted cash flows differ from the amounts reported in the consolidated statement of financial position, since the amounts in the consolidated statement of financial position are based on discounted cash flows. If the amount payable is not fixed, the amount disclosed is determined by reference to terms and conditions as at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate as at the reporting date.

The analysis of undiscounted cash flows for financial liabilities as at 31 December 2019 is presented as follows:

In thousands of hryvnias	**Demand and less than 1 month**	**1-12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities			¤		
Due to other banks	1 137 027	475 831	-	-	**1 612 858**
Customer accounts	9 501 676	4 503 253	119 940	27 801	**14 152 670**
Loans from international and other institutions	214 012	97 052	245 193	-	**556 257**
Debt securities	15 025	60 323	271 759	-	**347 107**
Lease liabilities	4 694	78 827	100 036	18 794	**202 351**
Other financial liabilities	86 668	-	-	-	**86 668**
Credit related commitments	2 321 400	-	-	-	**2 321 400**
Spot and forward contracts					
- inflows	(71 059)	-	-	-	**(71 059)**
- outflows	70 035	-	-	-	**70 035**
Total potential future payments for financial obligations	**13 279 478**	**5 215 286**	**736 928**	**46 595**	**19 278 287**

29 Financial risk management (continued)

Liquidity requirements to support calls under guarantees and letters of credit are considerably less than the amount of relevant liabilities and commitments disclosed in the above maturity analysis, as the Group does not generally expect the third party to draw funds under such agreements.

The analysis of undiscounted cash flows for financial liabilities as at 31 December 2018 is presented as follows:

In thousands of hryvnias	Demand and less than 1 month	1-12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to other banks	2 022 760	265 736	-	-	**2 288 496**
Customer accounts	8 143 885	3 873 044	66 156	40 844	**12 123 929**
Loans from international and other institutions	106 755	73 018	-	-	**179 773**
Debt securities	13 424	313 785	-	-	**327 209**
Other financial liabilities	147 549	32	2	4	**147 587**
Credit related commitments	2 345 838	-	-	-	**2 345 838**
Spot and forward contracts					
- inflows	71 712	-	-	-	**71 712**
- outflows	(71 487)	-	-	-	**(71 487)**
Total potential future payments for financial obligations	**12 780 436**	**4 525 615**	**66 158**	**40 848**	**17 413 057**

Customer accounts are classified based on remaining contractual maturities in the above analysis. However, in accordance with the Civil Code of Ukraine, for deposit agreements concluded prior to 6 June 2015, individuals have the right to withdraw their deposits prior to maturity, with their right to accrued interest forfeited. Some corporate deposit contracts envisage a possibility of early withdrawn. Certain deposit contracts with individuals concluded after 6 June 2015 also envisage early withdrawals.

As at 31 December 2019 and 2018 undiscounted cash flows for deposits with early withdrawal option in distribution by maturity buckets are as follows:

In thousands of hryvnias	Demand and less than 1 month	1-12 months	From 12 months to 5 years	Over 5 years	Total
At 31 December 2019	627 754	2 240 798	68 656	23 621	2 960 829
At 31 December 2018	392 285	2 012 117	45 275	29 764	2 479 441

The Group monitors the following contractual maturities as at 31 December 2019 and 31 December 2018:

In thousands of hryvnias	Demand and less than 1 month	1-12 months	From 12 months to 5 years	Over 5 years	Total
At 31 December 2019					
Financial assets	4 295 930	5 901 493	6 510 456	1 060 437	17 768 316
Financial liabilities	(10 903 515)	(4 984 645)	(650 315)	(30 510)	(16 568 985)
Net liquidity gap based on expected maturities	**(6 607 585)**	**916 848**	**5 860 141**	**1 029 927**	**1 199 331**
Spot and forward contracts					
- inflows	71 059	-	-	-	71 059
- outflows	(70 035)	-	-	-	(70 035)
At 31 December 2018					
Financial assets	3 327 054	5 932 358	5 559 026	827 573	15 646 011
Financial liabilities	(10 419 928)	(4 340 931)	(61 806)	(29 400)	(14 852 065)
Net liquidity gap based on expected maturities	**(7 092 874)**	**1 591 427**	**5 497 220**	**798 173**	**793 946**
Spot and forward contracts					
- inflows	71 712	-	-	-	71 712
- outflows	(71 487)	-	-	-	(71 487)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is critical to management. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its response to changes in interest and exchange rates.

29 Financial risk management (continued)

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by a number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of financing for the Group.

The Bank has open credit line with its Parent company PKO Bank Polski SA for USD 30 million. Bank may regularly use this credit line for the replenishment of working capital and maintenance of the operational liquidity.

30 Capital management

The Group has the following objectives in managing capital: (i) to comply with the capital requirements set for the Bank by the National Bank of Ukraine, and (ii) to safeguard the Group’s ability to continue as a going concern. The management believes that total capital under management of the Group equals the amount of equity as shown in the consolidated statement of financial position. The amount of capital that the Group managed as of 31 December 2019 was UAH 2 399 051 thousand (31 December 2018: UAH 1 793 318 thousand). The Bank's compliance with capital adequacy ratios set by the National Bank of Ukraine is monitored on a ten day basis. Other objectives of capital management are evaluated annually.

Ukrainian legislation requires that banks form a reserve to cover unforeseen losses on all asset items and off-balance sheet liabilities. The reserve must represent 25% of bank's regulatory capital but not less than 25% of bank’s registered share capital. The reserve is formed through charges from net profit for the reporting year retained by the Bank after taxes and retained earnings for previous years.

Charges to the reserve must be no less than 5% of bank’s profit until the reserve reaches 25% of bank’s regulatory capital.

Should a bank’s operations pose a threat to interests of depositors and other bank’s creditors, the National Bank of Ukraine has the right to require increase in the reserve and annual charges thereto. If, as a result of bank's operations, regulatory capital is reduced to an amount lower than share capital, annual charges to the reserve must be 10% of bank’s net profit until the reserve reaches 35% of bank’s share capital.

The reserve may only be used to cover the bank’s losses for the reporting year in accordance with the decision of the bank’s board (Supervisory board) and in accordance with the procedure established by the general meeting of its shareholders. Furthermore, effective Ukrainian legislation envisages no restrictions on distribution of the reserve among bank’s shareholders upon bank’s liquidation after satisfaction of all creditors' claims.

As at 31 December 2019 the Bank’s reserve fund amounts to UAH 131 374 thousand (31 December 2018: UAH 80 394 thousand).

Under the current capital requirements set by the National Bank of Ukraine, banks have to maintain a ratio of regulatory capital to risk weighted assets (“statutory capital ratio”) above a prescribed minimum level. The table below presents regulatory capital based on the Bank’s reports prepared under the NBU requirements, which comprises the following components:

In thousands of hryvnias	**2019**	**2018**
Primary capital	1 716 494	1 238 745
Additional capital	244 687	567 430
Diversion	(10)	(10)
Total regulatory capital	**1 961 171**	**1 806 165**

As at 31 December 2019 and 31 December 2018, the Group complied with the requirements regarding the minimum regulatory capital adequacy ratio (H2), which should be at least 10%. The value of the H2 normative as at 31 December 2019 is 15% (31 December 2018: 17%).

The NBU performs stress testing on a regular basis to check compliance with the regulatory requirements under certain stress test assumptions. If results of the stress test show that required capital adequacy could fall below the required level in the future, the NBU might require an increase of regulatory capital above the minimum regulatory requirements.

30 Capital management (continued)

According to Decision No. 438-rsh (438-рш) of the Management Board of the National Bank of Ukraine dated June 27, 2019 KREDOBANK JSC was included in the updated list of 14 systemically important banks. The status of a systemically important bank implies the fulfilment by the Bank of additional requirements to ensure a margin of safety (increased standards of instant liquidity and maximum credit risk per counterparty, as well as the need to further form a buffer of systemic importance of 1% of capital in addition to the capital adequacy ratio).

31 Contingencies and commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims. The total amount of provision for litigation is UAH 7 998 thousand as at 31 December 2019 (31 December 2018: UAH 21 857 thousand).

Changes in provisions for potential liabilities are:

In thousands of hryvnias	Note	2019	2018
Commitment provision at 1 January	18	**21 857**	**9 313**
Provision during the year		-	15 819
Amounts utilized during the year		(12 291)	(3 123)
Effect of exchange rate of foreign currency		(1 568)	(152)
Commitment provision at 31 December	18	**7 998**	**21 857**

Tax legislation. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the Ministry of Finance and other state authorities are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These facts create tax risks substantially more significant than typically found in countries with more developed systems. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

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

Capital expenditure commitments. At 31 December 2019, the Group had contractual capital expenditure commitments in respect of premises and equipment totalling UAH 3 731 thousand (31 December 2018: UAH 7 640 thousand) and in respect of intangible assets in the amount of UAH 4 270 thousand (31 December 2018: UAH 2 754 thousand).

The Group has already allocated the necessary resources in respect of these commitments. The Group's management believes that future net income and funding will be sufficient to cover these and any similar commitments.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under 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 a direct borrowing.

31 Contingencies and commitments (continued)

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 credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

At 31 December 2019, all commitments to extend credits are revocable and amount to UAH 2 061 192 thousand (31 December 2018: UAH 2 201 394 thousand).

Credit related commitments were as follows:

	At 31 December 2019			
In thousands of hryvnias	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantee contracts and letters of credit	**260 208**	**-**	**-**	**260 208**
Loss allowances for expected credit losses	917	-	-	**917**
Carrying value (provision)	917	-	-	**917**

	At 31 December 2018			
In thousands of hryvnias	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial guarantee contracts and letters of credit	**144 444**	**-**	**-**	**144 444**
Loss allowances for expected credit losses	172	-	-	**172**
Carrying value (provision)	172	-	-	**172**

As at 31 December 2019, commitments under guarantees and letters of credit were secured with deposits in the amount of UAH 33 853 thousand (as at 31 December 2018 - UAH 35 055 thousand) (Note 14).

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

Changes in expected credit losses estimates under credit-related loan commitments are presented as follows:

In thousands of hryvnias	Note	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019		**9 695**	**19**	**1 310**	**11 024**
Transfer to Stage 1		(42)	31	11	-
Transfer to Stage 2		52	(78)	26	-
Transfer to Stage 3		2	-	(2)	-
Net remeasurement of loss allowance	23	943	(138)	(266)	539
New loan commitments and financial guarantees issued	23	11 286	312	89	11 687
Loan commitments and financial guarantee contracts that have been derecognised	23	(6 685)	(74)	(887)	(7 646)
Foreign exchange and other movements		(470)	-	(3)	(473)
Balance at 31 December 2019		**14 781**	**72**	**278**	**15 131**

In thousands of hryvnias	Note	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2018		**13 308**	**30**	**4 449**	**17 787**
Transfer to Stage 1		(110)	102	8	-
Transfer to Stage 2		836	(918)	82	-
Transfer to Stage 3		3 817	-	(3 817)	-
Net remeasurement of loss allowance	23	(17 122)	812	(464)	(16 774)
New loan commitments and financial guarantees issued	23	14 849	-	1 919	16 768
Loan commitments and financial guarantee contracts that have been derecognised	23	(5 744)	(9)	(868)	(6 621)
Foreign exchange and other movements		(139)	2	1	(136)
Balance at 31 December 2018		**9 695**	**19**	**1 310**	**11 024**

32 Fair value disclosures

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that IFRS require or permit in the consolidated statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follow:

	2019				2018			
In thousands of hryvnias	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value								
Financial assets								
Investment securities at fair value through other comprehensive income								
- Ukrainian government bonds	-	2 716 749	-	**2 716 749**	-	2 892 610	-	**2 892 610**
- Corporate shares	-	-	10	**10**	-	-	10	**10**
Non-financial assets								
- Premises	-	-	310 548	**310 548**	-	-	291 540	**291 540**
- Investment properties	-	-	28 506	**28 506**	-	-	22 170	**22 170**
Total assets recurring fair value measurements	**-**	**2 716 749**	**339 064**	**3 055 813**	**-**	**2 892 610**	**313 720**	**3 206 330**

For the years ended 31 December 2019 and 2018 the Group did not make transfers between levels of the fair value hierarchy. The policy of the Group determines that the transfers between the levels of the fair value hierarchy is considered to be the same as at the reporting date.

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements as at 31 December 2019:

In thousands of hryvnias	**31 December 2019**	**Valuation technique**	**Inputs used**
Assets at fair value			
Financial assets			
Investment securities at fair value through other comprehensive income			
- Ukrainian government bonds	2 716 749	Market approach	Quoted bond prices on market for similar bonds
Total recurring fair value measurements at level 2	**2 716 749**		

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements as at 31 December 2018:

In thousands of hryvnias	**31 December 2018**	**Valuation technique**	**Inputs used**
Assets at fair value			
Financial assets			
Investment securities at fair value through other comprehensive income			
- Ukrainian government bonds	2 892 610	Market approach	Quoted bond prices on market for similar bonds
Total recurring fair value measurements at level 2	**2 892 610**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2019 and 2018.

32 Fair value disclosures (continued)

b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	2019				2018			
In thousands of hryvnias	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Assets								
Due from other banks	**-**	**7 438**	**-**	**7 438**	**-**	**8 436**	**-**	**8 436**
Loans and advances to customers	**-**	**-**	**11 728 567**	**11 694 946**	**-**	**-**	**9 747 300**	**9 647 561**
- Corporate loans	-	-	6 275 642	6 340 857	-	-	5 584 320	5 633 586
- Loans to individuals - consumer loans	-	-	1 424 756	1 314 860	-	-	944 918	803 832
- Loans to individuals – mortgage loans	-	-	1 196 368	1 197 371	-	-	908 069	897 377
- Loans to individuals - car loans	-	-	2 831 801	2 841 858	-	-	2 309 993	2 312 766
Investment securities at amortized cost	-	**344 908**	-	**355 821**	**-**	**898 167**	**-**	**890 664**
Other financial assets	-	**70 042**	-	**70 042**	**-**	**49 384**	**-**	**49 384**
Total	**-**	**422 388**	**11 728 567**	**12 128 247**	**-**	**955 987**	**9 747 300**	**10 596 045**

Fair values analysed by level in the fair value hierarchy and carrying amount of liabilities not measured at fair value are as follows:

	2019				2018			
In thousands of hryvnias	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
Liabilities								
Due to other banks	**-**	**1 612 276**	**-**	**1 612 017**	**-**	**2 280 833**	**-**	**2 281 407**
- Correspondent accounts of other banks	-	1 136 520	-	1 136 520	-	2 021 544	-	2 021 544
- Term placements and loans of other banks	-	475 756	-	475 497	-	259 289	-	259 863
Customer accounts	**-**	**13 934 474**	-	**13 952 459**	**-**	**11 913 858**	**-**	**11 953 144**
- Current/settlement accounts of legal entities	-	5 209 436	-	5 209 436	-	4 282 231	-	4 282 231
- Term deposits of legal entities	-	2 179 218	-	2 176 827	-	1 869 864	-	1 873 280
- Current/demand accounts of individuals	-	2 324 267	-	2 324 267	-	2 106 451	-	2 106 679
- Term deposits of individuals	-	4 221 553	-	4 241 929	-	3 655 312	-	3 690 954
Due to other financial institutions		**476 743**		**484 956**	**-**	**160 889**	**-**	**165 851**
Other financial liabilities	**-**	**240 083**	**-**	**240 083**	**-**	**147 587**	**-**	**147 587**
Debt securities	**-**	**280 999**	**-**	**279 470**	**-**	**300 760**	**-**	**304 076**
Total	**-**	**16 544 575**	**-**	**16 568 985**	**-**	**14 803 927**	**-**	**14 852 065**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current weighted average interest rate for existing instruments with similar remaining maturity.

33 Presentation of financial instruments by measurement categories

For assets, the Group used assumptions about counterparty's incremental borrowing rate and prepayment rates. Liabilities were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

The procedure for classifying financial instruments is described in Note 3.

The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2019:

In thousands of hryvnias	Financial instruments measured at amortized cost	Financial instruments at fair value through other comprehensive income	Finance lease receivables	Total
Assets				
Cash and cash equivalents	2 923 310	-	-	**2 923 310**
Due from other banks				-
- Guarantee deposits	4 479	-	-	**4 479**
- Loans to other banks	2 959	-	-	**2 959**
Loans and advances to customers				-
- Corporate loans	5 626 017	-	714 840	**6 340 857**
- Loans to individuals - car loans	2 832 659	-	9 199	**2 841 858**
- Loans to individuals - other consumer loans	1 314 860	-	-	**1 314 860**
- Loans to individuals – mortgage loans	1 197 371	-	-	**1 197 371**
Investment securities	355 821	2 716 759	-	**3 072 580**
Other financial assets	70 042	-	-	**70** 042
Total financial assets	**14 327 518**	**2 716 759**	**724 039**	**17 768 316**

The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2018:

In thousands of hryvnias	Financial instruments measured at amortized cost	Financial instruments at fair value through other comprehensive income	Finance lease receivables	Total
Assets				
Cash and cash equivalents	2 157 346	-	-	**2 157 346**
Due from other banks				
- Guarantee deposits	3 357	-	-	**3 357**
-Loans to other banks	5 079	-	-	**5 079**
Loans and advances to customers				
- Corporate loans	5 188 800	-	444 786	**5 633 586**
- Loans to individuals - car loans	2 305 473	-	7 293	**2 312 766**
- Loans to individuals - other consumer loans	803 832	-	-	**803 832**
- Loans to individuals – mortgage loans	897 377	-	-	**897 377**
Investment securities	890 664	2 892 620	-	**3 783 284**
Other financial assets	49 384	-	-	**49 384**
Total financial assets	**12 301 312**	**2 892 620**	**452 079**	**15 646 011**

As at 31 December 2019 and 31 December 2018, all of the Group's financial liabilities were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

34 Derivatives

Derivatives have either potentially favorable conditions (and are assets) or potentially unfavorable conditions (and liabilities) as a result of fluctuations in market interest rates, exchange rates, or other variables relative to the terms of those instruments. The total fair value of derivative financial assets and liabilities may change significantly over time.

As at 31 December 2019 the fair value of receivables or payables under the currency swap agreements entered into by the Bank by currencies is shown in the table below. The table includes contracts with the settlement date after the corresponding reporting date; the amounts under these agreements are shown expanded - before offsetting items (and payments). These agreements are short-term.

In thousands of hryvnias	**Contracts with positive fair value**	**Contracts with negative fair value**
Currency swap contracts, fair value at the reporting date		
- accounts receivable in USD (-)	71 059	-
- accounts payable in UAH (+)	70 035	-
Total	**1 024**	**-**

As at 31 December 2018 the Group did not entered into interest rate swap agreements. The fair value of derivatives is reflected in other financial assets (Note 11).

35 Related party transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As at 31 December 2019, the outstanding balances with related parties were as follows:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Correspondent accounts with other banks (interest rate: 0%)	99 813	-	-
Gross amount of loans and advances to customers	-	-	244
Loss allowances for expected credit losses	-	-	(17)
Other assets	743	-	-
Correspondent accounts and overnight placements of other banks (interest rate: 0%)	44 447	-	-
Term placements and loans from other banks (contractual interest rate: 0.15%)	475 497	-	-
Customer accounts (interest rates for deposits: 1,3-18%, for current accounts: 0-8%)	-	61 949	16 138
Due to other financial institutions (contractual interest rate: 5,51%)	-	207 965	-
Other liabilities	3 762	1	22 060

The income and expense items on transactions with related parties for 2019 were as:

In thousands of hryvnias	**Parent company**	**Entities under common control**	**Key management personnel**
Interest income	-	-	68
Interest expense	(9 744)	(9 198)	(815)
Other income	-	29	8
Loss allowances for expected credit losses	-	-	(1)
Fee and commission income	-	133	149
Fee and commission expense	(2 938)	-	1
Other expenses	(557)	(1 527)	-

35 Related party transactions (continued)

As at 31 December 2019, other rights and obligations with related parties were as follows:

In thousands of hryvnias	Parent company	Entities under common control	Key management personnel
Loan commitments received	716 780	-	-
Other commitments granted	-	-	925
Other rights received	-	-	-
Collateral received	-	-	1 675

Loan commitments received relate to the undrawn borrowing facilities received from the Parent Bank PKO Bank Polski S.A. denominated in USD and maturity in November 2020 with interest rate at the level of 1m LIBOR + 5%.

Total amounts of loans granted to related parties and repaid by them in 2019 are presented below:

In thousands of hryvnias	Parent company	Entities under common control	Key management personnel
Amounts repaid by related parties during the period	-	-	(1 222)

As at 31 December 2018, the outstanding balances with related parties were as follows:

In thousands of hryvnias	Parent company	Entities under common control	Key management personnel
Correspondent accounts with other banks (interest rate: 0%)	5 849	-	-
Gross amount of loans and advances to customers	-	-	590
Loss allowances for expected credit losses	-	-	15
Other assets	180	-	-
Correspondent accounts and overnight placements of other banks (interest rate: 0,3%)	907 556	-	-
Term placements and loans from other banks (contractual interest rate: 5,51%)	259 863	-	-
Customer accounts (interest rates for deposits: 15,5-18%, for current accounts: 0-6%)	-	62 490	329
Due to other financial institutions (interest rate - 18%)	-	5 340	-
Other liabilities	724	6 171	19 696

The income and expense items on transactions with related parties for 2018 were as:

In thousands of hryvnias	Parent company	Entities under common control	Key management personnel
Interest income	-	-	71
Interest expense	(13 327)	(9 420)	(7)
Other income	232	46	6
Loss allowances for expected credit losses	-	-	(258)
Fee and commission income	-	120	57
Fee and commission expense	(2 980)	-	-
Other expenses	(2 170)	(2 514)	-

As at 31 December 2018, other rights and obligations with related parties were as follows:

In thousands of hryvnias	Parent company	Entities under common control	Key management personnel
Loan commitments received	838 019	-	-
Other commitments granted	17 275	-	146
Other rights received	17 285	-	-
Collateral received	1 384	-	4 058

35 Related party transactions (continued)

Total amounts of loans granted to related parties and repaid by them in 2018 are presented below:

In thousands of hryvnias	Parent company	Entities under common control	Key management personnel
Amounts repaid by related parties during the period	-	-	(259)

Key management personnel remuneration amounts are presented below:

	2019		2018	
In thousands of hryvnias	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
- Salaries	26 220	2 176	22 301	1 756
- Annual bonus	11 794	19 800	14 184	17 875
- Termination bonus	-	-	-	-
Social insurance contributions	1 293	80	992	65
Total	**39 307**	**22 056**	**37 477**	**19 696**

Short-term benefits fall due wholly within twelve months after the end of the period in which management rendered related services.

Expenses for bonuses for 2019 include an accrued liability of UAH 11 726 thousand (2018: UAH 14 184 thousand).

36 Subsequent events

Changes in operating environment of the Group in 2020 are described in Note 2.

Approved for issue and signed on behalf of the Management Board on April 14, 2020.

Jerzy Jacek Szugajew
Acting Chairman of the Management Board

Vasyl Lototsky
Chief Accountant

АКЦІОНЕРНЕ ТОВАРИСТВО «КРЕДОБАНК»
KredoBank
09807862
АТ «КРЕДОБАНК» у м. Львів

Responsible employee: O. Lisnyy (tel. 032 297 27 82)