KREDOBANK Group

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

31 December 2018

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INDEPENDENT AUDITORS' REPORT

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Independent Auditors' Report

To Management Board of the Joint Stock Company "Kredobank"

Report on audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Joint Stock Company "Kredobank" and its subsidiaries (hereinafter "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material aspects, the consolidated financial position of the Group as at 31 December 2018, 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 Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor: Joint-Stock Company KPMG Audit, a company incorporated under the Laws of Ukraine, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

EDRPOU Code 31032100.

Entry to Register of Auditors and Audit Firms: Certificate No. 2397

Address: 32/2 Moskovska Str. 17th floor, Kyiv, 01010 Ukraine

Number, series and issue date of Certificate of entry to Register of Authorised Auditors of Securities Market Professional Participants issued by the National Commission on Securities and Stock Market: Series П № 000344 dated 25 January 2016.

Number and issue date of NBU Certificate of Entry to Authorised Banking Auditors #0000012 dated 17 September 2012

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 judgement, 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 on loans and advances to customers	
See Note 9 to the consolidated financial statements.	
Key audit matter	***How the matter was addressed in our audit***
Loans and advances granted to customers represent 57% of total assets and are stated net of provision for expected credit losses ("the ECL") estimated on a regular basis and sensitive to the assumptions used. On 1 January 2018, the Group started to use a new model for estimating expected credit losses, which requires management to apply professional judgment and to make assumptions about the following key areas: — timely identification of a significant increase in credit risk and default events related to loans granted to customers (attributing to stages 1, 2 and 3 in accordance with IFRS 9); — assessment of the default probability (PD) and loss given default (LGD), forecast information incorporated in ECL estimation; — estimate of expected flows from the loans granted to customers, attributed to stage 3. Due to the significant amount of loans granted to customers, the transition to the new model of ECL, as well as the uncertainty inherent in estimating the reserve for the ECL, the said matter is a key audit matter.	We analyzed the basic aspects of the Group methodology and policies for assessing its compliance with IFRS 9 requirements, including through the involvement of specialists in the field of financial risk management. In order to analyze the adequacy of the professional judgments applied by management and the assumptions made when calculating the allowance for expected loan losses, we also performed the following audit procedures: — Tested the design of controls over timely attribution of loans to the Stages; — Based on a sample of loans, where the potential change in the ECLs estimate may have a significant effect on the consolidated financial statements and were individually assessed for impairment, we have tested if the Bank attributed the appropriate stage by analyzing the financial and non-financial information for the selected borrowers, as well as the assumptions and professional judgments made by the Group; — For the sample of loans that were attributed to the Stage 3 and were individually assessed for impairment, and focusing on those that had the greatest potential impact on the consolidated financial statements, we additionally assessed the basis underlying the future cash flows based on our understanding and also taking into account the available market information; — For the loans granted to the customers, which ECLs the Group estimates on a collective basis, we tested the principles of the models operation and their application by checking the mathematical accuracy of the calculations, and also tested input data to those models by reconciliation with the primary documents on a sample basis; — We assessed the overall predictability power of the models used by the Group to estimate the ECL by comparing the assessment made on 1 January 2018, against the actual results for 2018;

	—Analyzed the forecast information included in the calculation of ECL. We also ensured that the disclosures in the consolidated financial statements adequately reflect the Group exposure to credit risk and impact of transition to IFRS 9 in part of expected credit losses.

Other Information

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

- the Bank's Management Report as at and for the year ended 31 December 2018 (that does not include the consolidated financial statements and our independent auditor's report thereon), which we obtained prior to the date of this auditors' report;
- the Annual information disclosed and reported to the National Commission on Securities and Stock Market disclosed and reported to the National Commission on Securities and Stock Market (hereinafter "the Commission"), which is expected to be made available to us after that date.

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 identified above and, in doing so, consider whether this 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 on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 judgement 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 system of internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 the requirements of Article 14(4) of the Law of Ukraine on "*Audit of the Financial Statements and the Audit Activity*" we provide the following information in our Independent Auditors' Report, which is required in addition to the requirements of ISAs.

Appointment of the Auditor and Period of Engagement

We were appointed by the Supervisory Board on 22 June 2017 to audit the consolidated financial statements of the Group as at and for the year ended 31 December 2018. Our total uninterrupted period of audit engagements is 4 years, covering the years ended 31 December 2015 to 31 December 2018.

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 the Financial Statements and the Audit Activity*" were provided.

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

Additional Report to the Supervisory Board

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

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

Anna Parkhomenko

Certified Auditor

Banking Auditor Certificate # 0085 issued 29 December 2009

Deputy Director

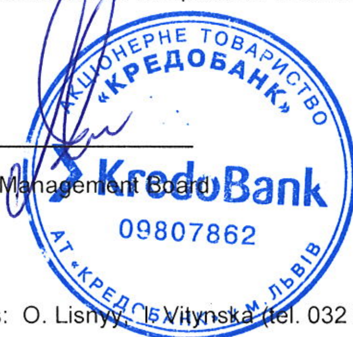
JSC KPMG Audit

28 March 2019

In thousands of hryvnias	Note	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	7	2 157 346	2 322 054
Due from other banks	8	8 436	15 370
Loans and advances to customers	9	9 647 561	7 917 370
Investment securities	10	3 783 284	3 109 690
Current income tax prepayment		150	1 018
Deferred income tax asset	28	30 496	19 734
Investment property	11	22 170	14 592
Intangible assets	12	103 281	84 555
Premises, leasehold improvements and equipment	12	871 152	748 956
Other financial assets	13	49 384	34 688
Other non-financial assets	14	122 789	101 589
Total assets		**16 796 049**	**14 369 616**
Liabilities			
Due to other banks	15	2 281 407	1 887 935
Customer accounts	16	11 953 144	10 892 632
Due to other financial institutions	17	165 851	107 865
Debt securities	18	304 076	4 759
Current income tax liabilities		12 900	20 313
Other financial liabilities	19	147 587	55 104
Other non-financial liabilities	20	137 766	102 645
Total liabilities		**15 002 731**	**13 071 253**
Equity			
Share capital	21	2 248 969	2 248 969
Accumulated deficit		(640 095)	(1 084 705)
Revaluation reserve for premises		108 275	110 536
Revaluation reserve for investment securities at fair value through other comprehensive income		76 169	23 563
Total equity		**1 793 318**	**1 298 363**
Total liabilities and equity		**16 796 049**	**14 369 616**

Approved for issue and signed on behalf of the Management Board on March 28, 2019.

* The Group initially applied IFRS 9 from January 1, 2018. According to the selected transition method, comparative information was not recalculated (Note 5). As a result of the transition to IFRS 9, the Group changed the presentation of some articles, the presentation of comparative information was changed accordingly (Note 3).



M. Vashchuk
Acting Chairman of the Management Board

Vasyl Lototsky
Chief Accountant

Responsible employees: O. Lisnyy, I. Vitynska (tel. 032 297 27 82)

In thousands of hryvnias	Note	2018	2017
Interest income calculated using the effective interest method	23	1 778 724	1 504 277
Other interest income	23	74 363	29 114
Interest expense	23	(554 983)	(457 338)
Net interest income		**1 298 104**	**1 076 053**
Fee and commission income	24	575 476	479 861
Fee and commission expense	24	(139 066)	(91 297)
Gains less losses from trading in foreign currencies		25 073	60 092
Foreign exchange translation result		17 783	(16 692)
Gain (loss) arising from derecognition of investment securities at fair value through other comprehensive income		3 713	1 430
Gain (loss) arising from derecognition of financial assets at amortized cost		(3 840)	-
Estimation of expected credit losses	25	(99 164)	(174 762)
Provisions for other nonfinancial assets	14	(3 833)	2 522
Commitment provision	33	(15 819)	(8 520)
Other operating income	26	23 708	31 245
Employee payments expenses	27	(436 423)	(363 768)
Depreciation costs	12	(170 027)	(110 465)
Administrative and other operating expenses	27	(495 538)	(408 708)
Profit before tax		**580 147**	**476 991**
Income tax expense for the year	28	(110 176)	(92 463)
Profit for the year		**469 971**	**384 528**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Debt 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	22	35 647	-
- Net change in the fair value of investment securities at fair value through other comprehensive income transferred to net profit and loss	22	(7 543)	-
Investment securities available for sale			
- Net change in the fair value of investment securities available-for-sale	22	-	11 034
- Net change in the fair value of investment securities available-for-sale transferred to profit or loss	22	-	2 406
Other comprehensive income for the year		**28 104**	**13 440**
Total comprehensive income for the year		**498 075**	**397 968**
Basic and diluted profit per share attributable to shareholders of the Group (UAH per share)	29	0,0021	0,0017

Approved for issue and signed on behalf of the Management Board on March 28, 2019.

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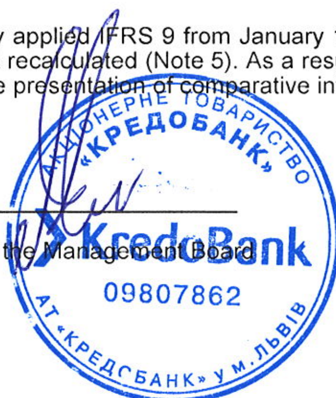

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Chief Accountant

Responsible employees: O. Lisnyy, I. Vitynska (tel. 032 297 27 82)

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 1 January 2017		**2 248 969**	**10 123**	**125 624**	**(1 484 321)**	**900 395**
Profit for the year		-	-	-	384 528	384 528
Other comprehensive income	22	-	13 440	-	-	13 440
Total comprehensive income for 2017		-	13 440	-	384 528	397 968
Transfer of revaluation surplus on premises to accumulated deficit upon disposal of premises and amortization of revaluation surplus		-	-	(15 088)	15 088	-
Balance at 31 December 2017		**2 248 969**	**23 563**	**110 536**	**(1 084 705)**	**1 298 363**
Impact of adopting IFRS 9	5	-	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	22	-	28 104	-	-	28 104
Total comprehensive income for 2018		-	28 104	-	469 971	498 075
Transfer of revaluation surplus on premises to accumulated deficit upon disposal of premises and amortization of revaluation surplus		-	-	(2 261)	2 261	-
Balance at 31 December 2018		**2 248 969**	**76 169**	**108 275**	**(640 095)**	**1 793 318**

Approved for issue and signed on behalf of the Management Board on March 28, 2019.

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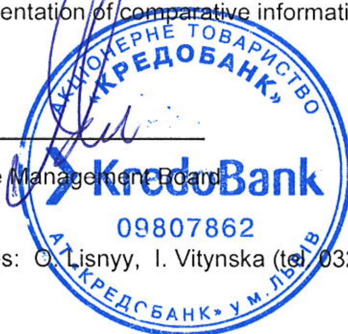
In thousands of hryvnias	Note	2018	2017
Cash flows from operating activities			
Interest received		1 918 321	1 504 610
Interest paid		(539 531)	(446 706)
Fees and commissions received		573 682	485 374
Fees and commissions paid		(139 066)	(91 297)
Income received from trading in foreign currencies		25 073	60 092
Other operating income received		20 666	21 818
Staff costs paid		(426 626)	(347 468)
Administrative and other operating expenses paid		(462 404)	(394 433)
Income tax paid		(124 300)	(58 801)
Cash flows from operating activities before changes in operating assets and liabilities		**845 815**	**733 189**
Net decrease in due from other banks		7 724	25 457
Net increase in loans and advances to customers		(1 774 588)	(2 274 335)
Net increase in other financial and non-financial assets		(41 207)	(2 986)
Net increase in due to other banks		451 399	495 653
Net increase in customer accounts		1 096 709	2 403 047
Net increase/(decrease) in other financial and non-financial liabilities		61 530	(1 066)
Net cash from operating activities		**647 382**	**1 378 959**
Cash flows from investing activities			
Acquisition of investment securities		(4 484 771)	(1 302 003)
Proceeds from disposal and redemption of investment securities		3 700 295	1 434 457
Acquisition of premises and equipment	12	(268 586)	(254 547)
Proceeds from disposal of premises and equipment		11 381	29 043
Acquisition of intangible assets	12	(62 310)	(53 184)
Net cash used in investing activities		**(1 103 991)**	**(146 234)**
Cash flows from financing activities			
Repayment of subordinated debt		-	(539 253)
Proceeds from other financial institutions	17	54 389	105 400
Proceeds from the debt securities issue	18	291 100	250 000
Redemption of issued debt securities	18	-	(245 300)
Net cash from/(used in) financing activities		**345 489**	**(429 153)**
Effect of exchange rate changes on cash and cash equivalents		**(53 588)**	**139 130**
Net (decrease)/increase in cash and cash equivalents		**(164 708)**	**942 702**
Cash and cash equivalents at the beginning of the year		2 322 054	1 379 352
Cash and cash equivalents at the end of the year	7	**2 157 346**	**2 322 054**

Approved for issue and signed on behalf of the Management Board on March 28, 2019.

* The Group initially applied IFRS 9 from January 1, 2018. According to the selected transition method, comparative information was not recalculated (Note 5). As a result of the transition to IFRS 9, the Group changed the presentation of some articles, the presentation of comparative information was changed accordingly (Note 3).



M. Vashchuk
Acting Chairman of the Management Board

Vasyl Lototsky
Chief Accountant

Responsible employees: O. Lisnyy, I. Vitynska (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 2018 for Joint-Stock Company "Kredobank" (the "Bank") and its subsidiary – "Finance Company Idea Capital" Limited Liability Company (together the "Group"). As at 31 December 2018 and 31 December 2017 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 2018 and 31 December 2017, 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 Treasury 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 Treasury of Poland. As at 31 December 2018, PKO BP S.A. owns 100% of shares of the Bank (31 December 2017: 99.6293%).

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 and General License #43-2 issued on 19 December 2016, 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 2018, the Bank has 93 outlets (in 2017 – 102 outlets) in Ukraine.

The strategic goal of the Bank is to ensure a target level of return on capital (> 20%), 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

1 Introduction (continued)

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

2 Operating environment of the Group

In 2018 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. According to preliminary data, 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.

Real GDP increased by 3.1% in the 1 Quarter of 2018, by 3.8% - in the 2 Quarter of 2018 and by 2.8% - in the 3 Quarter of 2018, 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.

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 as the result of which the discount rate was 14.5% as at 31 December 2017.

Since the beginning of the 2018 NBU has continued to increase the discount rate. As a result of increase the discount rate was 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. As a result, consumer inflation began to slow down and was 9.8% in December.

2 Operating environment of the Group (continued)

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 - hryvnia deposits grew by 19.4% over the year 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 increase in corporate deposits in the banking sector, deposits in the retail segment also increased.

In general, the growth of clients' funds in Ukrainian banks amounted to 3.8% y/y in 2018, with an aggregate loan portfolio growth of 5.6% y/y (according to NBU operational data). Loans to individuals in hryvnias grew at the highest rates – by 31.5% y/y. It means that consumer loans remain the driver of the credit activity of banks.

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 December 2018 credit rating of Ukraine assigned by Moody's was increased to the level of Caa1 with the stable forecast for the future which reflects the achievement of a future cooperation agreement with the IMF, favorable expectations for some reforms and improvement in international relations. Further stabilization of the economic and political situation depends on the structural reforms implementation by the government and other factors.

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 (2017: investment securities available for sale) and investment securities at fair value through profit or loss. 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 (refer to Note 5).

This is the first set of the consolidated financial statements in preparation of which IFRS 9 "Financial Instruments" and IFRS 15 "Customer Revenue" have been applied. Changes to significant accounting policies are described in Note 5.

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 analyzed 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. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise.

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

3 Significant accounting policies (continued)

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 (See Note 34).

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

Policy applicable from 1 January 2018

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;
- maintaining the required level of regulatory capital;
- external factors not influenced by the Group.

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.

3 Significant accounting policies (continued)

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.

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.

Financial assets at fair value through other comprehensive income are revalued after accrual of interest and depreciation of a discount / premium.

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.

3 Significant accounting policies (continued)

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.

Policy applicable before 1 January 2018

The Group classified financial assets as following:

- loans and receivables;
- held to maturity;
- available for sale; and
- measured at fair value through profit or loss, and within this category as:
  - held for trading; and
  - designated as at FVTPL.

Refer to Note 3 (m), (n).

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 the transaction. All other transactions in the acquisition of financial instruments are recognized when the entity becomes a party to the contract to purchase the financial instrument.

3 Significant accounting policies (continued)

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.

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.

From 1 January 2018 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.

3 Significant accounting policies (continued)

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 is 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).

g) Modification of financial instruments

Policy applicable from 1 January 2018

Financial assets

Modified financial assets – 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.

To determine the type of modification and its consequences, a quantitative and qualitative analysis of changes in terms of the contract is conducted. In the absence of the qualitative changes listed below, only quantitative analysis is performed by assessing the difference between discounted at the initial effective rate of cash flows from the original loan agreement and the modified (new) cash flows. Provided that this difference does not exceed 10%, the modification is insignificant. This criterion does not apply in the case of modifications of financial assets that are in the process of restructuring and are impaired.

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.

3 Significant accounting policies (continued)

In case any criteria is met, modification is considered significant.

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.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. 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.

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 loans, where 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. Consideration 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.

Policy applicable before 1 January 2018

Financial assets

If the terms of a financial asset were modified, then the Group evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see Note 3(f)) and a new financial asset was recognised at fair value.

3 Significant accounting policies (continued)

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate (see Note 3(h)).

Financial liabilities

The Group derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were 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.

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

Policy applicable from 1 January 2018

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 will be measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the 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; and
- *financial guarantee contracts:* the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

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.

3 Significant accounting policies (continued)

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.

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 fulfill 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.

3 Significant accounting policies (continued)

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 analysing 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;
- based on data developed internally and obtained from external sources;
- 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:

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

These parameters are derived from internally developed statistical models. 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.

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.

3 Significant accounting policies (continued)

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 unemployment and dynamics of the calculated wages, including per 1 employee, that contributed to positive dynamics of allowance for expected credit losses on loans and advances to customers in 2018. 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 2018 and 1 January 2018:

Macroeconomic indicator	01.01.2018	01.01.2019	01.01.2020	01.01.2021	01.01.2022
Wages of employees (in % to prior period)	135,5	121	115	114,6	114,6
Unemployment rate (%)	1,4	1,5	1,5	1,5	1,5
Monthly average wages per 1 employee (in % to prior year)	137,1	122,4	115,2	115,2	115,2

As at 31 December 2018 the Group incorporates 3 forward-looking scenarios, weighted by 15.9% for optimistic, 68.2% for base and 15.9% for pessimistic scenarios (1 January 2018: 10%, 50% and 40% respectively). Management of the Group believes that forward-looking information has a positive impact on allowance for expected credit losses on loans and advances to customers.

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 “Result of expected credit losses estimation” in the 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.

3 Significant accounting policies (continued)

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.

Policy applicable before 1 January 2018

Impairment of financial assets carried at amortised cost and financial assets available for sale. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The key factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is an objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower’s financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- changes to contract with borrower in respect of extension of maturity, changes in payment schedule, payment schemes and other changes to initial contractual terms due to the borrower’s financial difficulties.

For the purposes of collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

3 Significant accounting policies (continued)

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows after revision of the credit agreement terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss allowance after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Impairment requirements for financial assets available for sale are disclosed in Note 3(n).

i) Interest income and expense

Policy applicable from 1 January 2018

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.

3 Significant accounting policies (continued)

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 (or impairment allowance before 1 January 2018).

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 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 statement of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

Policy applicable before 1 January 2018

Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income on impaired financial assets is recognised at the carrying value using the effective interest rate used to discount the future cash flows for the purpose of measuring the impairment loss of the financial asset.

3 Significant accounting policies (continued)

Presentation

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

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI.

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

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 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 recorded 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.

3 Significant accounting policies (continued)

m) Loans and advances to customers

Policy applicable from 1 January 2018

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

- 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.

Policy applicable before 1 January 2018

Loans and advances to customers were recorded when the Group advanced money to purchase or originate an unquoted non-derivative receivable from a customer, including financial leases, due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

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

n) Investment securities

Policy applicable from 1 January 2018

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.

Policy applicable before 1 January 2018

Investment securities available-for-sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available-for-sale at the time of purchase.

Investment securities available-for-sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of investment securities available-for-sale.

The amount of the cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Investment securities held-to-maturity. This classification includes non-derivative financial assets quoted at the active market with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment security is not classified as a held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held-to-maturity as of that classification as at the end of each reporting period. Investment securities held-to-maturity are carried at amortised cost.

Due to banks. Due to banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

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

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)).

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 as follows:

- from 1 January 2018: 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; and

- before 1 January 2018: at the higher the amount representing the initial fair value amortised over the life of the guarantee or the commitment and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

The Group has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

- *from 1 January 2018:* the Group recognises a loss allowance (Note 3 (h));
- *before 1 January 2018:* the Group recognised a provision in accordance with IAS 37.

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

3 Significant accounting policies (continued)

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.

One and 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, including transaction costs, and subsequently remeasured at fair value updated 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.

Starting from 2012, land and buildings are recorded 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 restated to the revalued amount of the asset.

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.

3 Significant accounting policies (continued)

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 (2017: up to 10 years).

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.

Financial leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, such an asset is classified as financial lease and receivables which is equal to the net investment value of the lease, and is recognised as loans and advances to customers.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Ukrainian legislation enacted or substantively enacted by the end of 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.

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.

3 Significant accounting policies (continued)

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 2018 UAH	31 December 2017, UAH
1 US dollar (USD)	27,6883	28,0672
1 Euro (EUR)	31,7141	33,4954
1 zloty (PLN)	7,3706	8,0117
1 Russian Rouble (RUB)	0,3983	0,4870

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 financial statements based on the ultimate domicile of the counterparty. The ultimate domicile and the actual place of business of the counterparties generally coincide.

3 Significant accounting policies (continued)

u) Changes in presentation

As a result of adoption of IFRS 9 the Group changed presentation of certain captions in the Consolidated Statement of Financial Position for the year ended 31 December 2017: “Available-for-sale financial assets” and “Held-to-maturity investments” were presented within “Investment securities” line item. The effect of changes in presentation of the consolidated statement of financial position as at 31 December 2017 is as follows:

In thousands of hryvnias	**As previously reported**	**Effect of reclassifications**	**As reclassified**
Investment securities available for sale	1 924 325	(1 924 325)	-
Investment securities held to maturity	1 185 365	(1 185 365)	-
Investment securities	-	3 109 690	3 109 690

The effect of changes in presentation of the consolidated statement of profit or loss and other comprehensive income as a result of adoption of IFRS 9 and to align presentation of prior year with current year items for the year ended 31 December 2017 is as follows:

In thousands of hryvnias	**As previously reported**	**Effect of reclassifications**	**As reclassified**
Interest income	1 533 391	(1 533 391)	-
Interest income calculated using the effective interest method	-	1 504 277	1 504 277
Other interest income	-	29 114	29 114
Gains less losses from disposal of investment securities available for sale	1 430	(1 430)	-
Gain (loss) arising from derecognition of investment securities at fair value through other comprehensive income	-	1 430	1 430
Provision for loan impairment	(175 034)	175 034	-
Provision for other financial and non-financial assets	2 661	(2 661)	-
Provision for credit related commitments	(8 387)	8 387	-
Provisions for other nonfinancial assets	-	2 522	2 522
Result of expected credit losses estimation	-	(174 762)	(174 762)
Commitment provision	-	(8 520)	(8 520)
Administrative and other operating expenses	(882 941)	474 233	(408 708)
Employee benefit costs	-	(363 768)	(363 768)
Amortization costs	-	(110 465)	(110 465)

The effect of changes in presentation of the consolidated statement of cash flows for the year ended 31 December 2017 is as follows:

In thousands of hryvnias	**As previously reported**	**Effect of reclassifications**	**As reclassified**
Acquisition of investment securities available for sale	(1 302 003)	(1 302 003)	-
Acquisition of investment securities	-	1 302 003	1 302 003
Proceeds from disposal and redemption of investment securities available for sale	912 071	(912 071)	-
Proceeds from redemption of investment securities held to maturity	522 386	(522 386)	-
Proceeds from disposal and redemption of investment securities	-	1 434 457	1 434 457

v) Presentation of 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 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 statement of financial position which combines contractual amounts to be recovered or settled:

3 Significant accounting policies (continued)

In thousands of hryvnias	31 December 2018			31 December 2017		
	Amounts to be recovered or settled per contract			Amounts to be recovered or settled per contract		
	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	2 157 346	-	2 157 346	2 322 054	-	2 322 054
Due from other banks	8 436	-	8 436	11 857	3 513	15 370
Loans and advances to customers	4 453 697	5 193 864	9 647 561	3 539 947	4 377 423	7 917 370
Investment securities at fair value through other comprehensive income (2017 - available for sale)	1 836 377	1 056 243	2 892 620	1 020 647	903 678	1 924 325
Investment securities at amortized cost (2017 - held to maturity)	755 405	135 259	890 664	1 185 365	-	1 185 365
Current income tax prepayment	150	-	150	1 018	-	1 018
Deferred income tax asset	-	30 496	30 496	-	19 734	19 734
Investment property	-	22 170	22 170	-	14 592	14 592
Intangible assets	-	103 281	103 281	-	84 555	84 555
Premises, leasehold improvements and equipment	-	871 152	871 152	-	748 956	748 956
Other financial assets	48 151	1 233	49 384	34 688	-	34 688
Other non-financial assets	122 789	-	122 789	101 589	-	101 589
Total assets	**9 382 351**	**7 413 698**	**16 796 049**	**8 217 165**	**6 152 451**	**14 369 616**
Liabilities						
Due to other banks	2 281 407	-	2 281 407	1 887 935	-	1 887 935
Customer accounts	11 861 944	91 200	11 953 144	10 754 682	137 950	10 892 632
Due to other financial institutions	165 851	-	165 851	8 094	99 771	107 865
Debt securities*	304 076	-	304 076	4 759	-	4 759
Current income tax liabilities	12 900	-	12 900	20 313	-	20 313
Other financial liabilities	147 581	6	147 587	55 104	-	55 104
Other non-financial liabilities	137 766	-	137 766	102 645	-	102 645
Total liabilities	**14 911 525**	**91 206**	**15 002 731**	**12 833 532**	**237 721**	**13 071 253**

* Debt securities are stated based on the date of offerta.

4 Critical accounting estimates, and judgements in applying accounting policies

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

Applicable to 2018:

- classification of financial assets: an assessment of the business model in which a financial asset is held and an assessment whether contractual terms of a financial asset are solely payments of principal and interest – Note 3 (d).

- expected credit losses (impairment) of financial instruments: an assessment whether there has been a significant increase in the credit risk of an asset since its initial recognition and the inclusion of forecast information in the expected credit losses estimation – Note 3 (h), 4.

Applicable for 2017:

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in a decrease/increase in loans and advances to customers and an increase/decrease in loan impairment losses by UAH 16 728 thousand (2017 - by UAH 26 436 thousand).

Applicable to 2018 and 2017:

Valuation of own use premises. As stated in Note 3, buildings held by the Group are subject to revaluation on a regular basis. The valuation 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. When performing the valuation, certain judgements and estimates were applied in determining the comparable premises to be used in a sales comparison approach. As the difference between the carrying value and market value of the buildings was insignificant as at 31 December 2018 and 31 December 2017, no revaluation was recorded in accounting. Change in such assumptions may have an impact on fair value of assets. If real estate prices increased/decreased by 10%, fair value of premises would have increased/decreased by UAH 26 900 thousand (2017: UAH 30 000 thousand).

5 Adoption of new or revised standards and interpretations

The Group has initially adopted IFRS 9, issued in July 2014, from 1 January 2018. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. Due to the transition methods chosen by the Group in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The effect of initially applying this standard is mainly attributed to increase in impairment losses recognised on financial assets (see below).

The Group has initially adopted IFRS 15 from 1 January 2018. The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group.

IFRS 9 «Financial instruments»

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: *Recognition and Measurement.* The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 *'Presentation of Financial Statements'*, which requires separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method, and separate presentation of gain (loss) arising from derecognition of financial assets at amortized cost. Previously, the Group disclosed these amounts in notes to the consolidated financial statements.

Additionally, the Group has adopted consequential amendments to IFRS 7 'Financial Instruments: Disclosures' that are applied to disclosures about 2018 but have not been applied to the comparative information. The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of Financial assets and Financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under IFRS 9, see Note 3(d).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies financial liabilities under IFRS 9 see Note 3(d).

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Group applies the impairment requirements of IFRS 9, see Note 3(h).

5 Adoption of new or revised standards and interpretations (continued)

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented as at and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2017 under IFRS 9.

The Group used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present ‘interest income calculated using the effective interest rate’ as a separate line item in the statement of profit or loss and other comprehensive income, the Group has reclassified comparative interest income on non-derivative debt financial assets measured at FVTPL and net investments in finance leases to ‘other interest income’ and changed the description of the line item from ‘interest income’ reported in 2017 to ‘interest income calculated using the effective interest method’. Other changes in financial statements are described in Note 3 (v).

- The following assessments have been made on the basis of the facts and circumstances that exist at the date of initial application:
  - The determination of the business model within which a financial asset is held;
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Impact of adopting IFRS 9 on financial instruments classification

Changes in accounting policies which are described above impact the classification and estimation of financial instruments as at 1 January 2018 as following:

- Loans and advances to customers and banks classified as loans and receivables and measured at amortised cost in accordance with IAS 39 - are measured at amortised cost in accordance with IFRS 9.
- Investment securities held to maturity and measured at amortised cost in accordance with IAS 39 – are measured at amortised cost in accordance with IFRS 9.
- Debt investment securities available for sale in accordance with IAS 39 – are measured at FVOCI in accordance with IFRS 9.
- Equity investments available for sale in accordance with IAS 39 - are measured at FVOCI in accordance with IFRS 9.
- Classification of financial liabilities has not changed as a result of IFRS 9 adopting.

5 Adoption of new or revised standards and interpretations (continued)

Categories of measurement of financial instruments in accordance with IAS 39 and new categories in accordance with IFRS 9 as at 1 January 2018 are presented as follows:

In thousands of hryvnias	Measurement categories - IAS 39	Measurement categories - IFRS 9	Carrying value - IAS 39	Carrying value - IFRS 9
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortized cost	2 322 054	2 321 431
Due from other banks	Loans and receivables	Amortized cost	15 370	15 147
Loans and advances to customers	Loans and receivables	Amortized cost	7 917 370	7 934 011
- loans to customers	Loans and receivables	Amortized cost	7 709 170	7 724 904
- financial lease receivables	-	-	208 200	209 107
Investment securities available for sale	Financial assets available for sale	Fair value through other comprehensive income	1 924 325	1 924 325
Investment securities held to maturity	Financial assets held to maturity	Amortized cost	1 185 365	1 180 950
Other financial assets	Loans and receivables	Amortized cost	34 688	34 688
Total financial assets			**13 399 172**	**13 410 552**
Financial liabilities				
Due to other banks	Amortized cost	Amortized cost	1 887 935	1 887 935
Customer accounts	Amortized cost	Amortized cost	10 892 632	10 892 632
Due to other financial institutions	Amortized cost	Amortized cost	107 865	107 865
Debt securities	Amortized cost	Amortized cost	4 759	4 759
Other financial liabilities	Amortized cost	Amortized cost	55 104	72 787
Total financial liabilities			**12 948 295**	**12 965 978**

5 Adoption of new or revised standards and interpretations (continued)

The table below shows the impact on changes in the carrying amount of financial instruments for the adopting of IFRS 9 classification and measurement requirements:

In thousands of hryvnias	31 December 2017 IAS 39	Reclassifi-cation	Measurement changes	1 January 2018 IFRS 9	Impact on accumulated deficit	Impact on revaluation reserve
Financial assets						
Cash and cash equivalents	2 322 054	-	(623)	2 321 431	(623)	-
Due from other banks	15 370	-	(223)	15 147	(223)	-
Loans and advances to customers	7 917 370	-	16 641	7 934 011	16 641	-
Investment securities available for sale IAS 39 / Investment securities at fair value through other comprehensive income IFRS 9	1 924 325	-	-	1 924 325	(24 502)	24 502
Investment securities held to maturity IAS 39 / Investment securities at amortized cost IFRS 9	1 185 365	-	(4 415)	1 180 950	(4 415)	-
Other financial assets	34 688	-	-	34 688	-	-
Total financial assets	**13 399 172**	**-**	**11 380**	**13 410 552**	**(13 122)**	**24 502**
Financial liabilities						
Due to other banks	1 887 935	-	-	1 887 935	-	-
Customer accounts	10 892 632	-	-	10 892 632	-	-
Due to other financial institutions	107 865	-	-	107 865	-	-
Debt securities	4 759	-	-	4 759	-	-
Other financial liabilities	55 104	-	17 683	72 787	(17 683)	-
Total financial liabilities	**12 948 295**	**-**	**17 683**	**12 965 978**	**(17 683)**	**-**

The Group reclassified the Ukrainian bank bonds recognized as insolvent in previous reporting periods in the amount before impairment of UAH 23,261 thousand, and carrying amount equal to zero from the category "Investment securities available for sale" into the category of "amortized cost".

The change in the amount of allowance for loan impairment losses under IAS 39 and IFRS 9 is presented below:

In thousands of hryvnias	31 December 2017 IAS 39/ IAS 37	Includes accrued interest income adjustments for impaired loans	Reclassifi-cation	Measurement changes	1 January 2018 IFRS 9	Impact on accumulated deficit
Financial assets						
Cash and cash equivalents	1 177	-	-	623	1 800	(623)
Due from other banks	-	-	-	223	223	(223)
Loans and advances to customers	934 630	(3 188)	-	(16 641)	914 801	16 641
Investment securities available for sale IAS 39 / Investment securities at fair value through other comprehensive income IFRS 9	23 261	-	(23 261)	24 502	24 502	(24 502)
Investment securities held to maturity IAS 39 / Investment securities at amortized cost IFRS 9	-	-	23 261	4 415	27 676	(4 415)
Other financial assets	8 587	-	-	-	8 587	-
Total financial assets	**967 655**	**(3 188)**	**-**	**13 122**	**977 589**	**(13 122)**
Financial liabilities						
Other financial liabilities - provision for credit related commitments	104	-	-	17 683	17 787	(17 683)
Total financial liabilities	**104**	**-**	**-**	**17 683**	**17 787**	**(17 683)**

5 Adoption of new or revised standards and interpretations (continued)

Including accrued interest income adjustments for impaired loans in the amount of UAH 3 188 thousand includes increase in allowance for the amount of unwinding of interest in the amount of UAH 22 529 thousand, which, in accordance with IAS 39, reduced the carrying amount before deducting the allowance for impairment, as well as write-off part of the impaired interest for the amount of 25 717 thousand UAH, for which no return is expected.

The general effect of adopting IFRS 9 requirements to capital components considering changes in the deferred tax asset as at 1 January 2018 is presented below:

In thousands of hryvnias	Revaluation reserve for investment securities at fair value through other comprehensive income	Accumulated deficit
Balance at 31 December 2017	**23 563**	**(1 084 705)**
Recognition of loss allowances for expected credit losses		
Cash and cash equivalents	-	(623)
Due from other banks	-	(223)
Loans and advances to customers	-	16 641
Investment securities available for sale IAS 39 / Investment securities at fair value through other comprehensive income IFRS 9	24 502	(24 502)
Investment securities held to maturity IAS 39 / Investment securities at amortized cost IFRS 9	-	(4 415)
Other financial liabilities - provision for credit related commitments	-	(17 683)
Deferred tax asset	-	3 183
Balance at 1 January 2018	**48 065**	**(1 112 327)**

6 New accounting pronouncements

A number of new standards and changes to standards will take effect for annual periods beginning after January 1, 2019, with the possibility of their early application. However, the Group did not apply new standards and changes to standards for the preparation of these consolidated financial statements. Among those standards that have not yet entered into force, IRFS 16 will have a significant impact on the Group's financial statements for the first application period.

(a) IFRS 16 Leases

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 16 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

6 New accounting pronouncements (continued)

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

The Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

The Group has assessed the potential impact on its consolidated financial statements resulting from the application of IFRS 16 as described below. The real impact resulting from the application of IFRS 16 on 1 January 2019 can be changed because:

- the Group has not yet finished the testing of its new controlling information systems; and
- new accounting policies may change until the Group presents its first financial statements, including the date of the first application.

Leases in which the Group is a lessee

The Group has completed the initial assessment of the possible impact of applying IFRS 16 to its consolidated financial statements, but has not yet completed a detailed assessment. The actual impact of the application of IFRS 16 on the consolidated financial statements in the first application period will depend on future economic conditions, the composition of the lease contract portfolio, the Group's assessment of whether it intends to exercise its rights to extend the lease, and which of the available simplifications in the standard of a practical nature and exemptions from recognition the Group decides to apply.

The Group will recognize new assets and liabilities under operating leases of office premises. In addition, the nature of the costs recognized in relation to these lease contracts will change as, in accordance with IFRS 16, instead of operating lease expenses recognized on a straight-line basis over the term of the relevant contract, the Group will have to reflect depreciation charges in the form of the right to use and interest expense relating to lease liabilities.

Previously, the Group recognized the operating lease costs on a straight-line basis over the entire duration of the lease and recognized the assets and liabilities only to the extent that there was a difference between the actual payouts for the lease and the recognized expenses.

Based on available information, the Group determines that as at 1 January 2019 lease obligations will amount to UAH 115 925 thousand. As at 1 January 2019 the Group plans to recognize the right to use an asset in the amount of UAH 117 771 thousand, which is equal to the lease obligation, adjusted for the amount of the advance paid or leased charges related to this lease, recognized in the statement of financial position just before the date of the first application.

Leases in which the Group is a lessor

The Group does not expect any material impact on the financial lease on which the Group is a lessor.

(b) Other standards

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

- *IFRIC 23 Uncertainty over Income Tax Treatments;*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);*
- *Amendments to IAS 19 – plan amendment, curtailment or settlement;*
- *Annual Improvements to IFRSs 2015-2017 Cycle – different standards;*
- *Amendments to the references in IFRS to the Conceptual Framework for Financial Statements;*
- *IFRS 17 Insurance Contracts.*

7 Cash and cash equivalents

In thousands of hryvnias	2018	2017
Cash on hand	463 881	355 870
Cash balances on correspondent accounts with the NBU	470 312	464 525
Correspondent accounts with other banks	972 855	1 270 563
Deposit certificates issued by the NBU	250 460	172 185
Placements with other banks with original maturities of less than three months	-	60 088
Loss allowances for expected credit losses (2017 - impairment allowance)	**(162)**	**(1 177)**
Total cash and cash equivalents	**2 157 346**	**2 322 054**

As at 31 December 2018 and 2017 the Bank was in compliance with the mandatory reserve requirements.

As at 31 December 2018, the Group's cash and cash equivalents for the purposes of the statement of cash flows amounted to UAH 2 157 346 thousand (as at 31 December 2017: UAH 2 322 054 thousand).

Interest rate analysis of cash and cash equivalents is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

As at 31 December 2018, the credit quality of cash and cash equivalents based on Moody's ratings is summarised as follows:

In thousands of hryvnias	Assets with 12-month expected credit losses (Stage 1)	Total
Cash balances on correspondent accounts with the NBU	**470 312**	**470 312**
Deposit certificates issued by the NBU	**250 460**	**250 460**
Correspondent accounts with other banks:		
- Aa1 - Aa3 rated	829 002	**829 002**
- A1 - A3 rated	119 581	**119 581**
- Baa1 - Baa3 rated	5 179	**5 179**
- Ba1 - Ba3 rated	3 991	**3 991**
- B1 – B3 rated	-	**-**
- Unrated	15 102	**15 102**
Loss allowances for expected credit losses	**(162)**	**(162)**
Total cash and cash equivalents, excluding cash on hand	**1 693 465**	**1 693 465**

7 Cash and cash equivalents (continued)

As at 31 December 2017, the credit quality of cash and cash equivalents based on Moody's ratings is summarised as follows:

In thousands of hryvnias	Cash balances with the NBU	Correspondent accounts with other banks	Deposit certificates issued by the NBU	Placements with other banks with original maturities of less than three months	Total
Neither past due nor impaired					
- National Bank of Ukraine	464 525	-	172 185	-	636 710
- Aa1 – Aa3 rated	-	765 304	-	-	765 304
- A1 - A3 rated	-	462 984	-	-	462 984
- Baa1 - Baa3 rated	-	32 625	-	-	32 625
- Ba1 - Ba3 rated	-	5	-	-	5
- B1 – B3 rated	-	7 348	-	-	7 348
- Unrated	-	1 120	-	60 088	61 208
Total neither past due nor impaired	**464 525**	**1 269 386**	**172 185**	**60 088**	**1 966 184**
Impaired					
- Unrated	-	1 177	-	-	1 177
Total impaired	**-**	**1 177**	**-**	**-**	1 177
Less: impairment provisions	**-**	**(1 177)**	**-**	**-**	(1 177)
Total cash and cash equivalents, excluding cash on hand	**464 525**	**1 269 386**	**172 185**	**60 088**	**1 966 184**

As at 31 December 2018, the Group had a concentration of balances on current accounts with other credit institutions of UAH 885 754 thousand due from three largest banks with credit ratings of investment grade (as at 31 December 2017 – UAH 1 129 228 thousand).

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

In thousands of hryvnias	Note	Loss allowances for 12-months expected credit losses	Provision for credit-impaired assets	Total
Loss allowances for expected credit losses at 1 January 2018		**623**	**1 177**	**1 800**
Remeasurement of loss allowance for expected credit losses	25	132	-	132
Financial assets that have been derecognised	25	(548)	-	(548)
New financial assets originated	25	1	-	1
Write-offs		-	(963)	(963)
Effect of exchange rate of foreign currency		(46)	(214)	(260)
Loss allowances for expected credit losses at 31 December 2018		**162**	**-**	**162**

8 Due from other banks

In thousands of hryvnias	**2018**	**2017**
Guarantee deposits	3 387	9 219
Loans from banks	5 211	6 151
Loss allowances for expected credit losses	(162)	-
Total due from other banks	**8 436**	**15 370**

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 2018 are 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 credit quality of due from banks outstanding as at 31 December 2017 based on Moody's ratings is as follows:

In thousands of hryvnias	**Loans from banks**	**Guarantee deposits**	**Total**
Neither past due nor impaired			
- A2 rated	-	5 694	5 694
- Unrated	6 151	3 525	9 676
Total due from other banks	**6 151**	**9 219**	**15 370**

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 for expected credit losses	25	(5)	(1)	**(6)**
Financial assets that have been derecognised	25	(408)		**(408)**
New financial assets originated	25	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 31.

9 Loans and advances to customers

In thousands of hryvnias	**2018**	**2017**
Corporate loans	5 981 571	5 182 800
Loans to individuals - car loans	2 397 813	2 221 548
Loans to individuals - mortgage loans	970 721	881 514
Loans to individuals - other consumer loans	978 552	566 138
Loss allowances for expected credit losses (2017 - provision for loan impairment)	(681 096)	(934 630)
Total loans and advances to customers	**9 647 561**	**7 917 370**

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**
New originated loans during the year	25	186 855	11	2 362	-	**189 228**
Net remeasurement of loss allowance for expected credit losses**	25	(284 452)	127 119	35 776	(4 809)	**(126 366)**
Write-offs and sales		(55)	(38)	(301 479)	(7 036)	**(308 608)**
Adjustment for interest income from credit-impaired loans		(516)	(78)	3 290	396	**3 092**
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 loan 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 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 2018 the Group made the assignment of claims of clients debts in the amount of UAH 101 554 thousand. At the time of the assignment, the net carrying amount was UAH 6 396 thousand.

9 Loans and advances to customers (continued)

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 2018, but remain the subject of enforcement activity, is UAH 217 170 thousand (in 2017 - UAH 598 thousand).

Movements in the provision for loan impairment during 2017 are as follows:

In thousands of hryvnias	Corporate loans	Car loans	Other consumer loans	Mortgage loans	Total
Provision for loan impairment at 1 January 2017	**443 672**	**148 832**	**74 292**	**247 990**	**914 786**
Provision for impairment during the year	55 985	32 411	70 821	25 878	**185 095**
Loans and advances to customers sold and forgiven during the year	(57 428)	(57 753)	(29 588)	(22 639)	**(167 408)**
Amounts written off during the year as uncollectible	(6 003)	-	(86)	(1 012)	**(7 101)**
Effect of exchange rate of foreign currency	8 192	112	(40)	994	**9 258**
Provision for loan impairment at 31 December 2017	**444 418**	**123 602**	**115 399**	**251 211**	**934 630**

The allowance for loan impairment for 2017 differs from the amount recognized in profit or loss before changes in the format of financial statements due to the first adoption of IFRS 9 for 2017, in connection with the repayment of loans that were written off as uncollectible in prior periods, in the total amount of UAH 10 061 thousand. This amount was recognized directly as a decrease in the provision in profit and loss statement for the financial year (prior to the change in the financial statements in connection with the first application of IFRS 9).

During 2017 the Group made the assignment of claims of clients debts in the amount of UAH 173 006 thousand. At the time of the assignment the net carrying amount was UAH 11 820 thousand.

During 2017 the Group purchased credit-impaired loans amounting to UAH 76 101 thousand at a price of UAH 62 472 thousand.

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

	2018		2017	
In thousands of hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	4 347 086	42	3 669 200	42
Agriculture and food processing	2 030 938	20	1 680 162	19
Trade	1 592 813	15	1 331 696	15
Manufacturing	1 504 938	15	1 449 095	16
Other services	404 414	4	306 187	4
Transportation	131 625	1	104 334	1
Real estate and construction	125 966	1	104 358	1
Health resorts	88 146	1	110 288	1
Mining	17 723	-	5 179	-
Hotels	16 050	-	374	-
Sports and recreation services	558	-	132	-
Financial services	243	-	3 036	-
Other	68 157	1	87 959	1
Total loans and advances to customers (before expected credit losses/before impairment)	**10 328 657**	**100**	**8 852 000**	**100**

As at 31 December 2018, the total gross carrying value of top 10 borrowers of the Group was UAH 705 294 thousand (31 December 2017: UAH 767 097 thousand), or 7% of the loan portfolio before expected credit losses (31 December 2017: 9% of the loan portfolio before impairment).

As at 31 December 2018, loans and advances to customers in the amount of UAH 374 753 thousand (31 December 2017: UAH 229 731 thousand) were secured by deposits in the amount of UAH 435 232 thousand (31 December 2017: UAH 270 200 thousand). See Note 16.

9 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 corporate clients	**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**

9 Loans and advances to customers (continued)

As at December 31, 2018, loss allowances for expected credit losses for impaired loans in the Stage 3 includes UAH 76 631 thousand of loss allowances for expected credit losses on impaired loans convertible from currencies to UAH and vice versa (January 1, 2018: UAH 116 671 thousand). The gross carrying amount of such loans as at 31 December 2018 amounted to UAH 90 634 thousand (31 December 2017: UAH 140 641 thousand).

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

Credit quality analysis of the loans outstanding as at 31 December 2017 is presented below:

In thousands of hryvnias	Corporate loans	Car loans	Other consumer loans	Mortgage loans	Total
Neither past due nor impaired	**4 644 394**	**2 096 040**	**493 230**	**600 894**	**7 834 558**
Past due but not impaired					
- less than 30 days overdue	31 263	15 650	21 185	4 492	72 590
- 30 to 90 days overdue	5 074	12 204	10 573	1 972	29 823
- 91 to 180 days overdue	1	-	414	-	415
- 181 to 360 days overdue	12	-	119	-	131
- over 360 days overdue	3	-	87	1 034	1 124
Total past due but not impaired	**36 353**	**27 854**	**32 378**	**7 498**	**104 083**
Loans individually recognized as impaired					
- not yet past due	120 651	5 941	4 373	57 974	188 939
- less than 30 days overdue	658	679	178	171	1 686
- 30 to 90 days overdue	1 406	594	438	3 473	5 911
- 91 to 180 days overdue	14 259	10 648	17 937	4 524	47 368
- 181 to 360 days overdue	43 176	16 386	7 975	7 479	75 016
- over 360 days overdue	321 903	63 406	9 629	199 501	594 439
Total loans recognized as impaired	**502 053**	**97 654**	**40 530**	**273 122**	**913 359**
Less: impairment provisions	**(444 418)**	**(123 602)**	**(115 399)**	**(251 211)**	**(934 630)**
Total loans and advances to customers	**4 738 382**	**2 097 946**	**450 739**	**630 303**	**7 917 370**

As at 31 December 2017 the Group applied the portfolio provisioning methodology prescribed by IAS 39 *Financial Instruments: Recognition and Measurement*, and created provisions for impairment losses on individually impaired loans and collectively impaired loans that, based on past events for loans with similar characteristics, were incurred, but could not yet be specifically identified with any individual loan by the reporting date. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified.

Past due but not impaired loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

9 Loans and advances to customers (continued)

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

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

The information on the collateral in the table above includes financial lease receivables. Namely, in the amount of loans secured by other assets, included financial lease receivables by legal entities in the amount of UAH 451 112 thousand and UAH 7 540 thousand - individuals (car loans).

As at 31 December 2018 mortgage loans amounting to UAH 79 993 thousand are currency mortgages subject to specific requirements of the Ukrainian legislation regarding collateral foreclosure.

Information on collateral as at 31 December 2017 is summarised below:

In thousands of hryvnias	**Corporate loans**	**Car loans**	**Consumer loans**	**Mortgage loans**	**Total**
Unsecured loans	772 599	158 938	563 164	164 828	1 659 529
Loans collateralised by:					
- cash deposits	229 304	-	427	-	229 731
- residential real estate	120 979	-	511	668 252	789 742
- other real estate	2 056 241	-	928	45 888	2 103 057
- other assets	2 003 677	2 062 610	1 108	2 546	4 069 941
Total loans and advances to customers (before impairment)	**5 182 800**	**2 221 548**	**566 138**	**881 514**	**8 852 000**

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.

9 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**	**Carrying value of the assets**	**Fair value of collateral**
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**

The effect of collateral on individually impaired loans as at 31 December 2017 is summarised below:

	Over-collateralised assets		Under-collateralised assets	
In thousands of hryvnias	**Carrying value of the assets**	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	75 394	104 498	121 635	110 561
Mortgage loans	16 641	24 208	20 871	13 603
Consumer loans	928	1 026	26	-
Car loans	-	-	3 505	3 371
Total	**92 963**	**129 732**	**146 037**	**127 535**

For remaining 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 31. 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.

9 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**

The table below summarizes reconciliation between gross investments in lease and present value of minimal lease payments as at 31 December 2017:

In thousands of hryvnias	**Gross investment in lease**	**Present value of minimum lease payments**	**Unrealized financial income**
Finance lease receivables			
- less than 1 year	126 355	92 874	33 481
- from 1 to 5 years	152 526	117 799	34 727
- over 5 years	3 588	2 592	996
Less: impairment provisions	**(5 065)**	**(5 065)**	**-**
Total after deduction of provision for impairment	**277 404**	**208 200**	**69 204**

The Group's assets located in the Autonomous Republic of Crimea and the territories out of control of the Ukrainian authorities in eastern part of Ukraine (i.e. part of Donetsk and Lugansk regions) include loans and advances to customers:

In thousands of hryvnias	**31 December 2018**	**31 December 2017**
In Donetsk and Lugansk regions		
- loan indebtedness	2 863	24 287
- loss allowances for expected credit losses/provision for loan impairment	(2 753)	(24 287)
- carrying value of loans	110	-
In AR Crimea		
- loan indebtedness	3 532	34 803
- loss allowances for expected credit losses/provision for loan impairment	(3 401)	(34 532)
- carrying value of loans	131	271

Refer to Note 34 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 31. Information on related party balances is disclosed in Note 36.

Modified financial assets

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

In thousands of hryvnias	**2018**
Financial assets modified during the period	
Amortised cost before modification	161 262
Net modification loss	(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

10 Investment securities

In thousands of hryvnias	Note	31 December 2018	31 December 2017
Investment securities at fair value through other comprehensive income			
Ukrainian government bonds		2 892 610	-
Corporate shares		10	-
			-
Total investment securities at fair value through other comprehensive income		2 892 620	-
Investment securities at amortized cost			
Ukrainian government bonds		913 738	-
Corporate bonds	5	23 261	-
Loss allowances for expected credit losses		(46 335)	-
Total investment securities at amortized cost		890 664	-
Investment securities available for sale			
Ukrainian government bonds		-	1 924 295
Corporate bonds	5	-	-
Corporate shares		-	30
Total investment securities available for sale		-	**1 924 325**
Investment securities held to maturity - Ukrainian government bonds		**-**	**1 185 365**
Total investment securities		**3 783 284**	**3 109 690**

As at 31 December 2018, sovereign credit rating of Ukraine assigned by Standard & Poor's is B- (31 December 2017: B-).

The Group pledged government bonds with a total nominal value of UAH 55 556 thousand as collateral under loan obtained from the German-Ukrainian Fund, the fair value of bonds provided as collateral as at 31 December 2018 is UAH 57 159 thousand (Note 17).

10 Investment securities (continued)

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	**5**	**24 502**	**4 415**	**28 917**
Decrease from derecognition of assets during the year	25	(9 507)	(3 050)	**(12 557)**
Increase from acquisition of assets during the year	25	31 806	15 477	**47 283**
Remeasurement of expected credit losses during the year	25	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)	5	-	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**

11 Investment property

In thousands of hryvnias	Note	2018	2017
Investment properties at fair value at 1 January		**14 592**	**10 711**
Transfers from real estate occupied by the Group	12	8 860	6 607
Transfers to real estate occupied by the Group	12	(1 269)	(2 726)
Sale		(422)	-
Net change of fair value		409	-
Investment properties at fair value at 31 December		**22 170**	**14 592**

As at 31 December 2018 and 31 December 2017, 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 26.

As at 31 December 2018 and 31 December 2017, 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 2018 and 2017 (Note 34).

12 Premises, leasehold improvements, equipment and intangible assets

In thousands of hryvnias	Note	Premises and leasehold improvements	Computer and equipment	Security systems, furniture and fixtures	Motor vehicles	Unfinished construction	Total premises, leasehold improve-ments and equipment	Computer software licences	Total
Cost at 1 January 2017		325 569	335 195	154 229	29 495	29 474	873 962	153 365	1 027 327
Accumulated depreciation		(41 705)	(153 125)	(68 418)	(11 585)	-	(274 833)	(92 036)	(366 869)
Carrying amount at 1 January 2017		**283 864**	**182 070**	**85 811**	**17 910**	**29 474**	**599 129**	**61 329**	**660 458**
Additions		29 523	106 183	101 524	12 029	5 288	254 547	53 184	307 731
Transfers		11 517	-	16 639	-	(28 578)	(422)	422	-
Disposal cost		(22 232)	(11 233)	(8 532)	-	-	(41 997)	(1 628)	(43 625)
Disposal – accumulated depreciation		4 993	10 887	6 258	-	-	22 138	1 626	23 764
Depreciation charge		(12 332)	(36 720)	(26 366)	(4 669)	-	(80 087)	(30 378)	(110 465)
Transfers to investment property	11	(6 607)	-	-	-	-	(6 607)	-	(6 607)
Transfers to financial leases		-	-	-	-	(471)	(471)	-	(471)
Transfers from investment property	11	2 726	-	-	-	-	2 726	-	2 726
Carrying amount at 31 December 2017		**291 452**	**251 187**	**175 334**	**25 270**	**5 713**	**748 956**	**84 555**	**833 511**
Cost at 31 December 2017		340 496	430 145	263 860	41 524	5 713	1 081 738	205 343	1 287 081
Accumulated depreciation		(49 044)	(178 958)	(88 526)	(16 254)	-	(332 782)	(120 788)	(453 570)
Carrying amount at 31 December 2017		**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)	(14 729)	(1 463)	-	(32 251)	(1 330)	(33 581)
Disposal – accumulated depreciation		3 068	6 627	9 237	1 417	-	20 349	1 140	21 489
Depreciation charge		(16 486)	(52 733)	(50 814)	(5 779)	-	(125 812)	(44 215)	(170 027)
Transfers to investment property and leases	11	(8 860)	-	-	-	(264)	(9 124)	-	(9 124)
Transfers from investment property	11	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	317 604	44 482	2 611	1 309 397	267 144	1 576 541
Accumulated depreciation		(62 462)	(225 064)	(130 103)	(20 616)	-	(438 245)	(163 863)	(602 108)
Carrying amount at 31 December 2018		**316 429**	**340 745**	**187 501**	**23 866**	**2 611**	**871 152**	**103 281**	**974 433**

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

As at 31 December 2018, the cost of fully depreciated equipment that is still in use is UAH 126 221 thousand (31 December 2017: UAH 94 877 thousand), and the cost of fully amortized intangible assets that are still in use is UAH 81 427 thousand (31 December 2017: UAH 20 056 thousand).

As at 31 December 2018 and 31 December 2017, 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 are measured at market value as at 31 December 2018. Premises were not revalued in accounting, as the difference between carrying value and market value of the premises was not significant as at 31 December 2018 and 31 December 2017. The valuation was based on a comparative sales method and was carried out by the internal valuer who holds relevant professional qualification and has recent experience in valuation of property of similar location and category. For each real estate property from four to five 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 valuer 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.

If the assets were recognized at cost less depreciation, the carrying value of the premises would amount to UAH 183 265 thousand as at 31 December 2018 (31 December 2017: UAH 149 150 thousand).

13 Other financial assets

In thousands of hryvnias	2018	2017
Receivables from operations with customers and banks and other	22 426	18 458
Receivables from operations with plastic cards	21 026	14 674
Accrued income receivable	8 204	6 410
Non-confirmed cash	3 404	3 733
Loss allowances for expected credit losses (2017 - provision for loan impairment)	(5 676)	(8 587)
Total other financial assets	**49 384**	**34 688**

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	25	(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 2018 is UAH 83 thousand.

13 Other financial assets (continued)

Movements in the provision for impairment of other financial assets during 2017 are as follows:

In thousands of hryvnias	Note	Accrued income receivable	Non-confirmed cash	Receivables from operations with clients and banks	Total
Provision for impairment at 1 January 2017		**9 051**	**4 780**	**-**	**13 831**
Provision for impairment during the year	25	577	(1 036)	320	(139)
Amounts written off during the year as uncollectible		(5 094)	(12)	-	(5 106)
Effect of exchange rate of foreign currency		-	1	-	1
Provision for impairment at 31 December 2017		**4 534**	**3 733**	**320**	**8 587**

Receivables from operations with customers and banks in the amount of UAH 22 097 thousand and receivables from operations with plastic cards in the amount of 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.

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 lifetime expected credit losses (Stage 2)					
- 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**

13 Other financial assets (continued)

Analysis by credit quality of other financial assets at 31 December 2017 is as follows:

In thousands of hryvnias	**Accrued income receivable**	**Receivables from operations with customers and banks**	**Receivables from operations with plastic cards**	**Non-confirmed cash**	**Total**
Neither past due nor impaired	1 186	18 138	14 674	-	**33 998**
Total neither past due nor impaired	**1 186**	**18 138**	**14 674**	**-**	**33 998**
Receivables individually determined to be impaired (gross)					
- not yet past due	-	320	-	3 733	4 053
- less than 30 days overdue	77	-	-	-	77
- 31 to 90 days overdue	477	-	-	-	477
- 91 to 180 days overdue	552	-	-	-	552
- 181 to 360 days overdue	1 313	-	-	-	1 313
- over 360 days overdue	2 805	-	-	-	2 805
Total individually impaired (gross)	5 224	320	-	3 733	9 277
Less impairment provision	**(4 534)**	**(320)**	**-**	**(3 733)**	**(8 587)**
Total other financial assets	**1 876**	**18 138**	**14 674**	**-**	**34 688**

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 collateralised.

Information on related party balances is disclosed in Note 36.

14 Other non-financial assets

In thousands of hryvnias	2018	2017
Prepaid expenses	50 262	32 864
Prepayments for goods and unfinished construction	35 918	48 504
Inventory	29 639	8 647
Prepaid taxes other than income tax	4 974	229
Prepayment for services	5 437	13 404
Repossessed collateral and assets held for sale	1 612	1 612
Receivables from settlements with employees and other	1 601	1 609
Provision for impairment of other non-financial assets	(6 654)	(5 280)
Total other non-financial assets	**122 789**	**101 589**

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	2018	2017
Provision for impairment at 1 January	**5 280**	**8 449**
Provision for impairment during the year	3 833	(2 522)
Amounts written off during the year as uncollectible	(2 439)	(692)
Effect of exchange rate of foreign currency	(20)	45
Provision for impairment at 31 December	**6 654**	**5 280**

15 Due to other banks

In thousands of hryvnias	2018	2017
Correspondent accounts and overnight placements of other banks	2 016 870	1 431 054
Term placements and loans from other banks	259 863	456 881
Funds in settlements for escrow operations	4 674	-
Total due to other banks	**2 281 407**	**1 887 935**

As at 31 December 2018, term deposits and loans include UAH 259 863 thousand (as at 31 December 2017: UAH 263 436 thousand) received from PKO BP S.A. and correspondent accounts and overnight deposits of other banks include UAH 907 556 thousand (31 December 2017: UAH 749 221 thousand) of balances on accounts of PKO BP S.A.

As at 31 December 2018, the Group has pledged the following assets and equity instruments as collateral for borrowings:

- Property rights for cash and deposits placed with the Bank in amount of UAH 2 043 thousand (31 December 2017: UAH 1 758 thousand);
- 100% of the Bank's rights for participant's capital belonging in subsidiary (31 December 2017: 100%);
- Property rights for all debts purchased by the Bank's subsidiary in the amount of UAH 22 691 thousand (31 December 2017: UAH 60 729 thousand).

Refer to Note 34 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 31. Information on related party balances is disclosed in Note 36.

16 Customer accounts

In thousands of hryvnias	2018	2017
Legal entities		
- Current/settlement accounts	4 282 231	4 076 017
- Term deposits	1 873 280	1 841 486
Individuals		
- Current/demand accounts	2 106 679	1 683 617
- Term deposits	3 690 954	3 291 512
Total customer accounts	**11 953 144**	**10 892 632**

Economic sector concentrations within customer accounts are as follows:

	2018		2017	
In thousands of hryvnias	**Amount**	**%**	**Amount**	**%**
Individuals	5 797 633	48	4 975 129	46
Other services	1 437 771	12	1 225 817	11
Manufacturing	1 144 689	10	1 192 681	11
Trade	973 081	8	1 157 986	11
Financial services	821 790	7	760 798	7
Real estate	502 956	4	454 736	4
Agriculture	246 530	2	230 564	2
Transport and communication	235 238	2	176 195	2
Other	793 456	7	718 726	6
Total customer accounts	**11 953 144**	**100**	**10 892 632**	**100**

As at 31 December 2018, the Group had 122 customers (31 December 2017: 114 customers) with balances above UAH 10 000 thousand each. The aggregate balance on accounts of these customers was UAH 3 042 512 thousand (31 December 2017: UAH 2 951 936 thousand), or 25% (31 December 2017: 27%) of total customer accounts.

As at 31 December 2018, included in customer accounts are deposits of UAH 35 055 thousand (31 December 2017: UAH 10 914 thousand) held as collateral for guarantees issued. Refer to Note 33.

As at 31 December 2018, included in current accounts of individuals are prepayments at loan agreements totalling UAH 45 498 thousand that are not due (31 December 2017: UAH 105 861 thousand).

As at 31 December 2018, included in customer accounts are deposits totalling UAH 435 232 thousand (31 December 2017: UAH 270 200 thousand) held as collateral for loans granted to customers totalling UAH 374 753 thousand (31 December 2017: UAH 229 731 thousand). Refer to Note 9.

Refer to Note 34 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 31. Information on related party balances is disclosed in Note 36.

17 Due to other financial institutions

In thousands of hryvnias	Note	2018	2017
German-Ukrainian Foundation		102 501	102 465
European Fund for Southeast Europe		58 010	-
Other	36	5 340	5 400
Total other financial institutions		**165 851**	**107 865**

In October 2017, the Group received a loan for a term of two years from the German-Ukrainian Fund (GUF) in the amount of 100,000 thousand hryvnias at the rate of UIRD 3 months. (UIRD - Ukrainian Index of Retail Deposit Rates) multiplied by a factor of 0.774, which is 10.42% as at 31 December 2018 (31 December 2017: 12.123%). 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 55 556 thousand as collateral under loan obtained, the fair value of bonds provided as collateral as at 31 December 2018 is UAH 57 159 thousand (31 December 2017: UAH 57 684 thousand (see Note 10).

As at 31 December 2018 the Bank did not comply with the actual average arithmetic value of the LCR in foreign currency and the LCR in foreign currency at the end of 2018, which was 38.3% and 42.92% respectively, with a normative value of at least 50%. Compliance with the NBU standards is one of the mandatory non-financial conditions (covenants) under the agreement with the German-Ukrainian Fund as at 31 December 2018. Accordingly, as at 31 December 2018, the creditor may demand repayment of the entire amount of the debt, and the Group has classified the funds received from the German-Ukrainian Fund in the amount of UAH 102,501 thousand as a “on demand loan”. As at the date of issue of these consolidated financial statements, the creditor did not apply to the Group with a requirement to prepay this amount of debt.

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 addition, the Fund purchased Groups’ debt securities in the amount of UAH 250 000 thousand (Note 18). 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 2018 amounted to UAH 15 660 thousand (2017: UAH 2 715 thousand). Interest payments were UAH 12 063 thousand (2017: interest payments were not made). Principal payments amounted to UAH 500 thousand in 2018.

Category other includes a loan received from a company under common control (see Note 36). Refer to Note 34 for the disclosure of the fair value of due to other financial institutions.

18 Debt securities

In thousands of hryvnias	Note	2018	2017
Balance at 1 January		**4 759**	**-**
Bonds issue		291 100	250 725
Bonds redemption		-	(247 802)
Interest expense	23	22 743	1 836
Interest paid		(14 526)	-
Balance at 31 December		**304 076**	**4 759**

In November 2017 the Group performed placement of bonds of series «A» with a total nominal value of UAH 250 000 thousand. These bonds were partly redeemed till 31 December 2017.

As at the date of issue of these consolidated financial statements, these bonds were afloat and were included in the stock exchange listing of such stock exchanges: PUBLIC JOINT-STOCK COMPANY "UKRAINIAN EXCHANGE" and PUBLIC JOINT STOCK COMPANY "STOCK EXCHANGE" PERSPECTYVA".

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

Refer to Note 34 for the disclosure of the fair value of debt securities.

19 Other financial liabilities

Other financial liabilities are presented as follows:

In thousands of hryvnias	Note	2018	2017
Funds in settlements		73 851	24 533
Other accrued liabilities		56 461	30 433
Provision for credit related commitments	33	11 024	104
Accounts payable under factoring agreement	36	6 000	-
Other		251	34
Total other financial liabilities		**147 587**	**55 104**

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 33.

Refer to Note 34 for disclosure of fair value of each class of other financial liabilities.

20 Other non-financial liabilities

Other non-financial liabilities are presented as follows:

In thousands of hryvnias	2018	2017
Accrued employee benefit costs	80 779	70 947
Commitment provision	21 857	9 313
Amounts payable to Individuals' Deposits Guarantee Fund	12 003	8 592
Deferred income	11 596	5 307
Taxes payable other than on income tax	10 740	5 928
Other	791	2 558
Total other non-financial liabilities	**137 766**	**102 645**

Movements in the provision for other non-financial liabilities is disclosed in Note 33.

21 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 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

The share capital of the Bank amounts to UAH 2 248 969 thousand (2017: UAH 2 248 969 thousand).

As at 31 December 2018, the total number of issued shares, at which the reports on placement results were registered, comprised 224 896 946 916 (31 December 2017: 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 2018 all ordinary shares were fully paid and registered.

21 Share capital (continued)

The Group's shareholder structure is presented below:

Shareholder	2018	2017
PKO BP S.A.	100,00%	99,63%
Other (resident and non-resident shareholders)	0,00%	0,37%
Total	**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").

22 Other comprehensive income recognized in equity

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

In thousands of hryvnias	Note	Revaluation reserve for securities at fair value through other comprehensive income (2017: Revaluation reserve for securities available for sale)	Revaluation reserve for premises	Total
Year ended 31 December 2017				
Investment securities available for sale:				
- Net change in the fair value of investment securities available-for-sale		11 034	-	11 034
- Net change in fair value of investment securities available-for-sale transferred to profit or loss		2 406	-	2 406
Total other comprehensive income		**13 440**	**-**	**13 440**
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 and loss		(7 543)	-	(7 543)
Total other comprehensive income		**28 104**	**-**	**28 104**

23 Interest income and expense

In thousands of hryvnias	2018	2017
Interest income		
Loans and advances to individuals	832 417	593 468
Loans and advances to legal entities	798 069	657 599
Investment securities at fair value through other comprehensive income (2017 - available for sale)	161 590	163 136
Investment securities at amortized cost (2017 - held to maturity)	42 184	106 567
Due from other banks	12 927	6 325
Deposit certificates issued by the NBU	5 900	6 296
Total interest income	**1 853 087**	**1 533 391**
Interest expense		
Customer accounts of individuals	274 124	254 791
Customer accounts of legal entities	207 540	155 261
Due to other banks	49 754	35 297
Subordinated debt	-	10 020
Debt securities (Note 18)	22 743	1 836
Amounts due to the National Bank of Ukraine	822	119
Other	-	14
Total interest expense	**554 983**	**457 338**
Net interest income	**1 298 104**	**1 076 053**

Interest income on impaired financial assets amounts to UAH 57 832 thousand for 2018 (2017: UAH 56 053 thousand).

Information on interest income and expense on transactions with related parties is disclosed in Note 36.

24 Fee and commission income and expense

In thousands of hryvnias	2018	2017
Fee and commission income		
Cash and settlement transactions	441 305	367 146
Purchase and sale of foreign currency	105 773	91 788
Agency fee from insurance companies	14 115	7 725
Guarantees issued and other documentary	4 505	3 187
Other	9 778	10 015
Total fee and commission income	**575 476**	**479 861**
Fee and commission expense		
Cash and settlement transactions	137 841	90 260
Received guarantees and other documentary	808	680
Transactions with securities	402	347
Other	15	10
Total fee and commission expense	**139 066**	**91 297**
Net fee and commission income	**436 410**	**388 564**

Information on fee and commission income and expense on transactions with related parties is disclosed in Note 36.

25 Estimation of expected credit losses

In thousands of hryvnias	**Note**	**2018**	**2017**
Cash and cash equivalents	7	(415)	-
Due from other banks	8	(60)	-
Loans and advances to customers	9	61 120	175 034
Investment securities at fair value through other comprehensive income	10	27 955	-
Investment securities at amortized cost	10	18 885	-
Other financial assets - accrued income	13	(1 766)	577
Other financial assets - non-confirmed cash	13	-	(1 036)
Other financial assets - transactions with customers	13	72	320
Financial guarantee contracts	33	(276)	(109)
Loan commitments	33	(6 351)	(24)
Estimation of expected credit losses		**99 164**	**174 762**

Loss allowances for expected credit losses for 2018 (Note 9) includes repayment of loans written off in previous periods as uncollectible in the amount of UAH 1 742 thousand (as at 31 December 2017 – UAH 10 061 thousand).

26 Other operating income

In thousands of hryvnias	**2018**	**2017**
Penalties and fine received	6 851	5 738
Support of operations from partner companies	5 855	8 215
Income from operating leases	3 513	2 087
Gain from disposal of premises and equipment	2 450	9 427
Reimbursement of legal expenses	1 128	1 112
Enrolment in income balances on which the statute of limitations has expired	1 386	147
Insurance compensations	205	248
Income from transactions with construction financing fund	3	380
Income from purchased loans	-	2 963
Other	2 317	928
Total other operating income	**23 708**	**31 245**

27 Administrative and other operating expenses

In thousands of hryvnias	**2018**	**2017**
Wages, bonuses and other employee costs	362 550	303 421
Social contributions accrued on employee benefits	73 873	60 347
Total employee costs	**436 423**	**363 768**
Software maintenance	86 452	46 904
Operating lease expense for premises	79 624	71 143
Repair and maintenance of premises and equipment	57 469	56 579
Contributions to Individuals Deposit Guarantee Fund	43 708	33 327
Utilities	42 355	39 706
Communication	33 657	35 642
Advertising and marketing services	28 362	17 138
Professional services	27 607	22 891
Security services	26 948	21 462
Business trips	8 864	6 769
Taxes other than on income	6 626	8 904
Impairment and negative result on disposal of fixed assets	3 846	1 139
Charity	2 378	1 173
Other	47 642	45 931
Total administrative and other operating expenses	**495 538**	**408 708**

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

28 Income tax

(a) Components of income tax expense

Components of income tax expense are presented as follows:

In thousands of hryvnias	2018	2017
Current tax	117 755	85 604
Deferred tax	(7 579)	6 859
Income tax expense for the year	**110 176**	**92 463**

Profit before tax is reduced by UAH 13 122 thousand as a result of estimation changes of expected credit losses on financial assets through the adoption of IFRS 9. 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% (2017: 18%). Reconciliation of expected and actual income tax expense is presented as follows.

In thousands of hryvnias	2018	2017
Profit before tax	**580 147**	**476 991**
The theoretical amount of tax costs at the current tax rate (2018 - 18%, 2017 - 18%)	104 426	85 858
Tax effect of items which are not deductible or taxable for taxation purposes:		
- Income not recognised for tax purposes	-	(1 475)
- Costs related to debt forgiveness and formation of provisions not included for tax purposes	5 053	444
- Other costs not included for tax purposes	3 426	3 048
(Tax losses used) / Unrecognized deferred tax asset of the Group's subsidiary	(452)	1 871
Effect of accounting policies changes and other changes of temporary differences	(2 277)	2 717
Income tax expense for the year	**110 176**	**92 463**

(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 2018	Impact of adopting IFRS 9	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**

28 Income tax (continued)

In thousands of hryvnias	1 January 2017	Credited/ (charged) to profit or loss for the year	31 December 2017
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment	17 128	239	17 367
Commitment provision and other losses	8 254	(5 887)	2 367
Valuation of securities	1 211	(1 211)	-
Tax losses carried forward	9 999	1 872	11 871
Unrecognised tax asset	(9 177)	(2 694)	(11 871)
Unamortised income from initial recognition of financial instruments	(822)	822	-
Net deferred tax asset	**26 593**	**(6 859)**	**19 734**

The recognized deferred tax asset is the amount of income tax that may be credited against future income taxes and is recognized in the 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.

29 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 2018 and 31 December 2017 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	2018	2017
Profit for the year attributable to ordinary shareholders	469 971	384 528
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)	**0,0021**	**0,0017**

30 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. 371 dated 31 March 2017).

30 Segment analysis (continued)

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

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**

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 non-financial 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**

30 Segment analysis (continued)

Reportable segments for the year ended 31 December 2017 are presented as follows:

In thousands of hryvnias	Retail banking	Corporate banking	Treasury and Investment banking	Unallocated	Total
Reportable segment assets	3 179 280	4 760 120	5 448 101	982 115	**14 369 616**
Reportable segment liabilities	4 979 426	5 936 003	1 992 613	163 211	**13 071 253**
Capital expenditure	-	-	-	307 731	**307 731**

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
2017						
External revenues:						
- Interest income	593 468	657 599	282 324	-	-	**1 533 391**
- Fee and commission income	216 534	251 693	11 634	-	-	**479 861**
- Other operating income	12 455	1 287	51	17 452	-	**31 245**
Gains less losses from trading in foreign currencies	7 131	-	52 961		-	**60 092**
Gain (loss) arising from derecognition of investment securities at fair value through other comprehensive income	-	-	1 430	-	-	**1 430**
Revenues from other segments						
- Interest income	347 946	299 385	952 501	-	(1 599 832)	**-**
Total revenues	**1 177 534**	**1 209 964**	**1 300 901**	**17 452**	**(1 599 832)**	**2 106 019**
Interest expense	(723 642)	(639 165)	(694 363)	-	1 599 832	**(457 338)**
Provision for loan impairment	(129 013)	(45 888)	-	139	-	**(174 762)**
Provision for non-financial assets	-	-	-	2 522	-	**2 522**
Commitment provision	-	-	-	(8 520)	-	**(8 520)**
Fee and commission expense	(62 041)	(6 983)	(22 273)	-	-	**(91 297)**
Foreign exchange translation result	-	-	(16 692)	-	-	**(16 692)**
Employee payments expenses, depreciation costs, administrative and other operating expenses	(496 269)	(334 559)	(51 974)	(139)	-	**(882 941)**
Segment result	**(233 431)**	**183 369**	**515 599**	**11 454**	**-**	**476 991**
Income tax expense for the year						**(92 463)**
Profit for the year						**384 528**

As a result of accounting policies changes arising from the first adoption of IFRS 9 from 1 January 2018, the presentation of comparative data for 2017 in the Consolidated Statement of Profit and Loss and Other Comprehensive Income was changed (Note 3(v)).

30 Segment analysis (continued)

(e) Analysis of revenues by product and service

Analysis of Group's revenues by product and service is disclosed in Note 23 (interest income) and Note 24 (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 31 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.

31 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 statement of financial position. For guarantees and credit related commitments, the maximum exposure to credit risk is the total amount of commitments (see Note 33). 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 9.

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.

31 Financial risk management (continued)

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 1.25 million;
- Directors of independent branches have individual powers to approve new credit decisions with the limits below 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 8, 9, 10 and 13.

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.

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 2018, 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 3,98%, while the required ratio is up to 25% (31 December 2017: 5,38%).

As at 31 December 2018, 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%).

31 Financial risk management (continued)

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.

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

	At 31 December 2018				At 31 December 2017			
In thousands of hryvnias	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Deri-vatives**	**Net position**
US Dollars	4 022 096	4 148 898	(63 885)	(190 687)	3 839 239	4 121 353	(6 361)	(288 475)
EUR	2 406 912	2 420 955	1 436	(12 607)	1 596 287	1 606 050	-	(9 763)
British pounds	10 995	9 452	-	1 543	16 088	15 701	-	387
Russian roubles	29 409	25 635	-	3 774	30 090	29 963	-	127
Other	123 361	125 843	12 751	10 269	140 852	137 489	6 329	9 692

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. Except as shown in the table above as at 31 December, 2018, the Group's currency risk may arise from provisions for non-financial liabilities of USD 500 thousand and EUR 70 thousand.

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 2018		At 31 December 2017	
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% (2017: strengthening by 10%)	(15 636)	(15 636)	(23 655)	(23 655)
US dollar weakening by 10% (2017: weakening by 10%)	15 636	15 636	23 655	23 655
Euro strengthening by 10% (2017: strengthening by 10%)	(1 034)	(1 034)	(801)	(801)
Euro weakening by 10% (2017: weakening by 10%)	1 034	1 034	801	801
Russian rouble strengthening by 10% (2017: strengthening by 10%)	309	309	10	10
Russian rouble weakening by 10% (2017: weakening by 10%)	(309)	(309)	(10)	(10)
Other currencies strengthening by 10% (2017: strengthening by 10%)	969	969	826	826
Other currencies weakening by 10% (2017: weakening by 10%)	(969)	(969)	(826)	(826)

The exposure was calculated only for monetary items denominated in currencies other than Group's functional currency.

31 Financial risk management (continued)

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.

If interest rates on financial instruments with floating interest rate denominated in USD had been 200 basis points higher/lower, with all other variables remaining constant, profit for the year would have been UAH 2 227 thousand lower/higher as at 31 December 2018 (31 December 2017: profit for the year would have been UAH 2 305 thousand lower/higher), primarily due to increase/decrease in interest expense on variable interest rate liabilities.

If interest rates on financial instruments with floating interest rate denominated in EUR had been 200 basis points higher/lower, with all other variables remaining constant, profit for the year would have been UAH 13 521 thousand higher/lower as at 31 December 2018 (31 December 2017: profit for the year would have been UAH 11 378 thousand higher/lower if interest rates had been 200 basis points higher/lower), primarily due to increase/decrease in interest income on variable interest rate loans.

If interest rates on financial instruments with floating interest rate denominated in UAH had been 200 basis points higher/lower, with all other variables remaining constant, profit for the year would have been UAH 95 902 higher/lower as at 31 December 2018 (31 December 2017: profit for the year would have been UAH 59 166 thousand higher/lower if interest rates had been 200 basis points higher/lower), due to increase/decrease in interest income on variable interest rate loans.

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:

	2018				2017			
% 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%	0%	0%	0%	1%	0%	1%
- Deposit certificates issued by the NBU	18%	-	-	-	14%	-	-	-
Due from other banks	16%	-	-	-	13%	-	-	-
Loans and advances to customers								
- at fixed rate	23%	6%	5%	8%	22%	8%	6%	9%
- at variable rate	17%	7%	5%	-	19%	10%	7%	0
Investment securities at fair value through other comprehensive income (2017 - available for sale)	19%	6%	4%	-	19%	6%	4%	-
Investment securities at amortized cost (2017 - held to maturity)	-	6%	4%	-	-	8%	-	-
Liabilities								
Due to other banks								
- at fixed rate	-	-	0%	2%	13%	2%	-	-
- at variable rate	-	5%	-	-	-	4%	-	-
Due to other financial institutions								
- at fixed rate	15%	-	-	-	18%	-	-	-
- at variable rate	10%	-	-	-	12%	-	-	-
Customer accounts								
- current and settlement accounts	1%	0%	0%	0%	1%	0%	0%	0%
- Term deposits	16%	2%	0%	-	13%	2%	1%	-
Own debt securities	16%	-	-	-	15%	-	-	-

"-" 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.

31 Financial risk management (continued)

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 loss 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.

Geographical risk concentration. 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**
Credit related commitments	**109 217**	**-**	**-**	**109 217**

Assets, liabilities, and credit related commitments 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 1,167,419 thousand of liabilities due to the parent bank (Note 36).

31 Financial risk management (continued)

Geographical analysis of Group's assets and liabilities at 31 December 2017 is presented as follows:

In thousands of hryvnias	Ukraine	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	1 053 554	1 260 912	7 588	**2 322 054**
Due from other banks	9 676	5 694	-	**15 370**
Loans and advances to customers	7 916 809	227	334	**7 917 370**
Investment securities available for sale	1 924 325	-	-	**1 924 325**
Investment securities held to maturity	1 185 365	-	-	**1 185 365**
Other financial assets	34 683	2	3	**34 688**
Total financial assets	**12 124 412**	**1 266 835**	**7 925**	**13 399 172**
Non-financial assets	**963 510**	**3 995**	**2 939**	**970 444**
Total assets	**13 087 922**	**1 270 830**	**10 864**	**14 369 616**
Liabilities				
Due to other banks	875 278	1 012 657	-	**1 887 935**
Customer accounts	10 746 327	89 678	56 627	**10 892 632**
Due to other financial institutions	107 865	-	-	**107 865**
Debt securities	4 759	-	-	**4 759**
Other financial liabilities	44 191	10 821	92	**55 104**
Total financial liabilities	**11 778 420**	**1 113 156**	**56 719**	**12 948 295**
Non-financial liabilities	**122 913**	**13**	**32**	**122 958**
Total liabilities	**11 901 333**	**1 113 169**	**56 751**	**13 071 253**
Net position	**1 186 589**	**157 661**	**(45 887)**	**1 298 363**
Credit related commitments	**27 693**	**-**	**-**	**27 693**

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.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to banks, corporate and retail customer deposits, debt securities and subordinated debt. 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:

- instant liquidity ratio (N4) calculated as highly-liquid assets to current liabilities ratio. As at 31 December 2018, the ratio is 41%, with the required ratio being not less than 20% (31 December 2017: 29%, with the required ratio being not less than 20%).
- current liquidity ratio (N5) calculated as liquid assets to liabilities maturing within 31 calendar days ratio. As at 31 December 2018, the ratio is 52%, with the required ratio being not less than 40% (31 December 2017: 48%, with the required ratio being not less than 40%).
- Short-term liquidity ratio (N6) calculated as liquid assets to liabilities with one year or less maturity ratio. As at 31 December 2018, the ratio is 70%, with the required ratio being not less than 60% (31 December 2017: 69%, with the required ratio being not less than 60%).
- In 2018, the National Bank of Ukraine introduced a new prudential standard for Ukrainian banks - the Liquidity Coverage Ratio (LCR). 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. The Bank has communicated with the NBU that since January 9, 2019 the Bank complies with the LCR in foreign currency at the level of more than 50% on a daily basis and since January 24 - the average arithmetic value of the indicator for 30 days.

31 Financial risk management (continued)

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 statement of financial position, since the amounts in the 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 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**
Due to other financial institutions	106 755	73,018	-	-	**179,773**
Own 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**

31 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 2017 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	1 626 433	267 306	-	-	**1 893 739**
Customer accounts	7 384 188	3 507 092	119 690	36 662	**11 047 632**
Due to other financial institutions	1 112	16 651	109 170	-	**126 933**
Debt securities	63	5 380	-	-	**5 443**
Other financial liabilities	40 307	14 797	-	-	**55 104**
Credit related commitments	1 938 482	-	-	-	**1 938 482**
Spot and forward contracts		-	-	-	**-**
- inflows	(6 329)	-	-	-	**(6 329)**
- outflows	6 361	-	-	-	**6 361**
Total potential future payments for financial obligations	**10 990 617**	**3 811 226**	**228 860**	**36 662**	**15 067 365**

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 2018 and 2017 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
31 December 2018	392 285	2 012 117	45 275	29 764	2 479 441
31 December 2017	638 733	2 359 804	99 855	30 958	3 129 350

However, management believes based on its experience that majority of counterparties will not withdraw their deposits before maturity.

The Group monitors the following contractual maturities as at 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 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)
At 31 December 2017					
Financial assets	3 994 988	4 119 569	4 665 133	619 482	13 399 172
Financial liabilities	(9 018 972)	(3 691 602)	(207 154)	(30 567)	(12 948 295)
Net liquidity gap based on expected maturities	**(5 023 984)**	**427 967**	**4 457 979**	**588 915**	**450 877**
Spot and forward contracts					
- inflows	6 329	-	-	-	6 329
- outflows	(6 361)	-	-	-	(6 361)

31 Financial risk management (continued)

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.

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.

32 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 statement of financial position. The amount of capital that the Group managed as of 31 December 2018 was UAH 1 793 318 thousand (31 December 2017: UAH 1 298 363 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.

Effective 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 2018 the Bank's reserve amounts to UAH 80 394 thousand (31 December 2017: UAH 40 176 thousand).

In November 2017, a full repayment of the subordinated loan to PKO BP SA took place, which was taken into account for additional capital.

32 Capital management (continued)

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	2018	2017
Primary capital	1 238 745	879 995
Additional capital	567 430	530 552
Diversion	(10)	(10)
Total regulatory capital	**1 806 165**	**1 410 537**

As at December 31, 2018 and December 31, 2017, 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 2018 is 17% (December 31, 2017: 15%).

33 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 21 857 thousand as at 31 December 2018 (31 December 2017: UAH 9 313 thousand).

Changes in provisions for potential liabilities are:

In thousands of hryvnias	Note	2018	2017
Commitment provision at 1 January	**20**	**9 313**	**2 929**
Provision during the year		15 819	8 520
Amounts utilized during the year		(3 123)	(2 226)
Effect of exchange rate of foreign currency		(152)	90
Commitment provision at 31 December	**20**	**21 857**	**9 313**

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.

33 Contingencies and commitments (continued)

Capital expenditure commitments. At 31 December 2018, the Group had contractual capital expenditure commitments in respect of premises and equipment totalling UAH 7 640 thousand (31 December 2017: UAH 5 984 thousand) and in respect of intangible assets in the amount of UAH 2 754 thousand (31 December 2017: UAH 2 920 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.

Operating lease commitments. Future undiscounted cancellable and non-cancellable minimum lease payments under operating lease agreements were (gross of value added tax):

In thousands of hryvnias	**2018**	**2017**
- less than 1 year	66 388	59 215
- from 1 to 5 years	80 677	48 650
- over 5 years	18 126	11 597
Total	**165 191**	**119 462**

As at 31 December 2018 future undiscounted minimum lease payments under operating leases which the Group plans to recognize as additional lease commitments amounted to UAH 150 022 thousand (excluding short-term contracts and transactions for low-value objects). Amounts to be recognised will exclude value added tax.

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.

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 2018, all commitments to extend credits are revocable and amount to UAH 2 201 394 thousand (31 December 2017: – UAH 1 899 771 thousand).

Credit related commitments were as follows:

	As at 31 December 2018			
In thousands of hryvnias	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments	**2 197 868**	**1 000**	**2 526**	**2 201 394**
Loss allowances for expected credit losses	9 523	19	1 310	**10 852**
Carrying value (provision)	9 523	19	1 310	**10 852**
Financial guarantee contracts and letters of credit	**144 444**	**-**	**-**	**144 444**
Loss allowances for expected credit losses	172	-	-	**172**
Carrying value (provision)	172	-	-	**172**

33 Contingencies and commitments (continued)

As at 31 December 2018, commitments under guarantees and letters of credit were secured with deposits in the amount of UAH 35 055 thousand (as at 31 December 2017 - UAH 10 914 thousand) (Note 16).

Liabilities in the form of guarantees, letters of credit reduced by the amount of collateral in the form of deposits and recognized reserves for expected loan losses are denominated in the following currencies:

In thousands of hryvnias	2018	2017
UAH	106 846	16 688
EUR	2 371	11 005
Total	**109 217**	**27 693**

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 a loan commitment are presented as follows:

	2018			
In thousands of hryvnias	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan commitments and financial guarantee contracts				
Balance at 1 January	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	(17 121)	812	(464)	(16 773)
New loan commitments and financial guarantees issued	14 849	-	1 919	16 768
Loan commitments and financial guarantee contracts that have been derecognised	(5 744)	(9)	(869)	(6 622)
Foreign exchange and other movements	(140)	2	2	(136)
Balance at 31 December	**9 695**	**19**	**1 310**	**11 024**

34 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.

34 Fair value disclosures (continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that IFRS require or permit in the 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:

	2018				2017			
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	-	2 892 620	-	2 892 620	-	1 924 295	-	1 924 295
- Corporate shares	-	-	10	10	-	-	30	30
Non-financial assets								
- Premises	-	-	291 540	291 540	-	-	260 107	260 107
- Investment properties	-	-	22 170	22 170	-	-	14 592	14 592
Total assets recurring fair value measurements	-	**2 892 620**	**313 720**	**3 206 340**	**-**	**1 924 295**	**274 729**	**2 199 024**

For the years ended 31 December 2018 and 2017 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 2018:

In thousands of hryvnias	Fair value	Valuation technique	Inputs used
Assets at fair value			
Financial assets			
Investment securities at fair value through other comprehensive income			
- Ukrainian Government bonds	2 892 620	Market approach	Quoted bond prices on market for similar bonds
Total recurring fair value measurements at level 2	**2 892 620**		

There were no changes in valuation technique for level 2 recurring fair value measurements during the years ended 31 December 2018 and 2017.

34 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:

	2018				2017			
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	-	*8 436*	-	*8 436*	-	**15 370**	-	**15 370**
Loans and advances to customers	-	-	**9 747 300**	**9 647 561**	-	-	**7 973 397**	**7 917 370**
- Corporate loans		-	5 584 320	5 633 586	-	-	4 726 714	4 738 382
- Loans to individuals - consumer loans	-	-	944 918	803 832	-	-	530 126	450 739
- Loans to individuals – mortgage loans	-	-	908 069	897 377	-	-	634 955	630 303
- Loans to individuals - car loans	-	-	2 309 993	2 312 766	-		2 081 602	2 097 946
Investment securities at amortized cost	-	*898 167*	-	*890 664*	-	**1 195 637**	-	1 185 365
Other financial assets	-	**49 384**	-	**49 384**	-	**34 688**	-	**34 688**
Total	-	**955 987**	**9 747 300**	**10 596 045**	-	**1 245 695**	**7 973 397**	**9 152 793**

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

	2018				2017			
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	-	**2 280 833**	-	**2 281 407**	-	**1 883 924**	-	**1 887 935**
- Correspondent accounts of other banks	-	2 021 544	-	2 021 544	-	1 431 054	-	1 431 054
- Term placements and loans of other banks	-	259 289	-	259 863	-	452 870	-	456 881
Customer accounts	-	**11 913 858**	-	**11 953 144**	-	**10 858 354**	-	**10 892 632**
- Current/settlement accounts of legal entities	-	4 282 231	-	4 282 231	-	4 076 017	-	4 076 017
- Term deposits of legal entities	-	1 869 864	-	1 873 280	-	1 836 213	-	1 841 486
- Current/demand accounts of individuals	-	2 106 451	-	2 106 679	-	1 683 617	-	1 683 617
- Term deposits of individuals	-	3 655 312	-	3 690 954	-	3 262 507	-	3 291 512
Due to other financial institutions		*160 889*		*165 851*	-	**102 139**	-	**107 865**
Other financial liabilities	-	**147 587**	-	**147 587**	-	**55 104**	-	**55 104**
Debt securities	-	**300 760**	-	**304 076**	-	**4 773**	-	**4 759**
Total	-	**14 803 927**	-	**14 852 065**	-	**12 904 294**	-	**12 948 295**

34 Fair value disclosures (continued)

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.

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.

35 Presentation of financial instruments by measurement categories

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 2018:

In thousands of hryvnias	**Financial instruments at amortised 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**
- car loans	2 305 473	-	7 293	**2 312 766**
- 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**

The following table provides a reconciliation of financial assets with these measurement categories as at 31 December 2017:

In thousands of hryvnias	**Loans and receivables**	**Available for sale assets**	**Investment securities held to maturity**	**Total**
Assets				
Cash and cash equivalents	2 322 054	-	-	**2 322 054**
Due from other banks				
- Guarantee deposits and loans from banks	15 370	-	-	**15 370**
Loans and advances to customers				
- Corporate loans	4 738 382	-	-	**4 738 382**
- car loans	2 097 946	-	-	**2 097 946**
- consumer loans	450 739	-	-	**450 739**
- Loans to individuals – mortgage loans	630 303	-	-	**630 303**
Investment securities available for sale	-	1 924 325	-	**1 924 325**
Investment securities held to maturity	-	-	1 185 365	**1 185 365**
Other financial assets	34 688	-	-	**34 688**
Total financial assets	**10 289 482**	**1 924 325**	**1 185 365**	**13 399 172**

As at 31 December 2018 and 31 December 2017, all of the Group's financial liabilities were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

36 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 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 (interest rate: 5.51%)	259 863	-	-
Customer accounts (interest rate for deposits placed: 15.5-18%, 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

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 June 2019 with interest rate at the level of 1m LIBOR + 5%.

36 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)

As at 31 December 2017, 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	71 620	-	-
Gross amount of loans and advances to customers	-	-	772
Impairment provisions for loans and advances to customers	-	-	242
Other assets	605	8	-
Correspondent accounts and overnight placements of other banks	749 221	-	-
Term placements and loans from other banks	263 436	-	-
Customer accounts	-	53 345	590
Due to other financial institutions	-	5 400	-
Other liabilities	304	568	19 471

The income and expense items on transactions with related parties for 2017 were as follows:

In thousands of hryvnias	Parent company	Entities under common control	Key management personnel
Interest income	-	-	94
Interest expense	(31 786)	(6 920)	(7)
Other income	-	49	5
Provision for loan and investment impairment	-	-	(84)
Fee and commission income	2	112	5
Fee and commission expense	(1 907)	-	(4)
Other expenses	(1 845)	(4 861)	-

As at 31 December 2017, 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	850 028	-	-
Other commitments granted	6 329	-	237
Other rights received	6 361	-	-
Collateral received	1 403	-	4 193

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 June 2019 with interest rate at the level of 1m LIBOR + 5%.

36 Related party transactions (continued)

Total amounts granted to related parties and repaid by them in 2017 are presented below:

In thousands of hryvnias	Parent company	Entities under common control	Key management personnel
Amounts repaid by related parties during the period	-	-	(751)

Key management personnel remuneration amounts are presented below:

	2018		2017	
In thousands of hryvnias	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
- Salaries	22 301	1 756	20 853	1 476
- Annual bonus	14 184	17 875	13 663	17 925
- Termination bonus	-	-	-	-
Social insurance contributions	992	65	801	67
Total	**37 477**	**19 696**	**35 317**	**19 468**

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 2018 include an accrued liability of UAH 14 184 thousand (2017: UAH 13 500 thousand).

37 Subsequent events

On January 21, 2019 the state registration of the new edition of the Charter of JSC "KREDOBANK" was executed and the type of the joint-stock company from a public joint-stock company to a private joint-stock company and the name of the Bank was changed (Note 1).

After December 31, 2018, there were no other events that would require amendments or additions to the financial statements or disclosures in the consolidated financial statements.

Approved for issue and signed on behalf of the Management Board on March 28, 2019.

M. Vashchuk
Acting Chairman of the Management Board

Vasyl Lototsky
Chief Accountant

Responsible employees: O. Lisnyy, I. Vitynska (tel. 032 297 27 82)